CEC BANK SA

FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

Prepared in accordance with the International Financial Reporting Standards endorsed by the European Union

Contents **PAGE**

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED AS AT 31 DECEMBER 2020
(All amounts are in thousand RON unless otherwise stated)

	Note	2020	2019
Interest income calculated using the effective interest method	5	1,533,270	1,367,749
Interest expense	5	(429,366)	(243,163)
Net interest income		1,103,904	1,124,586
Net impairment loss on loans and advances to customers	10	(291,361)	(158,487)
Net interest income after impairment loss on loans and advances to customers		812,543	966,099
Commission income	6	300,080	281,838
Commission expense	6	(33,063)	(29,856)
Net commission income		267,017	251,982
Net gain from trading in foreign currencies		38,540	37,151
Net gain/(loss) from financial derivatives		(93)	(212)
Net loss from financial assets mandatorily measured at fair value through profit or loss		(7,996)	-
Net gain from the sale of financial assets measured at fair value through other comprehensive income		63,498	363
Net gain/(loss) from foreign exchange differences		(3,068)	1,303
Other operating income	7	25,778	16,341
Operating income		1,196,219	1,273,027
Staff costs	8	(469,761)	(464,687)
Depreciation and amortisation expenses	19, 20, 21, 22	(71,751)	(67,166)
Net loss from impairment of debt instruments		(1,822)	(322)
Other operating expenses	9	(263,361)	(288,864)
Operating expenses		(806,695)	(821,039)
Profit before tax		389,524	451,988
Income tax expense	11	(51,824)	(72,403)
Net Profit for the year		337,700	379,585

The accompanying notes from pages 9 to 135 form an integral part of these financial statements.

(All amounts are in thousand RON unless otherwise stated)

	Note	2020	2019
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Change in the fair value of financial assets measured through other items of comprehensive income, net of tax		240,862	58,272
Net gain from transactions with financial assets measured through other items of comprehensive income, transferred to profit or loss upon disposal, net of tax		(53,338)	(305)
Items that will not be reclassified to profit or loss:			
Net gain from revaluation of land and buildings	34	87	7
Prior year corrections		1,879	251
Other comprehensive income		189,490	58,225
Total comprehensive income for the year		527,190	437,810

The financial statements were signed on behalf of the Bank by:

CEC BANK S.A.
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CABINET PRESEDINTE DIRECTOR GENERAL

Bogdan Constantin Neacșu
General Manager – President of Executive Committee

Ștefan Silviu Fota
Director, Accounting Division

CEC BANK SA

STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED AS AT 31 DECEMBER 2020
(All amounts are in thousand RON unless otherwise stated)

	Note	31 December 2020	31 December 2019
Assets			
Cash and cash equivalents at central banks	12	4,757,396	4,041,653
Derivative financial assets	13	16	6
Loans and advances to banks	14	383,799	378,107
Loans and advances to customers	17	21,924,072	19,903,286
Financial assets mandatorily at fair value through profit or loss	18	19,430	-
Financial assets measured at fair value through other comprehensive income	15	11,075,914	5,625,182
Financial assets measured at amortized cost	16	2,267,578	2,097,416
Current tax assets		-	8,140
Property and equipment	19	572,680	577,837
Intangible assets	20	27,969	20,325
Investment property	21	89,453	66,132
Right-of-use assets	22	84,936	72,658
Other financial assets	23	22,227	44,765
Other assets	24	24,805	17,885
Total assets		41,250,275	32,853,392
Liabilities			
Derivative financial liabilities	13	6	8
Deposits from banks	25	1,072,401	235,405
Deposits from customers	26	34,833,093	27,985,149
Borrowings from banks and other financial institutions	27	565,380	429,335
Current income tax liability		546	-
Deferred tax liabilities	29	73,876	45,332
Lease liabilities	30	86,874	74,213
Provisions	28	28,827	19,193
Other financial liabilities	32	36,329	31,937
Other liabilities	31	66,896	73,941
Total liabilities		36,764,228	28, 894,513
Equity			
Share capital	33	2,499,746	2,499,746
Revaluation reserve for property and equipment	34	458,554	460,845
Reserves for financial assets at fair value measured through other items of comprehensive income		219,568	48,660
Other reserves	35	248,553	227,739
Retained earnings		1,059,626	721,889
Total equity		4,486,047	3, 958,879
Total liabilities and equity		41,250,275	32,853,392

The financial statements were signed on behalf of the Bank by:

Bogdan Constantin Neacșu
General Manager – President of Executive Committee

Ștefan Silviu Fota
Director, Accounting Division

The accompanying notes from pages 9 to 135 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

AS AT 31 DECEMBER 2020
(All amounts are in thousand RON unless otherwise stated)

	Note	Share capital	Revaluation reserve for property and equipment	Revaluation reserve for financial assets at fair value measured through other comprehensive income	Other reserves	Retained earnings	Total
Balance as at 1 January 2020		2,499,746	460,845	48,660	227,739	721,889	3,958,879
Comprehensive income:							
Net Profit for the year		-	-	-	-	337,700	337,700
Other comprehensive income:							
Gain from change in the fair value of financial assets measured through other comprehensive income, net of deferred tax		-	-	170,908	-	16,616	187,524
Increase in revaluation reserve, net of deferred tax	34	-	87	-	-	-	87
Retained earnings from corrections		-	-	-	-	1,879	1,879
Total comprehensive income		-	87	170,908	-	356,195	527,190
Other contributions and distributions:							
Revaluation reserve representing realised surplus, net of deferred tax	34	-	(2,378)	-	-	2,378	-
Decrease in other reserves – sale of land		-	-	-	(22)	-	(22)
Legal reserve			-	-	20,836	(20,836)	-
Total other contributions and distributions		-	(2,378)	-	20,814	(18,458)	(22)
Balance as at 31 December 2020		2,499,746	458,554	219,568	248,553	1,059,626	4,486,047

Bogdan Constantin Neacșu
General Manager – President of Executive Committee

Ștefan Silviu Fota
Director, Accounting Division

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STATEMENT OF CHANGES IN EQUITY

AS AT 31 DECEMBER 2020
(All amounts are in thousand RON unless otherwise stated)

	Note	Share capital	Revaluation reserve for property and equipment	Revaluation reserve for financial assets at fair value measured through other comprehensive income	Other reserves	Retained earnings	Total
Balance as at 1 January 2019		1,559,746	462,335	(9,307)	203,791	364,505	2,581,070
Comprehensive income:							
Net Profit for the year		-	-	-	-	379,585	379,585
Other comprehensive income:							
Gain from change in the fair value of financial assets measured through other comprehensive income, net of deferred tax		-	-	57,967	-	-	57,967
Increase in revaluation reserve, net of deferred tax	34	-	7	-	-	-	7
Retained earnings from corrections		-	-	-	-	251	251
Total comprehensive income		-	7	57,967	-	379,836	437,810
Other contributions and distributions:							
Revaluation reserve representing realised surplus, net of deferred tax	34	-	(1,497)	-	-	1,497	-
Decrease in other reserves – sale of land		-	-	-	(1)	-	(1)
Legal reserve		-	-	-	23,949	(23,949)	-
Share capital increase from cash contributions	33	940,000	-	-	-	-	940,000
Total other contributions and distributions		940,000	(1,497)	-	23,948	(22,452)	939,999
Balance as at 31 December 2019		2,499,746	460,845	48,660	227,739	721,889	3,958,879

Bogdan Constantin Neacșu
General Manager – President of Executive Committee

Ștefan Silviu Fota
Director, Accounting Division

The accompanying notes from pages 9 to 135 form an integral part of these financial statements.

(All amounts are in thousand RON unless otherwise stated)

	Note	2020	2019
Profit before tax	11	389,524	451,988
Adjustments for non-monetary items:			
Expected losses on financial instruments	10	291,361	158,487
Depreciation and amortisation expense	19, 20, 21,22	71,751	67,166
Net loss from financial derivates		93	212
Gain on disposal of fixed assets		(3,980)	(1,420)
Income from other operations		(1,072)	(1,699)
Net gain on financial assets measured at fair value measured through other comprehensive income		(63,498)	(363)
Net loss from financial assets mandatorily measured at fair value through profit or loss		7,996	
Gain from foreign exchange differences		(22,522)	(71,878)
Income/ (Expense) from adjustments for expected losses regarding other assets	9	(335)	1,397
Dividends income	7	(10,263)	(2,789)
Interest expense	5	429,366	243,163
Interest income	5	(1,533,270)	(1,367,749)
Other adjustments		(4,572)	4,494
		(449,421)	(518,991)
(Increase)/decrease in operating assets:			
Increase in loans and advances to customers		(2,453,798)	(2,015,731)
Decrease in other assets		15,763	4,256
Increase/(decrease) in operating liabilities:			
Increase/(decrease) in deposits from banks		809,231	(502,897)
Increase in deposits from customers		6,799,509	2,625,934
Decrease/(increase) in other liabilities		6,979	31,164
Net cash used in operating activities before interest and tax		4,728,263	(376,265)
Interest received from loans and advances to customers		1,181,744	1,185,601
Interest paid for deposits from customers and banks		(352,094)	(169,021)
Payments for leases of low-value assets		(2,724)	(2,653)
Recoveries from assigned credits and from previously written-off loans	10	117,446	129,436
Income tax paid		(46,919)	(123,355)

STATEMENT OF CHANGES IN CASH FLOW

FOR THE YEAR ENDED AS AT 31 DECEMBER 2020
(All amounts are in thousand RON unless otherwise stated)

	Note	2020	2019
Net cash used in operating activities		5,625,716	643,743
Investment activities:			
Proceeds from financial assets measured at fair value through other comprehensive income	15	8,007,258	(188,222)
Payments for the acquisition of financial assets measured at fair value through other comprehensive income	15	(13,158,286)	-
Proceeds from investments in debt instruments measured at amortized cost	16	931,172	244,501
Payments for investments in debt instruments measured at amortized cost	16	(1,073,398)	-
Interest received from investing activities		337,001	285,958
Cash payments for the acquisition of tangible and intangible assets and real estate investments		(77,842)	(34,962)
Proceeds from the sale of tangible and intangible assets and real estate investments		6,521	3,201
Dividends proceeds		10,263	2,789
Net cash in investing activities		(5,017,310)	313,265
Financing activities			
Share capital increase from cash contributions		-	940,000
Payment of lease liability		(23,011)	(20,950)
Repayment of loans from banks and other financial institutions	27	(106,762)	(118,140)
Loan withdrawals from banks and other financial institutions	27	243,470	5,333
Interest paid for loans from banks and other financial institutions		(663)	(1,032)
Net cash from financing activities		113,034	805,211
Net increase in and cash equivalents		721,440	1,762,219
Cash and cash equivalents at the beginning of the year		4,416,529	2,654,310
Cash and cash equivalents at the end of the year (i)		5,137,969	4,416,529

(All amounts are in thousand RON unless otherwise stated)

(i) Analysis of cash and cash equivalents

	31 December 2020	31 December 2019
Cash and cash equivalents comprise:		
Cash on hand (Note 12)	572,896	472,032
Cash in ATM's (Note 12)	254,172	236,528
Current accounts held at the National Bank of Romania (Note 12)	3,930,328	3,333,093
Current accounts held at other banks (Note 14)	61,217	64,301
Cash on hand and at banks	4,818,613	4,105,954
Loans and advances to banks – maturity less than 3 months (Note 14)	319,356	310,575
Cash and cash equivalents	5,137,969	4,416,529

The financial statements were signed on behalf of the Bank by:

CEC BANK S.A. CABINET PREȘEDINTE DIRECTOR GENERAL 1

Bogdan Constantin Neacșu
General Manager – President of Executive Committee

Ștefan Silviu Fota
Director, Accounting Division

1 REPORTING ENTITY

CEC Bank SA ("the Bank") was established as a savings institution in Romania in 1864. On 1 October 1996 the Parliament of Romania approved Law no. 66 for the reorganisation of "Casa de Economii şi Consemnaţiuni" of Romania as a joint stock bank authorised by the National Bank of Romania to conduct banking activities, under the supervision of the National Bank of Romania.

On 8 July 2005, the Ministry of Public Finance approved, by Order 979, the Statute of CEC Bank SA through which the primary activity of the Bank is "other monetary activities" and the primary field "monetary intermediation". The Bank also performs other activities within the limits established by the licence issued by the National Bank of Romania such as: attracting deposits and other repayable funds, credit contracts, monetary transfer services, issuing and managing means of payment, issuing guarantees and credit commitments, transactions on its own account or on its customers account, intermediation on the interbank market, etc.

Currently, CEC Bank S.A. provides services based on The Government Emergency Ordinance no. 99 issued on 6 December 2006, regarding credit institutions and capital adequacy and the CEC Bank SA Statute, approved through the Order of the Ministry of Economy and Finance no. 425 from 14 February 2008, with the following amendments (Order of the Ministry of Economy and Finance no. 1312/2008, Order of the Ministry of Economy and Finance no. 2083/2008, Order of the Ministry of Economy and Finance no. 3264/2008).

The Bank is a joint stock company owned 100% by the Romanian State, represented by the Ministry of Finance.

The Bank operates through its Head Office located in Bucharest and through its network of 48 county branches and similar units from Bucharest, 109 first rank urban agencies, 387 second rank urban agencies and 466 second rank rural agencies.

Overall, as at 31 December 2020 there are: 962 agencies and 48 branches (31 December 2019: 974 agencies, of which: 109 fist rank urban agencies, 387 second rank urban agencies, 478 second rank rural agencies and 48 county branches).

CEC Bank SA has 5,616 employees as at 31 December 2020, 390 less than as at 31 December 2019.

CEC Bank SA current registered office is located at 13, Calea Victoriei, Bucharest 3rd district, Romania.

1 REPORTING ENTITY (CONTINUED)

As at 31 December 2020, the Bank's Board of Directors includes the following people:

1) Mirela Călugăreanu – President;
2) Valentin Mavrodin- Member;
3) Bogdan Constantin Neacşu – Member;
4) Mihaela Lucica Popa – Member;
5) Ciprian Badea – Member;
6) Mirela Sitoiu – Member;
7) Mihai Gogancea Vătăşoiu – Member.

As at 31 December 2020, the Bank's Executive Committee includes the following people:

1) Bogdan Constantin Neacşu – General Manager - President of the Executive Committee;
2) Mihaela Lucica Popa – Director – First Vice President of the Executive Committee;
3) Mirela Iovu – Director - Vice President of the Executive Committee.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards, as adopted by the European Union ("IFRS"), transposed also by the Order of the National Bank of Romania 27/2010.

Accounting records are maintained in RON in accordance with Romanian accounting legislation and banking regulations issued by the National Bank of Romania ("NBR").

The Bank's financial statements have been prepared based on the going concern principle.

a) Basis of measurement

The Bank's financial statements have been prepared on a fair value basis for derivative instruments, financial assets and liabilities at fair value through profit or loss and financial assets measured at fair value through other items of comprehensive income, except those for which fair value cannot be determined reliably.

Other financial assets and liabilities and non-financial assets and liabilities are carried at amortised cost or revaluated amount (for land and buildings).

b) Functional and presentation currency

The financial statements are prepared and presented in "RON", which is the Bank's functional and presentation currency, rounded to the nearest thousand, unless otherwise stated.

c) Use of estimates and judgments

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect amounts recognized in the financial statements and reported amounts of assets and liabilities, in the next financial year. The estimates and related assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from estimated values.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions of accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Information related to the estimates used in the enforcement of accounting policies that have material effect on the financial statements, as well as estimates that involve a significant degree of uncertainty, are disclosed in Note 4.
The significant accounting methods and policies set out below have been applied consistently to all periods presented in these financial statements.

The following new Standards, amendments to Standards and Interpretations are not yet mandatorily effective for annual periods beginning on or after 1 January 2020, and have not been applied in preparing these financial statements. The Bank plans to adopt these pronouncements when they become effective.

d) Standards adopted by the European Union, which are in force and have not been applied to the preparation of this set of financial statements

Amendments to IFRS 16 Leases COVID-19-Related Rent Concessions (Effective for annual periods beginning on or after 1 June 2020. Early application is permitted, including in financial statements that were not authorized to be issued on 28 May 2020)

The amendments introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee applying the practical solution is not required to assess whether the eligible lease concessions are lease modifications, and accounts them in accordance with other applicable guidelines. The resulting accounting will depend on the details of the rent concession. For example, if the concession takes the form of a one-off lease discount, it will be accounted for as a variable lease payment and recognized in profit or loss.

The practical expedient applies only if all of the following conditions are met:

- the revised consideration for the lease is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

The Bank does not expect the Amendments to have a material impact on its financial statements when initially applied.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Amendments to existing standards issued by the IASB and adopted by the European Union but not yet in force on 31 December 2020

Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

The amendments address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments provide practical relief from certain requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities and hedge accounting.

The amendments will require an entity to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform by updating the effective interest rate of the financial asset or financial liability.

The amendments will require the Bank to disclose additional information to enable users to understand the effect of interest rate benchmark reform on a company's financial instruments, including information about the entity's exposure to risks arising from interest rate benchmark reform and related risk management activities.

The Bank plans to apply the amendments from 1 January 2021. Their application will not impact the amounts reported for 2020 or for prior periods.

f) New Standards not yet adopted by the European Union

Amendments to IAS 1 Presentation of Financial Statements Classification of Liabilities as Current or Non-current (Effective for annual periods beginning on or after 1 January 2023. Early application is permitted)

The amendments clarify that the classification of liabilities as current or non-current shall be based solely on the Entity's right to defer settlement at the end of the reporting period. The company's right to defer settlement for at least 12 months from the reporting date need not be unconditional but must have substance. The classification is not affected by management's intentions or expectations about whether and when the Entity will exercise its right. The amendments also clarify the situations that are considered to represent the settlement of a liability

The Bank does not expect the Amendments to have a material impact on its financial statements when applied for the first time.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Amendment to IAS 16 Property, Plant and Equipment Property, Plant and Equipment – Proceeds before Intended Use (Effective for annual periods beginning on or after 1 January 2022. Early application is permitted)

The amendments to IAS 16 require that proceeds from selling items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended should be recognised in profit or loss account, together with the costs of producing those items and the entity should assess the cost of those items which apply the measurement requirements in IAS 2.

The Bank does not expect the Amendments to have a material impact on its financial statements when applied for the first time.

Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets Onerous Contracts – Cost of Fulfilling a Contract (Effective for annual periods beginning on or after 1 January 2022. Early application is permitted)

The amendments clarify that an entity must include all the costs that relate directly to the contract as the cost of fulfilling a contract when assessing whether a contract is onerous. Paragraph 68A clarifies costs of fulfilling a contract comprise both: incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.

The Bank does not expect the Amendments to have a material impact on its financial statements when applied for the first time.

Annual improvements to IFRS Standards 2018-2020 Cycle (Effective for annual periods beginning on or after 1 January 2022. Early application is permitted)

Amendments to IFRS 9: Financial Instruments

The amendment clarifies that when assessing whether an exchange of debt instruments between an existing borrower and a lender takes place under substantially different conditions, fees to be included in conjunction with the present value of cash flows according to the new conditions include only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

Amendment to Illustrative examples accompanying IFRS 16 Leases

The amendment removes from the illustrative example 13 that accompanies IFRS 16 the reference to the repayment made by the lessor to the lessee for asset upgrades and the explanation of the lessee's accounting for such a repayment.

(All amounts are in RON thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Bank does not expect the Amendments to have a material impact on its financial statements when applied for the first time.

2.2 Foreign currency

The functional currency is the currency of the primary economic environment in which the Bank operates.

The functional currency of the Bank is the national currency of Romania, Romanian LEU ("RON").

Foreign exchange gains or losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into RON at the official exchange rates at the end of the year are recognised in profit or loss (as "Net gains/(loss) from foreign exchange differences").

Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined.

Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

The exchange rate of major foreign currencies was:

Currency	31 December 2020	31 December 2019	Increase/ (decrease) (%)
Euro (EUR)	1: RON 4.8694	1: RON 4.7793	1.89
US Dollar (USD)	1: RON 3.9660	1: RON 4.2608	(6.92)

2.3 Interest income and interest expenses

Interest income and interest expenses for financial instruments are recognized in the income statement using the effective interest rate method on an accrual basis.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the gross carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call options and other similar options) but does not consider future impairment losses.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The calculation includes all commission fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.
Commission fees received by the Bank to originate loans at market interest rates are an integral part to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination.

When loans and other debt instruments become impaired, they are evaluated to the present value of expected cash inflows and interest income is thereafter recorded based on a net value following the present value reduction of the effective interest rate that was used to evaluate the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

The application of IFRS 9 shall be made in accordance with the model of calculation implemented whereby the incomes from commissions that is part of the effective interest rate is recognized staggered over the life of the loans and the stagger shall be made on the basis of the effective interest rate, except for commissions related to credit lines. or loans that are not fully utilized (which do not have a repayment schedule) for which the Bank applies the straight-line depreciation method.

Interest income and expense presented in the income statement include, but are not limited to:

- Interest on loans and advances to customers;
- Interest on other financial assets and liabilities at amortised cost; and
- Interest on financial assets measured at fair value through other items of comprehensive income.

2.4 Commissions income and fees expenses

Fees and commission income and expenses arise on financial services provided / received by the Bank and include: financial guarantees fees, commitment fees, card fees, cash management services, advisory services for investment and financial planning, asset management services, as well as insurance expense against credit risk for the loan and receivables portfolio.

2.5 Dividends

Dividend income is recognized in income statement when the right to receive dividends payment is established.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For equity instruments for which the Bank has opted for initial recognition to classify them as financial assets measured at fair value through other comprehensive income, dividends are recognized in the profit or loss account, unless dividends clearly represent a return on part of the investment cost.

Dividends are recognized only when:

- as the Bank's right to receive the dividend payment is established;
- as the economic benefits associated with the dividend are likely to be generated for the entity; and
- the value of the dividend can be reliably assessed.

2.6 Revenue from commercial contracts

In accordance with IFRS 15 when (or while) an execution obligation is fulfilled, the Bank recognizes to revenue the value of the transaction price that is allocated to that execution obligation.

2.7 Income tax expense

Income tax comprises current and deferred tax. Income tax is recognised in the statement of profit or loss or in equity if the income is related to the elements of equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of prior periods.

Income tax is equal with the value of payable/recoverable income tax considering the taxable profit/ fiscal loss over a period of time.

Deferred tax is determined using the balance sheet method, based on the temporary differences that arise between the tax base for calculating the tax on assets and liabilities and their book value.

Deferred tax is calculated using tax rates expected to be applied to temporary differences in the accounting carrying value of assets and liabilities, based on the effective legislation at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised.

Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The tax rate used to calculate the current and deferred tax position at 31 December 2020 is 16% (2019: 16%).

Deferred income tax assets are recognized for all temporary differences between the tax base and the carrying amount of assets and liabilities at the balance sheet date, and for unused tax credits and losses carried forward in the period to the extent that it is probable that a future taxable profit, on which these temporary differences and unused tax credits and losses can be attributed.

Current and deferred tax receivables and payables are offset when they are related to the same tax entity, they are related to the same tax authority and when there is a legal right to offset.

2.8 Financial assets and liabilities

(i) Classification

The Bank classifies the financial assets into one of the following categories:
Financial assets measured at amortized cost

- Deb t instruments including loans

Financial assets measured at fair value through profit or loss

- Deri vative financial instruments
- Deb t instruments

Financial assets measured at fair value through other items of comprehensive income

- Equity instruments designated to be measured at fair value through other comprehensive income
- Debt instruments

In accordance with IFRS 9, the Bank classifies financial liabilities at amortized cost, except for financial liabilities at fair value through profit or loss.
The Bank does not apply hedge accounting.

Loans and debt instruments

In accordance with the classification criteria of IFRS 9 to establish a classification of loans and debt instruments, the Bank is considering the following criteria cumulatively:

a) Analysis of the business model;
b) Analysis of the contractual cash flows characteristics ("SPPI test").

a) Analysis of the business model

In accordance with IFRS 9, the business model is determined at a level that reflects the way in which groups of financial assets are managed together. The business model does not depend on the management's intentions towards a particular individual instrument.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The business model refers to how the Bank manages its financial assets to generate cash flows.

The types of business models, in accordance with IFRS 9 are:

(i) Held to collect contractual cash flows

Financial assets that are held within a business model whose objective is to hold assets to collect contractual cash flows. These financial assets are managed to obtain cash flows through the collection of contractual payments over the life of the instrument. Contractual cash flows represent exclusively principal and interest payments related to principal due, meaning they meet the SSPI (Solely Payments of Principal and Interest) condition.
A financial asset that is held within a business model whose objective is to hold assets to collect contractual cash flows is measured at amortized cost (if assets also meet the SPPI criterion on contractual cash flows).

In order to determine whether cash flows will be obtained by collecting the contractual cash flows of financial assets, the Bank analyzes the frequency, values and timing of sales in previous periods, the reasons for those sales and expectations of future sales activity.

In accordance with IFRS 9, paragraph B4.1.3, a business model whose objective is to hold assets to collect contractual cash flows may be to hold financial assets for the collection of contractual cash flows even when there are or are expected to have sales of financial assets in the future.

The following scenarios are considered by the Bank, in accordance with IFRS 9, consistent with a business model whose objective is to collect contractual cash flows:

- The Bank sells financial assets when there is an increase in asset credit risk. In order to determine whether there has been an increase in the credit risk of the assets, the Bank shall analyze reasonable and justifiable information, including foreseeable information. Regardless of their frequency and value, sales due to an increase in asset credit risk are consistent as a business model whose objective is to hold financial assets to collect cash flows because the credit quality of financial assets is relevant to the Bank's ability to collect contractual cash flows. [according to IFRS 9.B4.1.3A].
- Sales are uncommon (even if they have a significant value) or an insignificant value both individually and aggregated (even if they are frequent) [IFRS 9.B4.1.3B].
- Sales are made on maturity of financial assets and sales receipts approximate the collection of remaining contractual cash flows (according to IFRS 9.B4.1.1B).

(ii) Held to collect contractual cash flows and sale

In the business model whose objective is achieved by cash-flow collection and by the sale of financial assets, the key management staff of the Bank took the decision that both the collection of contractual cash flows and the sale of financial assets are part of the achievement of the business model goal.

There are various goals that are consistent with this type of business model. For example, the business model's objective may be to manage liquidity needs on a daily basis, maintain a certain portfolio yield level, or correlate the duration of financial assets with the duration of the debt that

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

those assets fund. To achieve such an objective, the Bank will collect contractual cash flows but will also sell financial assets. [IFRS 9.B4.1.4A].

Compared to a business model whose objective is to hold financial assets to collect contractual cash flows, this business model will normally involve a higher frequency and higher sales value.

This is due to the fact that the sale of financial assets is part of the business model's objective instead of being just related to this objective.

However, there is no limit on the frequency or amount of sales that can occur in this business model. [IFRS 9.B4.1.4B]. Thus, sales activities on a portfolio is a factor to consider, but it itself does not determine the business model and should not be considered separately.
The most important aspect is that the key person concludes that both the collection of contractual cash flows and the sale of financial assets are a component of the business model objective.
A financial asset is held within a business model whose objective is met by both the collection of contractual treasury flows and the sale of financial assets is measured at fair value through other comprehensive income.

(iii) Other business models

IFRS 9 requires financial assets to be measured at fair value through profit or loss if they are not held in a business model whose objective is to have assets to collect contractual cash flows or a business model whose objective is achieved both by collecting contractual cash flows and by selling financial assets.
A business model that results in fair value measurement through the profit or loss account is one in which a bank manages its financial assets in order to realize cash flows through the sale of assets. The Bank makes decisions based on the fair values of assets and manages assets to achieve those fair values. In this case, the Bank's objective will typically be to active sell and buy. [IFRS 9 B4.1.5].

A portfolio of financial assets that is managed and whose performance is measured on a fair value basis is neither held to collect contractual cash flows, nor to collect contractual cash flows and to sell financial assets. The Bank focuses primarily on fair value information and uses this information to assess asset performance and make decisions. Additionally, a portfolio of financial assets that meet the definition of being held for trading is not held to collect contractual or held cash flows both to collect contractual cash flows and to sell financial assets. For such portfolios, collecting cash flows is only related to the business model objective. Consequently, such portfolios of financial assets should be measured at fair value through profit or loss. [IFRS 9.B4.1.5-6].

Bank's loan portfolio - Loans and advances to customers

The Bank's objective for the loan portfolio is to generate loans to collect contractual cash flows.

The Bank's expectations regarding future loans sales are in line with previous practice, respectively the sale of non-performing loans on or off balance sheet, under favorable price conditions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In accordance with IFRS 9, paragraph B4.1.3, sales due to the increase in credit risk of assets are in line with a business model whose objective is to hold financial assets to collect contractual cash flows. Considering the fact that in the previous years, the Bank has made sales to maintain a lower level of nonperforming assets in its portfolio, according to the NBR's recommendations; sales are in line with the ownership model for collection.

