CEC Bank SA

HISTORICAL FINANCIAL INFORMATION AS AT 31 DECEMBER 2021

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

CEC BANK SA

HISTORICAL FINANCIAL INFORMATION

31 DECEMBER 2021

Contents **PAGE**

This version of the historical financial information is a free translation from the original, which was prepared in Romanian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED AS AT 31 DECEMBER 2021
(All amounts are in thousand RON unless otherwise stated)

	Note	2021	2020
Interest income calculated using the effective interest method	5	1,553,948	1,494,652
Interest expense	5	(478,613)	(429,366)
Net interest income		1,075,335	1,065,286
Commission income	6	343,122	300,080
Commission expense	6	(45,618)	(33,063)
Net commission income		297,504	267,017
Net gain from trading in foreign currencies		45,640	38,540
Net gain/(loss) from financial derivatives		(11,966)	(93)
Net gain/(loss) from financial assets mandatorily measured at fair value through profit or loss		1,747	(7,996)
Net gain from the sale of financial assets measured at fair value through other comprehensive income		52,256	63,498
Net gain/(loss) from foreign exchange differences		4,351	(3,068)
Other operating income	7	14,552	25,778
Operating income		1,479,419	1,448,962
Impairment loss on loans and advances to customers, provisions for loan commitments and financial guarantees given	10	(212,895)	(263,099)
Net loss from impairment of debt instruments		(1,253)	(1,822)
Staff costs	8	(445,965)	(469,761)
Depreciation and amortisation expenses	19, 20, 21,22	(76,760)	(71,751)
Other operating expenses	9	(309,690)	(253,005)
Operating expenses		(1,046,563)	(1,059,438)
Profit before tax		432,856	389,524
Income tax expense	11	(66,268)	(51,824)
Net Profit for the year		366,588	337,700

The accompanying notes from pages 9 to 154 form an integral part of these historical financial information.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED AS AT 31 DECEMBER 2021
(All amounts are in thousand RON unless otherwise stated)

	Note	2021 Restated*	2020
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		(428,606)	240,862
Net gain from transactions with financial assets measured through other items of comprehensive income, transferred to profit or loss upon disposal, net of tax		(43,895)	(53,338)
Items that will not be reclassified to profit or loss:			
Net gain from revaluation of land and buildings	35	111,085	87
Prior year corrections		(714)	1,879
Other comprehensive income		(362,130)	189,490
Total comprehensive income for the year		4,458	527,190

(*) The information has been restated as described in Note 2.2

The historical financial information has been approved by the Board of Directors on 20 October 2022 and signed on behalf of the Bank by:

Bogdan Constantin Neacşu
General Manager – President of Executive Committee

Ştefan Silviu Fota
Director, Accounting Division

CEC BANK SA
CABINET PREŞEDINTE DIRECTOR GENERAL
1

The accompanying notes from pages 9 to 154 form an integral part of these historical financial information.

STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED AS AT 31 DECEMBER 2021
(All amounts are in thousand RON unless otherwise stated)

	Note	31 December 2021	31 December 2020
Assets		Restated*	
Cash and cash equivalents at central banks	12	7,108,541	4,757,404
Derivative financial assets	13	431	16
Loans and advances to banks	14	1,724,312	383,799
Loans and advances to customers	17	25,651,030	21,924,072
Financial assets mandatorily at fair value through profit or loss	18	21,177	19,430
Financial assets measured at fair value through other comprehensive income	15	12,778,056	11,075,914
- of which pledged securities (repo agreements)		521,624	-
Financial assets measured at amortized cost	16	2,332,805	2,267,578
Property and equipment	19	719,067	571,101
Intangible assets	20	76,093	29,548
Investment property	21	76,823	89,453
Right-of-use assets	22	78,933	84,936
Other financial assets	23	25,236	22,233
Other assets	24	21,606	24,799
Total assets		50,614,110	41,250,283
Liabilities			
Derivative financial liabilities	13	831	6
Deposits from banks	25	2,008,329	1,072,401
Deposits from customers	26	42,024,374	34,833,101
Borrowings from banks and other financial institutions	27	443,199	565,380
Subordinated liabilities	28	1,400,956	-
Current income tax liability		5,928	546
Deferred tax liabilities	30	5,717	73,876
Lease liabilities	31	81,662	86,874
Provisions	29	15,913	28,827
Other financial liabilities	33	708,693	36,397
Other liabilities	32	62,275	66,828
Total liabilities		46,757,877	36,764,236
Equity			
Share capital	34	2,499,746	2,499,746
Revaluation reserve for property and equipment	35	566,750	458,554
Reserves for financial assets at fair value measured through other items of comprehensive income		(252,933)	219,568
Other reserves	36	270,181	248,553
Retained earnings		772,489	1,059,626
Total equity		3,856,233	4,486,047
Total liabilities and equity		50,614,110	41,250,283

(*) The information has been restated as described in Note 2.2

The historical financial information has been approved by the Board of Directors on 20 October 2022 and 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 154 form an integral part of these historical financial information.

STATEMENT OF CHANGES IN EQUITY

AS AT 31 DECEMBER 2021
(All amounts are in thousand RON unless otherwise stated)

	Note	Share capital	Revaluation reserve	Revaluation reserve for financial assets at fair value measured through other comprehensive income Restated*	Other reserves	Retained earnings	Total
Balance as at 1 January 2021		2,499,746	458,554	219,568	248,553	1,059,626	4,486,047
Comprehensive income:							
Net Profit for the year		-	-	-	-	366,588	366,588
Other comprehensive income:							
Gain from change in the fair value of financial assets measured through other comprehensive income, net of deferred tax		-	-	(472,501)	-	-	(472,501)
Increase in revaluation reserve, net of deferred tax	35	-	111,085	-	-	-	111,085
Retained earnings from corrections		-	-	-	-	(714)	(714)
Total comprehensive income		-	111,085	(472,501)	-	365,874	4,458
Other contributions and distributions:							
Revaluation reserve representing realised surplus, net of deferred tax	35	-	(2,889)	-	-	2,889	-
Decrease in other reserves – sale of land		-	-	-	(15)	-	(15)
Legal reserve		-	-	-	21,643	(21,643)	-
Dividends distributed to shareholders		-	-	-	-	(634,257)	(634,257)
Total other contributions and distributions		-	(2,889)	-	21,628	(653,011)	(634,272)
Balance as at 31 December 2021		2,499,746	566,750	(252,933)	270,181	772,489	3,856,233

Bogdan Constantin Neacșu
General Manager –President of Executive Committee

Ștefan Silviu Fota
Director, Accounting Division

The accompanying notes from pages 9 to 154 form an integral part of these historical financial information.

STATEMENT OF CHANGES IN EQUITY

AS AT 31 DECEMBER 2021
(All amounts are in thousand RON unless otherwise stated)

	Note	Share capital	Revaluation reserve	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	35	-	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	35	-	(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

(*) The information has been restated as described in Note 2.2

Bogdan Constantin Neacșu
General Manager – President of Executive Committee

Ștefan Silviu Fota
Director, Accounting Division

The accompanying notes from pages 9 to 154 form an integral part of these historical financial information.

STATEMENT OF CHANGES IN CASH FLOW

FOR THE YEAR ENDED AS AT 31 DECEMBER 2021
(All amounts are in thousand RON unless otherwise stated)

	Note	2021	2020
Profit before tax	11	432,856	389,524
Adjustments for non-monetary items:			
Expected losses on financial instruments, provisions for loan commitments and financial guarantees given	10	212,895	263,099
Depreciation and amortisation expense	19,20,21,22	76,760	71,751
Net loss from financial derivates		11,966	93
Gain on disposal of fixed assets		(4,122)	(3,980)
Income from other operations		(794)	(1,072)
Net gain on financial assets measured at fair value measured through other comprehensive income		(52,256)	(63,498)
Net loss from financial assets mandatorily measured at fair value through profit or loss		(1,747)	7,996
Gain from foreign exchange differences		(87,955)	(22,522)
Income/ (Expense) from adjustments for expected losses regarding other assets	9	586	(335)
Dividends income	7	(919)	(10,263)
Interest expense	5	478,613	429,366
Interest income	5	(1,553,948)	(1,494,652)
Other adjustments		3,037	(4,572)
		(485,028)	(439,065)
(Increase)/decrease in operating assets:			
Increase in loans and advances to customers		(4,533,011)	(2,425,535)
Decrease in other assets		6,933	15,763
Increase/(decrease) in operating liabilities:			
Increase/(decrease) in deposits from banks		923,750	809,231
Increase in deposits from customers		7,176,914	6,800,173
Decrease/(increase) in other liabilities		21,397	6,979
Net cash used in operating activities before interest and tax		3,110,955	4,767,546
Interest received from loans and advances to customers		1,213,694	1,143,126
Interest paid for deposits from customers and banks		(449,241)	(352,094)
Payments for leases of low-value assets		(2,458)	(2,724)
Recoveries from assigned credits and from previously written-off loans	10	146,223	117,446
Income tax paid		(58,712)	(46,919)

The accompanying notes from pages 9 to 154 form an integral part of these historical financial information.

(All amounts are in thousand RON unless otherwise stated)

	Note	2021	2020
Net cash used in operating activities		3,960,461	5,626,381
Investment activities:			
Proceeds from financial assets measured at fair value through other comprehensive income	15	5,513,178	8,007,258
Payments for the acquisition of financial assets measured at fair value through other comprehensive income	15	(7,714,196)	(13,158,286)
Proceeds from investments in debt instruments measured at amortized cost	16	699,039	931,172
Payments for investments in debt instruments measured at amortized cost	16	(762,124)	(1,073,398)
Interest received from investing activities		483,748	337,001
Cash payments for the acquisition of tangible and intangible assets and real estate investments		(127,448)	(77,842)
Proceeds from the sale of tangible and intangible assets and real estate investments		6,950	6,521
Dividends proceeds		919	10,263
Net cash in investing activities		(1,899,934)	(5,017,310)
Financing activities			
Proceeds from subordinated loans		1,400,000	-
Payment of lease liability		(23,878)	(23,011)
Repayment of loans from banks and other financial institutions	27	(122,151)	(107,430)
Loan withdrawals from banks and other financial institutions	27	-	243,470
Interest paid for loans from banks and other financial institutions		(690)	(663)
Net cash from financing activities		1,253,281	112,366
Net increase in cash and cash equivalents		3,313,808	721,437
Cash and cash equivalents at the beginning of the year		5,137,977	4,416,540
Cash and cash equivalents at the end of the year (i)		8,451,785	5,137,977

The accompanying notes from pages 9 to 154 form an integral part of these historical financial information.

CEC BANK SA

STATEMENT OF CHANGES IN CASH FLOW

FOR THE YEAR ENDED AS AT 31 DECEMBER 2021
(All amounts are in thousand RON unless otherwise stated)

(i) Analysis of cash and cash equivalents

	31 December 2021	31 December 2020
Cash and cash equivalents comprise:		
Cash on hand (Note 12)	574,904	572,904
Cash in ATM's (Note 12)	270,102	254,172
Current accounts held at the National Bank of Romania (Note 12)	6,263,535	3,930,328
Current accounts held at other banks (Note 14)	76,090	61,217
Cash on hand and at banks	7,184,631	4,818,621
Loans and advances to banks – maturity less than 3 months (Note 14)	1,267,154	319,356
Cash and cash equivalents	8,451,785	5,137,977

The historical financial information has been approved by the Board of Directors on 20 October 2022 and signed on behalf of the Bank by:

Bogdan Constantin Neacşu
General Manager –President of Executive Committee

Ştefan Silviu Fota
Director, Accounting Division

The accompanying notes from pages 9 to 154 form an integral part of these historical financial information.

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, 111 first rank urban agencies, 386 second rank urban agencies and 463 second rank rural agencies.

Overall, as at 31 December 2021 there are: 960 agencies and 48 branches (31 December 2020: 962 agencies, of which: 109 fist rank urban agencies, 387 second rank urban agencies, 466 second rank rural agencies and 48 county branches).

CEC Bank SA has 5,414 employees as at 31 December 2021, 202 less than as at 31 December 2020.

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

1 REPORTING ENTITY (CONTINUED)

As at 31 December 2021, 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 2021, 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 Historical financial information 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.

This Historical financial information is a second set of financial information relating to the financial year ended 31 December 2021 and was prepared to correct a significant accounting error identified in the Financial statements as at 31 December 2021, approved by the General Shareholders Meeting of the Bank on 9 May 2022 and on which the Independent Auditor's Report was issued on 9 May 2022. Details of the correction of the identified significant accounting error are presented in Note 2.2.

The Bank's Historical financial information have been prepared to obtain funding, including through capital market operations. This historical financial information (hereafter referred to as "historical financial information" or "financial statements") was prepared based on the going concern principle. Accounting records are maintained in RON in accordance with Romanian accounting legislation and banking regulations issued by the National Bank of Romania ("NBR").

a) Basis of measurement

The Bank's financial statements have been prepared on a fair value basis for derivative assets and liabilities at fair value through profit or loss and financial assets measured at fair value through other items of comprehensive income.

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 2021, 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 not 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 beyond 30 June 2021 (Effective for annual periods beginning on or after 1 April 2021. Early application is permitted.

The amendments extend by one year the application period of an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19.

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

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

Amendments to IAS 16 require the entity to recognize the proceeds from the sale of items produced at the time of bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the intended manner, together with the cost of those items, in profit or loss and to measure the cost of those items applying 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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)

In order to determine the costs of performing a contract, the amendments require an entity to include all costs that are directly related to a contract. Paragraph 68A clarifies that the cost of performing a contract includes: marginal costs related to the performance of that contract and an allocation of other costs directly related to the performance of the contract.
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 amendments clarify 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 amendments remove 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.
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 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)

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements (Effective for annual periods beginning on or after 1 January 2023. Early application is permitted)

The amendments to IAS 1 require companies to disclose their material accounting policy information rather than their significant accounting policies.

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

The following new Standards, Amendments to the Standards and Interpretations are not mandatory for annual periods beginning on or after 1 January 2021, and have not been applied in preparation for these financial statements. The Bank intends to adopt these rulings when they become effective.

e) New Standards not yet adopted by the European Union

Amendments to IAS 12 Income Taxes Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Effective for annual periods beginning on or after 1 January 2023. Early application is permitted)

The amendments restrict the scope of the initial recognition exception (IRE) to exclude transactions that give rise to equal temporary differences and compensation - for example, leases and decommissioning liabilities. For leases and decommissioning liabilities, the associated deferred tax assets and liabilities will have to be recognized from the beginning of the first comparative period presented, with any cumulative effect recognized as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments apply to transactions that take place after the beginning of the first period presented.
The Bank does not expect the Amendments to have a material impact on its financial statements when applied for the first time.

(All amounts are in RON thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Corrections of the historical financial information for the financial year ended 31 December 2021

Correction of the deferred tax liability related to the revaluation reserve for financial assets at fair value measured through other comprehensive income

In 2022, the Bank identified a significant error in the recognition of the deferred tax related to the revaluation rezerve on the financial assets measured at fair value through other comprehensive income as at 31.12.2021, namely the recognition of a deferred tax liability instead of a deferred tax asset as of that date.

The correction of deferred tax liability is presented in accordance with the requirements of IAS 8 "Accounting policies, changes in accounting estimates and errors".

Statement of financial position

	31 December 2021 Reported(*)	Correction	31 December 2021 Restated
Deferred tax liabilities	103,767	(98,050)	5,717
Total liabilities	**46,855,927**	**(98,050)**	**46,757,877**
Reserves for financial assets at fair value measured through other items of comprehensive income	(350,983)	98,050	(252,933)
Total equity	**3,758,183**	**98,050**	**3,856,233**
Total liabilities and equity	**50,614,110**	-	**50,614,110**

(*) Balances reported in the Financial statements as at and for the year-ended 31 December 2021, approved by the General Shareholders Meeting of the Bank on 9 May 2022

Other comprehensive income

	2021 Reported (*)	Correction	2021 Restated
Change in the fair value of financial assets measured through other items of comprehensive income, net of tax	(526,656)	98,050	(428,606)
Other comprehensive income	**(460,180)**	**98,050**	**(362,130)**
Total comprehensive income for the year	**(93,592)**	**98,050**	**4,458**

(All amounts are in RON thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Statement of changes in equity

	Share capital	Revaluation reserve	Revaluation reserve for financial assets at fair value measured through other comprehensive income	Other reserves	Retained earnings	Total
Balance as at 1 January 2021	2,499,746	458,554	219,568	248,553	1,059,626	4,486,047
Comprehensive income:						
Net Profit for the year	-	-	-	-	366,588	366,588
Other comprehensive income:						
Gain from change in the fair value of financial assets measured through other comprehensive income, net of deferred tax	-	-	(570,551)	-	-	(570,551)
Increase in revaluation reserve, net of deferred tax	-	111,085	-	-	-	111,085
Retained earnings from corrections	-	-	-	-	(714)	(714)
Total comprehensive income reported	-	111,085	(570,551)	-	365,874	(93,592)
Adjustment	-	-	98,050	-	-	98,050
Total comprehensive income restated	-	111,085	(472,501)	-	365,874	4,458
Other contributions and distributions:						
Revaluation reserve representing realised surplus, net of deferred tax	-	(2,889)	-	-	2,889	-
Decrease in other reserves – sale of land	-	-	-	(15)	-	(15)
Legal reserve	-	-	-	21,643	(21,643)	-
Dividends distributed to shareholders	-	-	-	-	(634,257)	(634,257)
Total other contributions and distributions	-	(2,889)	-	21,628	(653,011)	(634,272)
Balance as at 31 December 2021 reported (*)	2,499,746	566,750	(350,983)	270,181	772,489	3,758,183
Correction	-	-	98,050	-	-	98,050
Balance as at 31 December 2021 restated	2,499,746	566,750	(252,933)	270,181	772,489	3,856,233

The accompanying notes from pages 9 to 154 form an integral part of these historical financial information.

(All amounts are in RON thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 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").

Monetary assets and liabilities are converted into RON at the exchange rate of NBR at the end of that period.

