

CEC Bank SA

**CONDENSED INTERIM FINANCIAL
INFORMATION PREPARED IN ACCORDANCE
WITH INTERNATIONAL ACCOUNTING
STANDARD 34 "INTERIM FINANCIAL
REPORTING"**

30 JUNE 2022

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.

CEC BANK SA

CONDENSED INTERIM FINANCIAL INFORMATION

AS AT 30 JUNE 2022

CONTENTS	PAGE
Review Report of Condensed Interim Financial Information	-
Condensed interim statement of comprehensive income	1
Condensed interim statement of financial position	2
Condensed interim statement of changes in equity	3 - 4
Condensed interim statement of cash flows	5 - 7
Notes to the condensed interim financial information	8 - 86

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CEC BANK SA

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022

(All amounts in RON thousand, unless otherwise specified)

	Note	Six months ended on 30 June 2022	Six months ended on 30 June 2021
Interest income calculated using the effective interest method		1,047,766	772,608
Interest expenses		(376,724)	(232,780)
Net interest income	6	<u>671,042</u>	<u>539,828</u>
Commission income		178,850	160,092
Commission expenses		(25,350)	(19,388)
Net commission income	7	<u>153,500</u>	<u>140,704</u>
Net gain from trading		27,254	19,703
(Net loss) from financial derivatives		(11,161)	(2,710)
(Net loss) /net gain from financial assets mandatorily measured at fair value through profit or loss		(601)	2,234
Net gain from the sale of financial assets measured at fair value through other comprehensive income		1,006	39,622
(Net loss) /net gain from foreign exchange differences		(5,980)	1,730
Other operating income		6,734	5,570
Operating income		<u>841,794</u>	<u>746,681</u>
Impairment loss on loans and advances to customers, provisions for loan commitments and financial guarantees given	8	(226,664)	(147,279)
(Net loss) from impairment of debt instruments		(551)	(572)
Staff costs		(234,007)	(208,874)
Depreciation and amortisation expenses		(48,865)	(39,139)
Other operating expenses	9	(221,113)	(140,736)
Operating expenses		<u>(731,200)</u>	<u>(536,600)</u>
Profit before tax		<u>110,594</u>	<u>210,081</u>
Income tax expense	18	(19,465)	(41,500)
Net Profit for the period		<u>91,129</u>	<u>168,581</u>
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Change in the fair value of financial assets measured through other items of comprehensive income, net of tax		(727,957)	(13,763)
Net gain from transactions with financial assets measured through other items of comprehensive income, transferred to profit or loss upon disposal, net of tax		(845)	(33,282)
<i>Items that will not be reclassified to profit or loss:</i>			
Net gain from the revaluation of land and buildings		-	26
Corrections of the previous year		(595)	(224)
Other comprehensive income for the period		<u>(729,397)</u>	<u>(47,243)</u>
Total comprehensive income for the period		<u>(638,268)</u>	<u>121,338</u>

Bogdan Constantin Neacșu
General Manager - President of Executive Committee

Ștefan Silviu Fota
Director, Accounting Department

CEC BANK SA

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022

(All amounts in RON thousand, unless otherwise specified)

	<u>Notes</u>	<u>30 June 2022</u>	<u>31 December 2021</u>
Assets			
Cash and cash equivalents at central banks		7,590,836	7,108,541
Derivative financial assets		815	431
Loans and advances to banks		1,462,039	1,724,312
Loans and advances to customers	10	27,915,405	25,651,030
Financial assets held for trading and measured at fair value through profit and loss		112,356	-
Financial assets mandatorily at fair value through profit or loss		20,868	21,177
Financial assets measured at fair value through other comprehensive income	11	11,221,626	12,778,056
-of which pledged securities (repo agreements)		123,262	521,624
Financial assets measured at amortized cost	12	3,934,896	2,332,805
Property and equipment		730,680	719,067
Intangible assets		73,745	76,093
Investment property		62,854	76,823
Right-of-use assets		80,873	78,933
Deferred tax assets	18	132,443	-
Other financial assets		56,757	25,236
Other assets		<u>28,932</u>	<u>21,606</u>
Total assets		53,425,125	50,614,110
Liabilities			
Derivative financial liabilities		9,363	831
Deposits from banks	13	690,411	2,008,329
Deposits from customers	14	47,464,313	42,024,374
Borrowings from banks and other financial institutions	15	358,717	443,199
Subordinated liabilities	16	1,427,539	1,400,956
Current income tax liability		1,440	5,928
Deferred tax liabilities	18	-	5,717
Lease liabilities		83,391	81,662
Provisions		24,478	15,913
Other financial liabilities		52,610	708,693
Other liabilities		<u>94,899</u>	<u>62,275</u>
Total liabilities		50,207,161	46,757,877
Equity			
Share capital	17	2,499,746	2,499,746
Revaluation reserve for property and equipment		562,900	566,750
Reserves for financial assets at fair value measured through other items of comprehensive income		(981,735)	(252,933)
Other reserves		270,180	270,181
Retained earnings		<u>866,873</u>	<u>772,489</u>
Total equity		3,217,964	3,856,233
Total liabilities and equity		53,425,125	50,614,110

Bogdan Constantin Neacsu
General Manager - President of Executive Committee

Ștefan Silviu Fota
Director, Accounting Department

Page 2 of 86

The accompanying notes from pages 8 to 86 form an integral part of these condensed interim financial information.