In addition, the Bank does not manage the loan portfolio on a fair value basis or other performance indicators that may indicate that the business model is not in line with the objective of holding for collection.

Thus, b ased on the above, the Bank's business model for the loan portfolio is "held to collect contractual cash flows".

Government securities portfolio of the Bank - *Debt securities measured at fair value through other comprehensive income and debt instruments measured at amortized cost.*

The Bank holds debt instruments represented by government securities issued by the Ministry of Public Finance of Romania.
The Bank's government securities portfolios are held for:

1) collection of contractual cash flows; and
2) collection of contractual cash flows and sale.

1) Collection of contractual cash flows

The cash flows of a sub-portfolio of government securities are realized through the collection of contractual cash flows.
Between 2014 and 2020, the Bank did not record sales from this sub-portfolio of government securities, which were held until maturity.
Thus, the bank's business model for the government securities portfolio is "held to collect contractual cash flows".

2) Collection of contractual cash flows and sale

The Bank's objectives for a sub-portfolio of government securities are as follows:

- ensuring the required liquidity level of the Bank;
- ensuring the profitability of the Bank's investments;
- improving the yield and maturity of the portfolio of government securities;
- maintaining/regaining of the quality of primary dealer on the government securities market managed by NBR;
- maintaining the capacity of market maker on the government securities market managed by NBR by the bank.

The management has assessed that the sale is essential to achieve the objectives of the business model, as sales are expected to be performed to achieve the objectives mentioned above.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Based on previous experience, the Bank has made sales to achieve its objectives, so it can be appreciated that sales are an integral part of managing the performance of these instruments; however, the Bank acquires the treasury instruments related to this portfolio, both to collect contractual cash flows and for sale.

In addition, the Bank does not manage its treasury instruments in order to achieve cash flow mainly through asset sale.
Thus, based on the above, the Bank's business model for this treasury instrument portfolio is "held for collection and sale".

b) Analysis of contractual cash flow characteristics ("SPPI test")

The SPPI test is the analysis of the contractual terms of the financial assets in order to identify whether the cash flows represent exclusive payments of the principal and the interest on the principal due.

The bank performs the analysis of the contractual clauses for the SPPI test at the level of the contract model/contract model and documents the result of the analysis by completing a questionnaire.

Derivatives

In accordance with IFRS 9, the Bank's derivative financial instruments are measured at fair value through profit or loss.

Equity instruments

Equity instruments are normally measured at fair value through profit or loss. However, in accordance with IFRS 9.5.7.1 (b), 5.7.5, at initial recognition, the Bank may make an irrevocable instrumental choice to present in other comprehensive income the subsequent changes in the fair value of an investment in an equity instrument that is neither held for trading nor is it a contingent consideration recognized by a buyer in a business combination to which IFRS 3 "Business combinations" applies. In this situation, gains and losses are measured at fair value through other comprehensive income, without being recycled to the profit or loss account.

Equity instruments from the Bank's portfolio are designated at fair value through other comprehensive income.

Starting with 2020, the Bank has corrected the classification of securities held in Visa Inc. from financial assets measured at fair value through other comprehensive income in financial assets mandatorily at fair value through profit or loss.

The gains and losses from investments in equity instruments measured at fair value through profit or loss are included in the statement of income under " Net loss from financial assets mandatorily at fair value through profit or loss ".

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ii) Evaluation

Initial evaluation

Financial assets and financial liabilities are measured at initial recognition at fair value plus or minus directly attributable trading costs in the case of financial assets and financial liabilities other than fair value through profit or loss.

Trading costs are:

(i) marginal costs that may be directly attributable to the acquisition, issue or disposal of a financial instrument;

(ii) an incremental cost is a cost that would not have been incurred if the transaction would not have happened;

(iii) transaction costs include fees and commissions paid to agents (including employees acting as sales agents), advisers, brokers and dealers, regulatory agency fees and stock exchanges, as well as transfer and attribution fees;

(iv) does not include debt premiums or discounts, financing costs or internal administrative or holding costs.

For financial assets that are not measured at fair value through profit or loss, transaction costs are amortized in profit or loss using the effective interest method.

For accounting for debt instruments, the Bank uses the accounting at the settlement date.

Further evaluation

After initial recognition, financial assets and liabilities are evaluated accordingly to the category of financial assets/liabilities they have been allocated.

Fair value measurement

Fair value is the price that would have been received to sell an asset or would have been paid to transfer a liability in a regulated transaction between market participants at the valuation date. The best evidence of fair value is the price on an active market. An active market is one in which asset or liability transactions take place with sufficient frequency and volume to provide tariff information on a continuous basis.

The fair value of financial instruments traded on an active market is measured as the product of the quoted price for the individual asset or liability and the amount held by the entity. A portfolio of derivative financial instruments or other assets and liabilities that are not traded on a financial active market is measured at the fair value of a group of financial assets and financial liabilities based on the price they would have received to sell a long net position (e.g., an asset) for a particular exposure to risk or would have paid to transfer a short net position (e.g., a liability) for a particular exposure to risk in an orderly transaction between the market participants at the valuation date.

This is applicable to assets that are accounted for at fair value, in a recurrent manner, if the Bank:

(a) manages the group of financial assets and financial liabilities based on the entity's net exposure to a particular market risk (or risks) or credit risk of a particular counterparty, in accordance with the entity's documented risk management strategy or investment strategy;

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) provides information on this about the assets and liabilities group to the key management personnel of the entity; and

(c) market risks, including the duration of the entity's exposure to a particular market risk (or risks) resulting from financial assets and financial liabilities is substantially the same.

Valuation techniques, such as discounted cash flow models or models based on recent undervalued transactions, or taking into account investors' financial data, are used to measure the fair value of certain financial instruments for which external market price information is not available.

Fair value appraisals are analyzed according to the level within the fair value hierarchy as follows:

(i) level one includes valuations at quoted (unadjusted) prices on active markets for identical assets or debts,

(ii) the second level includes evaluation techniques by using observable information on assets or liabilities, either directly (such as prices) or indirectly (such as price derivatives), and

(iii) level three includes assessments that are not based on observable market data (unobservable inputs).

Transfers between fair value hierarchy levels are considered to have occurred at the end of the reporting period.

Evaluation at amortized cost

The amortized cost of an asset or financial liability is the amount at which the asset or financial liability is measured at initial recognition, less the principal payments, plus or minus the cumulative depreciation using the effective interest method for the differences between the initially recognized and the maturity date, less expected credit loss.

Accrued interest includes the amortization of deferred transaction costs at initial recognition and any premiums or discounts at the due date using the effective interest method.

Income from accrued interest and accrued interest expense, including both the accrued coupon and the reduction or amortization (including initially deferred commissions, if any), are not disclosed separately but are included in the financial information in the appropriate financial assets or financial liabilities.

The Bank calculates interest income using the effective interest method as follows:

(a) for financial assets other than financial assets purchased or originated as impaired as a result of credit risk as well as impaired financial assets as a result of the risk but not purchased or originated as impa ired as a result of credit risk by applying the effective interest rate to the gross accounting value of the financial asset;

(b) for financial assets purchased or issued depreciated as a consequence of credit risk by applying the effective interest rate adjusted for credit for the amortized cost of the financial asset at the initial recognition; and

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) for financial assets impaired as a result of risk but not purchased or originated as impaired as a result of credit risk, by applying the effective interest rate to the amortized cost of the financial asset over different reporting periods.

If the contractual terms of a financial asset presented at amortized cost are renegotiated or amended, the Bank applies the accounting treatment established on the basis of the principles of the International Financial Reporting Standard IFRS 9 "Financial Instruments" and by the Order of the National Bank of Romania 27/2010 for the approval of the Accounting Regulations in accordance with the International Financial Reporting Standards (IFRS), applicable to credit institutions, with subsequent modifications and additions.

(iii) Changes in financial assets and liabilities

In accordance with IFRS 9, contractual changes to a loan can be:

(i) contractual changes that do not lead to derecognition of the financial asset;

(ii) contractual changes leading to the derecognition of the financial asset and to the recognition of a new financial instrument.

The Bank monitors the changes to the contractual clauses in order to establish those changes that result in derecognition of the credit. The criteria set by the Bank to assess the contractual changes which may lead to a derecognition have been determined on the basis of their materiality (quantitative or qualitative) in such a way as to met the requirements of IFRS 9.3.2.3. From a quantitative point of view, these changes exceed the materiality threshold of 10% by analogy with the threshold specified in IFRS 9 for the derecognition of financial liabilities. From a qualitative point of view, the changes relate to contractual clauses that significantly change the nature of the risks associated with the initial contract.

(iv) Initial recognition

Financial assets and financial liabilities are initially measured at fair value plus directly attributable trading costs in the case of financial assets and financial liabilities other than fair value through profit or loss.

The Bank initially recognizes the loans, advances and deposits attracted at the time they are initiated. All other financial assets and liabilities (including those designated at fair value through profit or loss) are initially recognized at the settlement date. Derivatives are recognized when the parties become participants in the transaction.

Financial assets for which credit risk has not increased significantly since initial recognition (Stage 1), which benefit or may be directly associated with an external assessment of Investment Grade credit risk and which, at the same time, meet the following criteria:

(i) Loans and advances in respect of non-bank customers granted to borrowers in financial performance classes A and B that records a zero-day debt service on the last day of the current month;

(ii) Exposures to bank customers who register zero-day debt service;

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(iii) Debt securities represented by government securities issued by the central administration of the Romanian State are classed as instruments with low credit risk.

(v) Derecognition

The Bank derecognizes a financial asset when the contractual rights to receive cash flows from that financial asset expire or when the Bank transfers the financial asset and the transfer meets simultaneously the following two conditions:

(i) transfer the contractual rights to receive cash flows from the financial asset, or

(ii) retains the contractual rights to receive the cash flows from the financial asset but assumes a contractual obligation to pay the cash flows to one or more recipients through a contract that meets the following conditions:
  (a) the Bank has no obligation to pay amounts to prospective beneficiaries, unless the Bank collects equivalent amounts from the transferred asset;
  (b) the Bank is forbidden by contractual terms to transfer the asset to sell or to pledge the initial asset, for reasons other than guaranteeing the obligation to pay potential cash-flow beneficiaries;
  (c) the Bank transfers any cash flows it collects on behalf of the beneficiaries without significant delays.

The Bank fully derecognizes its financial assets when it does not have reasonable estimates for recovering contractual cash flows (IFRS 9, B 3.2.16, letter r).
The Bank derecognizes a financial liability when the contractual obligations are settled or canceled or have expired.

(vi) Reclassification

The Bank will reclassify all financial assets from a category of financial assets to another category if and only if they modify their business model for managing those assets.
Reclassification is applied prospectively from the date of reclassification, without modifying earnings, losses (including impairment gains or losses) or interests previously recognized.

Types of reclassifications:
(a) Reclassification of financial assets from financial assets measured at amortized cost category to fair value measurement through the profit or loss category.
- Fair value is measured at the date of reclassification and the difference between previously amortized cost and fair value is recognized in profit or loss.

(b) Reclassification of financial assets from financial assets measured at fair value through profit or loss category to financial assets measured at amortized cost category.
- Fair value is measured at the date of reclassification and will be considered the gross carrying amount of the asset.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- The effective interest rate will be determined on the basis of the fair value as of the reclassification date, and for the impairment valuation, the reclassification date will be considered the date of the initial recognition.

(c) Reclassification of financial assets from financial assets measured at amortized cost category to financial assets measured at fair value through other comprehensive income category.

- Fair value is measured at the date of reclassification and the difference between previously amortized cost and fair value is recognized in other comprehensive income.
- The actual interest rate and the expected loss on the loan are not adjusted as a result of the reclassification.

(d) Reclassification of financial assets from financial assets measured at fair value through other comprehensive income category to financial assets measured at amortized cost category.

- The financial asset will be measured and reclassified to fair value at the date of reclassification.
- Cumulative gain or loss previously recognized in other comprehensive income is eliminated from equity and adjusted against the fair value of the financial asset at the date of reclassification.
- The adjustment affects other items of the comprehensive income and will not be considered a reclassification adjustment in the financial statements in accordance with IAS 1.
- The actual interest rate and the expected loss on the loan are not adjusted as a result of the reclassification.

(e) Reclassification of financial assets from financial assets measured at fair value through profit or loss category to financial assets measured at fair value through other comprehensive income category.

- The financial asset will continue to be measured at fair value.
- The effective interest rate will be determined on the basis of the fair value as of the reclassification date and for the impairment assessment, the reclassification date will be considered the date of initial recognition.

(f) Reclassification of financial assets from financial assets measured at fair value through other comprehensive income category to financial assets measured at fair value through profit or loss category.

- The financial asset will continue to be measured at fair value.
- Cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the date of reclassification.

(vii) Compensations

Financial assets and liabilities are offset and the net result is presented in the statement of financial position only when there is a legal right to set off and if there is an intention to settle them on a net basis or if the asset is simultaneously meant to be realized and the liability to be closed.
Such an offset right:

(a) must not b e contingent on a future event; and
(b) must be legally enforceable in all the following circumstances:

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) in the normal course of business,
(ii) in the non-payment, and
(iii) insolvency or bankruptcy.

(viii) Identification of the significant increase in credit risk/depreciation and evaluation of the expected credit loss

In order to identify exposures with a significant increase in credit or impaired risk, the Bank performs a monthly analysis to identify changes in asset quality, i.e. identifying the items that lead to a significant increase in credit risk as well as an analysis of the objective existence of impairment indicators.
The Bank assesses all exposures on a monthly basis and considers that there is a significant increase in credit risk in relation to the initial recognition in the following situations:

(a) the debt service exceeded 30 days at the end of the current month or exceeded 30 days on the last day of any previous two months;
(b) credit exposure is classified as a restructured performance exposure;
(c) the exposure is included in the observation list monitored by the Bank in accordance with the provisions on supervision and administration of supervised and non-performing loans. The identified events that generate a significant increase in credit risk include, for example, difficult market conditions or adverse evolution in the financial statements that reflect changes in the credit / customer situation as compared to the situation at the time the credit is granted, without these being unlikely payment, which anticipates the non-recovery of the receivables without recourse to the enforcement actions over the guarantees.
(d) the exposure has been classified as impaired exposures at the close of any previous two months.

Impairment identification

At each balance sheet date, the Bank examines whether there are objective indications that a financial asset or group of financial assets that are not held at fair value through profit or loss is impaired. A financial asset or group of financial assets is impaired if there are objective indications that a loss event occurred after the asset's initial recognition ("loss event") and the loss event has an impact on future cash flows of the asset that can be reliably estimated.

It is not always possible to identify a single isolated event that generated the impairment. Most likely, impairment is the result of the combined effect of a group of events. Losses estimated as a result of future events, however probable they are, are not recognized.

According to the Bank's internal valuation methodology, the criteria used to determine the existence of objective evidence of impairment refer to events that lead to the estimation of an improbability of recovering the entire claim by the Bank without recourse to enforcement of collateral:
(a) ove rdue principal or interest with a debt service of more than 90 days;
(b) it is unlikely that the exposure is fully recovered by the Bank without the collateral being executed, regardless of the existence of overdue amounts or the number of days past due.
Improbability of recovery is quantified by:

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- s ignificant financial difficulties of the debtor (inability to honor payments to suppliers, significant debts to the state budget, reporting of significant net losses, etc.);
- financial results that no longer support the reimbursement of financial obligations in conjunction with the lack of alternative sources or projects supporting the repayment of debts.

(c) the ownership of non-performing loans as a result of having been restructured over the past 12 months, and the impairment indicators for restructured loans will be maintained if, after one year from the date of the restructuring, debt service for the restructured loan exceeds 30 days, or an additional restructuring is carried out within a 24-month observation period, starting with the date of the exiting of the restructured loan category from the non-performing loans category;

(d) the debtor's declaration of insolvency at any of its stages or the initiation of enforcement procedures by the Bank;

(e) it is clear that the debtor will go bankrupt;

(f) fraud situations;

(g) the initiation of legal procedures by third creditors (enforcement, insolvency proceedings, judicial reorganization, etc.), which, by their nature, anticipates negative effects on the ability to pay debts to the Bank, entry into a resolution procedure for financial institutions or default for central governments

(h) the death of the debtor.

Estimation of expected credit loss or impairment loss

Loans and advances to customers

Expected credit loss is the difference between the total contractual cash flows that are owed to the Bank in accordance with the contract and all cash flows that the Bank expects to receive on an discounted basis at the original effective interest rate (or the effective interest rate adjusted by credit for financial assets purchased or originated as impaired as a result of credit risk).

Cash flows include cash flows from the sale of the actual collateral held or other credit enhancements that are an integral part of the contractual terms. Expected credit losses are an estimate of the losses the Bank expects to derive from an event, such as the debtor's inability to pay.

Depending on the credit risk, the Bank recognizes the expected credit loss as follows:

(i) For financial assets purchased or originated as impaired as a result of credit risk, only accumulated changes in loan losses for losses over the full life from the initial recognition are recognized;

(ii) For financial assets, other than financial assets purchased or originated as impaired as a result of credit risk for which credit risk has increased significantly since initial recognition or which have been impaired, the expected loss is measured at an amount equal to expected losses over the life of the asset;

(iii) For financial assets, other than financial assets purchased or originated as impaired as a result of credit risk for which credit risk has not increased significantly since initial recognition, the expected loss is measured at an amount equal to the expected loss for 12 months.

Expected credit losses over a 12-month period represent the portion of the expected credit loss over the life of the financial asset from possible default events within 12 months of the reporting date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

This is not the loss for exposures expected to default in the next 12 months or the expected cash outflow over the next 12 months.

The Bank recognizes the expected credit loss over the life of the financial asset if there is a significant increase in credit risk from the initial recognition, taking into account all reasonable and justifiable information, including forecasts.

For the purpose of calculating the expected loss for non-impaired exposures, the Bank incorporates the macroeconomic effect on probability of default(PD) and loss given default(LGD). The methodology for estimating probability of default (PD) implies:

- using an adjusted Weibull function to estimate cumulative PD curves;
- using a Vasicek model for incorporating forward looking.

Forward looking adjustments are based on the correlation between the macroeconomic indicators (GDP evolution) and the companies / individuals default rate observed at the banking system level (NBR data, as the Bank does not have enough own data to estimate correlations) and taking into account the projections of GDP published by the World Bank.

The bank uses a total LGD model that involves calculating the cumulative recovery rates observed on each segment, based on which the parameters of a logistic function are estimated. The forward looking adjustment is made taking into account the correlation between PD and LGD and forward looking estimates for PD.

In order to determine expected losses on an individual or collective basis, the assets to which the impairment requirements of IFRS 9 apply are divided into significant and insignificant, at the time of the analysis, on the basis of criteria set by the Bank and reviewed annually.

The significant financial assets to which the impairment provisions apply in accordance with IFRS 9, are subject to an individual analysis to identify the associated risk level, and where impairment indicators are identified, the expected loss is determined on the basis of an estimation of future cash flows, in the two scenarios.

Insignificant financial assets and significant financial assets for which no indications of impairment were identified, the expected loss is determined based on a collective analysis.

The methodology and assumptions used to measure impairment are constantly reviewed by the Bank. At each reporting date, the Bank assesses and recognizes the expected credit loss of a financial asset or group of financial assets that are not held at fair value through profit or loss, an asset related to a contract, a loan commitment, or financial collateral contract to which the impairment provisions apply in accordance with IFRS 9.

The expected credit loss is assessed by the Bank so as to reflect:

(i) an impartial value, weighted by probabilities, which is determined by evaluating a range of possible outcomes;

(ii) time value of money;

(iii) reasonable and justifiable information, available at no cost or without undue effort, of past events, current conditions and forecasts of future economic conditions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In order to determine the expected losses on individual or collective basis, all loans and receivables are divided into significant and insignificant, at the date when analysis is performed.

For insignificant loans and receivables, and for significant loans for which no impairment indices have been identified, expected loss shall be determined over their lifetime from default events occurring within 12 months after the reporting date.

For loans for which there is no significant increase in credit risk compared to the time of granting, i.e. expected credit loss is estimated over the life of the financial asset if there is a significant deterioration in credit quality compared to the date of initial recognition of the financial asset, on the basis of a collective analysis (for loan portfolios with similar credit risk).

The expected loss amount is the present value of the difference between the contractual cash flows and the expected cash flows (a cash shortfall), which includes both principal and interest cash flows.

Expected credit losses are an estimation of the losses the Bank expects to record from an event, such as the debtor's inability to pay.

In order to estimate the expected credit losses for credit exposures without impairment indicators, loans are grouped into similar credit risk portfolios, depending on the client category, the type of credit in the case of individuals, respectively the field of activity (CAEN code) in in the case of legal entities.

Each stage is a separate category and will be assessed for the purpose of estimating expected loss as follows:

- loans in stage 1 - expected loss estimates for a period of 12 months;
- loans in stage 2 - the estimated loss throughout their lifetime; and
- loans in stage 3 (impaired) - the estimated loss throughout their lifetime.

In the context of the general evolution of the COVID-19 epidemic, the Bank has taken a number of measures to support customers who may have encountered payment difficulties. The moratorium applied by the Bank was both legislative, under the provisions of the Government Emergency Ordinance no. 37/2020, and non-legislative, in line with the deferral solutions identified by the Bank and widely applied at the level of the banking system.

The deferral measures were taken for retail customers and non-bank legal entities. In the case of performing exposures, and for which the measures taken meet the criteria set out in EBA/GL/2020/02, the Bank shall not associate these measures with events of financial difficulty or restructuring, or rescale by stage to the classification category associated with them prior to the outbreak.

In the case of exposures restructured prior to the outbreak of the COVID-19 epidemic, the non-performing loans and the observation period until the exit of the restructured loans shall be extended by a period equal to the grace period granted.

For the purposes of identifying further significant credit risk growth/impairment of exposures, the Bank will monitor the indicators of credit risk growth relative to the modified contractual obligations, distinguishing between borrowers whose repayment capacity will not be affected in the long term by the current situation and borrowers for which recovery of the repayment capacity is

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

unlikely to be restored after the state of emergency has been overcome and business is resumed. For the latter, credit risk increases/impairment of exposures will be appropriately recognized.

In order to calculate the expected loss for each portfolio, PDs and LGDs will be applied to the exposure amount of the loan portfolio for each of the portfolios. Changes in future cash flow projections should reflect and be consistent with changes in observable data from one period to the next (eg, GDP change relative to the state of default or other factors that indicate changes in the probability of recording losses by the Bank and their size).

The methodology used to estimate future cash flows is periodically reviewed by the Bank to reduce any differences between estimated losses and actual loss experience based on the results of the validation process.

The historical loss experience has to be adjusted on the basis of current observable information to reflect the effects of current conditions that have not affected the period on which historical loss experiences are based and to remove the effects of historical conditions that are no longer present.

If, in a subsequent period, the amount of impairment loss decreases and the decrease is related to an objective event that occurred after the impairment was recognized, the previously recognized impairment is reversed directly through the provisioning account. Reversal is recognized in the statement of profit or loss.

Restructured loans

The restructured loans are related to credit agreements for which restructuring measures have been applied.

Restructuring operations are considered as situations in which the borrower has been granted concessions as a result of, or is faced with, financial difficulties in repaying the committed loans, or at least one of the following situations:

a) the granting of concessions, irrespective of the existence / absence of outstanding amounts, in the financial difficulties of the debtor;

b) the contract was classified before the restructuring as non-performing or would have been classified as non-performing if it had not been modified;

c) the contractual change implies a total or partial cancellation of the debt;

d) at the same time as granting the concession or at a date close to granting it, the borrower, upon granting a new credit, makes principal or interest payments related to another contract with the Bank, which was classified as non-performing or would have been classified as non-performing in absence of refinancing;

e) at the same time as granting the concession or at a date close to granting the concession, following the granting of a new loan, the debtor shall make principal or interest payments related to another contract concluded with the Bank, which has recorded overdue for at least 30 days at least once in the last 3 months prior to refinancing;

f) a change involving the closing of the obligation by taking over the real collateral when the modification represents a concession;

g) the modified contract had more than 30 days past due (without being non-performing) at least once in the last 3 months prior to the restructuring, or would have been in the situation if it had not been modified.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The financial difficulty does not refer to events of a conjunctural nature, it must be identified based on the analysis of the client's activity.

Loans subject to restructuring operations are classified as non-performing assets starting with the date of the restructuring. If, after 12 months, the conditions for exiting the non-performing credit exposures are met simultaneously, the loan will be classified as performing assets with restructuring measures. These loans are monitored within a minimum 24-month observation period starting with the date of exit from the category of non-performing loans for classification in the performing / non-performing loans category. Any additional restructuring measures applied within the 24-month observation period after the restructured credit outflow from the non-performing loans category, as well as any overrun of the 30-day debt service over the period, lead to the classification of the restructured loan in the category of non-performing loans.

Exiting restructured exposures category occurs when the following conditions are met cumulatively:

a) the restructured exposure is considered to be performing, even if it has been reclassified from the non-performing exposures category as a result of the debtor's financial statement analysis showing that the conditions for the non-performing category are no longer met;

b) from the date on which the restructured exposure was considered to be performing, a minimum of 2 years has passed;

c) during half of the probation period, payments took place regularly (principal and cumulative interest payments) that cannot be considered insignificant;

d) at the end of the probation period, no exposure to the debtor is past due for more than 30 days.

Under IFRS 9, if the contractual terms of a financial asset presented at amortized cost are renegotiated or amended, the Bank applies the accounting treatment established on the basis of the International Financial Reporting Standard IFRS 9 "Financial Instruments" principles.

In accordance with IFRS 9, contractual changes to a credit can be:

(i) contractual changes that do not lead to the derecognition of the financial asset;
(ii) contractual changes that lead to the derecognition of the financial asset and the recognition of a new financial instrument.

The Bank monitors changes to the contractual clauses in order to establish those changes that result in derecognition of the credit. A nalysis for derecog nition requires a qualitative analysis and, if necessary, a quantitative analysis according to IFRS 9 principles.

Write-off loans

According to IFRS 9, if there is no reasonable estimate of the recovery of a full financial asset, the gross carrying amount of that asset will be directly reduced and disposal is a derecognition event.

For loans that are 100% covered by impairment adjustments / expected loss adjustments, the Bank may derecognize it by directly reducing its gross book value while simultaneously recording the respective receivables in off-balance sheet accounts. Subsequently, the Bank records any collection of amounts from debtors in "Receivables Recovery Income" accounts with direct effect on the profit or loss account.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Off balance sheet commitments

The Bank analyzes off-balance-sheet commitments, considering them in the same risk category as the balance sheet exposures. The expected losses for off-balance sheet commitments are calculated on the basis of a conversion factor that describes how the use of credit limits will be increased or how the guarantees issued in loans will be converted from the beginning of the observation period to the time of default. The PD / LGD corresponding to the homogeneous portfolio in which that exposure is assigned shall be applied to the determined balance of the exposure balance.

Assets valued at fair value through other comprehensive income

Expected losses for financial assets measured at fair value through other comprehensive income, other than equity instruments designated by the Bank as being measured at fair value through other comprehensive income, are recognized in other comprehensive income and do not reduce the carrying amount of the financial asset in financial information.

Investments in equity instruments

Investments in equity instruments classified by the Bank as initial recognition in the category of financial assets measured at fair value through other comprehensive income are not subject to impairment provisions for the recognition and measurement of expected impairment losses.

2.9 Lease payments

For leases agreements in which it is a lessee, starting from annual reporting periods beginning on 1 January 2019, the Bank applies the requirements of IFRS 16 using the amended retrospective method (simplified method) for transition.

The transition method chosen has been applied consistently to all leases that are within the scope of IFRS 16 (IFRS 16 Annex C paragraph C6, as follows:

- the lease liability recognition is calculated as the amount of remaining lease payments discounted using the marginal interest rate at which the Bank can borrow at the date of initial application; and
- recognition of the right of use is calculated asset the amount of the lease liability (adjusted by the amount of any lease payments made in advance or accrued in respect of that lease).

At the date of initial application, the lease liabilities were equal to the right to use the assets, except for contracts where advance payments were made before the transition date (advance payment in December 2018 for January 2019; advance payments in December 2018 for the first quarter of 2019). For these contracts, the rights to use the assets exceeded the value of the lease liabilities by the amount paid in advance. At the time of the transition, the Bank recorded exchange rate differences due to advance payments made in 2018 and for periods in 2019 in retained earnings.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Bank's accounting policy is not to apply the requirements of IFRS 16 to leases of intangible assets.

(i) Ide ntification of a lease

A contract is or contains a lease if the contract grants the right to control the use of an identifiable asset for a specified period of time in return for consideration.

The Bank will reassess whether a contract is, or contains, a lease only if the terms and conditions of the contract change. In this case, the Bank will treat the change as a modification to the existing lease.