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 2021	31 December 2020	Increase/ (decrease) (%)
Euro (EUR)	1: RON 4.9481	1: RON 4.8694	1.62
US Dollar (USD)	1: RON 4.3707	1: RON 3.9660	10.20

2.4 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.

The method of 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

If an improvement is found in a financial asset that has not been purchased or issued credit-impaired, but subsequently became credit-impaired (S3 stage), which requires its reclassification from S3 "Impaired Financial Assets" to S1 "Past due Financial Assets" or S2 "Financial Assets for which credit risk has increased significantly" or full repayment of the loan takes place, reversal of the difference between the interest income calculated applying the effective interest rate on the gross credit amount and the interest income calculated by applying the effective interest rate on amortized cost, will be recognized as "net credit impairment expenses" [IFRS 9.5.4.1 and IFRS 9.5.5.8].

All other fees, commissions and other income and expense items are generally recorded as the related services are performed, 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.

Syndicated loan commissions are recognized as income when the syndication has been completed and the Bank does not retain part of the credit package for itself or retains part of the same effective interest rate used for other participants.

The application of IFRS 9 shall be made in accordance with the model of calculation implemented whereby the income 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.

2.5 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Dividends

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

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 the Bank's right to receive the dividend payment is established.

2.7 Revenue from contracts with customers

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

2.8 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 tax 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, providing for temporary differences between the tax base for calculating the tax on assets and liabilities and their book value carrying amount.

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 a deferred tax assets can be used.

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 2021 is 16% (2020: 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 next 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.

2.9 Financial assets and liabilities

(i) Classification

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

- Debt instruments including loans

Financial assets measured at fair value through profit or loss

- Derivatives
- Debt 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").

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.
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 infrequent (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].

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 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 level 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 cash 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 result in active selling and buying. [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 cash flows or held 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].

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, based 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 2021, 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 by the Bank of the quality of primary dealer on the government securities market managed by NBR;
- maintaining by the Bank of the capacity of market maker on the government securities market managed by NBR.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The management of the Bank 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.

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 solely 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/individual contract and documents the result of the analysis by completing a questionnaire.

Derivatives

In accordance with IFRS 9, the Bank's derivatives 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 debt instruments measured at fair value through profit or loss are included in the statement of income under "Net gain/(loss) from financial assets mandatorily at fair value through profit or loss".

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(vii) Measurement

Initial measurement

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

Transaction 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) trading 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) do 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, trading 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.

Subsequent measurement

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 derivatives 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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;
(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 underlaying 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.

Measurement at amortized cost

The amortized cost of a financial asset or financial liability is the amount at which the financial 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 value and the maturity date vale, less any expected credit losses.

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 amortized premium (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 purchased or originated credit-impaired financial assets, as well as impaired financial assets as a result of the risk but not purchased or originated credit-impaired, by applying the effective interest rate to the gross accounting value of the financial asset;

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) for purchased or originated credit-impaired financial assets by applying the effective interest rate adjusted for credit for the amortized cost of the financial asset at the initial recognition; and
(c) for financial assets impaired as a result of the risk but not purchased or originated credit-impaired, 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 contractual changes that may lead to derecognition were determined in view of their significance (quantitative or qualitative) so that the requirements of IFRS 9.3.2.3 are met. Quantitatively these changes exceed the materiality threshold of 10%, by analogy with the threshold specified in IFRS 9 in derecognition of financial liabilities. From a qualitative point of view, the amendments concern contractual clauses which significantly change the nature of the risks associated with the original contract.

(iv) Initial recognition

Financial assets and financial liabilities are initially measured at fair value plus directly attributable transaction 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 originated.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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;

(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) transfers 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 financial assets measured at fair value through the profit or loss account 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.
- The effective interest rate will be determined on the basis of the fair value as at the reclassification date, and for the impairment measurement, 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 effective 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 effective interest rate and the valuation of 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 at the reclassification date and for the impairment measurement, 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(vii) Off-setting

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 extinguished.
Such an offset right:

(a) must not be contingent on a future event; and
(b) must be legally enforceable in all the following circumstances:
 (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 and measurement of the expected credit loss

In order to identify exposures with a significant increase in credit risk or credit-impaired, 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 of regulations 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 date of the granting of the credit, without these being instances of improbability of payment, which anticipate the full 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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) overdue principal or interest payments with a debt service of more than 90 days;

(b) the exposure is unlikely to be 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:

- significant 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 being maintained if, after one year from the date of the restructuring, the 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-party creditors (enforcement, insolvency proceedings, judicial reorganization, etc.), which, by their nature, anticipate 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

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 purchased or originated credit-impaired financial assets).

Cash flows include cash flows from the sale of the 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

(ii) For financial assets, other than purchased or originated credit-impaired financial assets 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 purchased or originated credit-impaired financial assets 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.

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 estimated forward looking adjustments 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 two scenarios.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For 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 provisions for expected credit losses 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 guarantee 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.

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 significant increase in credit risk compared to the time of granting, 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 (NACE code) in in the case of legal persons.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 natural persons customers and non-bank legal persons. 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 in relation 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 unlikely to be restored after the state of emergency and/or alert 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 loans at default for each portfolio. Changes in future cash flow projections should reflect and be consistent with changes in observable data from one period to the next (e.g. GDP change in relation 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 model 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 no longer exist.

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 loss allowance account. Reversal is recognized in the statement of profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restructured loans

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

Restructuring operations are considered to be situations in which the borrower has been granted concessions as a result of the fact that 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 conditions of 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 with the granting of the concession or at a date close to granting it, following the granting of a new loan, the debtor 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 with the granting of the concession or at a date close to granting it, following the granting of a new loan, the debtor makes principal or interest payments related to another contract concluded with the Bank, which has recorded outstanding amount for at least 30 days at least once in the last 3 months prior to refinancing;
f) a change involving the extinguishment of the obligation by taking over the collateral when the change 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 this situation if it had not been modified.

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 the exiting of the exposures from the non-performing category 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 exit 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Exiting from the 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 the derecognition of the credit. Analysis for derecognition 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 full recovery of a financial asset, the gross carrying amount of that asset will be directly reduced and disposal is a derecognition event.

The criteria considered by the Bank for assessing the need/opportunity for recognition are:
- loans granted to customers in bankruptcy/insolvency/foreclosure, with debt service of more than 180 days, without collateral/guarantees issued by financial institutions;
- unsecured exposures to deceased individual customers;
- loans secured by guarantees for which more than ten auctions have been held, the period elapsed since then is more than 4 years and no horizon for the recovery of guarantees can be estimated;
- loans granted to clients in legal proceedings for which the existing legal situation / litigation leads to the improbability of recovering claims/recovery of collateral in a measurable horizon.

For loans that are 100% covered by impairment adjustments/expected loss adjustments, the Bank may derecognize them by directly reducing their gross carrying amount 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)

Approximately 95% of the off-balance sheet receivables that still have real guarantees in the guarantee structure were derecognised in the period 2014-2019, the prospect of continuing recoveries being a distant one. The real estate remaining under collateral shows an accentuated depreciation being unsalable or difficult to sell, a situation confirmed by the long period elapsed since the start of the executions. In the current economic context, in which a reduction in transactions is estimated - both in the residential real estate market and in the market for other real estate, it is estimated that the off-balance sheet recoveries will be reduced compared to historical values.

Off balance sheet commitments

The Bank analyzes off-balance-sheet commitments, considering them in the same risk category as the balance sheet exposures. The provision for expected losses for off-balance sheet commitments is 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 from the beginning of the observation period to the time of default will be converted. The PD/LGD corresponding parameters to the homogeneous portfolio in which that exposure is assigned shall be applied to the determined equivalent of the exposure balance.

Assets valued at fair value through other comprehensive income

The provision for 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 the financial information.

Investments in equity instruments

Investments in equity instruments classified by the Bank at 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 the provision for expected impairment losses.

2.10 Lease payments

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Identification 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 a 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-leasing components. In the case of a multi-element contract, the Bank identifies each lease component and treats 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 from 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 areas 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 non-leasing separate components 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 of a lessee 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 are 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 term.

In order to determine the lease term 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 considers 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 office 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 the 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 equal to the useful life of the building the Bank built on the respective land, the Bank considers the lease term as being equal to the estimated useful life of the building, 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 paragraph 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.

Leases for office spaces which are automatically extended for successive 12 months/indefinite periods. For these contracts, the Bank considers factors that create an economic incentive for the exercise of the option to extend the lease/the option to terminate the lease for indefinite period contracts, including the asset being leased and market-based factors.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 by the provisions in IFRS 16 Appendix B paragraph B4 stating that the Bank is not required to determine whether low value assets in aggregate are material; the exemption being 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/semi-annually/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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, , 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 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 liability.

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 interest rate 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 Bank, there are no contracts with an implicit interest rate. Therefore, the Bank measures the present value of the lease liabilities 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 includes 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.

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 conclude 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent measurement – lease liability

a) Subsequent measurement of the lease liability

The Bank measures 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 fixed lease payments.

b) Reassessment of the lease liability

The Bank re-measures 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 asset.
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 guaranteed residual value 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 selling price for the right to use the underlying assets with which the scope of the contract has been increased and any appropriate adjustments to that stand-alone selling price to reflect the circumstances of the particular contract.

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, will determine the lease term of the modified lease and re-measure the lease liability by updating the 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 value of right-of use asset is decreased by any accumulated depreciation and any accumulated impairment adjustments and adjusted foras a result of any re-measurement of the lease liability.
The Bank will calculate the amortization of the right to use the asset on a straight-line basis in accordance with the requirements of IAS 16 "Property, plant and equipment".
The Bank will depreciate the right-of-use asset over the shorter period between 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.

2.11 Cash and cash equivalents at Central Bank

Cash and cash equivalents comprise of cash balances on hand and nostro accounts with banks, including current account with the National Bank of Romania. Cash is recorded at nominal value and cash equivalents are recorded at amortised cost in the balance sheet.
Cash and cash equivalents are short-term investments which are readily convertible to 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 of balances with less than three months maturity from the date of formation, including cash and non-restricted balances with the central bank, current accounts with banks and short-term placements with banks.

2.12 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.

Derivatives include currency swaps contracts and currency forward transactions on the exchange rate and on debt instruments. 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 derivatives are included in profit or loss for the year (Net gains/(loss) on derivatives). The Bank does not apply hedge accounting.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 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.

2.14 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 adjustments for impairment, 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 are 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 value between the value in use and fair value less the costs to sell.

The carrying amount of an investment property is decreased 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.

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 recognised when incurred.

The 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 introduced in the usual banking activity, it is then reclassified to the plant, property and equipment account.

2.15 Tangible assets

(i) Recognition and measurement

Land and buildings are presented at reevaluated value less accumulated depreciation and the adjustments for impairment. The other items from the tangible assets category are presented at their historical cost less accumulated depreciation and the adjustments 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 reserve in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation reserve in equity to the limit of the cost; all other decreases are charged to profit or loss for the year.

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 a detailed valuation of the land and building portfolio is performed.

(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 is incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(iii) Depreciation

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

(iv) Derecognition

Gains and/or losses from derecognition of tangible assets is determined as the 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.

2.16 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Impairment of non-financial assets

An impairment loss is recognised if the carrying amount of the asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows independently 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 conditions and the risks specific to the asset.

2.18 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.

2.19 Borrowings from banks and other financial institutions

The loans obtained from banks and other financial institutions include loans from international banks and financial institutions and are measured at amortised cost.

2.20 Sale and repurchase agreements 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 net gains arising from trading securities. The obligation to return the securities is recorded at fair value in other borrowed funds.

2.21 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.

2.22 Contingent assets and liabilities

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

2.23 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 they incur 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

This amount is amortised throughout 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.

2.24 Repossessed assets

Repossessed assets represent financial and non-financial assets repossessed by the Bank through enforcement or giving in settlement to cover outstanding loans from customers. Financial assets (cash and securities) taken over by the Bank due to enforcement 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 enforcement are initially recognized at the smallest of the values between: a) the value of the financial assets, considering the foreclosed asset or the asset received as payment of the debt as collateral, and b) the fair value of the recovered asset, minus selling cost, 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 the smallest of the values between: a) the value of the financial assets, considering the foreclosed asset or the asset received as payment of the debt as collateral, and b) the fair value of the recovered asset, minus selling cost in the category "Inventories" through the account "Other assets held for sale" in counterparty with the receivables accounts.
The Bank classifies foreclosed assets and property taken over through foreclosure or giving in payment procedure as non-current assets held for sale in accordance with IFRS 5. This accounting treatment implies the availability of assets for immediate sale in their current condition (IFRS 5.7), approval by the management body of an individual plan for the sale of the asset in the short term (usually one year) and compliance with an active sale policy (IFRS 5.8).
Assets taken into the Bank's assets through foreclosure 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)

2.25 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 the pension fund and health care fund. 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 valid for 2021, signed with the Trade Union Federation of CEC Bank Employees, Bank's employees who retire as a result of the age limit/disability in 2021 may receive on this occasion, a premium, at the justified proposal of the management of the unit, in consultation with trade union leaders.

2.26 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 the Banking System ("Fund") according to effective law (Law 311/2015 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 the provisions of IFRIC 21 "Levies", according to which the Fund contribution meets the definition of a levy.

2.27 Share capital

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

2.28 Trade and other payables

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

(All amounts are in RON thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.29 Corrections of errors

Prior period errors are omissions from, and misstatements in the financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that was available when financial statements for those periods were authorised for issue and could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical errors, errors in applying accounting policies, ignorance or misinterpretations of facts, and fraud.

The correction of significant errors for previous financial years shall be made as adjustment to the retained earnings and the correction of insignificant errors for previous financial years as well as errors for the current financial year shall adjust the account of the profit or loss account.

2.30 Changes in presentation

Where necessary, comparatives have been adjusted according to IFRS presentation in the current year.

The effect of reclassifications for presentation purposes on the Statement of profit or loss and other comprehensive income was as follows on amounts at 31 December 2020:

Line items from Statement of profit or loss and other comprehensive income	**As originally presented**	**Reclassification**	**As reclassified at 31 December 2020**
Interest income calculated using the effective interest method	1,533,270	(38,618)	1,494,652
Other operating expenses	(263,361)	10,356	(253,005)
Impairment loss on loans and advances to customers, provisions for loan commitments and financial guarantees given	(291,361)	28,262	(263,099)
Total	978,548	-	978,548

During 2021, the Bank has revised the presentation of gains or losses from changes due to changes in contractual cash flows as a result of modifications that do not result in the derecognition of recognition of loans, as well as provisions for loan commitments and financial guarantees given. These changes were applied retrospectively for 2020.

In these financial statements the Bank has presented the losses from changes due to modification that is not related to financial difficulties of the borrower in "Interest income calculated using the effective interest method" line item under the position while in the prior year this amount was presented in "Impairment loss on loans and advances to customers, provisions for loan commitments and financial guarantees given".

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In these financial statements, the Bank has presented the amounts of impairment loss recognised for loans commitments and financial guarantees given in the "Impairment loss on loans and advances to customers, provisions for loan commitments and financial guarantees given" line item while in the prior year this amount was presented in Other operating expenses.

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 also reconsiders and approves the risk profile, setting acceptable levels for significant risks and ensures that the necessary steps are taken to identify, assess, monitor and control significant risks, including for outsourced activities.

The Executive Committee, the Asset and Liability Committee (ALCO), the Risk Management Committee and Operational Risk Management Committee function, within the limits of the powers delegated by the Board of Directors of the Bank, 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.

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.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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 payment of immovable property with the aim of extinguishing the obligations under the credit" came into force.

As at 31.12.2021, the Bank received notifications regarding the law on full settlement of mortgage / home equity loans for 15 loans with an on-balance sheet exposure of RON 7,692 thousand, for which the Bank made adjustments for expected credit loss of RON 5,924 thousand, respectively real estate guarantees of RON 4,404 thousand, so that the estimated impact on the portfolio of loans and financial position of the Bank is insignificant.

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: 8 buildings and 9 lands. Debt repayments amounting to RON 1,630.09 thousand were made in 2021, representing receivables residuals recorded in off balance sheet accounts.

An analysis of the ratio between mortgage loans and related real estate guarantees (LTV) at the reporting date is presented in Note 3.

As at 31 December 2021, 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 3,051,855 thousand, with collateral value of RON 5,904,148 thousand. Adjustments for expected credit loss related to this portfolio have a value of RON 37,913 thousand.

As 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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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 as a result of the COVID-19 pandemic 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.

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 of the Credit Committee, the Executive Committee or the Board of Administrators as appropriate.
- *Reviewing and assessing credit risk.* The 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, geographical areas 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 to the Board of Directors and taking appropriate corrective actions.
- *Providing advice, guidance and specialist expertise* to business units to promote best practice throughout the Bank for credit risk management.