Contracts often combine several types of supplier obligations, and may contain a combination of leasing components and non-binding components. In the case of a multi-element contract, the Bank shall identify each lease component and treat it separately for accounting purposes as follows:

a) Contracts that contain both leasing and non-leasing components

The Bank does not apply the practical approach set out in paragraph 15 of IFRS 16 regarding the lessee's possibility not to separate non-leasing and leasing components, and therefore has treated each lease component and service component of the contract separately.

In identifying a non-leasing component, the Bank determines whether it transfers a good or service to the lessee.

b) Non-leasing components (services)

Expenses related to services which are separate components other than leasing (services): maintenance of the common area in case of real estate leases, electricity and other utilities, marketing services, management fees, the price of which is billed separately from the rent of the underlying asset, are recorded in the profit and loss account as operating expenses.

c) Not separable non-lease components

Property/building tax costs paid on behalf of the lessor being not separable non-lease components, are not separate components of non-leasing because no good or service is transferred to the Bank.

d) VAT treatment

The VAT component is not part of the lease liability because it does not involve the transfer of a good or service. The Bank will record the VAT when it is invoiced and will become due (will not be capitalized over the lease period).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ii) Lease term

The lease term includes the non-cancellable period for which the Bank has the right to use an underlying asset, together with periods covered by an option to extend the lease, if the Bank is reasonably certain to exercise that option and periods covered by an option to terminate the lease, if the Bank is reasonably certain not to exercise that option.

In assessing whether it is reasonably certain to exercise an option to extend a lease, or not to exercise an option to terminate a lease, the Bank considers all relevant factors and circumstances that create an economic incentive for the lessee to exercise the option to extend the lease, or not to exercise the option to terminate the lease.

The Bank will reassess whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the Bank and affects whether the Bank is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease.

In order to determine the lease term for these contracts in the case of contracts concluded for an indefinite period or for which the lease term is automatically prolonged for successive specified periods or for indefinite period, the Bank considered all relevant facts and circumstances that create an economic incentive to exercise the option to extend the lease, or not to exercise the option to terminate the lease.

Land concession contracts concluded on which the Bank built on the rented land offices spaces for its branches and agencies and for which the contract period is not mentioned at all. The Bank considered the lease term as the estimated useful life of the building the Bank built on the leased land. The Bank estimates for building a useful life of 50 years.

Land concession contracts concluded for the useful life of the building.
In the case of the land concession contracts for which the contract period is the useful life of the building the Bank built on the respective land, the Bank considers the lease term as the estimated useful life of the buildings, namely 50 years.

Land concession contracts having a mismatch between the contract term and the rent payment term
In the case of the land concession contracts for which the rent is payable over a shorter period than the contract term, the Bank considered the guidance provided in IFRS 16 para B36, according to which the lease term begins at the commencement date and includes any rent-free periods provided to the lessee by the lessor. Therefore, the lease term for these contracts is the full contractual term.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Rental contracts for office spaces which are automatically extended for successive 12 months periods/indefinite period.
For these contracts, the Bank considers factors that create an economic incentive for the exercise of the renewal option/termination request for indefinite period contracts, including contract asset and market-based factors.

(iii) Recognition and measurement

Recognition and measurement exemptions

IFRS 16 contains two recognition and measurement exemptions:
- short-term leases and
- leases for which the underlying asset is of low value.

The Bank did not apply the "short term leases" exemption, as provided in IFRS 16 Appendix A.

The Bank applies the "low value assets" exemption for all those rent contracts for which the value of the underlying assets is below USD 5,000.

When applying the "low value asset" exemption, the Bank considered the guidance provided in IFRS 16 Appendix B paragraph B4 stating that the analysis of low value assets does not require the Bank to determine whether low value assets in aggregate are material; the exemption is still applicable even if the aggregate value of low value assets is material.

Initial measurement – lease liability

For all the contracts in scope of IFRS 16, the Bank recognizes a right-of-use asset and a corresponding lease liability.
At the commencement date, the lessee measures the lease liability at an amount equal to the present value of the lease payments during the lease term that are not paid at that date.

Based on the guidance in IFRS 16 paragraph 27, the Bank considered as lease payments the followings:

a) fixed payments less any lease incentives receivable

For all of the contracts included in IFRS 16 scope, the Bank pays at least a fixed monthly/quarterly/semiannually/annually rent. Lease incentives consist of costs undertaken by the lessor on behalf or for the benefit of the Bank, in order to facilitate the agreement or renewal of the lease.
An example of such incentives are the rent-free periods that the Bank receives for part of its leases. At initial measurement, the Bank includes these rent-free periods in the lease liability calculation.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

c) variable lease payments that do not depend on an index or a rate;

According to IFRS 16 paragraph 38, such payments are not part of the lease liability, but they are recognized in the income statement when the event or condition that trigger those payments occurs. The Bank calculates the increase in rent from one year to another due to indexation and if these amounts are not significant for its operations, the Bank includes these variable lease payments that do not depend on an index or a rate in the lease liabilities computation.

d) other lease liabilities components.

In the case of contracts that include clauses related to the payment of penalties for terminating the lease, the Bank did not include such amounts in the lease liabilities computation because, as at transition date, it is not reasonably certain that it will exercise the termination option.

Lease payments denominated in a foreign currency do not constitute variable lease payments based on an index or a rate, but are in effect fixed payments.

For each reporting period, the Bank will calculate the lease liabilities in the original currency of the contract and convert them in RON by using the exchange rate/currency from the reporting day. The Bank will recognise any exchange rate differences in Profit or Loss account.

The right of use asset is not a monetary item and it is recognised in RON, the Bank's functional currency. As such, the right of use asset is not subsequently measured to account for any exchange rates differences, as it is the case for lease liabilities.

The discount rate that the Bank should use to measure the present value of the lease liabilities is the interest rate implicit in the lease. Otherwise, the Bank should use its incremental borrowing rate, meaning the rate of interest that it would have to pay to borrow, over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset, in a similar economic environment.

In the case of CEC, there are no contracts with an implicit interest rate . Therefore, the Bank measures the present value of the lease liabilities deriving from that respective contract using its incremental borrowing rate.

Initial measurement – right-of-use asset

At the commencement date the Bank measures the right-of-use asset at cost.

The Bank included in the cost of the right-of-use asset the following:

a. the amount of the initial measurement of the lease liability;

b. lease payments made at or before the commencement date, less any *lease incentives* received;

c. Initial direct costs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In accordance with the guidance from IFRS 16 paragraph 24, the cost of the right-of-use should also include the initial direct costs incurred by the Bank in order to obtain the lease contract.
Initial direct costs are defined as "...incremental costs of obtaining a lease that would not have been incurred if the lease had not been obtained...". Such costs include commissions or some payments made to the existing lessees to obtain the lease.
The Bank decided to apply the practical expedient as provided in IFRS 16 Appendix C paragraph C10 and excluded the initial direct costs from the measurement of the right-of-use assets at the date of initial application. All initial direct costs will be included in the initial measurement of the right-of-use asset for contracts concluded starting with 1st of January 2019.

Subsequent measurement – lease liability

a) Subsequent measurement of the lease liability

After the transition date, the Bank will measure the lease liability by:
- increasing the carrying amount to reflect interest in the lease liability;
- reducing the carrying amount to reflect the lease payments made;
- re-measuring the carrying amount to reflect any reassessments or lease modifications or to reflect revised in-substance fixed lease payments.

b) Reassessment of the lease liability

After the transition date, the Bank will re-measure the lease liability to reflect changes to lease payments. The Bank will recognize the amount of re-measurement of the lease liability as an adjustment to the right-of-use assets.
The Bank will re-measure the lease liability by discounting the lease payments using a revised discount rate if either:
- there are contractual changes which modify the lease payments or the lease term;
- there is a change in the assessment of an option to purchase the underlying asset, in the context of a purchase option.

The Bank will re-measure the lease liability by discounting the revised lease payments using the initial discount rate if either there is a change in the residual value guarantee and there is a change in an index or a rate used to determine those payments.
The Bank will account for a lease modification as a separate lease if both criteria below are met:

➢ the modification extends the scope of the lease by adding the right to use one or more underlying assets; and

➢ the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For a lease modification that will not be accounted for as a separate lease, at the effective date of the lease modification the Bank will allocate the consideration in the modified contract applying the price on each lease component, determine the lease term of the modified lease and re-measure the lease liability by updating the revised lease payments using a revised discount rate.

For a lease modification that is not accounted for as a separate lease, the Bank will account for the re-measurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease and making a corresponding adjustment to the right-of-use asset for all other lease modifications.

Subsequent measurement – right-of-use asset

After the commencement date of the contract, the Bank will measure the right-of-use asset applying the cost model. The right-of use asset is decreased by any accumulated depreciation and any accumulated impairment losses and adjusted for any re-measurement of the lease liability.
The Bank will calculate depreciation of the right-of-use asset on a straight-line basis in accordance with IAS 16 "Property, Plant and Equipment".
The Bank will depreciate the right-of-use asset over the shorter of the lease term and the useful life of the right-of-use asset. Also, the Bank will apply the impairment requirements in IAS 36 to the right-of-use assets.

2.10 Cash and cash equivalents at Central Bank

Cash and cash equivalents comprise cash balances on hand and nostro accounts with banks, including current account with the National Bank of Romania. Cash and cash equivalents are carried at amortised cost in the balance sheet.
Cash and cash equivalents are short-term investments which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents.
For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, including cash and non-restricted balances with central bank (including the minimum reserve requirement), treasury bills and other eligible bills, loans and advances to banks and amounts due from other banks.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Derivatives

Derivatives are held for risk management purposes and are measured at fair value in the statement of financial position with the changes in fair value recorded in the statement of profit or loss.

Derivative financial instruments include currency swaps and currency forward and forward on debt instruments transactions. The positive fair value of the derivatives is carried as asset and the negative fair value is carried as liability.

Changes in the fair value of derivative instruments are included in profit or loss for the year (Net gains/losses on financial derivatives). The Bank does not apply hedge accounting.

2.12 Loans and advances to banks

Amounts due from other banks are recorded when the Bank borrows money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

2.13 Investment property

Investments properties are properties held by the Bank in order to obtain rental income and are not used by the Bank in the current activity.

Investment property is initially measured at cost, taking into account any costs directly attributable to the acquisition (such as fees for legal services, real estate agent fees and notary fees, transfer fees and charges of the property). After the initial recognition, an investment property is measured at cost less accumulated depreciation and provision for impairment losses, according to IAS 16. The difference between the net proceeds from the sale and the net carrying amount of the asset is recognized in profit or loss upon derecognition.

Investment properties that meet the criteria to be classified as held for sale in accordance with IFRS 5 shall be assessed in accordance with IFRS 5.

Rental income is recorded in profit or loss for the year within other operating income.

If any indication exists that investment properties may be impaired, the Bank estimates the recoverable amount as the higher of value in use and fair value less the costs to sell.

The carrying amount of an investment property is depreciated to its recoverable amount through the creation of an impairment to the profit or loss account for the year. An impairment loss recognised in prior years is reversed if there has been a subsequent change in the estimates used to determine the asset's recoverable amount.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Bank, and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

Bank records as investment property the following tangible assets:

a) 100% surplus space;
b) Mixed-use spaces that cannot be sold separately are entirely classified as investment property only if the surplus space is at least 70%;
c) Mixed-use spaces that can be sold separately and have a gross book value less than RON 2,000,000 will be classified as investment property or tangible assets based on which part from that space (surplus or banking) is more significant (equal or more than 70%);
d) For the remaining mixed spaces that can be sold separately, only the surplus is classified as investment property; for this is required to establish the gross value based on the value distribution report.

Revaluation reserve from the transfer date of property and equipment in investment property is reclassified to retained earnings at the date of investment property derecognition.

If an investment property is starting to being used in the usual banking activity, it is then reclassified to the property and equipment account.

2.14 Tangible assets

(i) Recognition and measurement

Land and buildings are presented at reevaluated value amount less accumulated depreciation and the provision for impairment losses. The other items from the tangible assets category are presented at their historical cost less accumulated depreciation and the provision for impairment losses. Capital expenditure on property and equipment under construction is capitalized and depreciated once the assets enter into use.

Land and buildings are subject to periodical revaluation to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Evaluations are made by certified external and internal evaluators. If there is no market based evidence of fair value, fair value is estimated using an income approach. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity to the limit of the cost; all other decreases are charged to profit or loss for the year.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The revaluation reserve for property and equipment included in equity is transferred directly to retained earnings when the revaluation surplus is realised on the retirement or disposal of the asset.

Upon revaluation of tangible assets, accumulated depreciation at the date of revaluation is eliminated from the gross carrying amount of the asset and the gross carrying amount after the recording of revaluation is equal to its revaluated amount; this method is used when it is performed a detailed valuation of the land and building portfolio.

(ii) Subsequent costs

The Bank recognizes in the carrying amount of an item of property and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Bank and the cost of the item can be measured reliably. All other expenditures are recognized in the statement of profit or loss as an expense as incurred.

(iii) Depreciation

Depreciation is provided on a straight-line basis over the estimated useful lives of each item of the tangible assets category or of important categories of tangible assets that are recorded separately. Land is not subject to depreciation.

(iv) Derecognition

Gains and/or losses from de-recognition of tangible assets is determined as difference between revenues from sales of tangible assets and the expenses with their disposal and /or their retirement and are recognized in profit or loss for the year (within other operating income or expenses).

The estimated useful lives by categories are as follows:

Categories	Years
Buildings	50
Equipment	3 – 20
Vehicles	6
Furniture	14
Other tangible assets	4 – 22

Depreciation methods and useful lives are reassessed at each reporting date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Intangible assets

Intangible assets that are acquired by the Bank are stated at cost less accumulated amortisation and impairment losses. Intangible assets include software and licences.

Costs associated with developing or maintaining software programs are recognized as an expense when incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Bank, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimate useful life for software is 4 years.

2.16 Impairment of non-financial assets

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less the costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

2.17 Deposits from banks and customers

Deposits from banks and customers are initially measured at fair value plus transaction costs, and subsequently measured at amortised cost using the effective interest method.

Deposits from banks are recorded when the Bank receives money or other assets from other counterparty banks.
Customer accounts are non-derivative liabilities to individuals, state or corporate customers.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Borrowings from banks and other financial institutions

The loans obtained from banks and other financial institutions account includes loans from international banks and financial institutions and are registered at amortised cost.

2.19 Sale and repurchase agreements and lending of securities.

Sale and repurchase agreements ("repo agreements"), which effectively provide a lender's return to the counterparty, are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognized. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within deposits from banks or borrowings from banks and other financial institutions category.

Securities purchased under agreements to resell ("reverse repo agreements"), which effectively provide a lender's return to the Bank, are recorded as loans and advances from banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price, adjusted by interest and dividend income collected by the counterparty, is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparty banks for a fixed fee are retained in the financial statements in their original category in the statement of financial position unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately.

Securities borrowed for a fixed fee are not recorded in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded in profit or loss for the year within gains less losses arising from trading securities. The obligation to return the securities is recorded at fair value in other borrowed funds.

2.20 Provisions

A provision is recognised in the balance sheet when the Bank has a present legal or constructive obligation as a result of a past event to transfer economic benefits in order to settle the obligation and the amount of the obligation can be reliably estimated.

2.21 Contingent assets and liabilities

Contingent liabilities are not recognized in the financial statements. They are disclosed in notes,

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

unless the possibility of an outflow of economic benefits is remote.

Contingent assets are not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

2.22 Financial guarantees

The Bank issues financial guarantees and commitments to provide loans.

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument and represents a credit risk.

Financial guarantee liability is initially recognised at its fair value which is normally highlighted by the amount of fees received. This amount is amortised thorughout the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher value between (i) the amount initially recognized less, where appropriate, the cumulative amount of revenue recognized in accordance with IFRS 15 and (ii) allowance for losses caused to the end of each reporting period.

In cases where the fees are charged periodically in respect of an outstanding commitment, they are recognised as revenue on a time proportion basis over the respective commitment period.

2.23 Repossessed assets

Repossessed assets represent financial and non-financial assets repossessed by the Bank through execution or giving in settlement of overdue. Financial assets (cash and securities) taken over by the Bank due to execution are accounted in treasury accounts, respectively securities, in counterparty with related receivables accounts and " Creditors " account (for any difference to be returned to the customer). Net gain or loss from derecognition of the credit is recognized in profit or loss.
Movable and immovable property other than securities and cash, taken over by the Bank through execution are initially recognized at fair value in the "Inventories" category in the account "Other assets held for sale" in counterparty with related receivables accounts and " Creditors " account (for any difference to be returned to the customer). Net gain or loss from derecognition of the credit is recognized in profit or loss. Immovable property that has come into the Bank's possession as a result of the payment transactions are initially recognized at fair value in the category " Inventories " through the account "Other assets held for sale" in counterparty with the receivables accounts.
Assets taken into the Bank's assets through execution or giving in payment procedure which subsequently change their destination, which fall within the category of assets, will be transferred from "Inventories" category into the assets accounts.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Employee benefits

Short term benefits

Short-term employee benefits include wages, salaries, bonuses and social security contributions. Short-term employee benefits are recognised as an expense when services are rendered. The Bank includes in short-term benefits the accruals for the employees' current year profit sharing which can be paid within twelve months from the end of the period.

Pension plans/ social and pension contributions

The Bank, in the normal course of business makes payments to the Romanian state funds on behalf of its employees for pension, unemployment fund and health care. All the employees of the Bank are members and are also legally obliged to make defined contributions (included in the social security contributions) to the Romanian state pension plan. All related contributions to the Romanian state pension plan are recognized as an expense in the profit and loss statement for the period when incurred.

The Bank does not operate any independent pension scheme and, consequently, has no other obligation in respect of pensions.

Post- employment benefits

Based on the Work Convention that is valid for 12 months starting with 01.01.2020, signed with the Trade Union Federation of CEC Bank Employees, Bank's employees who retire as a result of the age limit in 2020 may will receive on this occasion, taxable material assistance, at the justified proposal of the management, in consultation with trade union leaders.

2.25 Deposit Guarantee Fund contribution

Individuals and some categories of companies deposits, including small and medium enterprises, are guaranteed until a certain level (EUR 100,000) by the Deposit Guarantee Fund in Banking System ("Fund") according to effectual law (311/2015 Law regarding the deposit guarantee schemes and the Deposit Guarantee Fund).

The credit institutions from Romania are obliged to pay an annual contribution to BDGF ("Banking Deposit Guarantee Fund") in order to guarantee the deposits of clients in case of the credit institution insolvency and an annual subscription to the Resolution Fund.

The Bank applied IFRIC 21 stipulations "Taxes", according to which the Fund contribution meets the definition of a tax.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.26 Share capital

Ordinary shares are classified as equity.
Share capital has been restated to reflect the impact of IAS 29 up to 1 January 2004 when Romania ceased to be a hyperinflationary economy.

2.27 Trade and other payables

Trade payables are accrued when the counterparty has performed its obligations under the contract and are measured at amortized cost.

3 FINANCIAL RISK MANAGEMENT

a) Introduction

The most important types of financial risks to which the Bank is exposed are credit risk, liquidity risk, market risk and interest rate risk other than trading portfolio.
Market risk includes currency risk and equity price risk. This note provides information regarding Bank's exposure to every risk mentioned above, the objectives and policies of the Bank and evaluation and risk management processes.

Risk management framework

The Board of Directors of the Bank has the overall responsibility for the establishment and monitoring of the Bank's risk management framework. In this way, the Board of Directors of the Bank analyses, reviews and approves, at least annually, the Bank's risk management strategies and policies to reflect changes in internal and external factors, as well as changes in the economic environment in which the Bank operates. The Board of Directors of the Bank shall also reconsiders and approves the risk profile, setting acceptable levels for significant risks and ensuring that the necessary steps are taken to identify, assess, monitor and control significant risks, including for outsourced activities.

Within the limits of the powers delegated by the Board of Directors of the Bank, shall function Executive Committee, the Asset and Liability Committee (ALCO), the Risk Management Committee and Operational Risk Management Committee, which are responsible for developing and monitoring the Bank's risk management policies in areas specified by them. All committees report regularly to the Board of Directors.

The Bank's risk management policies are established to identify and analyse the risks to which the Bank is exposed, to set appropriate risk limits and controls and to monitor risks and adherence to risk limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The Bank, through its training, management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Bank's Audit Committee is responsible for monitoring the compliance with the Bank's risk management procedures. The Audit Committee is assisted in fulfilling these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

b) Credit risk

Credit risk is the risk of financial loss of the Bank if a customer or a counterparty of a financial instrument fails to meet its contractual obligations.

Credit risk associated with trading and investing activities is managed through the Bank's market risk management process. The risk is mitigated through selecting counterparties with good credit rating standings, monitoring their activities and ratings and through the use of exposure limits and when appropriate, the obtaining of collaterals.

On 13.05.2016 the "Law on debt to asset of real estate with the aim of ceasing the obligation committed by credits" came into force.

As at 31.12.2020, the Bank received notifications regarding the law on full settlement of mortgage / home equity loans for 27 loans with an on-balance sheet exposure of RON 16,006 thousand, for which the Bank made adjustments for expected credit loss of RON 6,695 thousand, respectively real estate guarantees of RON 10,593 thousand, so that the estimated impact on the portfolio of loans and financial position of the bank is insignificant.

Until now, the Bank has taken over the payment as a result of the provisions of Law 77/2016: 7 buildings and 4 lands. Debt repayments amounting to RON 368.97 thousand were made in 2020, representing receivables residuals recorded in off balance sheet accounts.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

An analysis of the ratio between mortgage loans and related real estate guarantees (LTV), without the „First House" product, at the reporting date, is presented below:

LTV	Balance sheet exposure 31.12.2020 (RON thousand)	Off balance sheet exposure 31.12.2020 (RON thousand)
< 60%	1,036,135	2,557
61-80%	1,307,540	13,388
81-100%	223,787	342
101-120%	16,016	-
121-140%	6,978	98
>140%	6,547	783
Total	2,597,003	17,168

LTV	Balance sheet exposure 31.12.2019 (RON thousand)	Off balance sheet exposure 31.12.2019 (RON thousand)
< 60%	850,324	1,968
61-80%	1,011,942	7,187
81-100%	169,294	455
101-120%	26,178	144
121-140%	9,422	10
>140%	9,966	596
Total	2,077,126	10,360

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

At 31 December 2020, the Bank recorded a portfolio of loans granted to individuals that can benefit from the law on full settlement of mortgage with a value of RON 2,597,003 thousand, with collateral value of RON 5,314,665 thousand. Adjustments for expected credit loss related to this portfolio have a value of RON 24,085 thousand.

The Bank's primary exposure to credit risk arises from its lending activity and other transactions in which the bank recognizes financial assets. The maximum amount of credit exposure in this regard is represented by the carrying amounts of the assets recognised in the balance sheet.

The Bank is exposed to credit risk from various other financial assets, including derivative instruments and debt investments, for which the maximum current credit exposure is equal to the carrying amount of these assets in the balance sheet. In addition, the Bank is exposed to off balance sheet credit risk through commitments to grant loans for which the maximum exposure is the commitment value.

In order to minimise this risk, the Bank has established exposure limits and procedures in order to screen the customers before granting the loans and to monitor their ability to repay the principal and interest during the lifetime of the loan.

Credit risk is diminished by the amount of collateral received. The adjustment value for impaired loans is based on the management's analysis at the balance sheet date after taking into account the potential cash flows from the execution of the collateral, net of the costs of obtaining and selling them.

On the Romanian market, several types of collateral were seriously affected by the recent volatility of the financial markets and by the low level of liquidity for certain types of assets. Consequently, the realizable value of the assets may differ from the amount allocated to the estimate of adjustments for expected credit loss.

Management closely monitors the evolution of the portfolio and the cash flow forecast such to ensure it reflects the revised estimates of expected future cash flows in the impairment assessments.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk management

The Board of Directors of the Bank has delegated, through the Executive Committee, the responsibility of monitoring the credit risk to its Credit Committee (including Restructuring Committee). Separately, The Risk Management Division, reporting to the Executive Committee, is responsible for oversight of the Bank's credit risk, including:

- *Formulating credit policies* in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.
- *Establishing the authorisation structure* for the approval and renewal of credit facilities, approval of changes in the contract terms (restructuring). Authorisation limits are allocated to levels of credit approvers. Greater credit facilities require approval by the highest level Credit Committee, the Executive Committee or the Board of Administrators as appropriate.
- *Reviewing and assessing credit risk.* Credit Committee assesses all credit exposures in excess of designated limits, prior to facilities being approved or recommended for approval by the Board of Directors and/or committed to customers. Renewals and reviews of facilities are subject to the same review process.
- *Limiting concentration of exposure* to counterparties, geographies and industries (for loans and advances to customers) and by issuer, credit classification category, market liquidity and country (for investment securities).
- *Reviewing compliance* of business units with agreed exposure limits, including those for selected industries and product types.
- *Providing regular reports* on the credit quality of portfolios are provided to the Board of Directors and appropriate corrective actions are taken.
- *Providing advice, guidance and specialist expertise* to business units to promote best practice throughout the Bank for credit risk management.

Concentration of credit risk that arises from financial instruments exists for groups of counterparties or other third parties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The major concentration of credit risk in relation to the Bank's loans and advances is disclosed below.

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The disclosure of exposures and specific adjustments for expected losses are grouped by portfolios, having the below characteristics:

CAG	Legal entities Agriculture
CSA	Individuals – personal needs loans fully collateralised with real estate collaterals
CSN	Individuals – personal needs loans without real estate collaterals or not fully covered
CTS	Bridge loans for subsides
IP	Individuals – Mortgage loans
OW	Cards/Overdraft
CAP	Public local administrations
CCM	Legal entities Commerce
CCO	Legal entities Construction
CIN	Legal entities Industry
CSS	Legal entities Services

The table below presents the loans commitments and financial guarantees net of provision outstanding at 31 December 2020, at depreciation levels:

	Stage 1	Stage 2	Stage 3	POCI	Total
Crediting commitments					
Exposure	3,255,351	175,679	31,305	-	3,462,335
Provision	20,075	1,043	185	-	21,303
Net crediting commitments	3,235,276	174,636	31,120	-	3,441,032
Guarantee commitments					
Exposure	589,891	94,217	35,331	-	719,439
Provision	2,936	469	148	-	3,553
Net guarantee commitments	586,955	93,748	35,183	-	715,886

The table below presents the loans commitments and financial guarantees net of provision outstanding at 31 December 2019, at depreciation levels:

	Stage 1	Stage 2	Stage 3	Total
Crediting commitments				
Exposure	3,563,753	193,844	15,447	3,773,044
Provision	11,951	555	65	12,571
Net crediting commitments	3,551,802	193,289	15,382	3,760,473
Guarantee commitments				
Exposure	478,510	40,247	9,675	528,432
Provision	1,692	142	33	1,867
Net guarantee commitments	476,818	40,105	9,642	526,565

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The Bank monitors the concentration of credit risk by geographical regions. An analysis of concentrations of credit risk exposures at the reporting date is shown below (amounts net of expected losses):

	Gross exposure 31 December 2020	Adjustments for expected credit loss 31 December 2020	Net exposure 31 December 2020
Bucuresti-Ilfov	7,334,874	372,943	6,961,931
Center	1,675,035	102,145	1,572,890
North-East	2,076,059	138,799	1,937,260
North-West	3,324,610	202,766	3,121,844
South-East	2,948,584	107,526	2,841,058
South-Muntenia	2,460,132	139,135	2,320,997
South-West Oltenia	2,027,262	83,860	1,943,402
West	1,305,106	80,416	1,224,690
Total	23,151,662	1,227,590	21,924,072

	Gross exposure 31 December 2019	Adjustments for expected credit loss 31 December 2019	Net exposure 31 December 2019
Bucuresti-Ilfov	6,654,877	225,964	6,428,913
Center	1,472,743	70,462	1,402,281
North-East	2,114,594	126,964	1,987,630
North-West	2,917,240	157,261	2,759,979
South-East	2,471,294	76,297	2,394,997
South-Muntenia	1,961,833	85,378	1,876,455
South-West Oltenia	1,930,195	49,888	1,880,308
West	1,236,295	63,571	1,172,723
Total	20,759,071	855,785	19,903,286

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The split of gross loans and advances to customers by class and category, as at 31 December 2020 (gross amounts):

	Stage 1	Stage 2	Stage 3	POCI	Total
Individuals – personal needs loans fully collateralised with real estate collaterals	247,856	64,503	33,958	-	346,317
Individuals – personal needs loans without real estate collaterals or not fully covered	1,174,670	57,185	84,226	-	1,316,081
Individuals – Mortgage loans	5,351,808	150,921	32,466	-	5,535,195
Cards/Overdraft	220,975	30,934	14,803	-	266,712
Total loans for individuals	6,995,309	303,543	165,453	-	7,464,305
Legal entities Agriculture	1,366,313	181,000	264,222	-	1,811,535
Public local administrations	3,437,740	520,508	2,547	-	3,960,795
Legal entities Industry	2,230,439	263,750	437,546	56,643	2,988,378
Legal entities Commerce	1,475,853	170,514	146,150	-	1,792,517
Legal entities Construction	594,485	56,999	69,369	-	720,853
Legal entities Services	3,283,954	607,461	364,387	-	4,255,802
Bridge loans for subsides	133,180	16,839	7,458	-	157,477
Total corporate loans and advances	12,521,964	1,817,071	1,291,679	56,643	15,687,357
Total gross loans and advances	19,517,273	2,120,614	1,457,132	56,643	23,151,662
Collaterals at fair value	24,120,013	2,788,984	2,142,829	117,225	29,169,051

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The guarantees value, presented in the tables from pages 55 – 66, includes the guarantee value accepted to be taken into account as a risk reducing factor in order to determine adjustments for expected losses; in case of loan with guarantees issued by guarantee funds/ Eximbank with terms regarding the risk sharing in the foreclosure process of the other guarantees related to the loan, guarantees value is the one resulted after pari-passu principle application.

The split of gross loans and advances to customers by class and category, as at 31 December 2019 (gross amounts):

	Stage 1	Stage 2	Stage 3	Total
Individuals – personal needs loans fully collateralised with real estate collaterals	266,150	81,486	36,062	383,698
Individuals – personal needs loans without real estate collaterals or not fully covered	1,049,637	60,869	42,439	1,152,945
Individuals – Mortgage loans	4,664,173	167,266	29,317	4,860,756
Cards/Overdraft	247,716	12,990	9,219	269,925
Total loans for individuals	6,227,676	322,611	117,037	6,667,324
Legal entities Agriculture	1,284,971	152,924	300,423	1,738,318
Public local administrations	3,803,943	137,520	2,080	3,943,543
Legal entities Industry	1,776,944	283,960	335,135	2,396,039
Legal entities Commerce	1,291,709	88,300	92,601	1,472,610
Legal entities Construction	436,942	78,043	66,374	581,359
Legal entities Services	2,831,198	605,095	357,514	3,793,807
Bridge loans for subsides	136,483	22,396	7,192	166,071
Total corporate loans and advances	11,562,190	1,368,238	1,161,319	14,091,747
Total gross loans and advances	17,789,866	1,690,849	1,278,356	20,759,071
Collaterals at fair value	20,055,607	2,633,202	1,999,029	24,687,838

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The expected credit loss related to loans and advances to customers as at 31 December 2020:

	Stage 1	Stage 2	Stage 3	POCI	Total
Individuals – personal needs loans fully collateralised with real estate collaterals	1,569	1,257	10,109	-	12,935
Individuals – personal needs loans without real estate collaterals or not fully covered	12,115	2,280	53,335	-	67,730
Individuals – Mortgage loans	6,572	1,193	8,587	-	16,352
Cards/Overdraft	3,204	1,572	11,725	-	16,501
Total adjustments for expected credit loss for individuals	23,460	6,302	83,756	-	113,518
Legal entities Agriculture	21,076	11,956	157,496	-	190,528
Public local administrations	15,166	3,571	1,743	-	20,480
Legal entities Industry	74,203	39,256	259,508	-	372,967
Legal entities Commerce	25,748	12,986	57,462	-	96,196
Legal entities Construction	14,600	4,725	35,199	-	54,524
Legal entities Services	98,513	87,588	188,074	-	374,175
Bridge loans for subsides	191	48	4,963	-	5,202
Total adjustments for expected credit loss for companies	249,497	160,130	704,445	-	1,114,072
Total adjustments for expected credit loss	272,957	166,432	788,201	-	1,227,590
Gross loans and advances to clients	19,517,273	2,120,614	1,457,132	56,643	23,151,662
Net loans and advances to clients	19,244,316	1,954,182	668,931	56,643	21,924,072

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The expected credit loss related to loans and advances provided to customers as at 31 December 2019:

	Stage 1	Stage 2	Stage 3	Total
Individuals – personal needs loans fully collateralised with real estate collaterals	862	1,592	17,426	19,880
Individuals – personal needs loans without real estate collaterals or not fully covered	6,261	1,828	29,623	37,712
Individuals – Mortgage loans	4,654	1,652	14,675	20,981
Cards/Overdraft	2,425	443	7,191	10,059
Total adjustments for expected credit loss for individuals	14,202	5,515	68,915	88,632
Legal entities Agriculture	9,158	2,924	167,991	180,073
Public local administrations	16,409	591	1,852	18,852
Legal entities Industry	23,257	10,037	198,432	231,726
Legal entities Commerce	12,515	3,356	31,833	47,704
Legal entities Construction	4,324	1,901	36,790	43,015
Legal entities Services	29,421	35,283	175,557	240,261
Bridge loans for subsides	24	37	5,461	5,522
Total adjustments for expected credit loss for companies	95,108	54,129	617,916	767,153
Total adjustments for expected credit loss	109,310	59,644	686,831	855,785
Gross loans and advances to clients	17,789,866	1,690,849	1,278,356	20,759,071
Net loans and advances to clients	17,680,556	1,631,205	591,525	19,903,286

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

Loans and advances to customers for which credit risk has not increased significantly since initial recognition (Stage 1):

Internal rating **31 December 2020**	**Very good**	**Good**	**Doubtful**	**Total**
Individuals – personal needs loans fully collateralised with real estate collaterals	201,811	34,886	11,159	247,856
Individuals – personal needs loans without real estate collaterals or not fully covered	593,323	356,576	224,771	1,174,670
Individuals – Mortgage loans	3,226,598	1,663,843	461,367	5,351,808
Cards/Overdraft	101,234	110,748	8,993	220,975
Total gross loans to individuals	4,122,966	2,166,053	706,290	6,995,309
	12,811	7,564	3,085	23,460
Adjustment for expected credit loss for individuals	201,811	34,886	11,159	247,856
Total net loans to individuals	**4,110,155**	**2,158,489**	**703,205**	**6,971,849**
Legal entities Agriculture	271,830	971,346	123,137	1,366,313
Public local administrations	3,255,073	177,842	4,825	3,437,740
Legal entities Industry	1,198,133	545,532	486,774	2,230,439
Legal entities Commerce	361,700	991,884	122,269	1,475,853
Legal entities Construction	130,992	360,294	103,199	594,485
Legal entities Services	862,976	1,666,592	754,386	3,283,954
Bridge loans for subsides	83,867	34,790	14,523	133,180
Total loans to corporate	6,164,571	4,748,280	1,609,113	12,521,964
Adjustment for expected credit loss for companies	93,723	111,134	44,640	249,497
Total net loans to corporate	**6,070,848**	**4,637,146**	**1,564,473**	**12,272,467**
Total gross	10,287,537	6,914,333	2,315,403	19,517,273
Total adjustments for expected credit loss	106,534	118,698	47,725	272,957
Total net loans	**10,181,003**	**6,795,635**	**2,267,678**	**19,244,316**
Collaterals at fair value	11,093,204	9,559,199	3,467,610	24,120,013

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

Internal rating

31 December 2019	Very good	Good	Doubtful	Total
Individuals – personal needs loans fully collateralised with real estate collaterals	217,536	37,625	10,989	266,150
Individuals – personal needs loans without real estate collaterals or not fully covered	520,739	334,839	194,059	1,049,637
Individuals – Mortgage loans	2,937,571	1,331,799	394,803	4,664,173
Cards/Overdraft	109,983	125,947	11,786	247,716
Total gross loans to individuals	3,785,829	1,830,210	611,637	6,227,676
Adjustment for expected credit loss for individuals	7,815	4,673	1,714	14,202
Total net loans to individuals	**3,778,014**	**1,825,537**	**609,923**	**6,213,474**
Legal entities Agriculture	330,447	752,336	202,188	1,284,971
Public local administrations	3,099,321	704,622	-	3,803,943
Legal entities Industry	903,367	612,046	261,531	1,776,944
Legal entities Commerce	324,375	783,891	183,443	1,291,709
Legal entities Construction	137,919	278,481	20,542	436,942
Legal entities Services	1,267,793	966,662	596,743	2,831,198
Bridge loans for subsides	69,636	44,485	22,362	136,483
Total loans to corporate	6,132,858	4,142,523	1,286,809	11,562,190
Adjustment for expected credit loss for corporate	45,379	36,667	13,062	95,108
Total net loans to corporate	**6,087,479**	**4,105,856**	**1,273,747**	**11,467,082**
Total gross	9,918,687	5,972,733	1,898,446	17,789,866
Total adjustments for expected credit loss	53,194	41,340	14,776	109,310
Total net loans	**9,865,493**	**5,931,393**	**1,883,670**	**17,680,556**
Collaterals at fair value	10,395,710	6,940,937	2,718,960	20,055,607

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

During the analysis process, both qualitative factors (the quality of the shareholders, the assessment of the level of qualification and continuity within the company of the management, the concentration of the clients, the debtor's experience in managing the borrowed funds) and qualitative factors (current liquidity, solvency, return on turnover, general indebtedness, hedging rate) are considered.

Thus, taking into account the qualitative and qualitative factors of the bank, a client can obtain between 0 and 34 points.

- For the "very good" rating, the bank allocates from 27 to 34 points corresponding to the financial performance class A;
- For the "good" rating, the bank allocates from 20 to 26 points corresponding to the financial performance class B;
- For the "doubtful" rating, the bank allocates from 0 to 19 points corresponding to the following performance classes:
  - Fin ancial performance class C, if allocated from 14-19 points;
  - Financial performance class D, if assigned from 7-13 points;
  - Financial performance class E, if assigned from 0-6 points.

For individuals, the financial performance is determined on the basis of the client's rating obtained when the loan is granted, and can be changed according to the fluctuations of the income.

- For the "very good" rating, the bank allocates over 86 points, corresponding to the "minimum risk" rating and risk class A;
- For the "good" rating, the bank allocates 70-85 points corresponding to the "low risk" rating and risk class B;
- For the "doubtful" rating, the bank allocates from 0-70 points differently:
  - correspondi ng to the "average risk" rating, the risk category C, if they were allocated from 50-69 points;
  - correspondi ng to the "high risk" rating, the risk category D, if they were allocated from 45-49 points;
  - correspondi ng to the "very high risk" rating, risk class E, if assigned from 0 to 44 points.

(ii) Loans and advances for which credit risk has increased significantly since initial recognition but which are not impaired (Stage 2)

Based on past experience, outstanding loans with a debt service of more than 30 days at the end of the current or any of the previous two months, loans included in the observation list, restructured performing loans, loans that have been classified as impaired loans at the end of any of the previous two months, the exposure of a client for which changes in the credit/client situation have been identified as compared to the situation at the credit granting date without these constituting a default event or predicting the non-recovery of the claim in full without recourse to collateral enforcement, are classified as loans for which credit risk has increased significantly since initial recognition if no impairment indicators have been identified leading to their classification as impaired loans.

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

Based on the internal collective assessment methodology, the Bank determines adjustments for expected loss over the life of the loans for which credit risk has increased significantly since initial recognition.

The gross amounts of loans and advances classified in Stage 2 based on debt service are as follows:

31 December 2020	0 days	1-30 days	31 - 60 days	61- 90 days	Total
Individuals – personal needs loans fully collateralised with real estate collaterals	27,324	17,130	12,132	7,917	64,503
Individuals – personal needs loans without real estate collaterals or not fully covered	9,192	13,219	22,687	12,087	57,185
Individuals – Mortgage loans	62,085	49,319	29,982	9,535	150,921
Cards/Overdraft	17,691	7,823	3,922	1,498	30,934
Total loans to individuals	116,292	87,491	68,723	31,037	303,543
Expected credit loss to individuals	2,581	1,758	1,336	627	6,302
Total net loans for individuals	**113,711**	**85,733**	**67,387**	**30,410**	**297,241**
Legal entities Agriculture	114,579	24,077	39,393	2,951	181,000
Public local administrations	481,856	37,464	-	1,188	520,508
Legal entities Industry	250,549	5,907	6,253	1,041	263,750
Legal entities Commerce	119,907	20,327	2,691	27,589	170,514
Legal entities Construction	50,949	4,408	1,267	375	56,999
Legal entities Services	493,509	102,955	8,894	2,103	607,461
Bridge loans for subsides	14,847	1,139	845	8	16,839
Total corporate loans	1,526,196	196,277	59,343	35,255	1,817,071
Expected credit loss to corporate	132,044	20,303	5,259	2,524	160,130
Total net loans for corporate	**1,394,152**	**175,974**	**54,084**	**32,731**	**1,656,941**
Total gross	1,642,488	283,768	128,066	66,292	2,120,614
Total expected credit loss	134,625	22,061	6,595	3,151	166,432
Total net loans	**1,507,863**	**261,707**	**121,471**	**63,141**	**1,954,182**
Collaterals at fair value	2,051,892	441,013	184,064	112,015	2,788,984

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

31 December 2019	0 days	1-30 days	31 - 60 days	61- 90 days	Total
Individuals – personal needs loans fully collateralised with real estate collaterals	25,291	23,753	17,844	14,598	81,486
Individuals – personal needs loans without real estate collaterals or not fully covered	9,708	14,206	24,741	12,214	60,869
Individuals – Mortgage loans	55,529	57,061	40,131	14,545	167,266
Cards/Overdraft	3,152	3,273	4,310	2,255	12,990
Total loans to individuals	93,680	98,293	87,026	43,612	322,611
Expected credit loss to individuals	1,530	1,672	1,535	778	5,515
Total net loans for individuals	**92,150**	**96,621**	**85,491**	**42,834**	**317,096**
Legal entities Agriculture	129,679	10,656	8,887	3,702	152,924
Public local administrations	4,844	91,650	41,025	1	137,520
Legal entities Industry	219,937	49,902	10,809	3,312	283,960
Legal entities Commerce	60,644	12,290	13,681	1,685	88,300
Legal entities Construction	70,634	4,045	1,451	1,913	78,043
Legal entities Services	519,107	50,177	16,909	18,902	605,095
Bridge loans for subsides	19,637	2,075	529	155	22,396
Total corporate loans	1,024,482	220,795	93,291	29,670	1,368,238
Expected credit loss to corporate	43,610	6,475	2,497	1,547	54,129
Total net loans for corporate	**980,872**	**214,320**	**90,794**	**28,123**	**1,314,109**
Total gross	1,118,162	319,088	180,317	73,282	1,690,849
Total expected credit loss	45,140	8,147	4,032	2,325	59,644
Total net loans	**1,073,022**	**310,941**	**176,285**	**70,957**	**1,631,205**
Collaterals at fair value	1,887,465	384,323	225,481	135,933	2,633,202

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(iii) Depreciated loans and advances (Stage 3 and POCI), loans and advances to customers that present objective impairment indicators according to accounting policy 2.7 (vi):

31 December 2020	0 day	1-30 days	31-60 days	61-90 days	91-180 days	181-360 days	Over 360 days	Total
Individuals – personal needs loans fully collateralised with real estate collaterals	4,429	5,688	4,453	2,663	7,246	4,716	4,763	33,958
Individuals – personal needs loans without real estate collaterals or not fully covered	2,483	1,900	903	571	20,553	24,611	33,205	84,226
Individuals – Mortgage loans	7,934	2,571	3,270	1,037	5,935	3,021	8,698	32,466
Cards/Overdraft	2,110	153	37	45	2,523	3,070	6,865	14,803
Total gross loans to individuals	16,956	10,312	8,663	4,316	36,257	35,418	53,531	165,453
Expected credit loss to individuals	4,730	3,295	2,600	1,205	11,061	14,166	46,699	83,756
Total net loans for individuals	**12,226**	**7,017**	**6,063**	**3,111**	**25,196**	**21,252**	**6,832**	**81,697**
Legal entities Agriculture	59,757	17,841	1,110	19,630	583	9,044	156,257	264,222
Public local administrations	602	-	-	-	81	1,864	-	2,547
Legal entities Industry	238,949	28,481	295	-	1,516	1,478	223,470	494,189
Legal entities Commerce	15,984	1,431	324	42,250	6,750	36,167	43,244	146,150
Legal entities Construction	8,114	2,857	10,347	-	2,307	3,347	42,397	69,369
Legal entities Services	123,915	24,075	80	672	22,988	12,062	180,595	364,387
Bridge loans for subsides	3,686	139	-	943	389	4	2,297	7,458
Total gross loans to corporate entities	451,007	74,824	12,156	63,495	34,614	63,966	648,260	1,348,322
Expected credit loss to corporate	159,872	30,971	5,211	9,404	12,817	33,420	452,750	704,445
Total net loans for corporate	**291,135**	**43,853**	**6,945**	**54,091**	**21,797**	**30,546**	**195,510**	**643,877**
Total gross	467,963	85,136	20,819	67,811	70,871	99,384	701,791	1,513,775
Total expected credit loss	164,602	34,266	7,811	10,609	23,878	47,586	499,449	788,201
Total net loans	**303,361**	**50,870**	**13,008**	**57,202**	**46,993**	**51,798**	**202,342**	**725,574**
Collaterals at fair value	799,331	147,582	39,638	127,743	90,367	137,153	918,240	2,260,054

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

31 December 2019	0 day	1-30 days	31-60 days	61-90 days	91-180 days	181-360 days	Over 360 days	Total
Individuals – personal needs loans fully collateralised with real estate collaterals	5,907	7,187	4,454	5,603	6,978	2,315	3,618	36,062
Individuals – personal needs loans without real estate collaterals or not fully covered	2,874	1,826	591	1,746	14,815	14,405	6,182	42,439
Individuals – Mortgage loans	6,038	2,145	1,994	4,827	6,064	2,055	6,194	29,317
Cards/Overdraft	2,381	114	52	68	2,711	2,946	947	9,219
Total gross loans to individuals	17,200	11,272	7,091	12,244	30,568	21,721	16,941	117,037
Expected credit loss to individuals	9,202	6,298	4,409	8,400	10,750	18,205	11,651	68,915
Total net loans for individuals	**7,998**	**4,974**	**2,682**	**3,844**	**19,818**	**3,516**	**5,290**	**48,122**
Legal entities Agriculture	45,951	6,970	3,723	48,479	5,903	22,616	166,781	300,423
Public local administrations	-	-	-	-	2,080	-	-	2,080
Legal entities Industry	58,153	30,020	79	15,154	34,493	21,963	175,273	335,135
Legal entities Commerce	1,899	42,281	102	2,366	4,086	10,676	31,191	92,601
Legal entities Construction	2,844	6,153	1,301	833	5,177	7,955	42,111	66,374
Legal entities Services	30,181	43,345	35,518	25,787	58,745	19,964	143,974	357,514
Bridge loans for subsides	3,117	30	-	1,417	177	2,287	164	7,192
Total gross loans to corporate entities	142,145	128,799	40,723	94,036	110,661	85,461	559,494	1,161,319
Expected credit loss to corporate	54,807	32,314	10,401	47,302	51,380	50,667	371,045	617,916
Total net loans for corporate	**87,338**	**96,485**	**30,322**	**46,734**	**59,281**	**34,794**	**188,449**	**543,403**
Total gross	159,345	140,071	47,814	106,280	141,229	107,182	576,435	1,278,356
Total expected credit loss	64,009	38,612	14,810	55,702	62,130	68,872	382,696	686,831
Total net loans	**95,336**	**101,459**	**33,004**	**50,578**	**79,099**	**38,310**	**193,739**	**591,525**
Collaterals at fair value	271,127	317,651	101,742	154,476	214,823	129,591	809,619	1,999,029

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets.

Fair value of the real estate and other type (inventory or equipment) collaterals at the end of the reporting period was estimated through haircuts applied to the value established by internal Valuation Department of the Bank. Applied haircuts depend on type of collateral, date of latest collateral valuation report, client's legal procedures (if any), collateral location, selling costs and time to sell.

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The types of collaterals accepted by the Bank as for 31 December 2020 are presented in the table below:

Type of collateral	Collateral value	(%)	Collaterals for balance sheet exposures	Collaterals for off balance sheet exposures
Guarantees received from public administration and related entities	2,698,188	8.37	2,585,790	112,398
Guarantees received from other financial Institutions	235,949	0.73	234,267	1,682
Real estate guarantees	22,927,577	71.15	21,006,696	1,920,881
Mortgages guarantees (movable assets, inventory, cash collateral)	3,940,419	12.23	3,587,372	353,047
Other (assignment of receivables)	2,424,037	7.52	1,754,925	669,112
Total	32,226,170	100	29,169,050	3,057,120

The types of collaterals accepted by the Bank as for 31 December 2019 are presented in the table below:

Type of collateral	Collateral value	(%)	Collaterals for balance sheet exposures	Collaterals for off balance sheet exposures
Guarantees received from public administration and related entities	1,991,104	6.79	1,976,754	14,350
Guarantees received from other financial Institutions	200,136	0.68	199,674	463
Real estate guarantees	20,477,108	69.78	18,996,244	1,480,864
Mortgages guarantees (movable assets, inventory, cash collateral)	3,949,291	13.46	3,515,168	434,124
Other (assignment of receivables)	2,726,273	9.29	2,089,349	636,925
Total	29,343,912	100	26,777,189	2,566,726

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

Analysis on the impact of the COVID-19 pandemic on the loan portfolio

In the context of the pandemic COVID_19, in line with the measures adopted in European states, the Bank used both public and private moratoriums to support customers who have experienced certain difficulties related to the liquidity shortfall generated by the state of emergency/state of alert and the restrictions imposed by the authorities. The moratoriums applied by the Bank comply with the provisions of the EBA Guidelines GL 2020/02 on legislative and non-legislative moratoriums applied to the payment of loans in the context of the COVID_19 crisis, as amended by EBA GL 2020/15. Deferrals to payment on the basis of legislative moratoriums granted to clients in 2020 were carried out in accordance with Government Emergency Ordinance no. 37/2020 on the granting of facilities for loans granted by credit institutions and non-bank financial institutions to certain categories of borrowers.

The Bank has been implementing deferral arrangements in accordance with the legislative requirements and regulatory framework since April 2020. The bank applied the public moratorium (legislative) introduced by the government decree for individuals and companies, as well as the private (non-legislative) moratorium carried out at the level of the RBA, only for companies.

The Financial Stability Committee recommended that regulators use the flexibility of international standards in applying the criteria for significant credit risk increase ("SICR"), i.e. the stage classification of exposures for which deferral measures have been approved. The Basel Committee on Banking Supervision (BCBS) announced a delay in the implementation of the Basel III package until 1 January 2023, and the International Accounting Standards Board (IASB) has issued a guidance on the application of IFRS 9 in the context of the COVID-19 crisis.

Thus, the Bank has not automatically reclassified to stage 2, that is, stage 3 exposures for which deferral measures were approved, but the assignment by stage was carried out on the basis of an analysis which considered the differentiation between borrowers affected by a short-term liquidity crisis and those for which the effects of the pandemic represent a significant increase in credit risk for the life of the credit, with a view to the appropriate classification in stage 2 or stage 3 of these borrowers.

The Bank's analysis was focused on the economic sectors most affected by the COVID-19 pandemic (restaurants, hotels, tourism, events, but also other services, industry, construction), in order to identify and reclassify the corresponding stage 2 and stage 3 respectively.

At 31.12.2020 the balance sheet exposures of loans to customers that have applied for suspension of payments in the context of the COVID_19 pandemic during the year 2020 shall be as follows:

Customer type	Stage 1	Stage 2	Stage 3	Total
Individuals	260,524	30,334	3,087	293,945
Legal entities Agriculture /Public local administrations	83,269	155,870	81	239,220
Corporate entities	30,394	149,866	64,092	244,352
Small and Medium-sized Enterprises	1,288,152	328,512	226,685	1,843,349
Total	1,662,339	664,582	293,945	2,620,866

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The breakdown was made taking into account the financial situation of the clients, before the COVID_19 crisis, but also the situation after the events arising from the crisis, and objectively estimating the prospect of prolonging liquidity deficits in the medium and long term and turning them into financial difficulties, for the purposes of assessing the significant increase in credit risk or the occurrence of improbability of payment.

With regard to the type of credit granted to individuals:

Exposure type	Stage 1	Stage 2	Stage 3	Total
Guaranteed consumer loans	14,590	4,318	582	19,490
Unsecured consumer loan	25,672	3,560	872	30,104
Mortgage loan	220,263	22,455	1,633	244,351
Total	260,525	30,333	3,087	293,945

The structure of the loan portfolio which benefited from the moratoriums during 2020 in terms of debt service shall be as follows at 31.12.2020:

Customer type	0 days	1-30 days	30-90 days	over 90 days
Individuals	241,354	47,545	3,940	1,105
Legal entities Agriculture	239,138	-	-	81
Corporate entities	244,352	-	-	-
Small and Medium-sized Enterprises	1,716,729	52,505	73,130	985
Total	2,441,573	100,050	77,070	2,171

Based on the loan portfolio existing at 31.12.2020, the Bank carried out a stress scenario on credit risk in the context of the pandemic COVID_19. The scenario takes into account the deterioration in credit quality for customers who requested the suspension of payments in the context of the pandemic COVID_19 during 2020, that is, the significant increase in credit risk compared to the time of granting for 20% of loans classified in Stage 1 and the depreciation of 50% of loans classified in Stage 2 and implicitly the reassessment of adjustments for expected losses for those loans.

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The application of the stress factor as described above causes the level of the expected loss adjustments to be increased by RON 118,56 million, respectively RON 28,84 million for loans that have migrated from stage 1 to stage 2 and RON 89,72 million for loans that have migrated from stage 2 to stage 3.

Migration	Balance sheet exposure	Adjustments for expected credit loss before scenario	Adjustments for expected credit loss after scenario	Impact
Stage 1-Stage 2	332,630	7,505	36,341	28,836
Stage 2-Stage 3	329,294	41,553	131,273	89,719
Total	661,924	49,058	167,614	118,555

The increase in the level of expected credit losses under the scenario leads to a insignificant decrease (below 1 pp) in the total own funds ratio, an irrelevant decrease for the overall capital requirement (OCR) minimum of 15.45%.

Assumptions and techniques used for estimating expected credit loss:

As at 31 December 2020, the average probability of default over 12 months assessed to the loans portfolio and used for determining adjustments for expected credit loss is :

Individuals	1.55%
Corporate entities	5.11%

In determining the cumulative default probability (CPD) curve to incorporate updated estimates of macroeconomic factors, the following scenarios were used:

- the baseline scenario with a 85% probability of realization, using the latest macroeconomic forecasts published by the World Bank. Economic growth of -5.0% in 2020, 3.5% in 2021, 4.1% in 2022 were projected for 2020;

- the pessimistic scenario with a probability of 5 %, which takes into account the 10 % increase in the amplitude of economic growth as mentioned in the base case scenario (for 2020 estimates: -5.5 % in 2020, 3.85 % in 2021 and 4.51 % in 2022);

-the optimistic scenario, with a 10% probability, which takes into account the use of more optimistic macroeconomic forecasts than those published by the World Bank (e.g. IMF, CNSP, European Commission) or the 15% decrease in the amplitude of economic growth as mentioned in the baseline scenario (for 2020 estimates, the macroeconomic forecast published by the IMF, i.e.: -4.80% in 2020, 4.60% in 2021 and 3.50% in 2022).

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

In addition to the inherent uncertainty of the estimation, the economic effects of the pandemic have caused increased uncertainties, in particular, in terms of macroeconomic forecasts and their likelihood of occurrence, and therefore the actual results may be significantly different from those expected. The Bank considers that these forecasts are the best estimate of the possible results.

Sensitivity analysis of expected loss adjustments due to changes in macroeconomic factors at 31.12.2020:

Balance sheet exposures	**Scenario 1**	**Recorded**	**Scenario 2**	**Scenario 3**
Individuals	7,492,832	7,492,832	7,492,832	7,492,832
Corporate entities	15,638,223	15,638,223	15,638,223	15,638,223
Total	23,131,055	23,131,055	23,131,055	23,131,055

Adjustments for expected credit loss	**Scenario 1**	**Recorded**	**Scenario 2**	**Scenario 3**
Individuals	100,956	101,008	101,038	101,171
Corporate entities	1,108,027	1,109,246	1,110,075	1,113,571
Total	1,208,983	1,210,254	1,211,113	1,214,742

Scenario 1 envisages a 75% probability of the baseline scenario, 5% of the pessimistic scenario and 20% of the optimistic scenario.

Scenario 2 envisages a 75% probability of the baseline scenario, 15% of the pessimistic scenario and 10% of the optimistic scenario.

Scenario 3 envisages a 45% probability of the baseline scenario, 50% of the pessimistic scenario and 5% of the optimistic scenario.

In view of the difficult-to-estimate negative effect of the COVID 19 pandemic, the Bank has made some adjustments to the expected credit loss estimation model, namely the application of post-model expected credit loss adjustment coefficients for loans classified in stage 2 according to the risk associated with economic sectors, as well as the declassification of customers, which, although not falling within the regulated criteria for assessing the significant increase in credit risk, raise some concerns about future performance in the context of the extension of the Covid_19 pandemic. The quantitative effect of the measures mentioned was to increase the expected loss adjustments by about RON 111 million.