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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. 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 as at 31 December 2021, split by stages:

	Stage 1	Stage 2	Stage 3	POCI	Total
Crediting commitments					
Exposure	4,618,665	196,522	84,810	-	**4,899,997**
Provision	9,903	393	133	-	**10,429**
Net crediting commitments	**4,608,762**	**196,129**	**84,677**	-	**4,889,568**
Guarantee commitments					
Exposure	1,506,698	183,700	55,792	-	**1,746,190**
Provision	2,233	233	43	-	**2,509**
Net guarantee commitments	**1,504,465**	**183,467**	**55,749**	-	**1,743,681**

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

	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**

(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 2021	Adjustments for expected credit loss 31 December 2021	Net exposure 31 December 2021
Bucuresti-Ilfov	9,290,925	537,606	8,753,319
Center	1,843,419	141,731	1,701,688
North-East	2,698,677	58,333	2,640,344
North-West	3,826,064	206,058	3,620,006
South-East	3,310,510	122,078	3,188,432
South-Muntenia	2,322,631	153,295	2,169,336
South-West Oltenia	2,297,663	64,624	2,233,039
West	1,429,639	84,773	1,344,866
Total	**27,019,528**	**1,368,498**	**25,651,030**

	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**

(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 2021 (gross amounts):

	Stage 1	Stage 2	Stage 3	POCI	Total
Individuals – personal needs loans fully collateralised with real estate collaterals	178,626	34,643	42,858	-	256,127
Individuals – personal needs loans without real estate collaterals or not fully covered	1,288,351	31,707	123,229	-	1,443,287
Individuals – Mortgage loans	6,536,299	129,199	54,993	-	6,720,491
Cards/Overdraft	274,936	2,076	15,014	-	292,026
Total loans for individuals	8,278,212	197,625	236,094	-	8,711,931
Legal entities Agriculture	1,564,871	314,483	153,588	-	2,032,942
Public local administrations	3,027,522	324,969	9,103	-	3,361,594
Legal entities Industry	3,100,383	298,597	460,636	60,213	3,919,829
Legal entities Commerce	1,888,255	219,454	172,243	-	2,279,952
Legal entities Construction	1,163,062	86,259	196,095	-	1,445,416
Legal entities Services	3,606,233	942,057	557,269	-	5,105,559
Bridge loans for subsides	137,921	18,969	5,415	-	162,305
Total corporate loans and advances	14,488,247	2,204,788	1,554,349	60,213	18,307,597
Total gross loans and advances	22,766,459	2,402,413	1,790,443	60,213	27,019,528
Collaterals	16,951,200	1,949,928	1,492,559	62,485	20,456,172

The collaterals value, presented in the tables from pages 57 – 69 includes the collaterals 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 enforcement process of the other guarantees related to the loan, the value of the guarantees is the one resulted after pari-passu principle application.

(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	13,852,893	1,424,347	1,230,267	56,851	16,564,359

(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 2021:

	Stage 1	Stage 2	Stage 3	POCI	Total
Individuals – personal needs loans fully collateralised with real estate collaterals	1,361	783	22,482	-	24,626
Individuals – personal needs loans without real estate collaterals or not fully covered	8,584	382	81,930	-	90,896
Individuals – Mortgage loans	6,582	927	18,200	-	25,709
Cards/Overdraft	1,683	74	10,247	-	12,004
Total adjustments for expected credit loss for individuals	18,210	2,166	132,859	-	153,235
Legal entities Agriculture	8,890	10,888	85,210	-	104,988
Public local administrations	30,290	3,250	3,123	-	36,663
Legal entities Industry	48,764	28,189	315,990	18,499	411,442
Legal entities Commerce	13,260	9,505	81,934	-	104,699
Legal entities Construction	16,252	6,977	79,581	-	102,810
Legal entities Services	50,405	102,936	296,311	-	449,652
Bridge loans for subsides	26	11	4,972	-	5,009
Total adjustments for expected credit loss for companies	167,887	161,756	867,121	18,499	1,215,263
Total adjustments for expected credit loss	186,097	163,922	999,980	18,499	1,368,498
Gross loans and advances to clients	22,766,459	2,402,413	1,790,443	60,213	27,019,528
Net loans and advances to clients	22,580,362	2,238,491	790,463	41,714	25,651,030

(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 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)

Presentation of loan commitments given as at 31 December 2021:

31 December 2021	Low risk	Moderate risk	Total
Individuals – personal needs loans without real estate collaterals or not fully covered	41,211	64	41,275
Individuals – Mortgage loans	60,260	-	60,260
Cards/Overdraft	384,273	2,670	386,943
Gross total for individuals	485,744	2,734	488,478
Provision	220	1	221
Net total individuals	485,524	2,733	488,257
Legal entities Agriculture	813,674	64,081	877,755
Public local administrations	138,510	39,793	178,303
Legal entities Industry	1,171,410	67,413	1,238,823
Legal entities Commerce	356,335	36,247	392,582
Legal entities Construction	467,313	13,976	481,289
Legal entities Services	1,111,375	56,392	1,167,767
Bridge loans for subsides	-	-	-
Gross total corporate	4,058,617	277,902	4,336,519
Provision	9,673	535	10,208
Net total corporate	4,048,944	277,367	4,326,311
Loans to credit institutions	75,000	-	75,000
Gross total	4,619,361	280,636	4,899,997
Provision	9,893	536	10,429
Net total	4,609,468	280,100	4,889,568

Presentation of financial guarantees given as at 31 December 2021:

31 December 2021	Low risk	Moderate risk	Total
Financial guarantees given	1,506,697	239,493	1,746,190
Provision	2,246	263	2,509
Net total	1,504,451	239,230	1,743,681

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

Presentation of loan commitments given as at 31 December 2020:

31 December 2020	Low risk	Moderate risk	Total
Individuals – personal needs loans without real estate collaterals or not fully covered	75,323	42	75,365
Individuals – Mortgage loans	47,023	-	47,023
Cards/Overdraft	328,508	34,849	363,357
Gross total for individuals	450,854	34,891	485,745
Provision	1,205	107	1,312
Net total individuals	449,649	34,784	484,433
Legal entities Agriculture	591,162	81,672	672,834
Public local administrations	332,557	4,837	337,394
Legal entities Industry	592,789	25,841	618,630
Legal entities Commerce	359,493	13,676	373,169
Legal entities Construction	331,339	14,984	346,323
Legal entities Services	598,939	29,083	628,022
Bridge loans for subsides	218	-	218
Gross total corporate	2,806,497	170,093	2,976,590
Provision	17,589	1,101	18,690
Net total corporate	2,788,908	168,992	2,957,900
Gross total	3,257,351	204,984	3,462,335
Provision	18,794	1,208	20,002
Net total	3,238,557	203,776	3,442,333

Presentation of financial guarantees given as at 31 December 2020:

31 December 2020	Low risk	Moderate risk	Total
Financial guarantees given	589,891	129,548	719,439
Provision	4,237	617	4,854
Net total	585,654	128,931	714,585

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

Internal rating 31 December 2021	Low risk	Moderate risk	Total	Of which 1-30 days
Individuals – personal needs loans fully collateralised with real estate collaterals	166,116	12,510	178,626	6,111
Individuals – personal needs loans without real estate collaterals or not fully covered	1,054,676	233,675	1,288,351	43,661
Individuals – Mortgage loans	6,058,853	477,446	6,536,299	6,158
Cards/Overdraft	258,217	16,719	274,936	9,072
Total gross loans to individuals	7,537,862	740,350	8,278,212	65,002
Adjustment for expected credit loss for individuals	15,967	2,243	18,210	302
Total net loans to individuals	**7,521,895**	**738,107**	**8,260,002**	**64,700**
Legal entities Agriculture	1,217,915	346,956	1,564,871	42,377
Public local administrations	3,027,522	-	3,027,522	2,013
Legal entities Industry	2,494,322	606,061	3,100,383	162,682
Legal entities Commerce	1,761,807	126,448	1,888,255	55,363
Legal entities Construction	998,906	164,156	1,163,062	58,648
Legal entities Services	2,403,437	1,202,796	3,606,233	48,470
Bridge loans for subsides	124,344	13,577	137,921	4,192
Total loans to corporate	12,028,253	2,459,994	14,488,247	373,745
Adjustment for expected credit loss for companies	136,823	31,064	167,887	4,711
Total net loans to corporate	**11,891,430**	**2,428,930**	**14,320,360**	**369,034**
Total gross	19,566,115	3,200,344	22,766,459	438,747
Total adjustments for expected credit loss	152,790	33,307	186,097	5,013
Total net loans	**19,413,325**	**3,167,037**	**22,580,362**	**433,734**
Collaterals	14,338,592	2,612,608	16,951,200	352,681

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

Internal rating 31 December 2020	Low risk	Moderate risk	Total	Of which 1-30 days
Individuals – personal needs loans fully collateralised with real estate collaterals	236,697	11,159	247,856	25,679
Individuals – personal needs loans without real estate collaterals or not fully covered	949,899	224,771	1,174,670	82,234
Individuals – Mortgage loans	4,890,441	461,367	5,351,808	218,746
Cards/Overdraft	211,982	8,993	220,975	11,032
Total gross loans to individuals	6,289,019	706,290	6,995,309	337,691
Adjustment for expected credit loss for individuals	20,375	3,085	23,460	1,393
Total net loans to individuals	**6,268,644**	**703,205**	**6,971,849**	**336,298**
Legal entities Agriculture	1,243,176	123,137	1,366,313	48,535
Public local administrations	3,432,915	4,825	3,437,740	6,657
Legal entities Industry	1,743,665	486,774	2,230,439	26,672
Legal entities Commerce	1,353,584	122,269	1,475,853	97,222
Legal entities Construction	491,286	103,199	594,485	17,239
Legal entities Services	2,529,568	754,386	3,283,954	75,131
Bridge loans for subsides	118,657	14,523	133,180	3,627
Total loans to corporate	10,912,851	1,609,113	12,521,964	275,083
Adjustment for expected credit loss for corporate	204,857	44,640	249,497	5,932
Total net loans to corporate	**10,707,994**	**1,564,473**	**12,272,467**	**269,151**
Total gross	17,201,870	2,315,403	19,517,273	612,774
Total adjustments for expected credit loss	225,232	47,725	272,957	7,325
Total net loans	**16,976,638**	**2,267,678**	**19,244,316**	**605,449**
Collaterals	11,897,484	1,955,410	13,852,894	495,018

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 quantitative factors (current liquidity, solvency, return on turnover, general indebtedness, hedging rate) are considered.

Taking into account the qualitative and quantitative factors considered for the assessment of default risk, customers are classified at the time of granting loan in one of the five financial performance classes graded from A to E, where A is the best class, E - the worst class.

The financial performance of corporate clients is updated every 6 months based on updated financial statements and qualitative factors.

In the case of individuals, the financial performance is determined on the basis of the scoring from the granting of the loan and is revalued during the course of the loans according to the information obtained regarding the fluctuation of income.

Stage 1 loans to customers in the top two financial performance classes (A and B) are considered low-risk loans, the other Stage I loans are considered to be moderate-risk loans.

(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 month, or the debt service exceeded 30 days according to the new definition of "default", loans included in the observation list, restructured performing loans, 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.

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.

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

31 December 2021	0 days	1-30 days	31-60 days	61-90 days	Total
Individuals – personal needs loans fully collateralised with real estate collaterals	26,157	6,559	1,407	520	34,643
Individuals – personal needs loans without real estate collaterals or not fully covered	5,352	5,573	13,699	7,083	31,707
Individuals – Mortgage loans	102,363	19,830	5,141	1,865	129,199
Cards/Overdraft	206	23	1,266	581	2,076
Total loans to individuals	134,078	31,985	21,513	10,049	197,625
Expected credit loss to individuals	1,453	350	254	109	2,166
Total net loans for individuals	**132,625**	**31,635**	**21,259**	**9,940**	**195,459**
Legal entities Agriculture	301,214	7,703	3,524	2,042	314,483
Public local administrations	324,969	-	-	-	324,969
Legal entities Industry	291,576	2,668	2,222	2,131	298,597
Legal entities Commerce	209,509	3,043	4,713	2,189	219,454
Legal entities Construction	60,554	9,661	15,414	630	86,259
Legal entities Services	895,877	35,201	4,630	6,349	942,057
Bridge loans for subsides	18,857	13	66	33	18,969
Total corporate loans	2,102,556	58,289	30,569	13,374	2,204,788
Expected credit loss to corporate	153,516	5,065	2,121	1,054	161,756
Total net loans for corporate	**1,949,040**	**53,224**	**28,448**	**12,320**	**2,043,032**
Total gross	2,236,634	90,274	52,082	23,423	2,402,413
Total expected credit loss	154,969	5,415	2,375	1,163	163,922
Total net loans	**2,081,665**	**84,859**	**49,707**	**22,260**	**2,238,491**
Collaterals	1,822,249	81,109	34,019	12,551	1,949,928

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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	1,059,167	216,273	99,633	49,274	1,424,347

(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 2021	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	11,042	2,614	427	652	3,327	2,093	22,703	42,858
Individuals – personal needs loans without real estate collaterals or not fully covered	10,455	640	223	132	19,707	34,026	58,046	123,229
Individuals – Mortgage loans	23,074	1,525	190	157	5,132	7,463	17,452	54,993
Cards/Overdraft	6,816	240	66	62	1,507	2,836	3,487	15,014
Total gross loans to individuals	51,387	5,019	906	1,003	29,673	46,418	101,688	236,094
Expected credit loss to individuals	23,154	2,247	336	188	9,596	27,937	69,401	132,859
Total net loans for individuals	**28,233**	**2,772**	**570**	**815**	**20,077**	**18,481**	**32,287**	**103,235**
Legal entities Agriculture	21,657	3,130	208	197	6,311	14,916	107,169	153,588
Public local administrations	1,832	-	-	-	1,040	1,705	4,526	9,103
Legal entities Industry	218,618	9,216	60,213	1,401	25,796	17,043	188,562	520,849
Legal entities Commerce	28,589	42,600	25	-	3,389	23,912	73,728	172,243
Legal entities Construction	141,912	1,106	-	3,356	2,098	4,452	43,171	196,095
Legal entities Services	261,179	8,873	17,744	10,524	38,142	76,860	143,947	557,269
Bridge loans for subsides	151	70	148	-	-	1,417	3,629	5,415
Total gross loans to corporate entities	673,938	64,995	78,338	15,478	76,776	140,305	564,732	1,614,562
Expected credit loss to corporate	316,917	15,973	30,125	7,112	36,770	66,177	412,546	885,620
Total net loans for corporate	**357,021**	**49,022**	**48,213**	**8,366**	**40,006**	**74,128**	**152,186**	**728,942**
Total gross	725,325	70,014	79,244	16,481	106,449	186,723	666,420	1,850,656
Total expected credit loss	340,071	18,220	30,461	7,300	46,366	94,114	481,947	1,018,479
Total net loans	**385,254**	**51,794**	**48,783**	**9,181**	**60,083**	**92,609**	**184,473**	**832,177**
Collaterals	620,538	66,270	79,877	15,144	77,912	130,784	564,519	1,555,044

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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	440,338	76,604	20,063	64,538	45,265	66,422	573,889	1,287,118

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 at 31 December 2021 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	3,836,563	9.29	3,676,231	160,332
Guarantees received from other financial Institutions	190,382	0.46	172,036	18,346
Real estate	27,126,154	65.66	24,695,474	2,430,680
Pledge over (movable assets, inventory, cash collateral)	5,647,983	13.67	4,357,795	1,290,188
Other (assignment of receivables)	4,511,544	10.92	2,519,983	1,991,561
Total	41,312,626	100	35,421,519	5,891,107

The types of collaterals accepted by the Bank as at 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	22,927,577	71.15	21,006,696	1,920,881
Pledge over (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

(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 COVID_19 pandemic, 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 2020-2021 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, as subsequently amended and supplemented.

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 a Government Ordinance for individuals and companies, as well as the private (non-legislative) moratorium carried out at the level of the Romanian Banking Association, only for companies.

The Financial Stability Board 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, or 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 31.12.2021 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 2021 shall be as follows:

Customer type	Stage 1	Stage 2	Stage 3	Total
Individuals	6,751	1,833	647	9,231
Legal entities Agriculture /Public local administrations	-	-	-	-
Corporate entities	-	17,882	10,162	28,044
Small and Medium-sized Enterprises	39,122	40,998	1,332	81,452
Total	45,873	60,713	12,141	118,727

(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, as at 31.12.2021:

Exposure type	Stage 1	Stage 2	Stage 3	Total
Secured consumer loans	5,314	1,436	282	7,032
Unsecured consumer loan	865	125	280	1,270
Mortgage loan	572	272	85	929
Total	6,751	1,833	647	9,231

The structure of the loan portfolio which benefited from the moratoriums during 2021 in terms of debt service shall be as follows at 31.12.2021:

Customer type	0 days	1-30 days	30-90 days	over 90 days	Total
Individuals	8,052	303	384	492	9,231
Legal entities					
Agriculture	-	-	-	-	-
Corporate entities	28,044	-	-	-	28,044
Small and Medium-sized Enterprises	79,227	1,250	975	-	81,452
Total	115,323	1,553	1,359	492	118,727

Based on the existing loan portfolio as of 31.12.2021, the Bank conducted a stress scenario on credit risk in the context of the COVID_19 pandemic and economic turmoil (inflation, rising energy prices, delays in supply chains). The scenario takes into account the deterioration in credit quality for customers who requested the suspension of payments in the context of the COVID_19 pandemic during 2021, 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.

The application of the stress factor as described above causes the level of the expected loss adjustments to be increased by RON 95.42 million, respectively RON 15.11 million for loans that have migrated from stage 1 to stage 2 and RON 80.31 million for loans that have migrated from stage 2 to stage 3.

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

Migration	Balance sheet exposure	Adjustments for expected credit loss before scenario	Adjustments for expected credit loss after scenario	Impact
Stage 1-Stage 2	258,105	2,736	17,844	15,108
Stage 2-Stage 3	177,968	17,301	97,613	80,312
Total	436,073	20,037	115,457	95,420

The increase in the level of expected credit losses under the scenario leads to an insignificant decrease (below 1 pp) in the total own funds ratio, an irrelevant decrease for the overall capital requirement (OCR) minimum of 16.23%.

Assumptions and techniques used for estimating expected credit loss:

As at 31 December 2021, the average probability of default over 12 months assessed to the loans portfolio and used for determining adjustments for expected credit loss (before applying the post-model adjustment coefficients shown on page 75 is:

	Group	12-month average
CAG (Legal entities Agriculture)	CAG	2.06%
CAP (Public local administrations)	CAP	1.12%
CCM (Legal entities Commerce)	CCM	3.39%
CCO (Legal entities Construction)	CCO	4.20%
CIN (Legal entities Industry)	CIN	4.22%
CSA (Individuals – personal needs loans fully collateralised with real estate collaterals)	CSA	2.38%
CSN (Individuals – personal needs loans without real estate collaterals or not fully covered)	CSN	2.59%
CSS (Legal entities Services)	CSS	4.27%
CTS (Bridge loans for subsides)	CTS	0.35%
IP (Individuals – Mortgage loans)	IP	0.29%
OW (Cards/Overdraft)	OW	2.63%

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

- scenario 1, with a 85% probability of realization, using the latest macroeconomic forecasts published by the World Bank. Economic growth of 6.0% in 2021, +4.5% in 2022, +3.9% in 2023;

- scenario 2, with a probability of 5 %, which takes into account the 20% increase in the amplitude of economic growth as mentioned in the base case scenario (for 2021 estimates: 4.8 % in 2021, +3.6% in 2022 and +3.12 % in 2023);

- scenario 3, with a 10% probability, which takes into account the use of the macroeconomic forecasts published by the World Bank and a 6-month gap between macroeconomic changes and the expected default rate. For 2021 estimates, economic growth of: 6.0% in 2021, +4.5% in 2022 and +3.9% in 2023 were projected. Propagating the negative effect of the economic downturn from 2020 over a shorter period (6 months instead of 12 months) implies a more optimistic estimate.