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

As at 31 December 2019, the average probability of default over 12 months assessed to the loans portfolio and used for determining adjustments for expected credit loss is :

Individuals 2.26%
Corporate entities 3.40%

The default cumulative curve is estimated by the Bank for the next maximum 420 months, based on the default rate of the homogenous loan portfolios in last 60 months and by taking into consideration the impact of the gross domestic product (GDP) evolution estimated by World Bank for the period 2019 -2021 on the default rate. The computation of the default cumulative curve assumes a linear trend of macroeconomic factors for the entire lifetime of the loan, which in fact corresponds to a hypothesis according to which throughout this period, the existence of a single economic cycle is expected. In order to complete the calculation regarding in anticipation information included in the cumulative default curve in order to capture the existence of several economic cycles during its duration, two scenarios were used:

- a scenario with a probability of 70% achievement that takes into account the evolution of GDP according to the World Bank estimates for the next 3 years, respectively 4.1% for 2019, 3.6% for 2020 and 3.3% for 2021;
- an alternative scenario with a 30% probability of achievement that take into consideration a 0% growth of GDP for the entire period for which there are estimates.

Sensitivity analysis of expected loss adjustments due to changes in macroeconomic factors at 31.12.2019 (excluding expected loss adjustments due to contract related accessories):

Balance sheet exposures	**Scenario 1**	**Recorded**	**Scenario 2**
Individuals	6,651,078	6,651,078	6,651,078
Corporate entities	14,007,225	14,007,225	14,007,225
Total	20,658,303	20,658,303	20,658,303

Adjustments for expected credit loss	**Scenario 1**	**Recorded**	**Scenario 2**
Individuals	82,060	82,697	83,740
Corporate entities	751,962	761,261	770,643
Total	834,022	843,958	854,383

For 2019, a scenario with a probability of 70% was used to determine the impact of macroeconomic factors on the cumulative probability of default (CPD) curve, represented by the evolution of GDP over the next 3 years according to World Bank forecasts and an alternative scenario with a 30% probability of achievement, which is projected to see a 0% GDP growth over the entire forecast period.

(All amounts are in RON thousands unless otherwise stated)

3 **FINANCIAL RISK MANAGEMENT (CONTINUED)**

Scenarios 1 and 2 envisage a probability of achieving 20% and, respectively, 40% of the alternative scenario of GDP growth of 0% over the entire forecast period.

Residential mortgage lending

The tables below classify credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The gross amounts exclude any expected credit loss. The value of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is the fair value that is determined at least once every three years based on evaluation reports.

The ratio between loans and related real estate guarantees (loan-to-value-LTV) at 31 December 2020:

LTV	Balance sheet exposure	Off balance sheet exposure
< 60%	1,293,905	2,558
61-80%	2,092,206	13,387
81-100%	2,296,294	3,994
101-120%	46,636	-
121-140%	9,460	98
> 140%	10,166	783
Total	5,748,667	20,820

The ratio between loans and related real estate guarantees (loan-to-value-LTV) at 31 December 2019:

LTV	Balance sheet exposure	Off balance sheet exposure
< 60%	1,040,642	1,968
61-80%	1,611,690	7,387
81-100%	2,424,045	1,251
101-120%	50,721	401
121-140%	13,919	10
> 140%	12,600	806
Total	5,153,617	11,823

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The Bank holds collaterals for loans and advances granted to clients in the form of collateral deposits, mortgages over property, guarantees and other pledges over equipment or future collections. Fair value estimates take into account the value of the guarantee assessed as at the date of the loan and subsequently updated in accordance with the Bank's internal policy. In case of collective expected credit loss assessment, the model accounts for recovery rates which are estimated based on historical recovery information. Generally, no guarantees are used for loans and advances granted to banks.

Loans with renegotiated terms

Restructuring activities include agreements regarding postponed payments and approved external management plans. The decision regarding the restructuring of credit facilities is based on the economic and financial analysis of corporate clients (based on the latest financial information held), and on the analysis of future payments or on the repayment capacity of the individuals (based on documents reflecting net realised income).

Restructuring policies and practices are based on ratios or criteria which, in the opinion of management, indicate the probability that payments continue in the future. These policies are reviewed continuously. Specialised departments analyse and approve, according to internal regulations the restructuring, the proposals submitted by the Bank units and then send them for approval to the Restructuring Committee/Head Quarter Credit Committee depending upon Bank's exposure to the client. Subsequent to restructuring, the Bank regularly monitors the restructured loans on a case by case basis.

As at 31 December 2020, the gross carrying amount (diminished with unwinding value) of restructured loans after the disbursement is RON 653,194 thousand (31 December 2019: RON 612,365 thousand), out of which RON 76,340 thousand loans neither past due nor impaired (31 December 2019: RON 93,933 thousand).

Repossessed collaterals

The Bank has recognised as inventory as at 31 December 2020 in amount of RON 2,919 thousand (31 December 2019: RON 2,767 thousand) assets taken into patrimony or from the execution of collaterals from loans granted to clients. During 2020, the Bank took over property in the amount of RON 152 thousand (2019: RON 743 thousand) on the basis of the Law no. 77/2016 on the payment of some buildings in order to settle the obligations assumed by credits - Note 24.

Investment securities

The Investment securities included in the Bank's portfolio are financial assets at fair value through other comprehensive income and financial assets measured at amortized cost (government bonds and treasury bills) and have a low credit risk.

The rating for Romania's long term debt confirmed by Fitch in 2020 in local currency is "BBB-", with a negative outlook, the F3 qualification was confirmed for debts on short term and also the country rating "BBB+".

Also the rating for Romania's long term debt confirmed by Fitch in 2019 in local currency is "BBB-", with stable outlook, the F3 qualification was confirmed for debts on short term and also the country rating "BBB+".

Each of the rating agencies use different rating scales and the "BBB-" rating with stable outlook is assigned only for Fitch and S & P and the "Baa3" rating with negative outlook is assigned for Moody's. According to internal procedures, the short term ratings provided by the three agencies in the report are utilised in the sense that, based on them, the analysed credit institutions are classified according to their risk classes of the Bank.

Loans and advances to banks

The exposure related to loans and advances to banks is neither past due, nor impaired.

The Bank is making short term deposits with banks in the day to day activity in order to manage the cash surplus. The quality of the counterparties is regularly assessed in order to mitigate the credit risk and the management of the Bank approves the exposure limits for each counterparty.

(All amounts are in RON thousands unless otherwise stated)

3 **FINANCIAL RISK MANAGEMENT (CONTINUED)**

The ratings for the banks with which the Bank has current accounts, deposits and 'reverse repo' operations are used for computing exposure limits and are included in the internal regulations:

Loans and advances to banks – neither past due not impaired		**31 December 2020 Total balance**	**31 December 2019 Total balance**	**Rating 31 December 2020 Short / Long term**	**Rating 31 December 2019 Short / Long term**
Current account due from other banks	ING Bank	27,945	29,235	A-1/A+	A-1/A+
	Barclays Bank	12,290	4,428	F1/A+	F1/A+
	Commerzbank	5,546	1,454	P-1/A1	P-1/A1
	Societe Generale, Paris	10,571	17,923	P-1/A1	P-1/A1
	State Treasury	61	13	A-3/BBB-	A-3/BBB-
	PKO Bank Polski, Varsovia	65	-	P-1/A2	P-1/A2
	OTP Bank Budapesta	1,239	1,157	P-2/Baa1	P-3/Baa1
	Other	3,500	10,091	-	-
Deposits due from other banks	ING Bank	-	49,979	A-1/A+	A-1/A+
	OTP Bank Romania	-	49,934	-	NA/Baa3
	Barclays Bank	18,963	19,633	F1/A+	F1/A+
	SANPAOLO IMI Bank	39,922	-	-	-
	Credit Europe Bank	108,189	121,125	B / B+	b1 / Ba2
	EXIMBANK	10,827	20,001	-	-
	BANCA ROMANEASCA	131,456	-	-	-
	Unicredit Bank	-	49,903	B/BB+	F3/BBB-
	TECHVENTURES Bank SA	9,999	-	-	-
Collateral deposits due from other banks	HSBC Bank London	514	550	F1+/A+	F1+/A+
	JP Morgan Securities	2,712	2,681	P-1 / Aa3	P-1 / Aa3
	Loans and advances to banks	383,799	378,107		

As at 31 December 2020, the amounts presented in the financial position loans and advances to banks of accruals amounted of RON 383,799 thousand (31 December 2019: RON 378,107 thousand).

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Market risk

Market risk is the present or future risk of recording losses related to balance and off-balance sheet due to adverse movements in market price (such as: stock prices) of interest rates and foreign exchange rates.

Market risk has two major components respectively price risk and currency risk.

Price risk is the risk of significant losses from the sale of the government bond portfolio, and currency risk is the risk of loss from exchange rates.

The Bank assesses market risk in terms of elements which define it, such as: the share in the total government securities investments, the volume of loans to non-banks customers, the volume of operations in foreign currency, the level and structure of government securities portfolio of the Bank, the important position which the Bank holds on the market deposits towards population availability in conjunction with the analysis of endogenous and exogenous factors.

Also, the assessment of market risk is considering that the Bank does not carry specific activities of portfolio trading (trading book) and does not hold positions with intention of trading, short-term resale and/or with the intention of benefiting from differences on short-term, real or expected, regarding the buying and selling prices or as a result of other price changes or interest rate.

The strategy in relation to market risk management policy is to have a portfolio with low sensitivity to changes in government securities prices, changes in VaR and exchange rate and achieve the objectives set through the risk profile. These are mainly achieved by monitoring the price of government securities on the market as indicator of price risk as well as by determination and monitoring the VaR indicator and of foreign exchange position of the Bank, as indicators of the currency risk.

The frame of assumed market risk shows the fulfilment of the role and responsibilities of the Bank's structures for identifying, quantifying/assessing, monitoring, controlling and mitigating market risk (mainly price and currency risk) and shall be achieved through the risk limits set for key risk indicators based on the risk appetite it assumes for business continuity on a prudent and sound basis.

The implementation of the policy and the achievement of the market risk management objectives shall be achieved by constantly monitoring:

- The key indicators underlying the determination of the risk profile, respectively "the level of hypothetical loss that would result from the immediate sale of the portfolio of government securities classified as financial assets measured at fair value through other comprehensive income" for price risk and "Total net foreign exchange position" for currency risk;
- Level II indicators, monitored daily, respectively individual net currency position and currency portfolio risk measurement indicator – Value at Risk (VaR) methodology.

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The level of risk limits accepted by the Bank for the key indicators, as well as the ranges taken into account in the assessment of their values, have been determined in the light of the Bank's market risk policy, assessed as significant risk, in conjunction with the limits imposed by the BNR/EU regulations, with historical trends in the values of these indicators, the size and structure of the assets and liabilities taken into account in their determination, the results of the various forecasts made, budgetary provisions, etc.

By monitoring the price risk, the Bank intends to reduce the loss which would record it in case of hypothetical immediate sale of the entire portfolio of government securities classified as "financial assets measured at fair value through other items of comprehensive income", so that the impact of the loss is minimal vis-à-vis honouring other obligations.

By monitoring foreign exchange risk, the Bank intends to achieve an optimal correlation portfolio between the value of foreign exchange-denominated assets and liabilities and the balance of foreign exchange trading, and respectively, to maintain a balance between long and short net open positions so that both volatility impact of the exchange rate, as well as maximum probable loss to be recorded, to be minimal.

Also, for the risk measurement of currency portfolio, the Bank uses the methodology for determining/measurement VaR (Value-at-Risk), through which the Bank wishes the classification in the maximum loss likely to be recorded in total.

Internal regulations relating to the market risk are presented for approval to the Risk Management Committee.

The financial assets and liabilities held in RON and in foreign currencies at 31 December 2020 can be analysed as follows:

	RON	EUR	Others	Total
Balance sheet financial assets				
Cash and cash equivalents at Central Bank	4,155,545	549,097	52,754	4,757,396
Financial derivatives	16	-	-	16
Loans and advances to banks	113,006	200,617	70,176	383,799
Financial assets mandatorily at fair value through profit or loss	-	-	19,430	19,430
Financial assets measured at fair value through other comprehensive income	8,149,824	2,573,673	352,417	11,075,914
Investments in debt instruments at amortized cost	1,547,068	700,528	19,982	2,267,578
Loans and advances to customers	18,726,720	3,149,318	48,034	21,924,072
Other financial assets	16,841	5,374	12	22,227
Total financial assets	32,709,020	7,178,607	562,805	40,450,432

(All amounts are in RON thousands unless otherwise stated)

3 **FINANCIAL RISK MANAGEMENT (CONTINUED)**

	RON	EUR	Others	Total
Balance sheet financial liabilities				
Financial derivatives	6	-	-	6
Deposits from banks	939,309	97,394	35,698	1,072,401
Deposits from customers	27,787,919	6,523,263	521,911	34,833,093
Other borrowed funds	106,267	459,113	-	565,380
Other financial liabilities	35,535	188	606	36,329
Total financial liabilities	28,869,036	7,079,958	558,215	36,507,209
On balance sheet net financial assets/ (liabilities)	3,839,984	98,649	4,590	3,943,223

	RON	EUR	Others	Total
Letters of guarantee issued for customers	628,113	85,741	5,585	719,439
Undrawn loan commitments	2,928,364	525,382	8,589	3,462,335

The financial assets and liabilities held in RON and in foreign currencies at 31 December 2019 can be analysed as follows:

	RON	EUR	Others	Total
Balance sheet financial assets				
Cash and cash equivalents at Central Bank	3,420,080	574,873	46,700	4,041,653
Financial derivatives	6	-	-	6
Loans and advances to banks	229,742	101,839	46,526	378,107
Financial assets measured at fair value through other comprehensive income	3,945,990	1,288,525	390,667	5,625,182
Investments in debt instruments at amortized cost	906,635	1,190,781	-	2,097,416
Loans and advances to customers	17,015,842	2,884,389	3,055	19,903,286
Other financial assets	36,651	7,947	167	44,765
Total financial assets	25,554,946	6,048,354	487,115	32,090,415

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

	RON	EUR	Others	Total
Balance sheet financial liabilities				
Financial derivatives	8	-	-	8
Deposits from banks	205,539	14	29,852	235,405
Deposits from customers	21,876,544	5,656,650	451,955	27,985,149
Other borrowed funds	111,475	317,860	-	429,335
Other financial liabilities	31,799	132	6	31,937
Total financial liabilities	22,225,365	5,974,656	481,813	28,681,834
On balance sheet net financial assets/ (liabilities)	3,329,581	73,698	5,302	3,408,581

	RON	EUR	Others	Total
Letters of guarantee issued for customers	461,333	66,737	362	528,432
Undrawn loan commitments	3,027,534	745,321	189	3,773,044

The main currency held by the Bank is EUR. The open currency positions represent a source of currency risk.

d) Interest rate risk other than trading portfolio

Interest rate risk is the current or future risk that profit and equity are negatively affected by adverse changes in interest rates.

The assessment of interest rate risk takes into account that the Bank does not carry out trading book activities, respectively does not have positions with the intention to trade, short-term resale and/or with the intention of benefiting from short-term, real or expected differences between the buying and selling prices, or from other changes in price or interest rate.

The main source of interest rate risk is the correlation between the structure of the Bank's asset portfolio and the flags and the type of interest rate (taking into account the maturity date - in the case of fixed interest rates - and the date of price updating - in the case of variable interest rates).

The interest rate risk management policy is to optimize the gap between sensitive assets and liabilities in regards to interest rate movements, both overall and per various time frames, so that the impact of interest rate changes on net interest income is minimal.

The Bank aims to properly manage assets and liabilities bearing interest as well as to promote its products, in order to achieve a portfolio with low sensitivity to changes in interest rates and achieve the targets set through the risk profile.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The risk profile assumed for interest rate risk is managed by the limitations set for the key indicators based on the risk appetite that the Bank assumes for business continuity purposes on a prudent and sound basis.

The key indicators determined by the Bank, continuously monitored and underlying the determination of the interest rate risk profile are:

- the potential change in economic value due to changes in interest rate levels based on the standardized method;
- relative G.A.P.;
- the difference between the average active interest rate in foreign currency loans granted to individuals and corporate entities and the cost of funds plus the risk margin.

The level of risk limits accepted by the Bank for the key indicators, as well as the ranges taken into account in the assessment of their values, have been determined in the light of the Bank's strategy for market risk, assessed as significant risk, in conjunction with the limits imposed by the BNR/EU regulations, with historical trends in the values of these indicators, the size and structure of the assets and liabilities taken into account in their determination, the results of the various forecasts made, budgetary provisions, etc.

The Bank assesses the compliance with the interest rate risk profile assumed according to the appetite for interest rate risk; the level of risk is quantified on the basis of a system of scoring key indicators related to interest rate risk according to their levels.

Also, in order to prevent situations of non-compliance with internal limitations, the Bank monitors the dynamic evolution of the Bank's assets and liabilities that are sensitive to interest rate movements, performs forecasts, "stress testing" type scenarios.

As part of the interest rate risk assessment process, the monthly calculation of interest rate risk specific indicators is a backward-looking tool, which gives a full picture of their level over a given time horizon and forecasts (forward-looking instruments) take into account the prevention of unforeseen situations.

Through its risk management policy, in order to carry out a prudential activity, characterized by continuous monitoring and control of the level of key indicators for interest rate risk in relation to appetite for risk, the Bank aims to establish a moderate interest rate risk profile as the maximum allowed.

For the management of interest rate risk, in addition to the key indicators determining the interest rate risk profile, the Bank shall monitor on a monthly basis the following level II indicators, which are not part of the risk profile, namely:

- The b reak-even threshold level in conjunction with the average interest gap;
- The negative result obtained from the forecasts to capture the effect of the potential change of interest rates over net gains from interests.

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

Internal regulations on market risk are presented for approval to the Risk Management Committee.

The following table shows the interest rates per annum obtained or offered by the Bank for its interest-bearing assets and liabilities during financial year 2020:

	RON Range		EUR Range	
	Min	Max	Min	Max
Assets				
Cash and cash equivalents at Central Bank	0.10	0.20	-	0.01
Investments with National Bank of Romania	1.00	2.50	-	-
Investments with other banks	1.00	3.20	(0.65)	-
Treasury certificates	2.30	3.19	-	-
Loans and advances to customers(*)	3.00	13.33	1.75	10.00
Investment securities	1.09	5.45	0.20	1.97
Liabilities				
Deposits from banks	0.90	3.50	(0.55)	-
Deposits from customers	-	4.85	-	0.35
Borrowings from banks and other financial institutions	3.72	4.70	-	0.456

(*) During the year 2020, in respect to credit cards, the Bank has practiced zero interest rate for payments of the interest within 59 days, exclusively for transactions at merchants (transactions non rates and/or rates posted on their due account), with the condition of the full payment of the credit limit used for the specific trading cycle.

The following table shows the interest rates per annum obtained or offered by the Bank for its interest-bearing assets and liabilities during financial year 2019:

	RON Range		EUR Range	
	Min	Max	Min	Max
Assets				
Cash and cash equivalents at Central Bank	0.14	0.22	0.01	0.01
Investments with National Bank of Romania	1.50	2.50	-	-
Investments with other banks	1.50	3.60	-	-
Loans and advances to customers	3.78	13.38	2.84	9.88
Investment securities	3.39	3.95	0.10	1.12
Liabilities				
Deposits from Banks	1.40	3.50	(0.25)	(0.40)
Deposits from customers	-	6.12	-	0.35
Borrowings from banks and other financial institutions	4.50	4.82	0.069	0.456

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The following table shows the Bank's interest re-pricing analysis as at 31 December 2020 with financial assets and liabilities categorised by the earlier of the re-pricing or contractual maturity date.

	< 1 month	1 month 3 months	3 months – 1 year	1 year– 5 years	> 5 years	Non interest bearing	Total
Financial assets							
Cash and balances with Central Bank	4,757,396	-	-	-	-	-	4,757,396
Financial derivatives	-	-	-	-	-	16	16
Loans and advances to banks	364,442	-	-	18,970	-	387(*)	383,799
Loans and advances to customers	4,133,949	146	14,716,957	2,904,240	1,536	167,244(**)	21,924,072
Financial assets mandatorily at fair value through profit or loss	-	-	-	-	-	19,430	19,430
Financial assets at fair value through other comprehensive income	-	627,844	595,582	8,658,066	1,181,374	13,048	11,075,914
Investments in debt instruments at amortized cost	-	76,975	640,471	787,504	762,628	-	2,267,578
Other financial assets	-	-	-	-	-	22,227	22,227
Total financial assets	9,255,787	704,965	15,953,010	12,368,780	1,945,538	222,352	40,450,432
Financial liabilities							
Financial derivatives	-	-	-	-	-	6	6
Deposits from banks	1,072,382	-	-	-	-	19	1,072,401
Deposits from customers	8,493,620	5,382,100	10,057,266	563,014	-	10,337,093(***)	34,833,093
Borrowings from banks and other financial institutions	38,223	14,972	124,501	379,326	8,358	-	565,380
Lease liabilities	1,931	3,835	15,726	53,465	11,917	-	86,874
Other financial liabilities	-	-	-	-	-	36,329	36,329
Total financial liabilities	9,606,156	5,400,907	10,197,493	995,805	20,275	10,373,447	36,594,083
Interest rate gap	(350,369)	(4,695,942)	5,755,517	11,372,975	1,925,263	(10,151,095)	3,856,34[illegible]

(*) the amount comprises current accounts at other banks.

(**) the amount comprises exposures for corporate clients who entered insolvency or bankruptcy for which according to law nominal interest cannot be charged any longer.

(***) the amount comprises current accounts, deposits and other discontinued savings products for which nominal interest is not applied.

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The following table shows the Bank's interest re-pricing analysis as at 31 December 2019 with financial assets and liabilities categorised by the earlier of the re-pricing or contractual maturity date.

	< 1 month	1 month 3 months	3 months – 1 year	1 year– 5 years	> 5 years	Non interest bearing	Total
Financial assets							
Cash and balances with Central Bank	4,041,653	-	-	-	-	-	4,041,653
Financial derivatives	-	-	-	-	-	6	6
Loans and advances to banks	199,598	39,632	-	-	-	138,877(*)	378,107
Loans and advances to customers	3,367,934	38,485	13,770,289	2,543,309	340	182,930(**)	19,903,286
Financial assets at fair value through other comprehensive income	-	889,515	864,726	3,618,071	222,456	30,414	5,625,182
Investments in debt instruments at amortized cost	271,069	62,197	91,785	1,672,365	-	-	2,097,416
Other financial assets	-	-	-	-	-	44,765	44,765
Total financial assets	7,880,254	1,029,829	14,726,800	7,833,745	222,796	396,992	32,090,415
Financial liabilities							
Financial derivatives	-	-	-	-	-	8	8
Deposits from banks	235,388	-	-	-	-	17	235,405
Deposits from customers	8,681,564	4,413,366	7,010,214	366,797	-	7,513,208(***)	27,985,149
Borrowings from banks and other financial institutions	109,325	15,186	78,295	210,709	15,820	-	429,335
Lease liabilities	1,829	3,666	13,717	40,642	14,359	-	74,213
Other financial liabilities	-	-	-	-	-	31,937	31,937
Total financial liabilities	9,028,106	4,432,218	7,102,226	618,148	30,179	7,545,170	28,756,047
Interest rate gap	(1,147,852)	(3,402,389)	7,624,574	7,215,597	192,617	(7,148,178)	3,334,36[illegible]

(*) the amount comprises current accounts at other banks.

(**) the amount comprises exposures for corporate clients who entered insolvency or bankruptcy for which according to law nominal interest cannot be charged any longer.

(***) the amount comprises current accounts, deposits and other discontinued savings products for which nominal interest is not applied.

(All amounts are in RON thousands unless otherwise stated)

3 **FINANCIAL RISK MANAGEMENT (CONTINUED)**

Sensitivity analysis

Interest Rate Sensitivity: the table below summarises the impact on the Bank's income statement and other comprehensive income resulting from a reasonably possible shift of the yield curve calculated using an interest rate gap model. Based on the fluctuation of the interest rate in the prior year and of other analysis made by the Bank, the potentially reasonable change is shown below.

Foreign Exchange rates Sensitivity: The table below summarises the impact of a potentially reasonable change in the value of RON against foreign currencies on the Bank's income statement and other comprehensive income calculated by applying the change to monetary financial instruments denominated in foreign currencies held by the Bank as at 31 December 2020 and 31 December 2019.

31 December 2020	Total sensitivity	Sensitivity of profit for the year	Sensitivity of other comprehensive income
Interest rate +/-1%	-304.694/ +289.172	+/-6.910	-311.604/+296.082
Foreign exchange 5% appreciation / depreciation of functional CCY	-/+3.425	-/+3.425	-

31 December 2019	Total sensitivity	Sensitivity of profit for the year	Sensitivity of other comprehensive income
Interest rate +/- 1%	-98,866/ +93,937	+/-19,495	-118,361/+113,431
Foreign exchange 5% appreciation / Depreciation of functional CCY	-/+2,361	-/+2,361	-

At 31 December 2020, if market interest rates had been 100 basis points higher/ lower for RON and 100 basis points higher/ lower for EUR and 100 basis points higher/ lower for USD, with all other variables held constant, profit for the year would have been RON 304,694 thousand (2019: RON 98,866 thousand) lower and RON 289,172 thousand higher (2019: RON 93,937 thousand). The impact was calculated on the basis of monthly average balances with variable interest.

At 31 December 2020, if RON had strengthened/weakened by 500 basis points against relevant foreign currencies (all other variables held constant), profit for the year would have been RON 3,425 thousand higher/ lower (2019: RON 2,361 thousand higher/lower). Impact was calculated by applying a +/- 5% higher/lower exchange rate against the EUR and USD closing rate.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

e) **Liquidity risk**

Liquidity risk is an important part, along with other significant risks, to financial risk management system in terms as far as the Bank operates in developed financial markets.

Liquidity risk is the current or future risk that profit and equity are negatively affected by the inability of the Bank to meet its obligations at maturity, given potential causes: insufficient liquid asset, the Bank's inability to liquidate assets, inability to obtain adequate funding.

The Bank has adequate liquidity potential when it is able to obtain the necessary funds (by attracting additional resources, sale of assets, participation in REPO auctions organized by the central bank, etc.) immediately and at a reasonable cost, that will not affect the Bank's profitability.

The liquidity risk management policy is the transposition into internal regulation of the internal liquidity assessment requirements (ILAAP) and takes into account all internal liquidity adequacy assessment processes as a EBA requirement. The policy and profile are an integral part of the regulations relating to the management of liquidity risk, being developed in order to demonstrate the soundness, effectiveness and comprehensiveness of ILAAP (respectively the treatment of liquidity risk according to the scale and complexity of the Bank's activities).

The strategy related to liquidity risk management and contingency plans includes having a structure of decisions needed for managing risk, a model for approaching financing and insurance operations, risk profile for exposure to liquidity risk and procedures for planning alternative scenarios for obtaining liquidity, including in unpredictable conditions.

Through liquidity risk management policy, part of a robust and specific framework for liquidity risk management, including the process of identification, assessment/quantification, monitoring, mitigation and control, the Bank shall pursue to have a balanced portfolio of assets and liabilities of the Bank, to ensure optimum liquidity, an adequate management of assets and liabilities, necessary for the maintenance of an adequate liquidity, as well, including an optimal liquidity reserve and ensuring the risk profile accepted by the Bank.

The monthly liquidity position is monitored as per regulations in force issued by NBR Regulation 25/2011 related to liquidity of credit institutions.

Internal regulations on liquidity risk are presented for approval by the Risk Management Committee.

The table below presents the financial liabilities as at 31 December 2020 according to their remaining contractual maturities. The amounts included in the table are contractual cash flows which are not discounted, gross accruals for loans and financial guarantees. Future cash flows which are not discounted are different to the amounts from the balance sheet because the amount from the later represents discounted cash flows. The derivatives are included in contractual value to be paid or received, except the situations when the Bank is expected to close the exchange position before its maturity and in this case the instruments are presented according to estimated future cash flows.

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The table below presents an analysis of non-derivative financial assets at their book value and according to their contractual maturities. These financial assets are included in the maturity analysis according to the future expected sale day. The impaired loans are presented at their book value net of provision and according to the expected timing of collection. Derivatives are presented according to their contractual maturity. When the amount to be paid is not fix, the amount disclosed is determined based on the existing conditions at the reporting period. The payments in foreign currency are revaluated using the exchange rate at the reporting period end.

31 December 2020	≤ 1 month	1 - 3 months	3 months – 1 year	1 year– 5 years	≥ 5 years	No fixed maturity	Total
Assets							
Cash and balances with Central Bank	4,757,396	-	-	-	-	-	4,757,396
Loans and advances to banks	230,128	131,474	18,970	-	-	3,227	383,799
Loans and advances to customers	614,742	644,933	3,635,638	8,097,243	8,931,516	-	21,924,072
Financial assets mandatorily at fair value through profit or loss	-	-	-	-	-	19,430	19,430
Financial assets at fair value through other comprehensive income	-	627,844	595,582	8,658,066	1,181,374	13,048	11,075,914
Investments in debt instruments at amortized cost	-	76,975	640,471	787,504	762,628	-	2,267,578
Financial derivatives, out of which							
- receivable	16	-	-	-	-	-	16
- payable	-	-	-	-	-	-	-
Other financial assets	22,227	-	-	-	-	-	22,227
Total financial assets	5,624,509	1,481,226	4,890,661	17,542,813	10,875,518	35,705	40,450,432
Liabilities							
Deposits from banks	1,072,577	-	-	-	-	-	1,072,577
Deposits from customers	20,012,185	4,684,729	9,689,216	646,067	-	11,130	35,043,327
Borrowings from banks and other financial institutions	36,584	1	125,312	196,321	208,891	-	567,109
Financial derivatives, out of which							
- receivable	-	-	-	-	-	-	-
- payable	6	-	-	-	-	-	6
Lease liabilities	1,931	3,835	15,726	53,465	11,917	-	86,874
Other financial liabilities	36,329	-	-	-	-	-	36,329
Total financial liabilities	21,159,612	4,688,565	9,830,254	895,853	220,808	11,130	36,806,222
Net liquidity gap	(15,535,103)	(3,207,339)	(4,939,593)	16,646,960	10,654,710	24,575	3,644,210

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

31 December 2020	< 1 month	1 - 3 months	3 months – 1 year	1 year– 5 years	> 5 years	No fixed maturity	Total
Loan commitments	81,653	51,552	541,607	980,857	1,806,666	-	3,462,335
Guarantee letters issued by the Bank	24,643	50,739	326,583	304,327	13,147	-	719,439

31 December 2019	< 1 month	1 - 3 months	3 months – 1 year	1 year– 5 years	> 5 years	No fixed maturity	Total
Assets							
Cash and balances with Central Bank	4,041,653	-	-	-	-	-	4,041,653
Loans and advances to banks	335,243	39,632	-	-	-	3,232	378,107
Loans and advances to customers	586,995	678,270	3,298,045	6,816,156	8,523,820	-	19,903,286
Financial assets at fair value through other comprehensive income	-	889,515	864,726	3,618,071	222,456	30,414	5,625,182
Investments in debt instruments at amortized cost	271,069	62,197	91,785	1,672,365	-	-	2,097,416
Financial derivatives, out of which							
- receivable	6	-	-	-	-	-	6
- payable	-	-	-	-	-	-	-
Other financial assets	44,765	-	-	-	-	-	44,765
Total financial assets	5,279,731	1,669,614	4,254,556	12,106,592	8,746,276	33,646	32,090,415
Liabilities							
Deposits from banks	235,873	-	-	-	-	-	235,873
Deposits from customers	16,088,517	4,449,929	7,123,586	471,820	-	11,204	28,145,056
Borrowings from banks and other financial institutions	109,325	15,186	78,295	211,839	16,373	-	431,018
Financial derivatives, out of which							
- receivable	-	-	-	-	-	-	-
- payable	8	-	-	-	-	-	8
Lease liabilities	1,829	3,666	13,717	40,642	14,359	-	74,213
Other financial liabilities	31,937	-	-	-	-	-	31,937
Total financial liabilities	16,467,489	4,468,781	7,215,598	724,301	30,732	11,204	28,918,105
Net liquidity gap	(11,187,758)	(2,799,167)	(2,961,042)	11,382,291	8,715,544	22,442	3,172,310
Loan commitments	182,352	86,297	444,136	556,127	2,504,132	-	3,773,044
Guarantee letters issued by the Bank	16,892	36,973	263,207	210,298	1,062	-	528,432

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit commitments are presented on the basis of their contractual maturity but may be used at any time.

The management believes that although a substantial proportion of deposits have their maturity in less than three months, diversification of these deposits as the number and types of deposits as well as previous experience of the Bank indicates that these deposits provide a stable source of financing long-term.

To manage liquidity risk, the Bank holds liquid assets comprising cash and cash equivalents and financial assets for which there is an active and liquid market. These assets can be sold in a short time to meet liquidity requirements.

The implementation of the policy and the achievement of liquidity risk targets is achieved, primarily and without limitation, by monitoring and continuous follow-up of risk limitations of key indicators and level II indicators- early warning indicators.

The Bank's classification in the liquidity risk profile is managed by assessing key risk indicators based on the risk appetite that the Bank assumes for business continuity on prudential and sound principles, i.e. the LCR liquidity coverage ratio; NSFR - Net stable funding Ratio (for both indicators on all reporting currencies); liquidity indicator in lei, euro and lei equivalent (as determined under Regulation 25/2011); immediate liquidity indicator and the share of the portfolio of free securities in total on-balance sheet obligations not adjusted.

Through its risk management policy and risk profile, in order to conduct a prudential activity that is characterized by continuous monitoring and control of the level of risk limitations for key liquidity risk indicators in relation to appetite for risk, the Bank aims to achieve a moderate liquidity risk profile as the maximum allowed.

The level of risk limits accepted by the Bank for the key indicators, as well as the intervals taken into account in the valuation of their values, have been determined in the light of the Bank's liquidity risk management, assessed as significant risk, in conjunction with limits imposed by the NBR/EBA regulations, with historical trends in the values of these indicators, the size and structure of the assets and liabilities taken into account in their determination, the results of the various forecasts made, budgetary provisions, etc.

Taking into account the Bank's strategy and based on the size of the Bank's assets and liabilities, their maturity and structures etc., the main level II indicators, early warning indicators, which are quantifiable, assessed, monitored and analysed are presented as follows:

- Monthly compilation of the GAP analysis and current short term liquidity– by monitoring this indicator it is observed the degree to which withdrawals could be covered from collection of assets falling due within the next 30 days;

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

- The weight of the transactions performed in EURO currency (in RON equivalents) in total transactions (in RON equivalent) – monthly monitoring of this indicator represent a method for assessing currency mismatch;

- Liquid assets – by monitoring liquid assets (split between most liquid, less liquid and the least liquid based on their relative liquidity level) it is observed, on different levels, the assets' gradual ability to generate liquidity;

- Treasury/Total Asset Balance Unadjusted indicator - for the purpose of monitoring the portfolio of government securities held by the Bank, the component of liquid assets;

- Indicators: loans to non-bank customers/deposits received from non-bank customers; liquid spot assets/total deposits attracted on demand; the rate of monthly decrease of sources drawn from non-bank customers by monitoring them with a view to identifying as a matter of urgency the increased vulnerability in terms of liquidity position or funding needs, etc.;

- Forecasts hypothetical evolution of the liquidity indicator - liquidity in the dynamic sense on different time horizons in order to prevent cases of crisis;

- The daily liquidity indicator on maturity bands - a static indicator, determined in order to prevent the monthly liquidity indicator from being not met on the maturity bands between one month and three months, between 3 and 6 months, between 6 and 12 months, according to NBR's requirements in force;

- Large liquidity risk in order to minimize debt to a person or group of connected clients;

- The weight of government bonds pledged/unpledged in total government bonds portfolio and its evolution, as well as the weight of the main lines / balance sheets and off-balance sheet positions of the Bank in total assets and liabilities for the purpose of determining the vulnerability and concentration of liquidity arising from their structure which may represent a risk of over-estimation of the li quidity buffer and of the counterbalancing capacity.

The table below provides a reconciliation of financial assets and liabilities in the statement of financial position by categories of financial instruments:

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

31 December 2020	Note	Mandatorily at FVTPL	Designated through FVTPL	FVOCI – debt instruments	FVOCI – equity instruments	At amortised cost	Total carrying amount
Cash and cash equivalents at central banks	12	-	-	-	-	4,757,396	4,757,396
Derivative financial assets	13	-	16	-	-	-	16
Loans and advances to banks	14	-	-	-	-	383,799	383,799
Loans and advances to customers:	17	-	-	-	-	21,924,072	21,924,072
- at amortised cost		-	-	-	-	21,924,072	21,924,072
Debt instruments:		19,430	-	11,062,866	-	2,267,578	13,349,874
- mandatorily at fair value through profit or loss	18	19,430	-	-	-	-	19,430
- at fair value through other comprehensive income	15	-	-	11,062,866	-	-	11,062,866
- at amortised cost	16	-	-	-	-	2,267,578	2,267,578
Equity instruments	15	-	-	-	13,048	-	13,048
Other financial assets	23	-	-	-	-	22,227	22,227
Total financial assets		19,430	16	11,062,866	13,048	29,355,072	40,450,432
Derivative liabilities held for risk management	13	-	6	-	-	-	6
Deposits from banks	25	-	-	-	-	1,072,401	1,072,401
Deposits from customers	26	-	-	-	-	34,833,093	34,833,093
Borrowings from banks and other financial institutions	27	-	-	-	-	565,380	565,380
Lease liabilities	30	-	-	-	-	86,874	86,874
Other liabilities	32	-	-	-	-	36,329	36,329
Total financial liabilities		-	6	-	-	36,594,077	36,594,083

31 December 2019	Note	Designated through FVTPL	FVOCI – debt instruments	FVOCI – equity instruments	At amortised cost	Total carrying amount
Cash and cash equivalents at central banks	12	-	-	-	4,041,653	4,041,653
Derivative financial assets	13	6	-	-	-	6
Loans and advances to banks	14	-	-	-	378,107	378,107
Loans and advances to customers:	17	-	-	-	19,903,286	19,903,286
- at amortised cost		-	-	-	19,903,286	19,903,286
Debt instruments:		-	5,594,768	-	2,097,416	7,692,184
- at fair value through other comprehensive income	15	-	5,594,768	-	-	5,594,768
- at amortised cost	16	-	-	-	2,097,416	2,097,416
Equity instruments	15	-	-	30,414	-	30,414
Other financial assets	23	-	-	-	44,765	44,765
Total financial assets		6	5,594,768	30,414	26,465,227	32,090,415
Derivative liabilities held for risk management	13	8	-	-	-	8
Deposits from banks	25	-	-	-	235,405	235,405
Deposits from customers	26	-	-	-	27,985,149	27,985,149
Borrowings from banks and other financial institutions	27	-	-	-	429,335	429,335
Lease liabilities	30	-	-	-	74,213	74,213
Other liabilities	32	-	-	-	31,937	31,937
Total financial liabilities		8	-	-	28,756,039	28,756,047

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

f) Capital management

The Bank's objectives regarding capital management represent a broader concept than the term "equity" that is found in the statement of financial position and are represented by:

- capital of the Bank must comply to requirements provided by national regulations and to those provided by EBA (European Banking Authority);
- capital of the Bank must ensure the continuation of the Bank's activity in the following period, to ensure the revenues of the shareholder and benefits to other related parties of the Bank;
- capital of the Bank must ensure a powerful basis to allow the development of the business.

Starting 1 January 2014, the Bank computes own funds and own funds requirements according to Regulation No. 575/2013 of European Parliament and of the Council from 26 June 2013 on prudential requirements for credit institutions and investment firms and NBR Regulation No. 5/20.12.2013 related to prudential requirements for credit institutions.

Starting 1 January 2018, the Bank exercised the option of applying for a transitional period of 5 years of the transitory measures regarding the inclusion of a portion of the adjustments for the increased expected credit loss in the Bank's basic level 1 own funds.

In the internal process of capital adequacy to risks for 2020, the Bank envisaged maintaining a total own funds rate above a materiality threshold of 16.45%, aiming to meet the following requirements cumulatively:

a) maintaining a global capital requirement (OCR) of 15,45%, consisting of:
   - the target rates of own funds due to the pillar II adjustments (Basel III), representing SREP capital requirements (TSCRs) to be met permanently:
     - rate of own funds tier 1 basis: 6.16%;
     - rate of own funds tier 1: 8.21%;
     - total own funds rate: 10.95 %.
   - combined capital buffer requirement equivalent to 4.5% of total risk exposure amount, as a result of the aggregation of the requirement for the capital conservation buffer and the maximum between O-SII buffer requirement and systemic risk buffer in accordance with the provisions of NBR Regulation no. 5/2013 on prudential requirements for credit institutions, amended and supplemented thereafter, that where a credit institution, at individual or sub-consolidated level, is subject to an O-SII buffer and a systemic risk capital buffer, the buffer with the higher of the two shall be applied:
     - the capital conservation buffer requirement equivalent to 2.5 % of the total risk exposure amount;
     - the O-SII buffer requirement of 2% of the total exposure amount;
     - the systemic risk buffer requirement of 2% of the total risk exposure amount.

b) maintaining an additional capital buffer representing 1% of the total exposure value to support possible future capital requirements adjustments (additional own funds requirements, capital buffers).

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

At the same time, the Bank seeks to ensure that the internal capital requirement level determined in the internal capital adequacy assessment process during 2020 (regulated and unregulated capital requirements) does not exceed 80% of the internal capital.

In regard of the capital management the Bank assesses capital adequacy in accordance with the "Policy for the internal assessment of capital adequacy", NBR regulations and respectively CRD IV regulations package.

The Bank intends that the internal capital to be covering both the risks for which capital requirements are regulated (credit risk , operational risk and currency risk) as well as risks that regulatory capital requirements are not fully covering (risk of underestimation credit risk in the context of using the standard approach, the residual risk associated with the techniques of credit risk mitigation, risk arising from foreign currency lending to borrowers exposed to currency risk, credit risk of credit exposures with a risk of payment, credit concentration risk, time-concentration risk, concentration risk on the CII counterparty, geographical concentration risk, concentration risk on business sectors, residual risk of uncollateralized guarantees issued by guarantee funds and residual risk associated with collateral on non-performing legal entity loans (other than those with guarantee structure guarantees issued by guarantee funds), foreign exchange risk, price risk arising from price decreases of government securities - financial assets measured at fair value through other comprehensive income, price risk represented by the recording of losses on the sale of financial assets measured at fair value through other comprehensive income (FVOCI), non-trading book interest rate risk, operational risk underestimation in context using basic approach, reputation risk, strategic risk, risk associated with outsourced activities, compliance risk).

From a strategic point of view the exposures are undertaken towards counterparties with a good rating and under conditions of a good collateral coverage so as the capital required by the respective exposures be as low as possible. Capital adequacy ratio is monitored on a monthly basis any substantial deterioration triggering the need to review the portfolio of exposures and to claim if necessary a capital increase. The National Bank of Romania ("NBR"), as the supervisory and regulatory authority at national banking system, monitors own funds requirements for the Bank as a whole within the limits imposed by EU Regulation no. 575/2013.

Throughout 2020, the Bank has been within the regulated indicators in regards to capital adequacy. The total equity ratio was above the total capital requirements imposed by the National Bank of Romania in the SREP (Supervisory, Review and Evaluation Process) and over the global capital requirement-OCR, capital. An adequate level of capital and general financial indicators have been maintained, in line with the principles of banking prudence.

Capital Management takes into account the evolution of the medium and long term capital and underlies the grounding rationale of the strategy of Business and Bank policy. Bank's targets regarding own funds level are set in the context of some internal factors (e.g. risk and estimated profit) and some external factors (e.g. market expectations and macroeconomic environment, the crisis caused by coronavirus infection and the change in the macroeconomic context) and are focused towards an annual positive financial result and its capitalization. Internal capital

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

requirement is internal capital necessary to cover banking risks in order to ensure the sustainability of the Bank.

4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The Bank makes estimates and assumptions that affect the reported amount of assets and liabilities in the next financial year. Estimates and judgments are continually evaluated and are based on past experience and other factors, including expectations of future events that are considered reasonable under the circumstances. In addition to historical experience and information, the Bank considered in the assessment of these estimates , the effects of the current conditions in the financial industry.

Impairment losses on loans, advances and credit commitments

The Bank reviews the loan portfolio on a monthly basis to assess the depreciation of these assets in accordance with IFRS 9.

In determining whether an expected credit loss should be recorded in the income statement, the Bank considers the reasonable and justifiable information that affects credit risk for a financial instrument. This evidence may include observable data indicating that there has been an unfavourable change in the group debtors' situation or in the economic conditions at national or local level related to non-payment of assets in the group.

When planning future cash flows, the Bank uses estimates based on historical loss experience for assets with credit risk characteristics and on the objective evidence of impairment similar to those in the portfolio, in the current conditions as well as in provisional data.

The methodology and assumptions used in the impairment assessment are constantly reviewed (at least once a year) to reduce the difference between the expected losses and the actual losses over a certain period of time, making comparisons and analyses (back –testing type) of the differences between the adjustments already recorded for a certain period of time and the actual loss incurred at the end of that period.

In addition, the Bank makes estimates in respect of the probability that the current undrawn facilities will be drawn in the foreseeable future, i.e. how will convert letters / guarantee ceilings into credits. For commitments that are likely to become credit exposures, the Bank makes estimates for future expected credit losses.

Fair Values of Financial Assets and Liabilities

Hierarchy analysis of the fair value of financial instruments measured at fair value:
Level 1: includes instruments quoted in active markets for identical assets or liabilities;

4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

Level 2: includes instruments whose fair value is determined using inputs that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3: includes instruments for which the fair value is determined using inputs that are not based on observable market data (unobservable inputs).

Real estate evaluation - applied evaluation methods

- Given the characteristics and location of the Assets under Evaluation, all three evaluation approaches were applied depending on the type of asset being valued and the specific market information available.
- The main approach used in the evaluation was the income approach, i.e. the Income Capitalization Method (MCV), which is applied to most of the assets subject to valuation. Values earned through the income approach have been verified with information on offers of similar property sales on the specific market.
- The Cost Approach (CIN) was applied for: The CEC Palace (the value of the land was estimated by the Market Approach - Direct Comparison Method (MCD), and the value of the Building by Net Replacement Cost (CIN), the Slanic Training Center and Accommodation Moldova (its land is not owned by CEC Bank, being licensed) garages and wooden cottages located in Tuzla. The share held by the assets valued by the cost approach in total assets, except the CEC Palace, is very low 1%).
- The Market Approach and the Direct Comparison Method (MCD) were applied for the estimation of the market value of the CEC Palace land, for the valuation of the surplus / independent land owned by the Bank and of the non-operating residential properties (Ceahlau - Neamt, Ocna Mures - Alba, Andrid - Satu Mare, Lisa - Brasov and Sarmasel - Mures), as well as for checking the values obtained for the residential properties (apartments and houses located in the rural area) by applying the income approach and the unit values for commercial properties.

IFRS 13 identifies three widely used evaluation techniques:

a) Market approach
b) Income approach
c) Cost approach

IFRS 13 does not require the use of a particular valuation technique but sets out principles for choosing an appropriate valuation technique for which sufficient, observable and relevant data is available.

a) Market approach

The market approach provides an indication of the value by comparing the subject asset with identical or similar assets for which price information is available.

b) Income approach

(All amounts are in RON thousands unless otherwise stated)

4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

The income approach provides an indication of the value by converting future cash flows into a single current value of the capital. This approach takes into account the revenue that an asset will generate over its useful life and indicates the value through a capitalization process. Capitalization involves the conversion of income into a capital value by applying an appropriate capitalization / discount rate.

c) Cost approach

Cost approach provides an indication of value by using the economic principle according to which a buyer will not pay more for an asset than the cost required to obtain an asset with the same utility, either by buying or building. Often, the asset under evaluation will be less attractive than the equivalent that could be bought or built because of age or depreciation. In this case, it may be necessary to apply adjustments to the cost of the equivalent asset, depending on the type of value requested.

The tables below analyses the financial assets and liabilities measured at fair value at the end of the reporting period, on hierarchical levels:

Financial assets and liabilities at fair value at 31 December 2020:

	Level 1	Level 2	Level 3	Total
Financial assets				
Other financial assets				
Financial derivatives - Swap on exchange rate	-	16	-	16
Financial assets measured at fair value through other comprehensive income, out of which:	11,062,866	-	13,048	11,075,914
– Securities	11,062,866	-	-	11,062,866
– Equity Investments	-	-	13,048	13,048
Financial assets mandatorily at fair value through profit or loss, out of which:	-	-	19,430	19,430
– Debt securities	-	-	19,430	19,430
Non-financial assets				
- Land and buildings	-	-	477,245	477,245
Total assets carried at fair value	11,062,866	16	509,723	11,572,605
Financial liabilities				
Other financial liabilities				
Financial derivatives - Swap on exchange rate	-	6	-	6
Total liabilities carried at fair value	-	6	-	6

(All amounts are in RON thousands unless otherwise stated)

4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

Financial assets and liabilities at fair value at 31 December 2019:

	Level 1	Level 2	Level 3	Total
Financial assets				
Other financial assets				
Financial derivatives - Swap on exchange rate	-	6	-	6
Financial assets measured at fair value through other comprehensive income, out of which:	5,594,768	-	30,414	5,625,182
– Securities	5,594,768	-	-	5,594,768
– Equity Investments	-	-	30,414	30,414
Non-financial assets				
- Land and buildings	-	-	521,664	521,664
Total assets carried at fair value	5,594,768	6	552,078	6,146,852
Financial liabilities				
Other financial liabilities				
Financial derivatives - Swap on exchange rate	-	8	-	8
Total liabilities carried at fair value	-	8	-	8

Assets and liabilities not measured at fair value in the balance sheet

The following table summarizes the carrying amounts and fair values of those financial assets and liabilities that are not recognized at fair value in the balance sheet of the bank. Purchase prices are used to estimate the fair values of assets and sales prices are applied for liabilities.

(All amounts are in RON thousands unless otherwise stated)

4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

Assets and liabilities for which fair value is disclosed as at 31 December 2020:

	Level 1	Level 2	Level 3	Total fair value	Total accounting value
Financial assets					
Cash and cash equivalents at Central Bank	827,068	3,930,328	-	4,757,396	4,757,396
Loans and advances to banks	-	383,799	-	383,799	383,799
Loans and advances to customers	-	-	21,996,322	21,996,322	21,924,072
Investments in debt instruments at amortized cost	2,357,474	-	-	2,357,474	2,267,578
Other financial assets	-	-	22,227	22,227	22,227
Total financial assets	3,184,542	4,314,127	22,018,549	29,517,218	29,355,072
Financial liabilities					
Deposits from banks	-	1,072,401	-	1,072,401	1,072,401
Deposits from customers	-	35,042,276	-	35,042,276	34,833,093
Borrowings from banks and other financial institutions	-	565,380	-	565,380	565,380
Other financial liabilities	-	-	36,329	36,329	36,329
Total financial liabilities	-	36,680,057	36,329	36,716,386	36,507,203

(All amounts are in RON thousands unless otherwise stated)

4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

Assets and liabilities for which fair value is disclosed as at 31 December 2019:

	Level 1	Level 2	Level 3	Total fair value	Total accounting value
Financial assets					
Cash and cash equivalents at Central Bank	708,560	3,333,093	-	4,041,653	4,041,653
Loans and advances to banks	-	378,107	-	378,107	378,107
Loans and advances to customers	-	-	19,902,843	19,902,843	19,903,286
Investments in debt instruments at amortized cost	2,180,177	-	-	2,180,177	2,097,416
Other financial assets	-	-	44,765	44,765	44,765
Total financial assets	2,888,737	3,711,200	19,947,608	26,547,545	26,465,227
Financial liabilities					
Deposits from banks	-	235,405	-	235,405	235,405
Deposits from customers	-	28,146,588	-	28,146,588	27,985,149
Borrowings from banks and other financial institutions	-	429,335	-	429,335	429,335
Other financial liabilities	-	-	31,937	31,937	31,937
Total financial liabilities	-	28,811,328	31,937	28,843,265	28,681,826

a) Loans and advances to banks and cash at Central Bank

Loans and advances to banks include inter-bank placements and items in the course of collection. Cash at central banks includes the minimum reserve and current accounts held at the NBR. The fair value of floating rate placements and overnight deposits is equal to their carrying amount.

b) Loans and advances to customers

Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value. The estimated fair value of fixed interest bearing loans is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

(All amounts are in RON thousands unless otherwise stated)

4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

The following table provides the description of unobservable data and the valuation techniques used for level 3 in accordance with IFRS 13.

Group	Fair value	Evaluation techniques	Significant unobservable inputs	Average interest rate	The sensitivity of the valuation of the market value to unobservable inputs
Legal entities Agriculture	1,368,976	Future discounted cash flows	PD and LGD as items reflecting credit risk in the discount rate of future flows.	3.62% for EUR 5.37% for RON	The individual growth of any unobservable inputs (PD, LGD, discount rate) would generate a lower market value.
Legal entities Commerce	1,457,882	Future discounted cash flows	PD and LGD as items reflecting credit risk in the discount rate of future flows.	3.14% for EUR 5.13% for RON	The individual growth of any unobservable inputs (PD, LGD, discount rate) would generate a lower market value.
Legal entities Construction	579,147	Future discounted cash flows	PD and LGD as items reflecting credit risk in the discount rate of future flows.	3.49% for EUR 5.1% for RON	The individual growth of any unobservable inputs (PD, LGD, discount rate) would generate a lower market value.
Legal entities Industry	2,149,960	Future discounted cash flows	PD and LGD as items reflecting credit risk in the discount rate of future flows.	3.01% for EUR 4.77% for RON 3.37% for USD	The individual growth of any unobservable inputs (PD, LGD, discount rate) would generate a lower market value.
Individuals – personal needs loans	1,375,592	Future discounted cash flows	PD and LGD as items reflecting credit risk in the discount rate of future flows.	4.49 % for EUR 7.36% for RON	The individual growth of any unobservable inputs (PD, LGD, discount rate) would generate a lower market value.
Legal entities Services	3,160,252	Future discounted cash flows	PD and LGD as items reflecting credit risk in the discount rate of future flows.	2.92 %for EUR 5.07%for RON	The individual growth of any unobservable inputs (PD, LGD, discount rate) would generate a lower market value.
Bridge loans for subsides	130,431	Future discounted cash flows	PD and LGD as items reflecting credit risk in the discount rate of future flows.	4.17% for RON	The individual growth of any unobservable inputs (PD, LGD, discount rate) would generate a lower market value.
Individuals – Mortgage loans	5,433,578	Future discounted cash flows	PD and LGD as items reflecting credit risk in the discount rate of future flows.	3.58% for EUR 4.27%for RON 4.10% forUSD	The individual growth of any unobservable inputs (PD, LGD, discount rate) would generate a lower market value.
Cards/Overdraft	215,400	Future discounted cash flows	PD and LGD as items reflecting credit risk in the discount rate of future flows.	11.91% for RON	The individual growth of any unobservable inputs (PD, LGD, discount rate) would generate a lower market value.

4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

c) Deposits from banks, deposits from customers and borrowings from banks and other financial institutions

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, as presented in the interest gap analysis, is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits, borrowings from banks and other financial institutions without a quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

d) Financial assets measured at fair value through other items of comprehensive income - Government securities

The fair value of government bills available for sale is determined using BID quotations (expressed as yield) in Bloomberg, source BGN.

e) Financial assets measured at fair value through other items of comprehensive income – Shares

Equity securities available for sale include shares that are not traded in on an active market (FRGC S.A. - Fondul Roman de Garantare a Creditelor pentru Intreprinzatori Privati , Transfond S.A. - Societatea de Transfer de Fonduri si Decontari, Biroul de Credit S.A, Casa de Compensare Bucuresti S.A.) and shares quoted in active markets (VISA Inc.). As for the shares which are not listed on the market it is not possible to obtain their market value and, consequently, there are no recent prices accessible to the public. Management does not intend to sell these shares in the near future. The Bank determined the fair value using the fair value of the net assets based on published financial statements.

In the case of Visa Inc.s, hares for which there is an active market, these are assessed on a monthly basis using the price quoted at NYSE.

f) Financial assets mandatorily at fair value through profit or loss – Debt securities

The Bank's debt instruments include shares that are traded on an active market (VISA Inc.) and are assessed on a monthly basis using the price quoted at NYSE.

g) Investments in debt instruments at amortized cost - Government securities

The fair value of investments in debt instruments is derived using BID quotations (expressed as yield) in Bloomberg, BGN source.

h) Derivative financial assets and liabilities

As of 31 December 2020, the value of financial derivative instruments (FX swap/forward) is assessed using interest rates ROBID/ROBOR/EURIBOR/USD DEPO/GBP DEPO/CHF DEPO displayed by Thomson Reuters, as well as official exchange rates published by NBR in order to compute forward rates for remaining period of outstanding contracts.

4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

i) Financial assets and liabilities

The management considered that the fair value is equal to the accounting value considering that these financial assets and liabilities are expected to be settled within one month or with no fixed maturity, they are short-term and their carrying amount is not materially different from their fair value.

j) Property

As a result of the analysis conducted by the Bank's management of the market value of real estate market products, it resulted that it did not fluctuate significantly during 2020 and there were no external asset depreciation ratios as compared to the analysis as at 31 December 2019. The management considered that the net book value of land and buildings at 31 December 2020 represents a fair estimate of fair values at the reporting date.

During the year ended 31 December 2020, there were no changes to the fair valuation at fair value in Level 3 rating techniques (2019 - did not exist).