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 31.12.2021 (RON thousands):

Balance sheet exposures	**Scenario 1**	**Recorded**	**Scenario 2**	**Scenario 3**
Individuals	8,727,920	8,727,920	8,727,920	8,727,920
Corporate entities	18,642,304	18,642,304	18,642,304	18,642,304
Total	27,370,224	27,370,224	27,370,224	27,370,224

Adjustments for expected credit losses	**Scenario 1**	**Recorded**	**Scenario 2**	**Scenario 3**
Individuals	143,841	143,896	144,179	144,427
Legal entities	1,205,855	1,207,197	1,214,244	1,220,453
Total	1,349,696	1,351,093	1,358,423	1,364,880

Scenario 1, optimistic, envisages a 95% probability of the baseline scenario and 5% of the scenario which takes into account the 6-month decline in the gap between macro changes and the expected default rate. It is not considered as a decrease in economic growth below the forecasted level.

Scenario 2, which is moderately pessimistic, envisages a 45% probability of the baseline scenario, 50% of the scenario which takes into account the 20% reduction in projected economic growth and 5% of the scenario taking into account the 6-month decline in the gap between macro changes and the expected default rate.

Scenario 3, pessimistic, envisages a 10% probability of the baseline scenario, 90% of the scenario taking into account a 20% projected decrease in economic growth.

In view of the difficult-to-estimate negative effect of the COVID 19 pandemic, as well as the outlook for the economic situation in the context of rising energy/gas prices, difficulties in the supply/outlet chain, 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 for a part of the loans classified in stage 1.

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The Bank used the following post-model expected credit loss adjustment coefficients for exposures classified Stage 2:

Homogenous portfolio	Adjustment coefficients Stage 2	Adjustment coefficients Stage 1
CSS (Legal entities Services)	2.8	
CIN (Legal entities Industry)	2.4	
CCO (Legal entities Construction)	2.3	
CCM (Legal entities Commerce)	2.3	
CAG (Legal entities Agriculture)	2.3	1.2
CAP (Public local administrations)	2.3	
CSN (Individuals – personal needs loans without real estate collaterals or not fully covered)	1.4	1.4
CSA (Individuals – personal needs loans fully collateralised with real estate collaterals)	1.4	1.4
IP (Individuals – Mortgage loans)	1.4	1.4
CTS (Loans for subsidies)	1.2	
OW (Cards/Overdraft)	1.2	

The level of post-model adjustment coefficients for classified loans Stage 2 was established in an internal model, which considered, with a different probability depending on the economic sector risk, the potential loss of the declassification of Stage 3 exposures. The post-model adjustment coefficients for S1-classified loans were established in the context of concerns related to the transfer of energy/gas price increases to the final consumer, and concerns related to the agricultural year 2021/2022 respectively.

The quantitative effect of the measures mentioned was to increase the expected loss adjustments by about RON 107 million.

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 as at 31.12.2020, the Bank carried out a stress scenario on credit risk in the context of the COVID_19 pandemic. The scenario takes into account the deterioration in credit quality for customers who requested the suspension of payments in the context of the COVID_19 pandemic 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.

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.

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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 an 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:

	Group	12-month average
CAG (Legal entities Agriculture)	CAG	3.87%
CAP (Public local administrations)	CAP	2.02%
CCM (Legal entities Commerce)	CCM	5.75%
CCO (Legal entities Construction)	CCO	7.08%
CIN (Legal entities Industry)	CIN	6.99%
CSA (Individuals – personal needs loans fully collateralised with real estate collaterals)	CSA	3.84%
CSN (Individuals – personal needs loans without real estate collaterals or not fully covered)	CSN	3.47%
CSS (Legal entities Services)	CSS	6.76%
CTS (Bridge loans for subsides)	CTS	0.92%
IP (Individuals – Mortgage loans)	IP	0.82%
OW (Cards/Overdraft)	OW	4.26%

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 baseline 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)

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 2021:

LTV	Balance sheet exposure	Off balance sheet exposure
< 60%	1,512,537	1,479
61-80%	2,528,286	9,779
81-100%	2,287,150	472
101-120%	39,123	277
121-140%	7,618	-
> 140%	16,711	2,272
Total	6,391,425	14,279

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 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.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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/group of connected clients. Subsequent to restructuring, the Bank regularly monitors the restructured loans on a case by case basis.

As at 31 December 2021, the gross carrying amount of restructured loans is RON 1,288,248 thousand (31 December 2020: RON 688,870 thousand), out of which RON 592,731 thousand loans neither past due nor impaired (31 December 2020: RON 76,356 thousand).

Repossessed collaterals

The Bank has recognised as inventory as at 31 December 2021 in amount of RON 3,760 thousand (31 December 2020: RON 2,919 thousand) assets taken into patrimony or from the execution of collaterals from loans granted to clients. During 2021, the Bank took over property in the amount of RON 841 thousand (2020: RON 152 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.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The rating for Romania's long term debt confirmed by Fitch in 2021 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 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+".

Each of the rating agencies use different rating scales and the "BBB-" rating with a negative outlook is assigned only by Fitch, "BBB-" rating with a stable outlook is assigned only by S&P and the "Baa3" rating with a stable outlook is assigned by Moody's. According to internal procedures, the short term and long 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 assigned by 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.

For the determination of exposure limits to credit institutions, their financial information (in the case of Romanian banks) and ratings issued by international rating agencies, in conjunction with financial information (in the case of credit institutions, foreign legal entities and Romanian legal entities with foreign parent banks), is used, leading to risk classes allocation.

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The credit institutions (with their respective ratings) with which the Bank has current accounts, deposits and loans and advances are the following:

Loans and advances to banks – neither past due not impaired		31 December 2021 Total balance	31 December 2020 Total balance	Rating 31 December 2021 Short/Long term	Rating 31 December 2020 Short/Long term
Current account due from other banks	ING Bank	35,507	27,945	A-1/A+	A-1/A+
	Barclays Bank	1,051	12,290	F1/A+	F1/A+
	Commerzbank	4,549	5,546	P-1/A1	P-1/A1
	Societe Generale, Paris	25,461	10,571	P-1/A1	P-1/A1
	State Treasury	46	61	BBB-/A-3	A-3/BBB-
	PKO Bank Polski, Varsovia	83	65	P-1/A2	P-1/A2
	OTP Bank Budapesta	1,658	1,239	P-2/Baa1	P-2/Baa1
	Other	7,736	3,500	-	-
Deposits due from other banks	ING Bank	49,988	-	A-1/A+	A-1/A+
	Barclays Bank	50,126	18,963	F1/A+	F1/A+
	INTESA SANPAOLO BANK ROMANIA	15,004	39,922	BBB/F2	BBB/F2
	Credit Europe Bank	213,968	108,189	B / B+	B / B+
	EXIMBANK	-	10,827	-	-
	BANCA ROMANEASCA	-	131,456	-	-
	Unicredit Bank	49,782	-	F2/BBB	B/BB+
	TECHVENTURES Bank SA	-	9,999	-	-
	PATRIA BANK	14,815	-	-	-
	ALPHA BANK ROMANIA	298,815	-	-/Ba2	-/Ba2
	LIBRA INTERNET BANK	273,738	-	B/BB-	B/BB-
	Banca Transilvania SA	71,534	-	B/BB+	B/BB+
	GARANTI BANK	40,042	-	B/BB-	B/BB-
	IDEA BANK	29,549	-	-	-
	FIRST BANK	109,798	-	-	-
	CITIBANK Europe Dublin ROMANIA	49,995	-	F1/A+	F1/A+
Collateral deposits due from other banks	HSBC Bank London	567	514	AA-/AA-	F1+/A+
	COMMERZBANK	1,284	-	P-1/A1	P-1/A1
	JP Morgan Securities	2,738	2,712	F1+/AA	P-1 / Aa3
Loans and advances to banks	BANCA ROMANEASCA	201,046	-	-	-
	EXIMBANK	175,432	-	-	-
Total loans and advances to banks		**1,724,312**	**383,799**		

As at 31 December 2021, the amounts presented in the financial position loans and advances to banks of accruals amounted of RON 1,724,312 thousand (31 December 2020: RON 383,799 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 (FVTOCI), 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 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/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.

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 compensation 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, within a certain period of time and with a certain probability of confidence. 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 2021 can be analysed as follows:

	RON	EUR	Others	Total
Balance sheet financial assets				
Cash and cash equivalents at Central Bank	5,351,185	1,692,585	64,771	7,108,541
Derivatives	431	-	-	431
Loans and advances to banks	1,485,976	130,653	107,683	1,724,312
Financial assets mandatorily at fair value through profit or loss	-	-	21,177	21,177
Financial assets measured at fair value through other comprehensive income	10,118,535	2,340,659	318,862	12,778,056
Investments in debt instruments at amortized cost	1,289,497	1,003,269	40,039	2,332,805
Loans and advances to customers	21,431,657	4,024,147	195,226	25,651,030
Other financial assets	19,510	5,644	82	25,236
Total financial assets	39,696,791	9,196,957	747,840	49,641,588

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

	RON	EUR	Others	Total
Derivative financial assets				
Notional amount of derivatives				
— SWAP per exchange rate	49,992	16,748	-	66,740
Total derivative assets	49,992	16,748	-	66,740

	RON	EUR	Others	Total
Balance sheet financial liabilities				
Derivatives	822	7	2	831
Deposits from banks	1,898,480	4,951	104,898	2,008,329
Deposits from customers	32,633,659	8,765,712	625,003	42,024,374
Other borrowed funds	102,518	340,681	-	443,199
Subordinated liabilities	1,400,956	-	-	1,400,956
Other financial liabilities	707,781	205	707	708,693
Total financial liabilities	36,744,216	9,111,556	730,610	46,586,382

	RON	EUR	Others	Total
Derivative financial liabilities				
Notional amount of derivatives —				
SWAP per exchange rate	-	49,481	17,659	67,140
Total derivative liabilities	-	49,481	17,659	67,140
On balance sheet net financial assets/ (liabilities)	2,952,575	85,401	17,230	3,055,206
Derivative financial assets/ (liabilities)	49,992	(32,733)	(17,659)	(400)

	RON	EUR	Others	Total
Letters of guarantee issued for customers	1,541,076	204,102	1,012	1,746,190
Undrawn loan commitments	3,678,776	1,214,160	7,061	4,899,997

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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	4,155,553	549,097	52,754	4,757,404
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	16,822	5,399	12	22,233
Total financial assets	32,709,009	7,178,632	562,805	40,450,446

	RON	EUR	Others	Total
Balance sheet financial liabilities				
Derivatives	6	-	-	6
Deposits from banks	939,309	97,394	35,698	1,072,401
Deposits from customers	27,787,927	6,523,263	521,911	34,833,101
Other borrowed funds	106,267	459,113	-	565,380
Other financial liabilities	35,603	188	606	36,397
Total financial liabilities	28,869,112	7,079,958	558,215	36,507,285
On balance sheet net financial assets/ (liabilities)	3,839,897	98,674	4,590	3,943,161

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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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 regard 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.

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.
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. per interest rate (calculated in RON equivalent per maturity band as a percentage between the absolute GAP and total interest-bearing assets — principal accounts);
- 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 interest rate risk, assessed as significant risk, in conjunction with the limits imposed by the BNR/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.

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 and the weightings allocated according to the importance of the indicators on the basis of historical analysis and professional expertise.

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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/quarterly basis the following level II indicators, which are not part of the risk profile, namely:

- EVE (Economic Value of Equity) according to six standardized shock scenarios for the detection of extreme values, according to Guideline EBA/GL/2018/02;
- The break-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.

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 2021:

	RON Range		EUR Range	
	Min	Max	Min	Max
Assets				
Cash and cash equivalents at Central Bank	0.08	0.13	-	-
Investments with National Bank of Romania	0.75	1.25	-	-
Investments with other banks	0.75	3.65	(0.50)	-
Treasury certificates	2.25	2.29	-	-
Loans and advances to customers (*)	0.30	17.50	1.46	11.00
Investment securities	1.60	4.95	0.03	4.25
Liabilities				
Deposits from banks	0.65	2.70	(0.55)	-
Deposits from customers	-	4.75	-	0.45
Borrowings from banks and other financial institutions	3.08	3.67	-	0.349

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(*) During the year 2021, 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 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)	-
Loans and advances to customers	2.30	3.19	-	-
Investment securities	3.00	13.33	1.75	10.00
Liabilities	1.09	5.45	0.20	1.97
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

(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 2021 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	7,108,541	-	-	-	-	-	7,108,541
Financial derivatives	-	-	-	-	-	431	431
Loans and advances to banks	1,039,051	224,334	5,013	376,479	-	79,435(*)	1,724,312
Loans and advances to customers	5,346,426	49,969	15,709,865	4,357,700	43,577	143,493(**)	25,651,030
Financial assets mandatorily at fair value through profit or loss	-	-	-	-	-	21,177	21,177
Financial assets at fair value through other comprehensive income	-	-	-	10,588,450	2,175,512	14,094	12,778,056
Investments in debt instruments at amortized cost	-	-	-	1,183,904	1,148,901	-	2,332,805
Other financial assets	-	-	-	-	-	25,236	25,236
Total financial assets	13,494,018	274,303	15,714,878	16,506,533	3,367,990	283,866	49,641,588
Financial liabilities							
Financial derivatives	-	-	-	-	-	831	831
Deposits from banks	1,968,298	40,008	-	-	-	23	2,008,329
Deposits from customers	15,479,974	6,671,441	11,769,873	602,614	-	7,500,472(***)	42,024,374
Subordinated borrowing	1,400,956	-	-	-	-	-	1,400,956
Borrowings from banks and other financial institutions	54,788	8,507	116,205	263,699	-	-	443,199
Lease liabilities	2,069	3,986	16,024	48,952	10,631	-	81,662
Other financial liabilities	-	-	-	-	-	62,275	62,275
Total financial liabilities	18,906,085	6,723,942	11,902,102	915,265	10,631	7,563,601	46,021,626
Interest rate gap	(5,412,067)	(6,449,639)	3,812,776	15,591,268	3,357,359	(7,279,735)	3,619,962

(*) 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 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	4,757,404	-	-	-	-	-	4,757,404
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	-	-	-	-	-	22,233	22,233
Total financial assets	9,255,795	704,965	15,953,010	12,368,780	1,945,538	222,358	40,450,446
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	-	10,337,101(***)	34,833,101
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	-	-	-	-	-	36,397	36,397
Total financial liabilities	9,606,156	5,400,907	10,197,493	995,805	20,275	10,373,523	36,594,159
Interest rate gap	(350,361)	(4,695,942)	5,755,517	11,372,975	1,925,263	(10,151,165)	3,856,287

(*) 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 2021 and 31 December 2020.

31 December 2021	Total sensitivity	Sensitivity of profit for the year	Sensitivity of other comprehensive income
Interest rate +/-1%	-324,810/ +312,071	+/-27,730	-297,080/+284,381
Foreign exchange 5% appreciation / depreciation of functional CCY	-/+4,615	-/+4,615	-

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	-

At 31 December 2021, 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 324,810 thousand (2020: RON 304,694 thousand) lower and RON 312,071 thousand higher (2020: RON 289,172 thousand). The impact was calculated on the basis of monthly average balances with variable interest.

At 31 December 2021, 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 4,615 thousand higher/ lower (2020: RON: 3,425 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 assets, the Bank's inability to liquidate assets, inability to obtain adequate funding.

The Bank has adequate liquidity potential when, in the hypothetical unpredicted/critical situation, 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 assessment adequacy 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 liquidity risk management policy comprises a decision-making structure for risk management, a model for the approach to funding and liquidity insurance, the accepted risk profile for liquidity risk exposure, and planning procedures after alternative action scenarios, including for contingencies.

The internal risk liquidity adequacy assessment policy aims at integrating at least the following into the general liquidity management practice: the liquidity planning process, the maintenance of an appropriate level of liquidity to cover risks to which the Bank is likely to be subject, the monitoring of liquidity risk indicators, the identification of vulnerabilities and the assessment of potential hazards in a timely manner, in conjunction with ongoing actions to prevent such situations, the process of reaching conclusions and decision-making, including under stressed 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.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The table below presents the financial liabilities as at 31 December 2021 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.

The table below presents an analysis of non-derivative assets at their carrying amount and according to their contractual maturities. The impaired loans are presented at their carrying amount 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 fixed, 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.

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

31 December 2021	< 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	7,108,541	-	-	-	-	-	7,108,541
Loans and advances to banks	1,115,259	224,334	5,013	376,479	-	3,227	1,724,312
Loans and advances to customers	684,723	650,372	3,664,894	11,024,953	9,626,088	-	25,651,030
Financial assets mandatory at fair value through profit or loss	-	-	-	-	-	21,177	21,177
Financial assets at fair value through other comprehensive income	-	-	-	10,588,450	2,175,512	14,094	12,778,056
Investments in debt instruments at amortized cost	-	-	-	1,183,904	1,148,901	-	2,332,805
Financial derivatives, out of which							
- receivable	49,992	-	-	-	-	-	49,992
- payable	49,561	-	-	-	-	-	49,561
Other financial assets	25,236	-	-	-	-	-	25,236
Total financial assets	8,934,190	874,706	3,669,907	23,173,786	12,950,501	38,498	49,641,588
Liabilities							
Deposits from banks	1,968,506	40,092	-	-	-	-	2,008,598
Deposits from customers	25,078,649	5,721,267	10,824,092	602,835	-	11,117	42,237,960
Subordinated borrowing	956	-	-	-	1,400,000	-	1,400,956
Borrowings from banks and other financial institutions	54,788	8,509	116,329	264,627	-	-	444,253
Financial derivatives, out of which							
- receivable	-	16,838	-	-	-	-	16,838
- payable	9	17,660	-	-	-	-	17,669
Lease liabilities	2,069	3,986	16,024	48,952	10,631	-	81,662
Other financial liabilities	62,275	-	-	-	-	-	62,275
Total financial liabilities	27,167,252	5,774,676	10,956,445	916,414	1,410,631	11,117	46,236,535
Net liquidity gap	(18,233,062)	(4,899,970)	(7,286,538)	22,257,372	11,539,870	27,381	3,405,053
Loan commitments	4,899,997	-	-	-	-	-	4,899,997
Guarantee letters issued by the Bank	1,746,190	-	-	-	-	-	1,746,190

(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
Assets							
Cash and balances with Central Bank	4,757,404	-	-	-	-	-	4,757,404
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 instrument 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	22,233	-	-	-	-	-	22,233
Total financial assets	5,624,523	1,481,226	4,890,661	17,542,813	10,875,518	35,705	40,450,446
Liabilities							
Deposits from banks	1,072,577	-	-	-	-	-	1,072,577
Deposits from customers	20,012,193	4,684,729	9,689,216	646,067	-	11,130	35,043,335
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	36,397	-	-	-	-	-	36,397
Total financial liabilities	21,159,688	4,688,565	9,830,254	895,853	220,808	11,130	36,806,298
Net liquidity gap	(15,535,165)	(3,207,339)	(4,939,593)	16,646,960	10,654,710	24,575	3,644,148
Loan commitments	3,462,335	-	-	-	-	-	3,462,335
Guarantee letters issued by the Bank	719,439	-	-	-	-	-	719,439

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 (all reporting currencies); NSFR - Net stable funding Ratio (RON equivalent); liquidity indicator in lei equivalent (as determined under NBR 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.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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;
- 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, loans with outstanding amounts of more than 31 days (inclusive)/total unadjusted balance sheet assets, 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 liquidity buffer and of the counterbalancing capacity.

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

31 December 2021	Note	Mandatorily at FVTPL	FVTPL	FVOCI – debt instruments	FVOCI – equity instruments	At amortised cost	Total carrying amount
Cash and cash equivalents at central banks	12	-	-	-	-	7,108,541	7,108,541
Derivative financial assets	13	-	431	-	-	-	431
Loans and advances to banks	14	-	-	-	-	1,724,312	1,724,312
Loans and advances to customers:	17	-	-	-	-	25,651,030	25,651,030
- at amortised cost		-	-	-	-	25,651,030	25,651,030
Debt instruments:		21,177	-	12,763,962	-	2,332,805	15,117,944
- mandatorily at fair value through profit or loss	18	21,177	-	-	-	-	21,177
- at fair value through other comprehensive income	15	-	-	12,763,962	-	-	12,763,962
- at amortised cost	16	-	-	-	-	2,332,805	2,332,805
Equity instruments	15	-	-	-	14,094	-	14,094
Other financial assets	23	-	-	-	-	25,236	25,236
Total financial assets		21,177	431	12,763,962	14,094	36,841,924	49,641,588
Derivative liabilities held for risk management	13	-	831	-	-	-	831
Deposits from banks	25	-	-	-	-	2,008,329	2,008,329
Deposits from customers	26	-	-	-	-	42,024,374	42,024,374
Borrowings from banks and other financial institutions	27	-	-	-	-	443,199	443,199
Subordinated liabilities	28	-	-	-	-	1,400,956	1,400,956
Lease liabilities	31	-	-	-	-	81,662	81,662
Other liabilities	33	-	-	-	-	708,693	708,693
Total financial liabilities		-	831	-	-	46,667,213	46,668,044

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

31 December 2020	Note	Mandatorily at FVTPL	FVTPL	FVOCI – debt instruments	FVOCI – equity instruments	At amortised cost	Total carrying amount
Cash and cash equivalents at central banks	12	-	-	-	-	4,757,404	4,757,404
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	-	-	-	-	22,233	22,233
Total financial assets		19,430	16	11,062,866	13,048	29,355,086	40,450,446
Derivative liabilities held for risk management	13	-	6	-	-	-	6
Deposits from banks	25	-	-	-	-	1,072,401	1,072,401
Deposits from customers	26	-	-	-	-	34,833,101	34,833,101
Borrowings from banks and other financial institutions	27	-	-	-	-	565,380	565,380
Lease liabilities	31	-	-	-	-	86,874	86,874
Other liabilities	33	-	-	-	-	36,397	36,397
Total financial liabilities		-	6	-	-	36,594,153	36,594,159

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.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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 2021, the Bank envisaged maintaining a total own funds rate above a materiality threshold of 18.23%, aiming to meet the following requirements cumulatively:

a) maintaining a global capital requirement (OCR) of 16.23%, 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: 6.59%;
    - rate of own funds tier 1: 8.80%;
    - total own funds rate: 11.73%.
- 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 2% of the total exposure value to support possible future capital requirements adjustments (additional own funds requirements, capital buffers).

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 and CRD V 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, currency risk, settlement risk and credit assessment adjustment risk) as well as significant risks identified by the Bank for which regulatory capital requirements are not fully covering.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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 Bank's own funds and own funds ratios are calculated in accordance with the National Bank of Romania's (NBR) regulations in force, and within the limits imposed by EU Regulation no. 575/2013.

Throughout 2021, 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, including capital buffers. 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 the coronavirus infection and the change in the macroeconomic context) and are focused towards an annual positive financial result and its capitalization. Internal capital 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 expected credit losses for 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.

4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

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.

Given the current macroeconomic situation and its outlook, the Bank made some post-model adjustments to estimate the expected loss adjustments, detailed in Note 3 - Financial Risk Management.

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;
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 described below were applied depending on the type of asset being valued and the specific market information available.
- The main approach used in the measurement 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 leased) 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%).

4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

- 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

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.

(All amounts are in RON thousands unless otherwise stated)

4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

The tables below analyse 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 2021:

	Level 1	Level 2	Level 3	Total
Financial assets				
Other financial assets				
Financial derivatives - Swap on exchange rate	-	431	-	431
Financial assets measured at fair value through other comprehensive income, out of which:	11,238,692	1,525,270	14,094	12,778,056
– Securities	11,238,692	1,525,270	-	12,763,692
– Equity Investments	-	-	14,094	14,094
Financial assets mandatorily at fair value through profit or loss, out of which:	-	-	21,177	21,177
– Debt securities	-	-	21,177	21,177
Non-financial assets				
- Land and buildings	-	-	599,335	599,335
Total assets carried at fair value	11,238,692	1,525,701	634,606	13,398,999

	Level 1	Level 2	Level 3	Total
Financial liabilities				
Other financial liabilities				
Financial derivatives - Swap on exchange rate	-	831	-	831
Total liabilities carried at fair value	-	831	-	831

(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 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)

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 measured 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.

Assets and liabilities for which fair value is disclosed as at 31 December 2021:

	Level 1	Level 2	Level 3	Total fair value	Total accounting value
Financial assets					
Cash and cash equivalents at Central Bank	845,006	6,263,535	-	7,108,541	7,108,541
Loans and advances to banks	-	1,724,312	-	1,724,312	1,724,312
Loans and advances to customers	-	-	26,091,686	26,091,686	25,651,030
Investments in debt instruments at amortized cost	2,286,862	-	-	2,286,862	2,332,805
Other financial assets	-	-	25,236	25,236	25,236
Total financial assets	3,131,868	7,987,847	26,116,922	37,236,637	36,841,924
Financial liabilities					
Deposits from banks	-	2,008,329	-	2,008,329	2,008,329
Deposits from customers	-	42,236,602	-	42,236,602	42,024,374
Borrowings from banks and other financial institutions	-	443,199	-	443,199	443,199
Subordinated liabilities	-	1,400,956	-	1,400,956	1,400,956
Other financial liabilities	-	-	708,693	708,693	708,693
Total financial liabilities	-	46,089,086	708,693	46,797,779	46,585,551

(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	827,076	3,930,328	-	4,757,404	4,757,404
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	-	-	22,233	22,233	22,233
Total financial assets	3,184,550	4,314,127	22,018,555	29,517,232	29,355,086
Financial liabilities					
Deposits from banks	-	1,072,401	-	1,072,401	1,072,401
Deposits from customers	-	35,042,284	-	35,042,284	34,833,101
Borrowings from banks and other financial institutions	-	565,380	-	565,380	565,380
Other financial liabilities	-	-	36,397	36,397	36,397
Total financial liabilities	-	36,680,065	36,397	36,716,462	36,507,279

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	Market value	Evaluation techniques	Significant unobservable inputs	Average interest rate	The sensitivity of the valuation of the market value to unobservable inputs
Legal entities Agriculture exclusively bridge loans for subsides	1,944,022	Future discounted cash flows	PD and LGD as items reflecting credit risk in the discount rate of future cash flows.	3.08% for EUR 4.75% for RON	The individual growth of any unobservable inputs (PD, LGD, discount rate) would generate a lower market value.
Public local administrations	3,324,930	Future discounted cash flows	PD and LGD as items reflecting credit risk in the discount rate of future cash flows.	2.71% for EUR 3.36% for RON	The individual growth of any unobservable inputs (PD, LGD, discount rate) would generate a lower market value.
Legal entities Commerce	2,191,546	Future discounted cash flows	PD and LGD as items reflecting credit risk in the discount rate of future cash flows.	2.98% for EUR 4.61% for RON	The individual growth of any unobservable inputs (PD, LGD, discount rate) would generate a lower market value.
Legal entities Construction	1,344,653	Future discounted cash flows	PD and LGD as items reflecting credit risk in the discount rate of future cash flows.	3.12% for EUR 4.62% for RON	The individual growth of any unobservable inputs (PD, LGD, discount rate) would generate a lower market value.
Legal entities Industry	3,534,396	Future discounted cash flows	PD and LGD as items reflecting credit risk in the discount rate of future cash flows.	2.86% for EUR 4.34% for RON 3.47% for USD	The individual growth of any unobservable inputs (PD, LGD, discount rate) would generate a lower market value.
Individuals – personal needs loans	1,570,026	Future discounted cash flows	PD and LGD as items reflecting credit risk in the discount rate of future cash flows.	4.15% for EUR 6.96% for RON	The individual growth of any unobservable inputs (PD, LGD, discount rate) would generate a lower market value.
Legal entities Services	4,664,245	Future discounted cash flows	PD and LGD as items reflecting credit risk in the discount rate of future cash flows.	2.95% for EUR 4.58% for RON	The individual growth of any unobservable inputs (PD, LGD, discount rate) would generate a lower market value.
Bridge loans for subsides	157,296	Future discounted cash flows	PD and LGD as items reflecting credit risk in the discount rate of future cash flows.	3.51% for RON	The individual growth of any unobservable inputs (PD, LGD, discount rate) would generate a lower market value.
Individuals – Mortgage loans	7,080,512	Future discounted cash flows	PD and LGD as items reflecting credit risk in the discount rate of future cash flows.	3.43% for EUR 3.50% for RON 4.10% for USD	The individual growth of any unobservable inputs (PD, LGD, discount rate) would generate a lower market value.
Cards/Overdraft	280,060	Future discounted cash flows	PD and LGD as items reflecting credit risk in the discount rate of future cash flows.	11.46% for RON	The individual growth of any unobservable inputs (PD, LGD, discount rate) would generate a lower market value.
Total	**26,091,686**				

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 and subordinated liabilities 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 securities measured at fair value through other items of comprehensive income 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

Financial assets measured at fair value through other comprehensive income 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.) and shares quoted in active markets (VISA Inc.). As for the shares which are not listed on an active 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 shares for which there is an active market, these are assessed on a monthly basis using the price quoted at NYSE.

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

Group	Market value	Evaluation techniques	Significant unobservable inputs	The sensitivity of the valuation of the market value to unobservable inputs
Shares measured at fair value through other comprehensive income	14,094	The market value is determined according to the stock exchange quotation (for VISA-type A shares) and for unlisted equity instruments, the market value is determined by using the net assets of the entities at the end of the last reporting period.	Financial performance of the issuer	The increase or decrease of the issuer's financial performance has an impact on the increase or decrease of the market value.

(All amounts are in RON thousands unless otherwise stated)

4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

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.

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

Group	Market value	Evaluation techniques	Significant unobservable inputs	The sensitivity of the valuation of the market value to unobservable inputs
Debt securities mandatorily measured at fair value through profit or loss	21,177	The market value is determined according to the stock exchange quotation	Financial performance of the issuer	The increase or decrease of the issuer's financial performance has an impact on the increase or decrease of the market value.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in level 3 of the fair value hierarchy:

	Shares	Debt securities
Balance at 1 January 2021	13,048	19,430
Total gains or losses:		
- in profit or loss	-	1,747
- in other comprehensive income	(2)	-
Purchases	-	-
Issues	-	-
Settlements	-	-
Transfers into level 3	-	-
Transfers out of level 3	-	-
Exchange rate differences	1,048	-
Balance at 31 December 2021	14,094	21,177

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

The fair value of investments in debt instruments is determined using BID quotations (expressed as yield) in Bloomberg, BGN source or BVAL, where BGN is not available.

4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

h) Derivative financial assets and liabilities

As of 31 December 2021, the value of financial derivative instruments (FX swap/forward) is determined using interest rates ROBID/ROBOR/EURIBOR/USD DEPO/GBP DEPO/CHF DEPO displayed by Thomson Reuters or Bloomberg, as well as official exchange rates published by NBR in order to compute forward rates for remaining period of outstanding contracts.

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

On the basis of the analysis of changes in the real estate market as at 31 December 2021 as compared to the analysis carried out as at 31 December 2020, the management of the Bank considered that the value of land and buildings had to be reassessed as at 31 December 2021. To this end, the Bank has signed a service contract with the valuation firm Colliers Valuation and Advisory SRL.

During the year ended 31 December 2021 (and 31 December 2020), there were no changes to the fair valuation at fair value in Level 3 rating techniques.

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 as at 31.12.2021

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	847	73,728	61,378	263,870	208,858	545,160
2	CIN	31	6,349	263	10,742	7,711	134,461
3	MCD	168	52,390	8,721	18,694	14,367	16,637
Total		**1,046**	**132,467**	**70,362**	**293,306**	**230,936**	**696,258**

4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

Real Estate Valuation - input data analysis according to IFRS 13 as at 31.12.2020

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.

The following table shows the valuation techniques used to measure the fair values of the properties as well as the significant unobservable inputs used.

Valuation techniques	**Significant unobservable inputs**	**Fair value impact**
Income Capitalization Method (MCV) Cost approach (CIN) Direct Comparison Method (MCD)	Potential Gross Income Variation (PGI): -10% Capitalization rate variation (CR): 1%	(107,424) (-19.7%)
Income Capitalization Method (MCV) Cost approach (CIN) Direct Comparison Method (MCD)	Potential Gross Income Variation (PGI): -7% Capitalization rate variation (CR): 0.5%	(68,255) (-12.5%)
Income Capitalization Method (MCV) Cost approach (CIN) Direct Comparison Method (MCD)	Potential Gross Income Variation (PGI): -3% Capitalization rate variation (CR): 0.25%	(31,875) (-5.85%)
Income Capitalization Method (MCV) Cost approach (CIN) Direct Comparison Method (MCD)	Potential Gross Income Variation (PGI): 3% Capitalization rate variation (CR): -0.25%	33,537 (6.15%)
Income Capitalization Method (MCV) Cost approach (CIN) Direct Comparison Method (MCD)	Potential Gross Income Variation (PGI): 7% Capitalization rate variation (CR): -0.50%	75,447 (13.84%)
Income Capitalization Method (MCV) Cost approach (CIN) Direct Comparison Method (MCD)	Potential Gross Income Variation (PGI): 10% Capitalization rate variation (CR): -1%	131,309 (24.1%)

(All amounts are in RON thousands unless otherwise stated)

5 NET INTEREST INCOME

	2021	2020
Interest income calculated using the effective interest method arising from:		
Current accounts, deposits loans and advances to banks	11,895	18,852
Treasury bills, bonds and other Investment securities	409,579	374,361
Loans and advances to customers, out of which:	1,132,474	1,101,439
Interest income on impaired loans	52,177	43,706
Modification loss not determined by credit risk	(5,200)	(38,618)
Total interest income	1,553,948	1,494,652
Interest expense related to financial liabilities measured at amortized cost arising from:		
Savings instruments from customers	41	53
Current accounts and term deposits from customers	464,353	400,384
Loans and deposits from banks	12,178	27,765
Interest expense on lease liabilities	425	496
Other borrowed funds	660	668
Subordinated loan	956	-
Total interest expense	478,613	429,366
Net interest income	1,075,335	1,065,286

6 NET COMMISSION INCOME

	2021	2020
Commission income		
Commissions from operations with cards	90,763	81,019
Commissions from cash transactions	64,664	59,198
Commissions from current accounts opening	130,544	119,217
Other commissions	44,426	32,536
Total commissions from contracts with customers	330,397	291,970
Commissions from financial guarantees and loan commitments given	12,725	8,110
Total commissions income	343,122	300,080
Commission expense		
Commissions for inter-bank transactions	29,143	25,452
Commissions for financial risk insurance	1,425	469
Commissions for financial services	15,050	7,142
Total commission expense	45,618	33,063
Net commission income	297,504	267,017

(All amounts are in RON thousands unless otherwise stated)

6 NET COMMISSION INCOME (CONTINUED)

Commission income from contracts with customers are measured on the basis of consideration specified in a contract with a customer.
The Bank recognizes revenue when transferring control of a service to a customer.

The following table provides information on the nature and timing of performance obligations in customer contracts, including significant payment terms, as well as related revenue recognition policies.