The following table shows the situation of the evaluation results on each applied valuation method.

Real Estate Valuation - input data analysis according to IFRS 13

Evaluation results for each evaluation method used							
Crt. No.	Evaluation method	Pieces	Property (sm)	Concession (sm)	Developed area (sm)	Usable area (sm)	Fair value (RON thousands)
1	MCV	1,000	108,448	69,131	279,505	220,593	479,136
2	CIN	30	6,223	2,045	12,818	9,461	123,850
3	MCD	19	16,033	-	1,403	1,001	1,823
Total		1.049	130,704	71,176	293,726	231,055	604,809

Considering the valuation methodology used, it can be concluded that the input data used in estimating the fair value fall within the level 3 data category.

(All amounts are in RON thousands unless otherwise stated)

5 NET INTEREST INCOME

	2020	2019
Interest income calculated using the effective interest method arising from:		
Current accounts and deposits to banks	18,852	8,868
Treasury bills, bonds and other Investment securities	374,361	203,667
Loans and advances to customers, out of which:	1,140,057	1,155,214
Interest income on impaired loans	62,242	57,855
The provision for income from interest on loans changes undetermined cash flows of credit risk	-	-
Impairment provisions on interest for impaired loans	(18,536)	(11,286)
Total interest income	1,533,270	1,367,749
Interest expense related to financial liabilities measured at amortized cost arising from:		
Savings instruments from customers	53	84
Current accounts and term deposits from customers	400,384	227,984
Loans and deposits from banks	27,765	13,686
Interest expense on lease liabilities	496	464
Other borrowed funds	668	945
Total interest expense	429,366	243,163
Net interest income	1,103,904	1,124,586

6 NET COMMISSION INCOME

	2020	2019
Commission income		
Commissions from operations with cards	81,019	76,158
Commissions from cash transactions	59,198	62,902
Commissions from guarantees issued	6,548	5,040
Commissions from current accounts opening	119,217	112,009
Other commissions	34,098	25,729
Total commissions income	300,080	281,838
Commission expense		
Commissions for inter-bank transactions	25,452	26,857
Commissions for financial risk insurance	469	573
Commissions for financial services	7,142	2,426
Total commission expense	33,063	29,856
Net commission income	267,017	251,982

(All amounts are in RON thousands unless otherwise stated)

7 OTHER OPERATING INCOME

	2020	2019
Income from other operations	10,464	7,761
Income from dividends	10,263	2,789
Rental income	5,051	5,791
Total	25,778	16,341

8 STAFF COSTS

	2020	2019
Wages and salaries	425,457	415,631
Social security contributions	-	11
Other social security contributions	9,569	9,350
Other staff costs	31,066	31,163
Provisions for other employee benefits	(10,291)	8,532
Provision for employee benefits upon the termination of the employment contract (i)	13,960	-
Total	469,761	464,687

(i) At 31.12.2020 the Bank set up provisions for funds to support the early retirement programme applicable in 2021 in the amount of RON 12,316 thousand and for compensation payments to be granted in 2021 in case o f individual redundancies for reasons not attributable to employees, following Executive Committee / Board of Directors decisions from 2020 to reorganize the activity of units of the Bank in the amount of RON 1,644 thousand.

9 OTHER OPERATING EXPENSES

	2020	2019
Visa and Mastercard expenses	21,022	18,526
Third parties expenses (i)	44,313	41,369
Advertising and publicity	10,128	19,916
Materials and inventories	14,154	11,623
Other taxes (ii)	42,207	49,400
Provisions for loans commitments and financial guarantees	10,356	5,746
Provisions for litigations and for internal or external fraud (Note 28)	(784)	(935)
Other operating expenses	4,513	3,021
Rent expenses	2,770	2,702
Travel and transportation expenses	13,283	13,127
Expenses with deposits' guarantee fund	23,468	55,500
Repairs and maintenance of property and equipment	65,633	51,611
Expenses with post and telecommunications	16,613	17,281
(Gain)/ Loss on sale of fixed assets and investment property	(3,980)	(1,420)
Net charge for impairment of equity instruments (Note 24)	(335)	1,397
Net charge for impairment of investment property	-	-
Total	263,361	288,864

(All amounts are in RON thousands unless otherwise stated)

9 OTHER OPERATING EXPENSES (CONTINUED)

(i) At 31 December 2020, the amount also includes the total fees for the financial year charged by the statutory auditor for the statutory audit of the annual financial statements in the amount of RON 491 thousand as well as the total fees charged by the statutory auditor for services other than audit, in the amount of RON 426 thousand perceived in the year 2020.
Also there are included the costs of administrative services related to buildings in amount of RON 19,906 thousand (2019: RON 18,029 thousand) as well as other expenses of services provided by third parties (notarial expenses, copier rent, fire risk assessment, equipment check, etc.) in amount of RON 13,959 thousand (2019: RON 15,825 thousand).

(ii) At 31 December 2020, the amount includes the expense with the financial assets tax of the Bank of RON 0 (2019: RON 9,921 thousand) as well as the expense with the pro VAT rate of RON 28,257 thousand (2019: RON 25,733 thousand).

(iii) The decrease of the costs of the contribution to the Deposit Guarantee Fund and the Bank Resolution Fund by RON 32,032 thousand in 2020 is mainly due to the reduction of the risk associated with the Bank by the Deposit Guarantee Fund (from 117.6% in 2019 to 112.3% in 2020) generating an annual contribution to be paid for 2020 in amount of RON 13,700 thousand (2019: RON 42,411 thousand) as well as the reduction of the contribution to be paid to the resolution fund for 2020 in amount of RON 9,768 thousand (2019: RON 13,089 thousand).

10 NET IMPAIRMENT LOSS ON LOANS AND ADVANCES TO CUSTOMERS

	2020	2019
Net charge with adjustments for expected credit loss related to loans and advances to customers and for expected credit loss adjustments due to current customer account fees	408,897	287,603
Net charge with adjustments for expected loss on current account and deposits with NBR	81	234
Net charge with adjustments for expected losses on correspondent accounts with credit institutions	(171)	86
Losses from non-recoverable receivables not covered by adjustments for expected loss of credit	1,865	2,036
Recoveries from loans sold	(3,012)	(29,078)
Recoveries from loans previously written off	(116,299)	(102,394)
Total net charge with adjustments for expected credit losses	291,361	158,487

(All amounts are in RON thousands unless otherwise stated)

11 INCOME TAX EXPENSE

	2020	2019
Current tax expense at 16 % (2019: 16%) of taxable profits determined in accordance with Romanian law	55,605	76,111
Deferred expense tax (see Note 29)	(3,781)	(3,708)
Income tax expense/ (credit)	51,824	72,403

Reconciliation of profit before tax to income tax expense in the income statement

	2020	2019
Profit before tax	389,524	451,988
Expenses and income related to the accommodation activity for which specific tax is payable	825	949
Profit to be taxed	390,349	452,937
Theoretical tax charge at statutory rate of 16% (2019: 16%)	62,456	72,470
The tax effect of non-deductible expenses and items similar to income, plus deferred tax expense	43,714	42,628
Tax effect of non-taxable income and tax deductions, plus deferred tax revenues and sponsorship tax credit	(54,346)	(42,695)
Income tax expense for the year	51,824	72,403
Effective tax rate	13.30%	16.02%

Non-deductible expenses include negative fair value adjustments of financial assets, losses from the revaluation of fixed assets, fuel expenses and various other non-deductible operating expenses. Non-taxable income includes the reversal of provisions for financial assets which were previously non-deductible expenses and income coming from dividends and other sundry non-taxable income.

12 CASH AND CASH EQUIVALENTS AT CENTRAL BANK

	31 December 2020	31 December 2019
Cash on hand	572,896	472,032
Cash in ATM's	254,172	236,528
Mandatory minimum reserve (i)	3,927,865	3,329,883
Other current accounts held with the National Bank of Romania	2,463	3,210
Cash and cash equivalents at Central Bank	4,757,396	4,041,653

(i) The mandatory minimum reserve is maintained in accordance with Regulation no. 6/2002 issued by the National Bank of Romania and the subsequent changes and amendments. According to this regulation, the Bank is required to maintain a minimum average balance of mandatory reserve throughout the reporting period (monthly basis). The amounts from the mandatory reserve accounts are readily available for the use of the Bank according to

(All amounts are in RON thousands unless otherwise stated)

12 CASH AND CASH EQUIVALENTS AT CENTRAL BANK (CONTINUED)

the liquidity needs and strategy, subject to achieving the minimum reserve as an average for the reporting period.

At 31 December 2020 the mandatory minimum reserve was set at 8% (31 December 2019: 8%) for funds attracted from customers in RON and 5% (31 December 2019: 8%) for foreign currency denominated funds attracted. The interest rate granted by the National Bank of Romania for the current accounts in RON during 2020 ranged between 0.10 % and 0.20 % p.a. (2019 between 0.14 % and 0.22 % p.a.). For the current account in EUR, the National Bank of Romania granted during 2020 an interest of 0.01% p.a. (2019: 0.01% p.a.). For the current account in USD, the National Bank of Romania granted during 2020 an interest between 0.01 % and 0.10 % p.a. (2019 between 0.10 % and 0.17 % p.a.).

As at 31 December 2020 the amounts presented in the statement of financial position of cash and cash equivalents at Central Bank are current and not impaired.

13 DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2020		31 December 2019	
	Asset	Liability	Asset	Liability
Financial derivatives	16	6	6	8

The table above sets out fair values, at the end of the reporting period, of currencies receivable or payable under foreign exchange forward and swap contracts entered into by the Bank. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the end of the respective reporting period.

Derivative instruments concluded by the Bank are, generally, traded on an over-the-counter market with professional counterparties in standard contractual terms and conditions. Derivative instruments have favourable potential (assets) or unfavourable potential (liability) depending on fluctuations in market interest rates, foreign exchange rates or other variables related to their terms. Aggregate fair value of derivative financial assets and liabilities can fluctuate significantly from time to time.

Certain monetary items denominated in a foreign currency are economically safeguarded using FX swaps contracts as set out in the table above. The Bank does not use hedge accounting for its currency derivative contracts.

Fair value of derivative financial instruments is determined using the market quotations or discounted cash flow models, as appropriate.

(All amounts are in RON thousands unless otherwise stated)

14 LOANS AND ADVANCES TO BANKS

	31 December 2020	31 December 2019
Current accounts held with other banks	61,217	64,301
Term deposits with other banks	161,251	111,002
Sight deposits with other banks	158,105	199,573
Collateral deposits with other banks	3,226	3,231
Total	383,799	378,107

As at 31 December 2020 the Bank has a collateral deposit concluded for VISA through the financial institution JP Morgan Collateral Custodian Services of RON 2,712 thousand (2019: RON 2,681 thousand) and a collateral deposit for MasterCard through HSBC Bank London of RON 514 thousand (2019: RON 550 thousand). The obligation for holding such collateral deposits is necessary to cover the amounts carried / settled periodically by the organization. Value of collateral deposits is established depending on the transactional volume of each organization. Organizations can regularly request the update of the value of deposits maintained in their favour. Contracts are valid during the period in which they are members of organizations licensed by VISA and MasterCard.

Current accounts and sight and term deposits with other banks are at the disposal of the Bank and are not restricted. Credit ratings of banks are presented in Note 3.

As at 31 December 2020, the Bank did not hold reverse repo operations and amounts due from other banks are not collateralised.

15 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

a) Financial assets measured at fair value through other comprehensive income

	31 December 2020	31 December 2019
Government bonds	11,062,866	5,594,768
Available for sale - equity investments (Note 15 b)	13,048	30,414
Total	11,075,914	5,625,182

As at 31 December 2020, there are no REPO and REVERSE REPO transactions.

(All amounts are in RON thousands unless otherwise stated)

15 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

Ratings for investment securities classified as financial assets measured at fair value through other comprehensive income portfolio are detailed in Note 3, page 74.

b) The Bank held the following financial assets measured at fair value through other comprehensive income at 31 December 2020:

Name	Nature of business	Country	Percentage held	Carrying Amount
Biroul de credit SA	Credit risk monitoring	Romania	4.74	770
FRGC SA	Fond for Guaranteeing Loans for Private Investors	Romania	3.10	667
CCB SA	Settlement and clearing OTC market	Romania	0.61	-
TransFonD SA	Interbank transfers	Romania	2.69	1,301
SWIFT	Transfer of funds	Belgium	<0.01	335
MasterCard International	Processing banking cards transactions	Belgium	<0.01	-
VISA Inc.	Processing card transactions	United States	<0.01	9,975
Total				13,048

The Bank held the following available for sale equity investments at 31 December 2019:

Name	Nature of business	Country	Percentage held	Carrying Amount
Biroul de credit SA	Credit risk monitoring	Romania	4.74	808
FRGC SA	Fond for Guaranteeing Loans for Private Investors	Romania	3.10	670
CCB SA	Settlement and clearing OTC market	Romania	0.61	1
TransFonD SA	Interbank transfers	Romania	2.69	1,209
SWIFT	Transfer of funds	Belgium	<0.01	301
MasterCard International	Processing banking cards transactions	Belgium	<0.01	-
VISA Inc.	Processing card transactions	United States	<0.01	27,425
Total				30,414

As at 31 December 2020 and 31 December 2019, the equity investments held by CEC Bank were not pledged.

(All amounts are in RON thousands unless otherwise stated)

16 FINANCIAL ASSESTS AT AMORTIZED COST – DEBT INSTRUMENTS

	31 December 2020	31 December 2019
Government bonds	2,267,578	2,097,416
Total	2,267,578	2,097,416

Investments' classification as debt instruments at amortized cost depends both on the conditions and characteristics of the financial assets and on the ability and effective intention of the Bank to hold these instruments until maturity.

As at 31 December 2020, investments in debt instruments at amortized cost include bonds which are pledged securities of RON 37,000 thousand (31 December 2019: RON 32,250 thousand) for the operations with Visa, MasterCard and Sent (electronic settlement system for small local currency payments). The counterparty cannot subsequently sell or pledge these assets.

Additionally, at 31 December 2020, investments in debt instruments at amortized cost also include pledged treasury bills for the borrowing with the EIB with a fair value of RON 298,842 thousand (31 December 2019: RON 422,113 thousand). The counterparty cannot sell or pledge these investments.

During 2020, the Bank did not sell investment securities classified as investments in debt instruments at amortized cost.

Ratings for investment securities classified as Held to maturity portfolio are detailed in Note 3, page 74.

(All amounts are in RON thousands unless otherwise stated)

17 LOANS AND ADVANCES TO CUSTOMERS

The Bank's loans and advances to customers are for legal entities and individuals living in Romania. The focus of the portfolio of loans granted to customers by category of clients, type of credit for individuals, respectively the field of activity for legal entities on 31 December 2020 and 31 December 2019 is:

	31 December 2020	31 December 2019
Individuals – personal needs loans fully collateralised with real estate collaterals	346,317	383,698
Individuals – personal needs loans without real estate collaterals or not fully covered	1,316,081	1,152,945
Individuals – Mortgage loans	5,535,195	4,860,756
Cards/Overdraft	266,712	269,925
Total loans for individuals	7,464,305	6,667,324
Legal entities Agriculture	1,811,535	1,738,318
Public local administrations	3,960,795	3,943,543
Legal entities Industry	2,988,378	2,396,039
Legal entities Commerce	1,792,517	1,472,610
Legal entities Construction	720,853	581,359
Legal entities Services	4,255,802	3,793,807
Bridge loans for subsides	157,477	166,071
Total corporate loans and advances	15,687,357	14,091,747
Total loans advances to customers (gross)	23,151,662	20,759,071
Adjustments for expected credit loss	(1,227,590)	(855,785)
Total loans and advances to customers (net)	21,924,072	19,903,286

(All amounts are in RON thousands unless otherwise stated)

17 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The effect of changing expected loss for loans and advances to customers can be analysed on 31 December 2020 as follows:

	Stage 1	Stage 2	Stage 3	Total
Initial balance at 1 January	109,310	59,644	686,831	855,785
Transfer to Stage 1	74,596	(73,273)	(1,323)	-
Transfer to Stage 2	(24,202)	91,625	(67,423)	-
Transfer to Stage 3	(469)	(23,383)	23,852	-
Increase due to new loans granted in the year	28,593	3,220	10,968	42,780
Decreases due to closed loans in year	(9,587)	(9,373)	(18,171)	(37,131)
Net resizing during the year	95,248	118,152	148,676	362,077
Write-off	-	-	(3,806)	(3,806)
Interest adjustments	-	-	9,248	9,248
Other adjustments	(532)	(180)	(651)	(1,363)
Final balance at 31 December	272,957	166,432	788,201	1,227,590

During 2020 the Bank has not written off loans and advances to customers.

In 2020, the Bank has concluded 4 loan sale agreements with third party entities. Assignments were made by selling individual receivables. Through these contracts, there were sold receivables from non-performing loans, individuals and legal entities, guaranteed and unsecured in gross value of RON 4,544 thousand at the date of derecognition (out of which the extra-balance sheet receivable RON 1,192 thousand). Adjustments for expected credit loss were in the amount of RON 2,414 thousand. The amount of the receivables was collected RON 2,947 thousand. This amount is found on the credit position of "Net impairment loss on loans and advances to customers" in the statement of profit or loss and other comprehensive income. The sale agreement is without recourse.

As of 31 December 2020, the breakdown of expected credit loss for client receivables is detailed by customer groups according to the field of activity in Note 3, page 57.

(All amounts are in RON thousands unless otherwise stated)

17 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The effect of changing expected loss for loans and advances to customers can be analysed on 31 December 2019 as follows:

	Stage 1	Stage 2	Stage 3	Total
Initial balance at 1 January	104,237	46,285	584,062	734,584
Transfer to Stage 1	16,721	(14,806)	(1,915)	-
Transfer to Stage 2	(5,959)	24,649	(18,690)	-
Transfer to Stage 3	(1,160)	(6,610)	7,770	-
Increase due to new loans granted in the year	22,851	2,386	28,309	53,546
Decreases due to closed loans in year	(5,093)	(680)	(21,520)	(27,293)
Net resizing during the year	(21,601)	8,578	264,643	251,620
Write-off	-	-	(154,954)	(154,954)
Interest adjustments	-	-	385	385
Other adjustments	(686)	(158)	(1,259)	(2,103)
Final balance at 31 December	109,310	59,644	686,831	855,785

During 2019 the Bank has written off loans and advances to customers amounting to nominal value of RON 154,954 thousand through the direct reduction of the unrecoverable loans fully covered with expected loss adjustments.

In 2019, the Bank has concluded 8 loan sale agreements with third party entities. Assignments were made by selling both portfolios and individual receivables. Through these contracts, there were sold receivables from non-performing loans, individuals and legal entities (including cards), guaranteed and unsecured in gross value of RON 74,880 thousand at the date of derecognition (out of which the extra-balance sheet receivable RON 59,392 thousand, from which amounted to RON 20,657 thousand from collective transfers). Adjustments for expected credit loss were in the amount of RON 5,351 thousand. The amount of the receivables was collected RON 29,040 thousand (of which RON 2,745 thousand from collective transfers). This amount is found on the credit position of "Net impairment loss on loans and advances to customers" in the statement of profit or loss and other comprehensive income. The sale agreement is without recourse.

As of 31 December 2019, the breakdown of expected credit loss for client receivables is detailed by customer groups according to the field of activity in Note 3, page 58.

(All amounts are in RON thousands unless otherwise stated)

18 FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS

The structure of financial assets which are required to be measured at fair value through profit or loss is presented in the table below:

	31 December 2020	31 December 2019
Debt instruments	19,430	-
Total	19,430	-

Starting with 2020, the Bank has corrected the classification of securities held in Visa Inc. from financial assets measured at fair value through other comprehensive income in financial assets mandatorily at fair value through profit or loss.

As a result of the correction of the classification of visa Inc.'s shares from financial assets measured at fair value through other comprehensive income in financial assets mandatorily at fair value through profit or loss, the Bank transferred the amounts net of tax representing revaluation and exchange rate differences recorded between January 1, 2018 and December 2019, amounting to RON 16,616 thousand.

(All amounts are in RON thousands unless otherwise stated)

19 PROPERTY AND EQUIPMENT

	Land and buildings	Technical installations and machinery	Assets in course of construction	Other installations, equipment and furniture	Total
Gross cost at 1 January 2019	**565,754**	**256,899**	**1,694**	**41,866**	**866,213**
Additions	426	11,387	6,830	2,801	21,444
Transfers	4,264	15	(4,292)	13	-
Disposals	(86)	(8,923)	(2)	(444)	(9,455)
Reclassifications from Property, Plant and Equipment to investment property	(40)	-	-	-	(40)
Gross cost at 31 December 2019	**570,318**	**259,378**	**4,230**	**44,236**	**878,162**
Gross cost at 1 January 2020	**570,318**	**259,378**	**4,230**	**44,236**	**878,162**
Additions (*)	388	48,987	7,412	3,271	60,058
Advances for tangible assets	-	1,588	-	-	1,588
Transfers	2,356	15	(2,371)	-	-
Disposals	(1,635)	(12,049)	-	(778)	(14,462)
Reclassifications from Property, Plant and Equipment to investment property	(28,659)	-	(79)	-	(28,738)
Net amount of reclassifications from Property, Plant and Equipment to investment property (adjustments and accumulated depreciation)	(893)	-	-	-	(893)
Gross cost at 31 December 2020	**541,875**	**297,919**	**9,192**	**46,729**	**895,715**

	Land and buildings	Technical installations and machinery	Assets in course of construction	Other installations, equipment and furniture	Total
Accumulated depreciation at 1 January 2019	**29,750**	**206,399**	-	**37,320**	**273,469**
Depreciation charge for the year	18,939	16,032	-	1,199	36,170
Disposals	(19)	(8,844)	-	(435)	(9,298)
Reclassifications from Property, Plant and Equipment to investment property	(16)	-	-	-	(16)
Accumulated depreciation at 31 December 2019	**48,654**	**213,587**	-	**38,084**	**300,325**
Accumulated depreciation at 1 January 2020	**48,654**	**213,587**	-	**38,084**	**300,325**
Depreciation charge for the year	18,725	18,075	-	1,346	38,146
Disposals	(949)	(11,975)	-	(712)	(13,636)
Accumulated depreciation from Property, Plant and Equipment to investment property	(1,800)	-	-	-	(1,800)
Reversal of accumulated depreciation	-	-	-	-	-
Accumulated depreciation at 31 December 2020	**64,630**	**219,687**	-	**38,718**	**323,035**
Net book value at 31 December 2019	**521,664**	**45,791**	**4,230**	**6,152**	**577,837**
Net book value at 31 December 2020	**477,245**	**78,232**	**9,192**	**8,011**	**572,680**

(All amounts are in RON thousands unless otherwise stated)

19 PROPERTY AND EQUIPMENT (CONTINUED)

(*)During 2020 the Bank purchased computers, laptops, it equipment, ATMs, multifunctional cars, transport equipment, furniture and surveillance and anti-intrusion systems in amount of RON 52,646 thousand. Moreover, renovations were carried for the Bank's premises which were valued at RON 7,412 thousand.

At 31 December 2020 (and at 31 December 2019), the committee established at Bank level performed impairment tests of assets and applying professional judgment estimated that during 2020 (and 2019) there were no internal signs for depreciation in any group of assets, consequently, no depreciation allowance calculation and no accounting recording of impairment for assets depreciation was required.

Also, because the market value of real estate assets did not fluctuated significantly during 2020 and there were no external indicators for assets depreciation compared with the analysis at 31 December 2019, the management considered that the carrying amount of land and buildings at 31 December 2020 represents a reliable estimate of fair values at the reporting date.

At 31 December 2018 the Bank revaluated the land and building based on a service contract concluded with an external evaluator, independent, Veridio SRL (Veridio Trusted Business Advisory), authorized by the National Union of Authorised Evaluators from Romania.

During 2020, the Bank has sold two buildings and a land and recorded RON 661 thousands net income of.

At 31 December 2020 CEC Bank owns 640 land properties and 903 buildings (at 31 December 2019, CEC Bank owned 649 land and 916 buildings).

20 INTANGIBLE ASSETS

	2020	2019
Gross cost as at 1 January	184,680	171,038
Purchases	16,240	13,689
Transfers	831	-
Disposals	(5,104)	(47)
Gross cost as at 31 December	196,647	184,680
Accumulated depreciation as at 1 January	164,355	156,819
Depreciation charge	8,596	7,460
Transfers	831	-
Disposals	(5,104)	(47)
Adjustments for previous year	-	(123)
Accumulated depreciation as at 31 December	168,678	164,355
Net book value	27,969	20,325

(All amounts are in RON thousands unless otherwise stated)

21 INVESTMENT PROPERTY

	2020	2019
Gross cost as at 1 January	88,129	90,439
Purchases	-	-
Reclassifications from property and equipment	28,738	40
Disposals	(2,558)	(2,350)
Gross cost as at 31 December	114,309	88,129
Accumulated depreciation and impairment as at 1 January	21,997	20,044
Accumulated depreciation	2,816	(2,621)
Impairment adjustments usage	(386)	(192)
Accumulated depreciation for reclassifications from property and equipment	1,800	16
Disposals	(1,371)	(492)
Accumulated depreciation and impairment as at 31 December	24,856	21,997
Net book value	89,453	66,132

At 31 December 2020 (and at 31 December 2019), the committee established at Bank level performed impairment tests of assets and applying professional judgment estimated that during 2020 (and 2019) there were no internal signs for depreciation in any group of assets, consequently, no depreciation allowance calculation and no accounting recording of impairment for assets depreciation was required.

During 2020, the rent income from investment property has been in the amount of RON 3,983 thousand (2019: RON 4,010 thousand). Direct operating expenses (building tax, repairs, maintenance) arising from investment property that did not generate rental income during 2020 was in the amount of RON 1,293 thousand (2019: RON 1,302 thousand). Direct operating expenses of investment properties that generated rental income during 2020 was in the amount of RON 520 thousand (2019: RON 521 thousand).

During 2020, the Bank had 20 investment property sales (12 buildings and 8 land) plus 3 partial sales of buildings (excess space only) and a partial sale of land (only the excess part) as a result of which recorded RON 3,412 thousand net income of (2019: RON 1,286 thousand).

The Bank did not acquire investment property under finance leases.

The future amounts receivable for rental income from rented premises contracts (without right of cancellation) with third parties real estate investment destination are as follows:

	31 December 2020	31 December 2019
Not later than 1 year	3,730	3,422
Later than 1 year and not later than 5 year	5,053	2,452
Later than 5 years	104	99
Total	8,887	5,973

(All amounts are in RON thousands unless otherwise stated)

22 RIGHT-OF-USE ASSETS

	Commercial buildings	Residential buildings	Equipments	Land	Total
Gross cost as at 1 January 2019	59.910	-	652	6.335	66.897
Changes in leasing contracts	23.920	-	-	817	24.737
Additions	5.144	6	-	-	5.150
Disposals	(3.110)	(6)	(22)	(132)	(3.270)
Gross cost as at 31 December 2019	85.864	-	630	7.020	93.514
Gross cost as at 1 January 2020	85,864	-	630	7,020	93,514
Changes in leasing contracts	18,407	-	762	224	19,393
Additions	38,918	-	141	481	39,540
Disposals	(35,604)	-	-	(80)	(35,684)
Gross cost as at 31 December 2020	107,585	-	1,533	7,645	116,763

	Commercial buildings	Residential buildings	Equipments	Land	Total
Accumulated depreciation as at 1 January 2019	-	-	-	-	-
Depreciation charge for the year	19,933	6	425	551	20,915
Disposals	(48)	(6)	(5)	-	(59)
Accumulated depreciation as at 31 December 2019	19,885	-	420	551	20,856
Accumulated depreciation as at 1 January 2020	19,885	-	420	551	20,856
Depreciation charge for the year	20,910	-	728	556	22,194
Disposals	(11,209)	-	-	(14)	(11,223)
Accumulated depreciation as at 31 December 2020	29,586	-	1,148	1,093	31,827
Net book value at 31 December 2019	65,979	-	210	6,469	72,658
Net book value at 31 December 2020	77,999	-	385	6,552	84,936

The following amounts are recognised in the statement of profit or loss:

	31 December 2020	31 December 2019
Interest expense on lease liabilities	496	464
Depreciation charge for short-term leases	22,194	20,915
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	2,724	2,653

(All amounts are in RON thousands unless otherwise stated)

23 OTHER FINANCIAL ASSETS

	31 December 2020	31 December 2019
Amounts in course of settlement with banks (i)	20,512	43,754
Amounts to be recovered from banks and clients	19	19
Other debtors	1,696	992
Total	22,227	44,765

(i) Within 'Amounts in course of settlement with banks' account there are included commissions and penalties due from corporate clients and individuals of RON 869 thousand (2019: RON 915 thousand) as well as cash in the process of settlement, intra-cash settlements on customer transactions and other settlement accounts with: own operations, reconciliation operations, EPOS deposits/withdrawals, ATM supplies, etc.
Other financial assets are not collateralized as at 31 December 2020 and 2019. For the amounts detailed as at 31 December 2020, the Bank intends to recover them during 2021.

24 OTHER ASSETS

	31 December 2020	31 December 2019
Prepaid expenses/Prepayments	8,369	7,816
Other guarantees for rent and utilities (i)	737	674
Receivables from the state budget	10,400	4,051
Other assets (ii)	4,374	4,071
Adjustments for expected loss - stocks	(772)	(772)
Other debtors	4,418	5,337
Adjustments for expected loss - other debtors	(2,721)	(3,292)
Total	24,805	17,885

(i) Guarantees for rent and utilities are advances paid by the Bank to suppliers of these services and blocked by these suppliers as guarantees.

(ii) From the total of 'Other assets' category as at 31 December 2020, RON 2,919 thousand (31 December 2019: RON 2,767 thousand) represents repossessed collaterals from foreclosed loans to customers in the amount of RON 1,502 thousand, and RON 1,417 thousand (31 December 2019: RON 1,265 thousand) represents the Bank's patrimony under Law no. 77/2016 with subsequent modifications and completions regarding the payment of some buildings in order to settle the obligations assumed by credits.
The assets do not meet the definition of non-current assets held for sale, and are classified as inventories in accordance with IAS 2 - Inventories. The assets were initially recognised at fair value when acquired.

Adjustments for expected loss for other assets that can be reconciled as follows:

	2020	2019
Balance at beginning of the year	4,064	6,021
Derecognition of other assets	(236)	(3,354)
Charge/(release) of provision to income statement (Note 9)	(335)	1,397
Balance at end of year	3,493	4,064

(All amounts are in RON thousands unless otherwise stated)

25 DEPOSITS FROM BANKS

	31 December 2020	31 December 2019
Sight deposits	171,409	45,017
Out of which, current accounts to other banks (LORO)	19	17
Term deposits	900,992	190,388
Total	1,072,401	235,405

As at 31 December 2020 and at 31 December 2019 all "Deposits from banks" were on a short term basis - maturity of under a year.

26 DEPOSITS FROM CUSTOMERS

	31 December 2020	31 December 2019
Current accounts and sight deposits		
Saving passbooks – sight	4,805	5,138
Current accounts – individuals	2,837,256	2,293,142
Current accounts – legal entities and other clients	3,694,578	2,277,577
Cards – individuals, legal entities and other clients	3,332,734	2,582,256
Sight deposits – legal entities	229,828	197,665
Total current accounts and sight deposits	10,099,201	7,355,778
Term deposits and savings		
Term saving passbooks	134,829	163,986
Term deposits – individuals	18,282,503	16,161,301
Term deposits – legal entities and other clients	4,027,166	2,479,536
Collateral deposits (i)	2,288,079	1,823,127
Other term deposits	1,315	1,421
Total term deposits and savings	24,733,892	20,629,371
Total	34,833,093	27,985,149

(i) Collateral deposits are provided for:

	31 December 2020	31 December 2019
Letter of credit	-	311
Administration guarantees	101,579	98,507
Consignment	1,920,719	1,584,340
Guarantee loans	206,445	100,091
Guarantees for good performance of commercial contracts	35,947	25,592
Other collateral deposits	23,389	14,286
	2,288,079	1,823,127

(All amounts are in RON thousands unless otherwise stated)

27 BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2020	31 December 2019
European Investment Fund for the JEREMIE Initiative (i)	14,243	19,452
European Bank for Investments (EIB) (ii)	459,114	317,860
Romanian-Swiss program (iii)	92,023	92,023
Total	565,380	429,335

(i) On 2 July 2014 the Bank signed a Finance and Risk Sharing Agreement with the European Investment Fund (EIF) for the JEREMIE Initiative, amounting to EUR 10 million in RON equivalent (EIF EUR 5 million and CEC Bank EUR 5 million), which were fully drawn up until 30 June 2015. We mention that withdrawn amounts are in RON. The loan is a financing facility for Small and Medium Enterprises.

- On 17 December 2014, CEC Bank signed with the European Investment Fund (EIF) an Amendment to the Agreement to extend the revolving period of credit lines granted after 17 December 2014, until 31 December 2016;
- On 19 June 2015, CEC Bank signed with the European Investment Fund (EIF) an Amendment to the Fund's Additional Agreement with RON 107,056,800 (EIF RON 53,528,400 and CEC Bank RON 53,528,400), out of which on 31 December 2015 draws were made in the amount of RON 20,518,000.
- On 19 December 2015, CEC Bank signed with the European Investment Fund (EIF) a new Amendment to the Agreement to extend the revolving period of credit lines by 30 June 2017;
- On 16 June 2016, CEC Bank signed with the European Investment Fund (EIF) another Amendment to the Agreement to extend the withdrawal period of EIF funds and the Jeremie Credit Facility until 30 September 2026;
- On 30 September 2016, a new EIF Amendment was signed with a view to extending the lending period (investment credits) by 31 December 2016.

Total amount pf the Agreement including the supplement: RON 150,536,800 (EIF RON 75,268,400 and CEC Bank RON 75,268,400).

27 BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS (CONTINUED)

Until 31 December 2020 the Bank used fifteen instalments of RON 74,967,768 and reimbursed an instalment of RON 60,724,885.

The EIF does not charge interest on drawn amounts placed in credits and used by clients. Under certain contract conditions the interest rate may be ROBOR for one month deposit plus the margin of 1.63% p.a. Under the terms of the contract, the interest rate on 31 December 2020 was 3.72%. Payment terms are based on customer reimbursements, with the deadline being 31 December 2026.

(ii) During 2013, CEC Bank signed a loan agreement with the European Investment Bank (EIB) which status as at 31 December 2020 was as follows:

EIB loan agreement signed on 26 June 2013 to finance facilities for small and medium-sized enterprises ("SMEs"), public sector entities and medium-capitalized enterprises.

The loan had the interest rate EURIBOR 6 months plus 0.424 % per annum and a total of EUR 45 million, from which the bank accessed the first tranche worth EUR 15 million. This tranche worth EUR 15 million was fully drawn on 18 December 2013.

Payment deadlines are 18 June and 18 December of each year until final maturity on 18 December 2020. The first reimbursement to EIB was on 18 December 2014, the second on 18 June 2015 and the third on 18 December 2015.

On 18 December 2013 was signed the second tranche worth EUR 30 million, of which up to 31 December 2014 has been used thus:

- EUR 15 million with an interest rate EURIBOR 6 months plus 0.507 % p.a., payment deadlines are April 3 and October 3 of each year until final maturity on 6 April 2021;
- EUR 15 million with an interest rate EURIBOR 6 months plus 0.380 % p.a., payment deadlines are 14 August and 14 February of each year until final maturity on 16 August 2021.

On 11 September 2014 the Bank signed a new loan agreement with the EIB worth EUR 100 million, with fixed interest rate, of which up to 31 December 2018 EUR 100 million was drawn:

- EUR 15 million with fixed interest rate of 0.456 % p.a., payment deadlines are January 6 and July 6 of each year until final maturity on 6 July 2020;
- EUR 15 million with fixed interest rate of 0.269 % p.a., payment deadlines are June 18 and December 18 of each year until final maturity on 19 December 2022.

27 BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS (CONTINUED)

- EUR 15 million with fixed interest rate of 0.282 % p.a., payment deadlines are June 29 and December 29 of each year until final maturity on 29 June 2026.
- EUR 15 million with fixed interest rate of 0.089 % p.a., payment deadlines are March 30 and September 30 of each year until final maturity on 30 September 2023.
- EUR 20 million with fixed interest rate of 0.268 % p.a., payment deadlines are 27 April and 27 October of each year until final maturity on 29 April 2024.
- EUR 15 million with fixed interest rate of 0.349 % p.a., payment deadlines are 12 April and 12 October of each year until final maturity on 12 October 2024.
- EUR 5 million with fixed interest rate of 0.069 % p.a., payment deadlines are 19 January and 19 July of each year until final maturity on 19 July 2023.

At 27 October 2017 a new amendment to EIB Loan Agreement was signed with a value of EUR 100 million through which the period of use of funds in loans was extended until 28 February 2018. On 22 February 2018 was signed the additional no. 4, which extended the period of use and allocation until 31 August 2018.
The loan represents a finance facility for small and medium enterprises ("SMEs"), public sector entities and companies with average market capitalization and has a component for the companies that encourage the youth.

On 30 July 2020 the Bank signed a new loan agreement with the EIB worth EUR 50 million. The loan represents a finance facility for small and medium enterprises ("SMEs"), public sector entities and companies with average market capitalization.
The loan was fully drawn on 30 September 2020 with fixed interest rate of 0.099 % p.a,, payment deadline being 30 September of each year until the final maturity on 30 September 2025. The first reimbursement will be made on 30 September 2021.

As at 31 December 2020 for the loan agreement signed with the European Bank for Investments (EIB) the Bank pledged financial assets measured at amortized cost as collateral, with a fair value of RON 298,842,058 (31 December 2019: RON 422,113,129).

(iii) On 16 January 2014, CEC Bank signed a collaboration agreement with the Department for SMEs, Business and Tourism - DIMMAT within the Romanian-Swiss SME Program, amounting to CHF 19,890,000 in RON equivalent to a RON 3.6616 exchange rate for SME lending. The Program Fund is currently CHF 24,390,000, resulting from the initial fund supplemented with CHF 4,500,000 in RON equivalent at a rate of RON 4.2656.

(All amounts are in RON thousands unless otherwise stated)

27 BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS (CONTINUED)

So far, five additional acts have been signed to the collaboration agreement, the modifications aiming at both the flexibility of the credit granting conditions, the supplementation of the funds and the possibility of granting new investment credits from the amounts accumulated in the transit account until 31 December 2018, representing both the rates reimbursed by the beneficiaries of the loans granted by the Bank, as well as the decreases resulted during their performance. Thus, the granting of new credits will not exceed the amount of RON 42,857,142.86, out of which RON 30,000,000 represents 70% of the approved credits and RON 12,857,142.86 (30%) represent the Bank's own contribution (Additional act no. 5 / 14.11.2018).

The loan has zero interest. Up to 31 December 2020 there were 40 draws worth RON 92,023,272.81. Payment terms are based on customer repayments, which also have an impact on final maturity.

28 PROVISIONS

	31 December 2020	31 December 2019
Provisions for litigations	1,814	2,275
Provisions for internal and external frauds	2,157	2,480
Provisions for loan commitments	24,856	14,438
Total	28,827	19,193

The movement in provisions for litigations are listed below:

	31 December 2020	31 December 2019
Balance at 1 January	2,275	1,742
Additional provisions, including increases to existing provisions	106	1,367
Unused amounts reversed during periods	(567)	(834)
Balance at 31 December	1,814	2,275

The movement in provisions for internal and external frauds are listed below:

	31 December 2020	31 December 2019
Balance at 1 January	2,480	3,948
Additional provisions, including increases to existing provisions	14	129
Unused amounts reversed during periods	(337)	(1,597)
Balance at 31 December	2,157	2,480

(All amounts are in RON thousands unless otherwise stated)

28 PROVISIONS (CONTINUED)

The movement in provisions for loan commitments are listed below:

	31 December 2020	31 December 2019
Balance at 1 January	14,438	8,632
Additional provisions, including increases to existing provisions	38,568	33,314
Unused amounts reversed during periods	(28,212)	(27,568)
Other movements	62	60
Balance at 31 December	24,856	14,438

Within provision for litigations are included the amounts provided for certain litigations in which the Bank is involved as defendant and litigations that could result in future cash outflows. Based on the status of the legal proceedings, it is estimated a cash outflow (provisions balance as at 31 December 2020) of RON 1,814 thousand (31.12.2019: RON 2,275 thousand). The Bank's management considers that these legal cases will not have a significant negative impact over financial result and position of the Bank. See also Note 37 *Contingent liabilities and commitments.*

29 DEFERRED TAX LIABILITIES

Deferred tax assets and deferred tax liabilities at 31 December 2020 are attributable to the temporary differences detailed in the table below:

			31 December 2020
	Assets	Liabilities	Net
Fair value of financial assets measured at fair value through other comprehensive income - debt instruments	-	(257,407)	(257,407)
Fair value of financial assets measured at fair value through other comprehensive income - investments in equity instruments	-	(2,224)	(2,224)
Revaluation reserve for land and buildings	-	(277,495)	(277,495)
Other tangible and intangible assets (i)	-	(6,529)	(6,529)
Right-of-use assets	1,921	-	1,921
Other items	80,008	-	80,008
Total	81,929	(543,655)	(461,726)
Deferred tax liability at 16 %	13,109	(86,985)	(73,876)

(All amounts are in RON thousands unless otherwise stated)

29 DEFERRED TAX LIABILITIES (CONTINUED)

Deferred tax assets and deferred tax liabilities at 31 December 2019 are attributable to the temporary differences detailed in the table below:

			31 December 2019
	Assets	Liabilities	Net
Fair value of financial assets measured at fair value through other comprehensive income - debt instruments	-	(35,779)	(35,779)
Fair value of financial assets measured at fair value through other comprehensive income - investments in equity instruments	-	(21,274)	(21,274)
Revaluation reserve for land and buildings	-	(285,685)	(285,685)
Other tangible and intangible assets (i)	-	(6,580)	(6,580)
Other items	65,995	-	65,995
Total	65,995	(349,318)	(283,323)
Deferred tax liability at 16 %	10,559	(55,891)	(45,332)

(i) Deferred tax on other tangible and intangible assets is due to the change in the useful life of certain classes of assets (Notes 19 and 20).

Movements in deferred tax liabilities at 31 December 2020 are as follows:

	1 January 2020	Recognised in profit or loss account	Recognised in other comprehensive income	31 December 2020
Financial assets measured at fair value through other comprehensive income – debt instruments	(5,725)	-	(35,460)	(41,185)
Financial assets measured at fair value through other comprehensive income - investments in equity instruments (*)	(3,404)	-	3,048	(356)
Revaluation reserve for land and buildings	(45,710)	1,223	87	(44,400)
Tangible and intangible assets - changes in accounting useful life	(1,053)	8	-	(1,045)
Right-of-use assets	-	307	-	307
Other items	10,560	2,243	-	12,803
Total	(45,332)	3,781	(32,325)	(73,876)

(All amounts are in RON thousands unless otherwise stated)

29 DEFERRED TAX LIABILITIES (CONTINUED)

Movements in deferred tax liabilities at 31 December 2019 are as follows:

	1 January 2019	Recognised in profit or loss account	Recognised in other comprehensive income	31 December 2019
Financial assets measured at fair value through other comprehensive income – debt instruments	3,922	-	(9,647)	(5,725)
Financial assets measured at fair value through other comprehensive income - investments in equity instruments (*)	(2,015)	-	(1,389)*	(3,404)
Revaluation reserve for land and buildings	(47,019)	1,302	7	(45,710)
Tangible and intangible assets - changes in accounting useful life	(1,168)	115	-	(1,053)
Other items	8,269	2,291	-	10,560
Total	(38,011)	3,708	(11,029)	(45,332)

(*) In the amount of RON 1,389 thousand it is also included the value of deferred tax related to Swift shares reclassified from investments to cost in equity investments valued at fair value through other comprehensive income as a result of the application of IFRS 9.

30 LEASE LIABILITIES

	31 December 2020	31 December 2019
Lease liabilities	86,827	74,171
Debts attached	47	42
Total	86,874	74,213

The analysis of matutity of lease liabilities

	31 December 2020	31 December 2019
Less than one month	1,931	1,829
Between two and three months	3,835	3,666
Between four and six months	5,538	5,000
Between seven and nine months	5,273	4,600
Between ten and twelve months	4,915	4,117
Between thirteen and sixty months	53,465	40,642
Over sixty months	11,917	14,359
Total	86,874	74,213

(All amounts are in RON thousands unless otherwise stated)

31 OTHER LIABILITIES

	31 December 2020	31 December 2019
Social Contributions due to State Budget	16,401	17,349
Taxes payable to State Budget	6,219	15,351
Employee profit participation	27,458	34,121
Other liabilities	986	1,619
Provision for employee benefits upon the termination of the employment contract	13,960	-
Provision for employee benefits in the form of compensatory absences	1,872	5,501
Total liabilities	66,896	73,941

Social Contributions due to State Budget in balance represent contributions payable until the 25th of the next month.

32 OTHER FINANCIAL LIABILITIES

	31 December 2020	31 December 2019
Deferred income from financial guarantees issued	709	198
Sundry creditors	22,543	16,825
Other financial liabilities	13,077	14,914
Total financial liabilities	36,329	31,937
Current	36,329	31,937

33 SHARE CAPITAL

The share capital of the Bank was RON 2,499,746 thousand as at 31 December 2020 (31 December 2019: RON 2,499,746 thousand). The Bank is 100% state owned, Ministry of Public Finance being the sole shareholder. The issued share capital is comprised of RON 2,290,661 thousand consisting of 22,906,616 registered shares with a value of RON 100/share.

	31 December 2020	31 December 2019
Share capital as per Trade Registry (i)	2.290.661	2.290.661
IAS 29 inflation adjustment	209.085	209.085
Total share capital	2.499.746	2.499.746

(i) The share capital was increased in 2019 with a total value of RON 940,000 thousand, representing the cash contribution of the sole shareholder, the Romanian State.

(All amounts are in RON thousands unless otherwise stated)

34 REVALUATION RESERVES

The Bank last revaluation of the land and buildings was made at 31 December 2018 based on a service contract concluded with Veridio SRL (Veridio Trusted Advisory).

The revaluation reserve increased at 31 December 2018 as per the land and buildings revaluation performed.

Revaluation reserves are non-distributable until their realization through the tangible assets sale/ disposals referred to.

	Revaluation reserve gross	Deferred tax	Total net
Balance as at 1 January 2019	522,838	(60,503)	462,335
The revaluation reserve representing the surplus realized	(1,698)	201	(1,497)
Net result from revaluation (Note 19)	-	7	7
Balance as at 31 December 2019	521,140	(60,295)	460,845
Balance as at 1 January 2020	521,140	(60,295)	460,845
The revaluation reserve representing the surplus realized	(2.558)	180	(2.378)
Net result from revaluation (Note 19)	-	87	87
Balance as at 31 December 2020	518.582	(60.028)	458.554

35 OTHER RESERVES

	31 December 2020	31 December 2019
Statutory legal reserve (i)	179,760	158,924
General banking risk reserve (ii)	65,840	65,841
Retained earnings	2,953	2,974
Total	248,553	227,739

(i) Statutory legal reserves represent accumulated transfers from retained earnings in accordance with relevant local regulations. These reserves cannot be distributed to shareholders.
Local legislation requires 5% of the Bank's gross statutory profit to be transferred to a non-distributable statutory legal reserve until this reserve reaches 20% of the Bank's statutory share capital. In 2020 the Bank transferred RON 20,836 thousand to statutory legal reserve (2019: RON 23,949 thousand).

(ii) Reserves for general banking risks include amounts allocated in accordance with the banking legislation and are separately disclosed as allocations of statutory profit. These reserves are not distributable.

(All amounts are in RON thousands unless otherwise stated)

36 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or to exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The nature of the related party relationships for those related parties with whom the Bank entered into significant transactions or had significant balances outstanding at 31 December 2020 is detailed below. Transactions were entered into with related parties during the course of business at market rates.

Transactions with shareholders

The sole shareholder of the Bank is the Romanian Government, represented by the Ministry of Public Finance. A number of banking transactions were initiated, by which the Bank acquired coupon notes denominated in local currency issued by the Romanian Ministry of Public Finance. These transactions were carried out under commercial terms and conditions and at market rate. The transactions with the Romanian Ministry of Public Finance are presented in the relevant notes to these financial statements (Notes 15 and 16).

Transactions with management of the Bank

The Bank performed a number of banking transactions with the management of the Bank in the normal course of business.

Loans to employees and directors are granted in favourable conditions from market interest rates and are provided in the ordinary course of business. At 31 December 2020, the balance of loans granted to employees and directors was RON 151,437 thousand (31 December 2019: RON 164,206 thousand) and the balance of the deposits was RON 212,598 thousand (31 December 2019: RON 185,968 thousand).

Key management compensation is presented below:

	Expenses 31 December 2020	Accrued liability at 31 December 2020	Expenses 31 December 2019	Accrued liability at 31 December 2019
Short-term benefits:				
- Salaries	38,882	91	36,803	92
- Short-term bonuses	2,346	-	2,012	-
- Benefits in-kind	4	-	3	-
Bonuses upon the termination of the employment contract	559	-	-	-
Total	41,791	91	38,818	92

Accrued liabilities represent contributions payable until the 25th of the next month.

(All amounts are in RON thousands unless otherwise stated)

36 RELATED PARTY TRANSACTIONS (CONTINUED)

Transactions with State-controlled entities

The Bank performed a number of banking transactions with organisations or companies controlled by the Romanian State, in the ordinary course of business. The transactions with organisations or companies controlled by the Romanian State took place in the ordinary course of business.

The Bank applied IAS 24 regarding the simplified treatment in the presentation of related party transactions.

At 31 December 2020, the outstanding balances with related parties were as follows:

Closing balances	Shareholder – Ministry of Finance	Key management personnel	Other related parties
Total Assets	13.330.444	6.505	4.376.876
Out of which:			
Financial assets measured at fair value through other comprehensive income (contractual interest rate: 0.45%-6.75%)	11.062.866	-	-
Investments in debt instruments at amortized cost (contractual interest rate: 1%-5.95%)	2.267.578	-	-
Loans and advances – gross exposure (contractual interest rate: 0%-35%)	-	6.545	4.425.398
Adjustments for expected credit loss	-	(40)	(48.522)
	-	6.565	3.411.055
Total liabilities			
Out of which:	-	6.565	3.411.055
Deposits (contractual interest rate: 0%-13%)	-	6.545	4.425.398
Contractual commitments, financial guarantees and other commitments, out of which:	36.585	770	439.868
Issued	-	687	401.258
Received	36.585	83	38.610

(All amounts are in RON thousands unless otherwise stated)

36 RELATED PARTY TRANSACTIONS (CONTINUED)

At 31 December 2019, the outstanding balances with related parties were as follows:

Closing balances	**Shareholder – Ministry of Finance**	**Key management personnel**	**Other related parties**
Total Assets	7,692,184	7,225	4,212,184
Out of which:			
Financial assets measured at fair value through other comprehensive income (contractual interest rate: 1.25%-6.75%)	5,594,768	-	-
Investments in debt instruments at amortized cost (contractual interest rate: 2.25%-5.95%)	2,097,416	-	-
Loans and advances – gross exposure (contractual interest rate: 2.84%-14.49%)	-	7,245	4,238,054
Adjustments for expected credit loss	-	(20)	(25,870)
Total liabilities	-	7,081	1,687,225
Out of which:			
Deposits (contractual interest rate: 0%-13%)	-	7,081	1,687,225
Contractual commitments, financial guarantees and other commitments, out of which:	-	813	891,651
Issued	-	725	883,453
Received	-	88	8,198

The key personnel of the Bank's management includes the following functions: Chief Balance ALM Officer-CBO, Chief Financial Officer - CFO, Chief Risk Officer – CRO, Director (Large customers Division, SME Division, Legal Division, Contentious Division, Compliance Division, Internal Audit Division, Antifraud and Control Division, Cards Division, Operations Division, Remote Operations Division, Arrears and Asset Recovery Divisions, Credit Monitoring Division, Analysis of Individual Loans Division), Head of Independent Department (Evaluation (Independent) Department, Factoring (Independent) Department, Treasury (Independent) Department).

The balance of the securities issued by the Ministry of Finance is presented in Note 15 and 16 of the present financial statements.

(All amounts are in RON thousands unless otherwise stated)

36 RELATED PARTY TRANSACTIONS (CONTINUED)

The income and expense items with related parties for the period January – December 2020 were as follows:

	Shareholder Ministry of Finance	Key management personnel	Other related parties
Interest income	374,361	269	177,636
Interest expense	-	(38)	(3,181)
Net impairment loss on loans and advances to customers	-	(22)	(20,404)
Commission income	-	-	113

The income and expense items with related parties for the period January – December 2019 were as follows:

	Shareholder – Ministry of Finance	Key management personnel	Other related parties
Interest income	203,667	297	194,340
Interest expense	-	(10)	(2,661)
Net impairment loss on loans and advances to customers	-	(6)	(16,323)
Commission income	-	-	210

In respect of the transactions with NBR, the Bank had at the year end the following balances:

	31 December 2020	31 December 2019
Current accounts held at National Bank of Romania (Note 12)	3,930,328	3,333,093

The income and expense items with NBR for the period were as follows:

	31 December 2020	31 December 2019
Interest expenses arising from REPO transactions with National Bank of Romania	1,128	-
Interest income from current accounts held at National Bank of Romania	6,714	4,756
Interest expense from current accounts – Lombard loan	710	1,990

(All amounts are in RON thousands unless otherwise stated)

37 CONTINGENT LIABILITIES AND COMMITMENTS

Litigations

As at 31 December 2020 the Bank is subject to several legal actions arisen in the normal course of business. The potential obligations existence regarding the litigations will be confirmed by future events that are not entirely controlled by the Bank. From the same reason, the Bank cannot reliably estimate the time in which it can effectively record the losses.

	31 December 2020	31 December 2019
Contingent liabilities related to third party litigations (including customers) and to other operational risk events in compliance with IAS 37	40,606	21,990

During 2020, the Bank increased by RON 18.615 thousand the balance of contingent liabilities due to the records of possible penalties stipulated in the third party rental agreements.

Taxation

The Romanian taxation system is undergoing a process of consolidation and harmonization with the European Union legislation. Accordingly, there are still different interpretations of the fiscal legislation. In various circumstances, the tax authorities may have different approaches to certain issues, and assess additional tax liabilities, together with late payment interest and penalties (currently, penalties determined by the duration of delay, plus 0.01% per day delay). In Romania, tax periods remain open for tax inspection for 5 years. The Bank's management considers that the tax liabilities included in these financial statements are fairly stated.

According to the Emergency Ordinance no. 114 regarding the establishment of measures in the field of public investments and fiscal-budgetary measures, the modification and completion of some normative acts and the extension of some deadlines, banking institutions are forced to pay a tax on financial assets starting with 2019.

In 2020, the Bank did not pay the tax on financial assets in the light of Emergency Ordinance no. 1/2020 on fiscal and budgetary measures and for amending and completing some normative acts, issued on 06.01.2020, which repealed Emergency Ordinance no. 114/2018.

According to the rules on the methodology for calculating the asset tax, according to chapter X of the Emergency Ordinance no. 19 / 29.3.2019, the tax on the Bank's financial assets is in amount of RON 9,921 thousand as at 31.12.2019.

37 CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

Transfer pricing

Romanian tax legislation includes the "market value" principle according to which transactions between related parties should be carried out at market value. Local taxpayers engaged in related party transactions have to prepare and make available upon the written request of the Romanian Tax Authorities their transfer pricing documentation file. Failure to present the transfer pricing documentation file, or presenting an incomplete file, may lead to non-compliance penalties; additionally, notwithstanding the contents of the transfer pricing documentation, the tax authorities may interpret the facts and transactions differently from management and impose additional tax liabilities resulting from transfer price adjustments. The Company's management believes that the Company will not suffer losses in case of a fiscal inspection on the subject of transfer prices. However, the impact of any challenge by the tax authorities cannot be reliably estimated. It may be significant to the financial condition and/or the overall operations of the entity.

Credit related commitments

The Bank made investments on the inter-bank market and granted loans that were not fully drawn by the clients. The validity period of these commitments does not exceed the contractual maturity and their utilisation is restricted by contractual provisions.
At any time the Bank has commitments for loan granting. These commitments take the form of approved loans and credit line facilities. The amounts reflected in the commitments for loan granting are based on the assumption that all the amounts may be withdrawn without restrictions.

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing. Commitments to extend credits represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

(All amounts are in RON thousands unless otherwise stated)

37 CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

Loan commitments and guarantee letters issued on behalf of clients in balance are the following:

	31 December 2020	31 December 2019
Letters of guarantee issued for customers, out of which:	719,439	528,432
Guarantees for auctions	904	458
Good performance guarantees	112,121	70,309
Guarantees for advances refunds	388,559	296,881
Guarantees for payment insurance	99,682	70,467
Guarantees for custom duties and other claims	-	846
Other guarantees	118,173	89,473
Undrawn credit commitments	3,462,335	3,773,044
Total	4,181,774	4,301,476
Provision for undrawn loan commitments and financial guarantees issued (Note 28)	24,856	14,438

Part of the issued to customers guarantees are covered by cash collateral deposits in amount of RON 12,603 thousand (2019: RON 7,430 thousand).

38 EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

There were no significant events subsequent to the date of the financial statements that require adjustment of or disclosure in the financial statements.

Bogdan Constantin Neacşu
General Manager – President of Executive Committee

Ştefan Silviu Fota
Director, Accounting Division