Types of services	Nature and timing of performance obligations, including significant payment deadlines	Income recognition policies in accordance with IFRS 15
Retail and corporate banking	The Bank provides banking services to retail and corporate customers, including current account management, interbank transactions, cash transactions, card transactions, cash collection services, tax collection services due to authorities, SGB issue/change, online transaction services, insurance intermediation, other financial services. Commissions for current account management, interbank transactions, cash transactions, card transactions, SGB issue/change, are charged to the customer's account when the transaction takes place. Account management fees, cash collection services, tax collection services, insurance intermediation are levied on a monthly basis.	Income from banking services is recognized over time as services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place.
Asset management service	The Bank provides security custody services for which it charges a custody commission. The custody commission is calculated monthly and retained from the current account of the client.	Revenue from banking services is recognized over time as services are provided.

7 OTHER OPERATING INCOME

	2021	2020
Income from other operations	8,614	10,464
Income from dividends	919	10,263
Rental income	5,019	5,051
Total	14,552	25,778

(All amounts are in RON thousands unless otherwise stated)

8 STAFF COSTS

	2021	2020
Wages and salaries	411,829	425,457
Other social security contributions	9,268	9,569
Other staff costs	31,455	31,066
Provisions for other employee benefits	(127)	(10,291)
Provision for employee benefits upon the termination of the employment contract (i)	(6,460)	13,960
Total	445,965	469,761

(i) As at 31.12.2021 the Bank set up provisions for funds to support the early retirement programme applicable in 2022 in the amount of RON 7,500 thousand.

9 OTHER OPERATING EXPENSES

	2021	2020
Visa and Mastercard expenses	27,779	21,022
Third parties expenses (i)	24,383	44,313
Advertising and publicity	13,734	10,128
Materials and inventories	12,767	14,154
Other taxes	50,174	42,207
Provisions for litigations and for internal or external fraud (Note 29)	(995)	(784)
Other operating expenses	4,905	4,513
Rent expenses	2,574	2,770
Travel and transportation expenses	13,627	13,283
Expenses with deposits' guarantee fund	22,122	23,468
Repairs and maintenance of property and equipment	111,889	65,633
Expenses with post and telecommunications	22,410	16,613
(Gain)/ Loss on sale of fixed assets and investment property	(4,122)	(3,980)
Net charge for impairment of other financial and non-financial assets (Note 24 and Note 23)	586	(335)
Net charge for impairment of investment property	7,857	-
Total	309,690	253,005

(i) At 31 December 2021, 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 335 thousand (31.12.2020: RON 491 thousand) as well as the total fees charged by the statutory auditor for services other than audit, permitted by applicable legislation, in the amount of RON 502 thousand perceived in the year 2021 (2020: RON 426 thousand).
At 31 December 2020, the amount also includes the costs of administrative services related to buildings in amount of RON 19,906 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.

(All amounts are in RON thousands unless otherwise stated)

10 NET IMPAIRMENT LOSS ON LOANS AND ADVANCES TO CUSTOMERS, PROVISIONS FOR LOAN COMMITMENTS AND FINANCIAL GUARANTEES GIVEN

	2021	2020
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	366,366	370,279
Net charge with adjustments for expected loss on current account and deposits with NBR	306	81
Net charge with adjustments for expected losses on correspondent accounts, deposits and loans with credit institutions	4,439	(171)
Losses from non-recoverable receivables not covered by adjustments for expected loss of credit	2,181	1,865
Provision for loan commitments and financial guarantees given	(11,993)	10,356
Recoveries from loans sold	(44,950)	(3,012)
Recoveries from loans previously written off	(103,454)	(116,299)
Total net charge with adjustments for expected credit losses	212,895	263,099

11 INCOME TAX EXPENSE

	2021	2020
Current tax expense at 16 % (2020: 16%) of taxable profits determined in accordance with Romanian law	64,094	55,605
Expense / (Income) from deferred tax (see Note 30)	2,174	(3,781)
Income tax expense/ (credit)	66,268	51,824

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

	2021	2020
Profit before tax	432,856	389,524
Theoretical tax charge at statutory rate of 16% (2020: 16%)	69,257	62,324
The tax effect of non-deductible expenses of 7.67% (2020: 8.86%)	33,198	34,522
Tax effect of non-taxable income of 4.98% (2020: 4.65%)	21,542	18,126
Tax deductions of 2.98% (2020: 2.91%)	12,901	11,353
Sponsorship and reinvested profit tax credit of 2.09% (2020: 2.45%)	9,064	9,562
Items similar to expense and income of 1.19% (2020: 0.56%)	(5,146)	2,200
Income tax expense / (credit) for the year	64,094	55,605
Effective tax rate	14.81%	14.28%

(All amounts are in RON thousands unless otherwise stated)

11 INCOME TAX EXPENSE (CONTINUED)

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 2021	31 December 2020
Cash on hand	574,904	572,904
Cash in ATM's	270,102	254,172
Mandatory minimum reserve (i)	5,171,733	3,928,391
Other current accounts held with the National Bank of Romania (other than mandatory minimum reserve)	1,092,636	2,463
Expected credit losses	(834)	(526)
Cash and cash equivalents at Central Bank	7,108,541	4,757,404

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

At 31 December 2021 the mandatory minimum reserve was set at 8% (31 December 2020: 8%) for funds attracted from customers in RON and 5% (31 December 2020: 5%) for foreign currency denominated funds attracted. The interest rate granted by the National Bank of Romania for the current accounts in RON during 2021 ranged between 0.08% and 0.13% p.a. (2020 between 0.10% and 0.20% p.a.). For the current account in EUR, the National Bank of Romania granted during 2021 an interest of 0% p.a. (2020: 0.01% p.a.). For the current account in USD, the National Bank of Romania granted during 2021 an interest of 0.01% p.a. (2020 between 0.01% and 0.10% p.a.).

As at 31 December 2021 the amounts presented in the statement of financial position regarding cash and cash equivalents at Central Bank are current and not impaired.

(All amounts are in RON thousands unless otherwise stated)

13 DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2021		31 December 2020	
	Asset	Liability	Asset	Liability
Financial derivatives	431	831	16	6

The table below 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.
The contracts are short-term as follows:

	Notional		Notional	
	31 December 2021		31 December 2020	
	Contracts with a positive result	Contracts with a negative result	Contracts with a positive result	Contracts with a negative result
FX swap contracts at fair values 31 December				
Receivable amounts-RON	49,992	-	-	-
Payable amounts-RON	-	-	-	-
Receivable amounts-EUR	-	16,838	-	-
Payable amounts-EUR	(49,562)	-	-	-
Receivable amounts- other currencies	-	-	-	-
Payable amounts-other currencies	-	(17,659)	-	-
Derivatives held for risk management	430	(821)	-	-

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 assets and liabilities can fluctuate significantly from time to time. Certain monetary items denominated in a foreign currency are economically safeguarded using FX swap contracts as set out in the table above. The Bank does not use hedge accounting for its currency derivative contracts.
Fair value of derivatives 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 2021	31 December 2020
Current accounts held with other banks	76,131	61,252
Term deposits with other banks	992,716	161,293
Sight deposits with other banks	279,325	158,694
Collateral deposits with other banks	4,592	3,226
Loans and advances to credit institutions	376,663	-
Expected credit losses	(5,115)	(666)
Total	1,724,312	383,799

As at 31 December 2021 the Bank has a collateral deposit concluded for VISA through the financial institution JP Morgan Collateral Custodian Services of RON 2,738 thousand (2020: RON 2,712 thousand) and a collateral deposit for MasterCard through HSBC Bank London of RON 567 thousand (2020: RON 514 thousand) and a collateral deposit for Swap through Commerzbank of RON 1,284 thousand (2020: RON 0). 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 2021, 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 2021	31 December 2020
Government bonds	12,763,962	11,062,866
Equity investments (Note 15 b)	14,094	13,048
Total	12,778,056	11,075,914

(All amounts are in RON thousands unless otherwise stated)

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

As at 31 December 2021, the Bank entered into repo-type transactions with other banks with financial assets measured at fair value through other comprehensive income of RON 521,624 thousand as underlying. The securities pledged under repo agreements may be sold or repledged by the counterparty. As at 31 December 2020, the Bank did not register repo-type transactions.

Ratings for investment securities classified as financial assets measured at fair value through other comprehensive income portfolio are detailed in Note 3, page 79.

The evolution of securities in the category "Financial assets measured at fair value through other comprehensive income" is shown in the following table:

	2021	2020
Opening balance at 1 January	11,062,866	5,594,768
Acquisitions	7,714,196	13,158,286
Sales and Redemptions	(5,460,922)	(7,943,760)
Accrued interest income	335,863	275,608
Interest income receivable	(398,202)	(247,362)
Foreign exchange differences	73,975	3,697
Gain/(loss) from changes in fair value, out of which:	(563,814)	221,629
Gain/(loss) from changes in fair value from sales	(52,256)	(63,498)
Gain/(loss) from changes in fair value from mark-to-market	(511,558)	285,127
Balance at 31 December	12,763,962	11,062,866

b) The Bank held the following financial assets measured at fair value through other comprehensive income at 31 December 2021:

Name	Nature of business	Country	Percentage held	Carrying Amount
Biroul de credit SA	Credit risk monitoring	Romania	4.74	830
FRGC SA	Fond for Guaranteeing Loans for Private Investors	Romania	3.10	537
TransFonD SA	Interbank transfers	Romania	2.69	1,460
SWIFT	Transfer of funds	Belgium	<0.01	375
VISA Inc.	Processing card transactions	United States of America	<0.01	10,892
Total				14,094

(All amounts are in RON thousands unless otherwise stated)

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

The Bank held the following equity investments 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
TransFonD SA	Interbank transfers	Romania	2.69	1,301
SWIFT	Transfer of funds	Belgium	<0.01	335
VISA Inc.	Processing card transactions	United States of America	<0.01	9,975
Total				13,048

As at 31 December 2021 and 31 December 2020, the equity investments held by CEC Bank were not pledged.

16 FINANCIAL ASSESTS AT AMORTIZED COST – DEBT INSTRUMENTS

	31 December 2021	31 December 2020
Government bonds	2,258,584	2,267,881
Bonds issued by credit institutions	24,846	-
Bonds issued by non-financial corporations	50,017	-
Expected credit losses	(642)	(303)
Total	2,332,805	2,267,578

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 2021, investments in debt instruments at amortized cost include bonds which are pledged securities of RON 60,000 thousand (31 December 2020: RON 37,000 thousand) for operations with Visa, MasterCard and Sent (electronic settlement system for small local currency payments). The counterparty cannot subsequently sell or pledge these assets.

(All amounts are in RON thousands unless otherwise stated)

16 FINANCIAL ASSESTS AT AMORTIZED COST – DEBT INSTRUMENTS (CONTINUED)

Additionally, at 31 December 2021, investments in debt instruments at amortized cost also include pledged securities for the borrowing with the EIB with a fair value of RON 189,940 thousand (31 December 2020: RON 298,842 thousand). The counterparty cannot sell or pledge these investments.

In addition, as at 31 December 2021, the Bank entered into repo-type transactions with other banks, supported by investments in debt instruments at amortized cost whose fair value is RON 325,552 thousand (2020: RON 0) The counterparty cannot further sell or pledge these investments.

During 2021, 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 79.

The movement of securities in the category financial assets measured at amortized cost — debt instruments is shown in the table below:

	2021	2020
Opening balance at 1 January	2,267,578	2,097,416
Acquisitions	762,124	1,073,398
Maturities	(698,700)	(931,144)
Accrued interest income	73,716	98,753
Interest income receivable	(85,554)	(89,642)
Foreign exchange differences	13,980	18,825
Expected credit losses	(339)	(28)
Balance at 31 December	2,332,805	2,267,578

(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 as at 31 December 2021 and 31 December 2020 is:

	31 December 2021	31 December 2020
Individuals – personal needs loans fully collateralised with real estate collaterals	256,127	346,317
Individuals – personal needs loans without real estate collaterals or not fully covered	1,443,287	1,316,081
Individuals – Mortgage loans	6,720,491	5,535,195
Cards/Overdraft	292,026	266,712
Total loans for individuals	8,711,931	7,464,305
Legal entities Agriculture	2,032,942	1,811,535
Public local administrations	3,361,594	3,960,795
Legal entities Industry	3,919,829	2,988,378
Legal entities Commerce	2,279,952	1,792,517
Legal entities Construction	1,445,416	720,853
Legal entities Services	5,105,559	4,255,802
Bridge loans for subsides	162,305	157,477
Total corporate loans and advances	18,307,597	15,687,357
Total loans advances to customers (gross)	27,019,528	23,151,662
Adjustments for expected credit loss	(1,368,498)	(1,227,590)
Total loans and advances to customers (net)	25,651,030	21,924,072

(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 2021 as follows:

	Stage 1	Stage 2	Stage 3	Total
Opening balance at 1 January	272,957	166,432	788,201	1,227,590
Transfer to Stage 1	(37,822)	35,050	2,772	-
Transfer to Stage 2	86,213	(162,635)	76,422	-
Transfer to Stage 3	16,038	96,075	(112,113)	-
Increase due to new loans granted in the year	32,031	10,727	16,591	59,349
Decreases due to closed loans in year	(18,005)	(6,395)	(52,287)	(76,687)
Net remeasurement during the year	(164,168)	25,244	522,628	383,704
Write-off	-	-	(229,762)	(229,762)
Interest adjustments	-	-	7,004	7,004
Other adjustments	(1,147)	(576)	(977)	(2,700)
Closing balance at 31 December	186,097	163,922	1,018,479	1,368,498

During 2021 the Bank has written off loans granted to customers in gross value of RON 229,762 million by directly reducing the irrecoverable loans fully covered by the allowances for expected losses.

In 2021, the Bank has concluded loan sale agreements with third party entities. Assignments were made by selling portfolios, but also by selling individual receivables. Through these contracts, there were sold receivables from non-performing loans, individuals and legal entities, guaranteed and unsecured in gross carrying amount of RON 65,023 thousand on-balance sheet receivable (net carrying amount of RON 27,142 thousand on-balance sheet receivable) and in the amount of RON 46,415 thousand off-balance sheet receivable.
The amount of the receivables that was collected was RON 44,110 thousand (of which RON 8,302 thousand from the portfolio assignments). 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 at 31 December 2021, 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 as at 31 December 2020 as follows:

	Stage 1	Stage 2	Stage 3	Total
Opening 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	10,967	42,780
Decreases due to closed loans in year	(9,587)	(9,373)	(18,171)	(37,131)
Net remeasurement during the year	95,248	118,152	151,230	364,630
Write-off	-	-	(6,359)	(6,359)
Interest adjustments	-	-	9,248	9,248
Other adjustments	(532)	(180)	(651)	(1,363)
Closing balance at 31 December	272,957	166,432	788,201	1,227,590

In 2020, the Bank has written off loans granted to customers in the gross amount of RON 6,359 thousand by directly reducing the non-recoverable loans fully covered with adjustments for expected losses.

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 carrying amount of RON 3,352 thousand on-balance sheet receivable (net carrying amount of RON 938 thousand on-balance sheet receivable) and in the amount of RON 1,192 thousand off-balance sheet receivable.

The amount of the receivables that was collected was 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 58.

(All amounts are in RON thousands unless otherwise stated)

17 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The table below shows how the change in the carrying amount of financial instruments contributed to changes in the level of expected loss adjustments.

	31 December 2021	31 December 2020
Derecognition of loans and advances at amortized cost classified in Stage 3, no prospects for recovery,	(229,762)	(6,359)
Total	**(229,762)**	**(6,359)**

The Bank did not purchase receivables portfolios or other assets during the period 2020-2021.

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 2021	31 December 2020
Debt instruments	21,177	19,430
Total	21,177	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.

(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 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	9	-	-	-	9
Transfers	2,356	15	(2,371)	-	-
Disposals	(1,635)	(12,049)	-	(778)	(14,462)
Reclassifications from property, and equipment to investment property	(28,659)	-	(79)	-	(28,738)
Net amount differences of reclassifications from property and equipment to investment property (adjustments and accumulated depreciation)	(893)	-	-	-	(893)
Gross cost at 31 December 2020	541,884	296,331	9,192	46,729	894,136
Gross cost at 1 January 2021	541,884	296,331	9,192	46,729	894,136
Additions (*)	954	43,700	8,033	1,890	54,577
Advances for tangible asset	1,682	372	-	262	2,316
Transfers	6,006	100	(6,091)	(15)	-
Disposals	(1,378)	(28,233)	(278)	(1,576)	(31,465)
Reclassifications from property and equipment to investment property	(113)	-	(120)	-	(233)
Revaluation expenses	(709)	-	-	-	(709)
Revaluation income	4,492	-	-	-	4,492
Reversal of accumulated depreciation	(49,916)	-	-	-	(49,916)
Reevaluation impact (Note 35)	130,796	-	-	-	130,796
Gross cost at 31 December 2021	633,698	312,270	10,736	47,290	1,003,994

(All amounts are in RON thousands unless otherwise stated)

19 PROPERTY AND EQUIPMENT (CONTINUED)

	Land and buildings	Technical installations and machinery	Assets in course of construction	Other installations, equipment and furniture	Total
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 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
Accumulated depreciation at 1 January 2021	64,630	219,687	-	38,718	323,035
Depreciation charge for the year	18,384	21,929	-	1,516	41,829
Disposals	(406)	(28,069)	-	(1,526)	(30,001)
Accumulated depreciation from property, and equipment to investment property	(20)	-	-	-	(20)
Reversal of accumulated depreciation	(49,916)	-	-	-	(49,916)
Accumulated depreciation at 31 December 2021	32,672	213,547	-	38,708	284,927
Net book value at 31 December 2020	477,255	76,644	9,191	8,011	571,101
Net book value at 31 December 2021	601,026	98,723	10,736	8,582	719,067

(*)During 2021 the Bank purchased computers, laptops, IT equipment, ATMs, multifunctional cars, transport equipment, safes, phones, furniture. air conditioners, heaters and surveillance and anti-intrusion systems in amount of RON 45,590 thousand. Moreover, renovations were carried for the Bank's premises which were valued at RON 8,033 thousand.

As at 31 December 2021, the Bank revalued the land and buildings portfolio on the basis of a contract of supply and services with an independent external evaluator, Colliers Valuation and Advisory SRL, authorized by the National Union of Authorized Evaluators in Romania.

Also, because the market value of real estate assets did not fluctuate 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.

(All amounts are in RON thousands unless otherwise stated)

19 PROPERTY AND EQUIPMENT (CONTINUED)

Following the Bank's land and buildings portfolio evaluation, resulted a net impairment income from revaluation at the reporting date of RON 3,783 thousand, recorded at Depreciation and amortisation expenses in the statement of profit or loss and other comprehensive income.

During 2021, the Bank has sold one building and recorded net income of RON 256 thousands.

As at 31 December 2021, CEC Bank owns 632 land properties and 891 buildings (as at 31 December 2020, CEC Bank owned 640 land and 903 buildings).

20 INTANGIBLE ASSETS

	2021	2020
Gross cost as at 1 January	198,226	184,680
Advances for intangible assets	5,447	1,579
Purchases	53,203	16,240
Transfers	-	831
Disposals	(72)	(5,104)
Gross cost as at 31 December	256,804	198,226
Accumulated depreciation as at 1 January	168,678	164,355
Depreciation charge	12,105	8,596
Transfers	-	831
Disposals	(72)	(5,104)
Adjustments for previous year	-	-
Accumulated depreciation as at 31 December	180,711	168,678
Net book value	76,093	29,548

(All amounts are in RON thousands unless otherwise stated)

21 INVESTMENT PROPERTY

	2021	2020
Gross cost as at 1 January	114,309	88,129
Purchases	26	-
Reclassifications from property and equipment	233	28,738
Disposals	(2,508)	(2,558)
Gross cost as at 31 December	112,060	114,309
Accumulated depreciation and impairment as at 1 January	24,856	21,997
Depreciation charge for the year	3,658	2,816
Impairment adjustments usage	7,764	(386)
Accumulated depreciation for reclassifications from property and equipment	20	1,800
Disposals	(1,061)	(1,371)
Accumulated depreciation and impairment as at 31 December	35,237	24,856
Net book value	76,823	89,453

As at 31 December 2021, the Bank revalued the land and buildings portfolio on the basis of a contract of supply and services with an independent external evaluator, Colliers Valuation and Advisory SRL, authorized by the National Union of Authorized Evaluators in Romania.
The fair value of investment property as at 31 December 2021 is RON 99,073 thousand.

Following the Bank's investment property portfolio revaluation, resulted a depreciation adjustment of RON 7,857 thousand, classified at "Other operating expenses" in the statement of profit or loss and other comprehensive income.

During 2021, the rent income from investment property has been in the amount of RON 3,942 thousand (2020: RON 3,983 thousand). Direct operating expenses (building tax, repairs, maintenance) arising from investment property that did not generate rental income during 2021 was in the amount of RON 1,817 thousand (2020: RON 1,293 thousand). Direct operating expenses of investment properties that generated rental income during 2021 was in the amount of RON 462 thousand (2020: RON 520 thousand).

During 2021, the Bank disposed of one building and had 26 investment property sales (13 buildings and 13 land) as a result of which recorded RON 4,062 thousand net income (2020: RON 3,412 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 2021	31 December 2020
Not later than 1 year	3,753	3,730
Later than 1 year and not later than 5 year	4,788	5,053
Later than 5 years	38	104
Total	8,579	8,887

(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 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
Gross cost as at 1 January 2021	107,585	-	1,533	7,645	116,763
Changes in leasing contracts	16,131	-	885	59	17,075
Additions	6,401	-	718	-	7,119
Disposals	(11,811)	-	-	(289)	(12,100)
Gross cost as at 31 December 2021	118,306	-	3,136	7,415	128,857

	Commercial buildings	Residential buildings	Equipments	Land	Total
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
Accumulated depreciation as at 1 January 2021	29,586	-	1,148	1,093	31,827
Depreciation charge for the year	21,598	-	819	533	22,950
Disposals	(4,564)	-	-	(289)	(4,853)
Accumulated depreciation as at 31 December 2021	46,620	-	1,967	1,337	49,924
Net book value at 31 December 2020	77,999	-	385	6,552	84,936
Net book value at 31 December 2021	71,686	-	1,169	6,078	78,933

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

	31 December 2021	31 December 2020
Interest expense on lease liabilities	425	496
Depreciation charge for leases	22,951	22,194
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	2,458	2,724

(All amounts are in RON thousands unless otherwise stated)

23 OTHER FINANCIAL ASSETS

	31 December 2021	31 December 2020
Amounts in course of settlement with banks (i)	24,218	20,512
Amounts to be recovered from banks and clients	19	19
Other debtors	1,662	2,358
Allowances for impairment — other debtors	(663)	(656)
Total	25,236	22,233

(i) Within 'Amounts in course of settlement with banks' account there are included commissions and penalties due from corporate clients and individuals of RON 1,063 thousand (2020: RON 869 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 2021 and 2020. For the amounts detailed as at 31 December 2021, the Bank intends to recover them during 2022.

The expected loss adjustments for other financial assets can be reconciled as follows:

	31 December 2021	31 December 2020
Balance at beginning of the year	656	749
Derecognition of other financial assets	(60)	(23)
Charge/(release) of provision to income statement (Note 9)	67	(70)
Balance at end of the year	663	656

(All amounts are in RON thousands unless otherwise stated)

24 OTHER ASSETS

	31 December 2021	31 December 2020
Prepaid expenses/Prepayments	9,567	8,369
Other guarantees for rent and utilities (i)	754	737
Receivables from the state budget	4,320	10,400
Other assets (ii)	6,082	4,374
Adjustments for expected loss - stocks	(1,166)	(772)
Other debtors	4,072	3,756
Adjustments for expected loss - other debtors	(2,023)	(2,065)
Other assets, net	21,606	24,799

(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 2021, RON 3,760 thousand (31 December 2020: RON 2,919 thousand) represents repossessed collaterals from foreclosed loans to customers (RON 1,502 thousand) and RON 2,258 thousand (31 December 2020: RON 1,417 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:

	31 December 2021	31 December 2020
Balance at beginning of the year	2,837	3,315
Derecognition of other assets	(167)	(213)
Charge/(release) of provision to income statement (Note 9)	519	(265)
Balance at end of year	3,189	2,837

25 DEPOSITS FROM BANKS

	31 December 2021	31 December 2020
Sight deposits	728,066	171,409
Out of which, current accounts to other banks (LORO)	23	19
Term deposits	409,201	900,992
Repo transactions	871,062	-
Total	2,008,329	1,072,401

As at 31 December 2021 and at 31 December 2020 all "Deposits from banks" were on a short term basis - maturity of under a year.

(All amounts are in RON thousands unless otherwise stated)

26 DEPOSITS FROM CUSTOMERS

	31 December 2021	31 December 2020
Current accounts and sight deposits		
Saving passbooks – sight	4,506	4,805
Current accounts – individuals	3,707,590	2,837,264
Current accounts – legal entities and other clients	4,337,468	3,694,578
Cards – individuals, legal entities and other clients	4,031,519	3,332,734
Sight deposits – legal entities	316,192	229,828
Total current accounts and sight deposits	12,397,275	10,099,209
Term deposits and savings		
Term saving passbooks (i)	111,749	134,829
Term deposits – individuals	20,858,762	18,282,503
Term deposits – legal entities and other clients	6,039,219	4,027,166
Collateral deposits (ii)	2,616,110	2,288,079
Other term deposits	1,259	1,315
Total term deposits and savings	29,627,099	24,733,892
Total	42,024,374	34,833,101

(i) Saving passbooks are savings products in materialized form, whereby the Bank certifies the receipt from the customer of amounts of money for a fixed/indefinite period of time, with a certain interest, in which customer cash availability, the operations ordered by them, separately, in a chronological and systematic manner are recorded.

(ii) Collateral deposits are provided for:

	31 December 2021	31 December 2020
Letter of credit	18,794	-
Administration guarantees	104,310	101,579
Consignment	2,148,698	1,920,719
Guarantee loans	295,263	206,445
Guarantees for good performance of commercial contracts	35,172	35,947
Other collateral deposits	13,873	23,389
Total	2,616,110	2,288,079

(All amounts are in RON thousands unless otherwise stated)

27 BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2021	31 December 2020
European Investment Fund for the JEREMIE Initiative (i)	10,495	14,243
European Bank for Investments (EIB) (ii)	340,681	459,114
Romanian-Swiss program (iii)	92,023	92,023
Total	443,199	565,380

(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. The amendment also provides for the extension of the repayment period of principal to the external financier until 31.12.2026

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

Until 31 December 2021 the Bank used fifteen instalments of RON 74,967,768 and reimbursed an instalment of RON 64,472,787.

27 BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS (CONTINUED)

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 2021 was 3.37%. 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 2021 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 3 April and 3 October 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 2021 EUR 100 million was drawn:

- EUR 15 million with fixed interest rate of 0.456% p.a., payment deadlines are 6 January and 6 July 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 18 June and 18 December of each year until final maturity on 19 December 2022.
- EUR 15 million with fixed interest rate of 0.282% p.a., payment deadlines are 29 June and 29 December 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 30 March and 30 September of each year until final maturity on 30 September 2023.

27 BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS (CONTINUED)

- 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 the additional act no. 4 was signed, 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 2021 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 189,939,864 (31 December 2020: 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.

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).

(All amounts are in RON thousands unless otherwise stated)

27 BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS (CONTINUED)

The loan has zero interest, program completed on 30.06.2019. Up to 31 December 2021 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.

As at 31 December 2021, the conditions set out in the financing agreements with the European Investment Fund ("EIF") and the European Investment Bank ("EIB") are complied with.

The reconciliation of the movements of loans from banks and other financial institutions with the cash flows generated by the financing activity are shown in the table below:

	2021	**2020**
Opening balance at 1 January	565,380	429,335
Repayments of loans from banks and other financial institutions	(122,151)	(107,430)
Bank and other financial institution loan drawdowns	-	243,470
Total changes in cash flows financing	(122,151)	136,040
Interest expenses on loans from banks and other financial institutions	660	668
Interest payments on loans from banks and other financial institutions	(690)	(663)
Other changes	(30)	5
Balance at 31 December	443,199	565,380

28 SUBORDINATED LIABILITIES

As at 31 December 2021, the Bank complies with the financial indicators required by the subordinated loan contracts with the financiers.

	31 December 2021	**31 December 2020**
Shareholder loan	1,400,956	-
Total	1,400,956	-

Subordinated liabilities include the subordinated loan granted by the Romanian State, through the Ministry of Finance, as sole shareholder, in the amount of RON 1,400,000 thousand contracted on 23.12.2021, with an interest rate ROBOR 3 months plus 3.30% p.a. and due in 2031.

The loan is issued directly by the Ministry of Finance, has a maturity of 10 years from the date of the drawing of 28.12.2021 and is to be paid in full on 27.12.2031.

The loan is not guaranteed and does not contain early repayment options, except in the event of insolvency or liquidation.

(All amounts are in RON thousands unless otherwise stated)

29 PROVISIONS

	31 December 2021	31 December 2020
Provisions for litigations	805	1,814
Provisions for internal and external frauds	2,171	2,157
Provisions for loan commitments and financial guarantees given	12,937	24,856
Total	15,913	28,827

The movement in provisions for litigations are listed below:

	31 December 2021	31 December 2020
Balance at 1 January	1,814	2,275
Additional provisions, including increases to existing provisions	176	106
Unused amounts reversed during periods	(1,185)	(567)
Balance at 31 December	805	1,814

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

	31 December 2021	31 December 2020
Balance at 1 January	2,157	2,480
Additional provisions, including increases to existing provisions	81	14
Unused amounts reversed during periods	(67)	(337)
Balance at 31 December	2,171	2,157

(All amounts are in RON thousands unless otherwise stated)

29 PROVISIONS (CONTINUED)

The movement in provisions for loan commitments and financial guarantees given as at 31 December 2021 is shown below:

	Stage 1	Stage 2	Stage 3	Total
Opening balance at 1 January	23,011	1,512	333	24,856
Transfer to Stage 1	2,064	(1,897)	(167)	-
Transfer to Stage 2	(2,020)	2,124	(104)	-
Transfer to Stage 3	(152)	(113)	265	-
Increase due to new loans commitments /guarantees granted in the year	10,977	1,129	176	12,282
Decreases due to closed loans commitments /guarantees in year	(1,054)	(165)	(10)	(1,229)
Net remeasurement during the year	(20,760)	(1,968)	(318)	(23,046)
Write-off	-	-	-	-
Interest adjustments	-	-	-	-
Other adjustments	70	3	1	74
Closing balance at 31 December	12,136	625	176	12,937

The movement in provisions for loan commitments and financial guarantees given as at 31 December 2020 is shown below:

	Stage 1	Stage 2	Stage 3	Total
Opening balance at 1 January	13,643	697	98	14,438
Transfer to Stage 1	2,365	(2,331)	(34)	-
Transfer to Stage 2	(1,534)	1,804	(270)	-
Transfer to Stage 3	(10)	(143)	153	-
Increase due to new loans commitments /guarantees granted in the year	674	8,843	-	9,517
Decreases due to closed loans commitments /guarantees in year	(217)	(1,647)	-	(1,864)
Net remeasurement during the year	8,033	(5,715)	385	2,703
Write-off	-	-	-	-
Interest adjustments	-	-	-	-
Other adjustments	57	4	1	62
Closing balance at 31 December	23,011	1,512	333	24,856

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, a cash outflow (provisions balance as at 31 December 2021) of RON 805 thousand (31.12.2020: RON 1,814 thousand) is estimated. 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 38 *Contingent liabilities and commitments.*

(All amounts are in RON thousands unless otherwise stated)

30 DEFERRED TAX LIABILITIES

Deferred tax assets and deferred tax liabilities at 31 December 2021 are attributable to the temporary differences detailed in the table below:

	31 December 2021		
	Assets	**Liabilities**	**Net**
Fair value of financial assets measured at fair value through other comprehensive income - debt instruments	306,407	-	306,407
Fair value of financial assets measured at fair value through other comprehensive income - investments in equity instruments	-	(3,268)	(3,268)
Revaluation reserve for land and buildings	-	(395,851)	(395,851)
Other tangible and intangible assets (i)	-	(7,551)	(7,551)
Right-of-use assets	2,647	-	2,647
Provisions and other liabilities	61,884	-	61,884
Total	370,938	(406,670)	(35,732)
Deferred tax liability at 16 %	59,350	(65,067)	(5,717)

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
Provisions and other liabilities	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)

30 DEFERRED TAX LIABILITIES (CONTINUED)

(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 2021 are as follows:

	1 January 2021	Recognised in profit or loss account	Recognised in other comprehensive income	31 December 2021
Financial assets measured at fair value through other comprehensive income – debt instruments	(41,185)	-	90,210	49,025
Financial assets measured at fair value through other comprehensive income - investments in equity instruments	(356)	-	(167)	(523)
Revaluation reserve for land and buildings	(44,400)	774	(19,710)	(63,336)
Tangible and intangible assets - changes in accounting useful life	(1,045)	(164)	-	(1,209)
Right-of-use assets	307	116	-	423
Provisions and other liabilities	12,803	(2,900)	-	9,903
Total	(73,876)	2,174	70,333	(5,717)

(All amounts are in RON thousands unless otherwise stated)

30 DEFERRED TAX LIABILITIES (CONTINUED)

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
Provisions and other liabilities	10,560	2,243	-	12,803
Total	(45,332)	3,781	(32,325)	(73,876)

31 LEASE LIABILITIES

	31 December 2021	31 December 2020
Lease liabilities	81,627	86,827
Debts attached	35	47
Total	81,662	86,874

The analysis of maturity of lease liabilities

	31 December 2021	31 December 2020
Less than one month	2,069	1,931
Between two and three months	3,986	3,835
Between four and six months	5,767	5,538
Between seven and nine months	5,295	5,273
Between ten and twelve months	4,961	4,915
Between thirteen and sixty months	48,952	53,465
Over sixty months	10,632	11,917
Total	81,662	86,874

(All amounts are in RON thousands unless otherwise stated)

32 OTHER LIABILITIES

	31 December 2021	31 December 2020
Social Contributions due to State Budget	16,699	16,401
Taxes payable to State Budget	8,169	6,219
Employee profit participation	26,999	27,458
Other liabilities	703	918
Provision for employee benefits upon the termination of the employment contract (Note 8)	7,500	13,960
Provision for employee benefits in the form of compensatory absences	2,205	1,872
Total liabilities	62,275	66,828

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

33 OTHER FINANCIAL LIABILITIES

	31 December 2021	31 December 2020
Deferred income from financial guarantees issued	1,191	709
Sundry creditors	45,717	22,612
Dividens payable (i)	634,257	-
Other financial liabilities	27,528	13,076
Total	708,693	36,397
Current	708,693	36,397

(i) In 2021 the General Assembly of Shareholders approved the distribution of dividends to the Romanian State as the sole shareholder of the Bank.

34 SHARE CAPITAL

The share capital of the Bank was RON 2,499,746 thousand as at 31 December 2021 (31 December 2020: 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 2021	31 December 2020
Share capital as per Trade Registry	2,290,661	2,290,661
IAS 29 inflation adjustment	209,085	209,085
Total share capital	2,499,746	2,499,746

(All amounts are in RON thousands unless otherwise stated)

35 REVALUATION RESERVES

The last revaluation of land and buildings was carried out by the Bank on 31 December 2021 on the basis of a contract concluded with Colliers Valuation and Advisory SRL.

The revaluation reserve increased as at 31 December 2021 as per the land and buildings revaluation performed.

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

	Revaluation reserve gross	Deferred tax	Total net
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
Balance as at 1 January 2021	518,582	(60,028)	458,554
The revaluation reserve representing the surplus realized	(3,195)	306	(2,889)
Net result from revaluation (Note 19)	130,796	(19,711)	111,085
Balance as at 31 December 2021	646,183	(79,433)	566,750

36 OTHER RESERVES

	31 December 2021	31 December 2020
Statutory legal reserve (i)	201,403	179,760
General banking risk reserve (ii)	65,841	65,840
Reserve from goods received free of charge	2,937	2,953
Total	270,181	248,553

(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 2021 the Bank transferred RON 21,643 thousand to statutory legal reserve (2020: RON 20,836 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)

37 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 2021 is detailed below. Transactions were entered into with related parties during the normal 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.

Key management compensation is presented below:

	Expenses 31 December 2021	Accrued liability at 31 December 2021	Expenses 31 December 2020	Accrued liability at 31 December 20120
Short-term benefits:				
- Salaries	39,643	4,789	38,882	91
- Short-term bonuses	2,208	-	2,346	-
- Benefits in-kind	-	-	4	-
Bonuses upon the termination of the employment contract	513	89	559	-
Total	42,364	4,878	41,791	91

Accrued liabilities represent contributions payable until the 25th of the next month.

(All amounts are in RON thousands unless otherwise stated)

37 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 2021, the outstanding balances with related parties were as follows:

Closing balances	Shareholder – Ministry of Finance	Key management personnel	Other related parties
Total Assets	15,022,244	5,519	3,676,784
Out of which:			
Financial assets measured at fair value through other comprehensive income (contractual interest rate: 0.45%-6.75%)	12,763,962	-	-
Investments in debt instruments at amortized cost (contractual interest rate: 0.45%-6.75%)	2,258,282	-	-
Loans and advances – gross exposure (contractual interest rate: 0%-13.16%)	-	5,532	3,737,912
Adjustments for expected credit loss	-	(13)	(61,128)
Total liabilities	-	7,999	3,543,877
Out of which:			
Deposits (contractual interest rate: 0%-13%)	-	7,999	3,543,877
Contractual commitments, financial guarantees and other commitments, out of which:	224,272	569	343,470
Issued	701	491	290,602
Received	223,571	78	52,868

(All amounts are in RON thousands unless otherwise stated)

37 RELATED PARTY TRANSACTIONS (CONTINUED)

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:			
Deposits (contractual interest rate: 0%-13%)	-	6,565	3,411,055
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

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, Treasury (Independent) Department).

The composition of other related parties includes organizations or companies under the control of the Romanian State.

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)

37 RELATED PARTY TRANSACTIONS (CONTINUED)

The income and expense items with related parties for the period January – December 2021 were as follows:

	Shareholder Ministry of Finance	Key management personnel	Other related parties
Interest income	408,936	140	125,111
Interest expense	-	(51)	(7,451)
Net impairment loss on loans and advances to customers	-	6	(27,879)
Commission income	-	-	37

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

In respect of the transactions with NBR, the Bank had at the year end the following balances:

	31 December 2021	31 December 2020
Current accounts held at National Bank of Romania (Note 12)	6,263,534	3,930,328

The income and expense items with NBR for the period were as follows:

	31 December 2021	31 December 2020
Interest expenses arising from REPO transactions with National Bank of Romania	-	1,128
Interest income from current accounts held at National Bank of Romania	2,352	6,714
Interest expense from current accounts — Lombard loan	-	710

(All amounts are in RON thousands unless otherwise stated)

38 CONTINGENT LIABILITIES AND COMMITMENTS

Litigations

As at 31 December 2021 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 2021	31 December 2020
Contingent liabilities related to third party litigations (including customers) and to other operational risk events in compliance with IAS 37	14,545	40,606

During 2021, the Bank decreased by RON 26,061 thousand the balance of contingent liabilities due to some court rulings of favorable to the Bank in disputes with third parties claiming payment of money.

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.

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.

(All amounts are in RON thousands unless otherwise stated)

38 CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

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, if the unused commitments would be withdrawn. 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.

Loan commitments and guarantee letters issued on behalf of clients in balance are the following:

	31 December 2021	31 December 2020
Letters of guarantee issued for customers, out of which:	1,746,190	719,439
Guarantees for auctions	4,225	904
Good performance guarantees	240,418	112,121
Guarantees for advances refunds	771,373	388,559
Guarantees for payment insurance	173,565	99,682
Guarantees for custom duties and other claims	7	-
Other guarantees	556,602	118,173
Undrawn credit commitments	4,899,997	3,462,335
Total	6,646,187	4,181,774
Provision for undrawn loan commitments and financial guarantees issued (Note 29)	12,937	24,856

Part of the issued to customers guarantees are covered by cash collateral deposits in amount of RON 17,761 thousand (2020: RON 12,603 thousand).

39 EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

Conflict between Russia and Ukraine

The Bank has no exposure on counterparties from Russia or Ukraine, has no exposure limits on financial entities in Russia or Ukraine, and does not have outsourced activities or contracts with suppliers from Russia or Ukraine. At the date of preparation of the financial statements, the future impact of the war in Ukraine on the Bank cannot be determined.
On February 21, 2022, the Russian Federation officially recognized the two separatist regions of eastern Ukraine and authorized the use of military force in those territories. On February 24, 2022, Russian troops invaded Ukraine and began military operations in several locations.
The ongoing conflict has resulted in casualties, significant displacement of the population, damage to infrastructure and disruption of economic activity in Ukraine. In response, several jurisdictions announced initial tranches of economic sanctions against Russia (and in some cases also Belarus).

The consequences of this conflict on the global economy and financial markets include: disruption of economic activity in Ukraine, Russia and Belarus, significant price increases for certain raw materials, increased global economic uncertainty and suspension of trading in Russian securities, increased borrowing costs and risk premiums, as well as increased inflation and interest rates.

The events described above have occurred after the reporting period and are subsequent events not adjustable for the financial statements as at 31 December 2021.

On the basis of the analyzes carried out, the management considers that these events do not represent significant uncertainties related to events or conditions that may pose significant doubts on the Bank's ability to continue its activity.

Non-compliance with the minimum requirement for own funds and eligible liabilities ("MREL")

As at 30 June 2022, the Bank has recorded a level of the total own funds ratio of 22.07% (after considering the deferred tax correction explained in Note 2.2.). Given that the Bank does not hold any other eligible MREL liabilities (minimum requirement for own funds and eligible liabilities established by the resolution authority, in accordance with the provisions of Law no. 312/2015 on the recovery and resolution of credit institutions and investment firms, as well as for the modification and completion of some normative acts in the financial field, as subsequently amended and supplemented, Transposing the provisions of Directive 2019/879 of the European Parliament and of the council – BRRD2), the own funds rate was equal to the MREL rate and was below the regulated minimum MREL required ratio (required ratio including the combined buffer).
The main cause of the non-compliance with the MREL requirement was the high volume of unrecorded losses from the marking at the market of government bonds classified under FVTOCI (financial assets measured at fair value through other comprehensive income), amid the steep increase in market yields of these instruments.
In order to comply with the MREL requirement, the Bank has developed and submitted to the Resolution Authority of the National Bank of Romania an Action Plan that provides (as requested by the Resolution Authority) compliance with the MREL requirement no later than 31 March 2023.

(All amounts are in RON thousands unless otherwise stated)

39 EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE (CONTINUED)

The projections made under the plan anticipate compliance with the MREL (including combined buffer requirement) requirement of 23.36% as of 31.12.2022.

The main measures adopted by the Bank refer to MREL eligible bonds issuance planned for quarter IV 2022, non-distribution of dividends to the shareholder, as well as measures to control the level and intensity of the risk weighted assets (RWA), by reducing the volume of new loans or by optimising the new loans granting for RWA's purposes.

The Bank's management assessed the implications of the MREL non-compliance and concluded that there are no significant uncertainties regarding the going concern principle.

In this respect, the Bank's management considered the fact that the Bank's context falls under Art. 91^1 of Law 312/2015 on the recovery and resolution of credit institutions and that the Bank is compliant with the level of the global capital requirement (OCR), respectively with the requirement of the combined buffer when this requirement is taken into consideration both in relation to the Common Equity Tier 1 (CET 1), Tier 1 and total own funds.

The detailed capital ratios calculated by the Bank as of 31 August 2022 are presented as follows:

Indicators / requirements	Minimum level	Level achieved
Combined buffer requirement	5%	N/A
CET 1 requirement	6.99%	15.95%
Tier 1 requirement	9.33%	15.95%
Total SREP Capital Requirement (TSCR)	12.44%	21.89%
MREL requirement (excluding combined buffer requirement)	18.36%	21.89%
MREL requirement in relation to the total exposure	5.37%	8.74%
Overall capital requirements CET 1 (OCR)	11.99%	15.95%
Overall capital requirements Tier 1	14.33%	15.95%
Overall capital requirements (OCR)	17.44%	21.89%
MREL requirement (including combined buffer requirement)	23.36%	21.89%

Also, on 31.08.2022, the LCR indicator (liquidity coverage ratio) (RON equivalent) was 181.72%, above the 100% limit required for this indicator by NBR regulations.

The historical financial information has been approved by the Board of Directors on 20 October 2022 and signed on behalf of the Bank by:

Bogdan Constantin Neacşu
General Manager – President of Executive Committee

Ştefan Silviu Fota
Director, Accounting Division

The accompanying notes from pages 9 to 154 form an integral part of these historical financial information.

KPMG Audit SRL
DN1, Bucharest - Ploieşti Road no. 89A
Sector 1, Bucharest
013685, P.O.Box 18 - 191
Tel: +40 372 377 800
Fax: +40 372 377 700
www.kpmg.ro

Independent Auditors' Report

(free translation[1])

To the sole shareholder of CEC Bank SA

13 Calea Victoriei, 3rd district, Bucharest
Unique Registration Code: 361897

Report on the Audit of the Historical Financial Information

Opinion

1. We have audited the historical financial information of CEC Bank SA ("the Bank"), which comprise the statement of financial position as at 31 December 2021, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

2. The historical financial information as at and for the year ended 31 December 2021 are identified as follows:

- Net assets/Total equity: Lei 3,856,233 thousand
- Net profit for the year: Lei 366,588 thousand

3. In our opinion, the accompanying historical financial information give a true and fair view of the financial position of the Bank as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

4. We conducted our audit in accordance with International Standards on Auditing ("ISAs"), Regulation (EU) no. 537/2014 of the European Parliament and of the Council ("the Regulation") and Law no. 162/2017 ("the Law"). Our responsibilities under those standards and regulations are further described in the Auditors' Responsibilities for the Audit of the Historical Financial Information section of our report. We are independent of the Bank in accordance with International Ethics Standards Board for Accountants International Code of

[1] TRANSLATOR'S EXPLANATORY NOTE: The above translation of the auditors' report is provided as a free translation from Romanian which is the official and binding version and refers to the Romanian version of the Historical financial information, which was subject to our audit.

Fiscal registration code
RO12997279
Trade Registry no. J40/4439/2000
Share Capital 2,000 RON

Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code") together with the ethical requirements that are relevant to our audit of the historical financial information in Romania, including the Regulation and the Law and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

5. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the historical financial information of the current period. These matters were addressed in the context of our audit of the historical financial information as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans and advances to customers

As at 31 December 2021, the historical financial information include gross loans and advances to customers of RON 27,019,528 thousand, related expected credit losses of RON 1,368,498 thousand and, for the year then ended, net impairment loss recognized in the statement of profit or loss of RON 366,366 thousand (31 December 2020: gross loans and advances to customers: RON 23,151,662 thousand, expected credit losses: RON 1,227,590 thousand, and, for the year then ended, net impairment loss recognized in the statement of profit or loss: RON 370,279 thousand).

See Notes 2.8 (viii) Significant accounting policies – Identification of significant increase in credit risk and expected credit loss, 3 - Financial risk management, 10 - Net impairment losses for expected credit losses related to loans and advances to customers and 17 – Loans and advances to customers, to the historical financial information.

The key audit matter	How the matter was addressed in our audit
➢ Impairment allowances represent management's best estimate of the expected credit losses ("ECLs") within loans and advances to customers (collectively, "loans", "exposures") at amortized cost at the reporting date. We focused on this area as the measurement of impairment allowances requires management to make complex and subjective judgements. ➢ Impairment allowances for collectively assessed exposures are determined by modelling techniques relying on key parameters such as the probability of default (PD), exposure at default (EAD) and loss given default (LGD), taking into account historical experience, identification of exposures with a significant increase in credit risk (SICR), forward-looking information and management judgment (together "collective impairment allowance").Impairment allowances for individually assessed exposures are determined on an individual basis by means of a discounted cash flows analysis. The process relies on a number of complex assumptions, in particular those in respect of the recovery scenarios and	Our audit procedures, performed, where relevant, with the assistance from our own financial risk management, information technology (IT) and valuation specialists, included, among others: ➢ Inspecting the Bank's ECL impairment provisioning methods and models, and assessing their compliance with the requirements of the relevant financial reporting standards. This included challenging management on whether the level of the methodology's sophistication is appropriate based on an assessment of the entity-level and portfolio-level factors; ➢ Testing the design, implementation and operating effectiveness of selected controls in the impairment process. This included testing the controls over: • completeness and accuracy of relevant data inputs in the Bank's systems (mainly for loan exposure, collateral values and interest rates data); • approval of loans; • system computation of debt service and forbearance monitoring; • IT environment for data security and access;

the expected proceeds from the sale of the related collateral and estimated period for collateral disposal. ➢ In the wake of the prolonged adverse effects of the COVID-19 pandemic and the current economic turbulence caused by the increase in energy prices, inflation and global supply chain disruptions, measurement of ECLs was associated with additional complexities and an increased estimation uncertainty. In addition, application of post-model adjustments was required from management in arriving at the year-end estimate of impairment losses. ➢ In light of the above factors, we considered impairment of loans and advances to customers to be associated with a significant risk of material misstatement in the historical financial information. Therefore, the area required our increased attention in the audit and as such was determined to be a key audit matter.	➢ Assessing the consistency of application of the SICR criteria, and also, for a risk-based sample of exposures, challenging the loans' classification into the stages of IFRS 9; ➢ For collective impairment allowance: • Challenging the macroeconomic forecasts used in the ECL model in terms of their relevance and source accuracy by comparing them with a selection of publicly available forecasts. As part of the procedure, we challenged the consideration of the economic uncertainty relating to the prolonged effects of the COVID-19 pandemic and of the current economic turbulence, by means of inquiries of the management board members and inspection of publicly available information; • Testing the relevance and reliability of the data used in the process of calculating the PD, EAD and LGD parameters applied in the collective ECL model, on a sample basis, by reference to the supporting documentation, such as credit risk memorandum, debt service status, repayment schedules and underlying data for collections occurring after default; • Challenging any significant post-model adjustments, by evaluating key underlying assumptions and methods, inspecting the calculation; • Based on the outcome of the preceding procedures, recomputing the ECLs. ➢ For impairment allowances calculated individually, for a risk-based sample of loans, challenging the Bank's cash flow projections and key assumptions used therein, including recovery periods, by reference to our knowledge of the relevant industry and of the borrower. We also challenged the underlying collateral valuations, among other by reference to external market information; ➢ Assessing the accuracy and completeness of the ECL-related historical financial information disclosures against the requirements of the relevant financial reporting standards.

KPMG

Emphasis of Matter - Secondary set of financial information

6. We draw attention to Note 2.1 "Basis of preparation" to the historical financial information, which describes that the historical financial information represents a secondary set of financial information for the year ended 31 December 2021, that includes a restatement of previously issued and approved statutory financial statements. Our opinion is not modified in respect of this matter.

Emphasis of Matter – Noncompliance with MREL

7. In addition, we draw attention to Note 39 "Events subsequent to the balance sheet date" to the historical financial information, which describes that the Bank failed to meet the minimum requirements for own funds and eligible liabilities ("MREL"). The Note also presents the key measures adopted by the Bank with an aim to restore compliance before 31 March 2023. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Historical Financial Information

8. Management is responsible for the preparation of historical financial information that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of historical financial information that are free from material misstatement, whether due to fraud or error.

9. In preparing the historical financial information, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

10. Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibility for the Audit of the Historical Financial Information

11. Our objectives are to obtain reasonable assurance about whether the historical financial information as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these historical financial information.

12. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

    - Identify and assess the risks of material misstatement of the historical financial information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

    - Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

    - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

    - Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the historical financial information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the historical financial information, including the disclosures, and whether the historical financial information represent the underlying transactions and events in a manner that achieves fair presentation.

13. We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

14. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

    From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the historical financial information of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

15. We were appointed by the General Shareholders' Meeting on 21 September 2020 to audit the historical financial information of CEC Bank SA for the year ended 31 December 2021. Our total uninterrupted period of engagement is 7 years, covering the periods ending 31 December 2015 to 31 December 2021.

16. We confirm that:

    - Our audit opinion is consistent with the additional report presented to the Audit Committee of the Bank, which we issued on the same date as the date of issuance of this independent auditors' report. We also remained independent of the audited entity in conducting the audit.
    - We have not provided to the Bank the prohibited non-audit services (NASs) referred to in Article 5(1) of EU Regulation (EU) No 537/2014.

For and on behalf of KPMG Audit S.R.L.:

Refer to the original signed Romanian version

Grecu Tudor Alexandru	**KPMG Audit SRL**
registered in the electronic public register of financial auditors and audit firms under no AF2368	registered in the electronic public register of financial auditors and audit firms under no FA9

Bucharest, 20 October 2022

STATEMENT
As per provisions the article 30 of the Accounting Law no. 82/1991

The historical financial information were prepared as at 31.12.2021 for:

Legal entity: CEC BANK SA
County: 40 - THE MUNICIPALITY OF BUCHAREST
Address: Bucharest city, str. CALEA VICTORIEI, no. 13, tel. 0213143985
Trade Registry number: J40/155/1997
Form of ownership: 12 - Commercial companies with full state capital
Main activity (CAEN code and class name) 6419 - Other monetary intermediation activities
Fiscal identification code: 361897

The General Manager - President of Executive Committee, Bogdan Constantin Neacsu takes full responsibility for preparing the historical financial information as at December 31, 2021 and confirms that:

a) The accounting policies used to prepare the historical financial information are in accordance with the applicable accounting regulations.
b) The historical financial information present a true image of the financial position, financial performance and other information relating to the activity carried out.
c) The legal entity carries its business on an ongoing basis.

Bogdan Constantin Neacşu

General Manager - President of Executive Committee

CEC BANK S.A.
CABINET PREŞEDINTE DIRECTOR GENERAL
1