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CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022

(All amounts in RON thousand, unless otherwise specified)

	<u>Note</u>	<u>Share capital</u>	<u>Revaluation reserve</u>	<u>Reserves for financial assets measured at fair value through other comprehensive income</u>	<u>Other reserves</u>	<u>Retained earnings</u>	<u>Total</u>
Balance as at 1 January 2022		<u>2,499,746</u>	<u>566,750</u>	<u>(252,933)</u>	<u>270,181</u>	<u>772,489</u>	<u>3,856,233</u>
Comprehensive income:							
Net profit of the period		-	-	-	-	91,129	91,129
Other comprehensive income:							
Changes in the fair value of financial assets measured at fair value through other comprehensive income, net of deferred tax		-	-	(728,802)	-	-	(728,802)
Retained earnings from corrections		-	-	-	-	(595)	(595)
Total comprehensive income		-	-	(728,802)	-	90,534	(638,268)
Other contributions and distributions:							
Revaluation reserve representing realized surplus, net of deferred tax		-	(3,850)	-	-	3,850	-
Decrease other land-sale reserves		-	-	-	(1)	-	(1)
Increase in share capital from retained earnings		-	-	-	-	-	-
Total other contributions and distributions		-	(3,850)	-	(1)	3,850	(1)
Balance as at 30 June 2022		<u>2,499,746</u>	<u>562,900</u>	<u>(981,735)</u>	<u>270,180</u>	<u>866,873</u>	<u>3,217,964</u>

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022

(All amounts in RON thousand, unless otherwise specified)

	<u>Note</u>	<u>Share capital</u>	<u>Revaluation reserve</u>	<u>Reserve for financial assets measured at fair value through other comprehensive income</u>	<u>Other reserves</u>	<u>Retained earnings</u>	<u>Total</u>
Balance as at 1 January 2021		<u>2,499,746</u>	<u>458,554</u>	<u>219,568</u>	<u>248,553</u>	<u>1,059,626</u>	<u>4,486,047</u>
Comprehensive income:							
Net profit of the period		-	-	-	-	168,581	168,581
Other comprehensive income:							
Changes in the fair value of financial assets measured at fair value through other comprehensive income, net of deferred tax		-	-	(47,045)	-	-	(47,045)
Revaluation reserve increase, net of deferred tax		-	26	-	-	-	26
Retained earnings from corrections		-	-	-	-	(224)	(224)
Total comprehensive income		-	26	(47,045)	-	168,357	121,338
Other contributions and distributions:							
Revaluation reserve representing realized surplus, net of deferred tax		-	(2,503)	-	-	2,503	-
Decrease other land-sale reserves		-	-	-	(14)	-	(14)
Total other contributions and distributions		-	(2,503)	-	(14)	2,503	(14)
Balance as at 30 June 2021		<u>2,499,746</u>	<u>456,077</u>	<u>172,523</u>	<u>248,539</u>	<u>1,230,486</u>	<u>4,607,371</u>

CEC BANK SA

CONDENSED INTERIM STATEMENT OF CASH FLOW

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022

(All amounts in RON thousand, unless otherwise specified)

	<u>Notes</u>	<u>Six months ended on 30 June 2022</u>	<u>Six months ended on 30 June 2021</u>
Profit before tax		110,594	210,081
Adjustments for non-monetary items:			
Expected losses on financial instruments, provisions for loan commitments and financial guarantees given	8	226,664	147,279
Depreciation and amortisation expense		48,865	39,139
Net loss from financial derivatives		11,161	2,710
Gain on disposal of fixed assets		(1,396)	(4,033)
Income from other operations		(415)	(478)
Net gain on financial assets measured at fair value through other comprehensive income		(1,006)	(39,622)
Net loss/ Net gain from financial assets mandatorily measured at fair value through profit or loss		309	(2,234)
Gain from foreign exchange differences		(16,861)	(53,029)
Income/(Expense) from adjustments for expected losses related to other assets		980	(58)
Dividends income		(1,247)	(873)
Interest expense		376,724	232,780
Interest income		(1,047,766)	(772,608)
Other adjustments		716	1,652
		<u>(292,678)</u>	<u>(239,294)</u>
(Increase)/decrease in operating assets:			
Increase in loans and advances to customers		(2,557,097)	(1,677,001)
Increase in financial assets held for trading and measured at fair value through profit or loss		(112,356)	-
Increase in other assets		(51,372)	(44,387)
Increase/decrease in operating liabilities:			
Decrease/(increase) in deposits from banks		(1,354,427)	945,721
Increase in deposits from customers		5,470,673	2,145,441
(Increase)/Decrease in other liabilities		27,895	(41,011)
Net cash used in operating activities before interest and tax		1,130,638	1,089,469
Interest received from loans and advances to customers		791,124	610,231
Interest paid for deposits from customers and banks		(320,766)	(211,073)
Payments for leases of low-value assets		(1,287)	(918)
Recoveries from assigned credits and from previously written-off loans	8	48,985	70,818

CEC BANK SA

CONDENSED INTERIM STATEMENT OF CASH FLOW

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022

(All amounts in RON thousand, unless otherwise specified)

	<u>Notes</u>	Six months ended on 30 June 2022	Six months ended on 30 June 2021
Income tax paid		(23,333)	(15,913)
Net cash used in operating activities		1,625,361	1,542,614
Investment activities:			
Proceeds from financial assets measured at fair value through other comprehensive income		1,736,101	3,233,519
Payments for the acquisition of financial assets measured at fair value through other comprehensive income		(1,012,036)	(4,830,234)
Proceeds from financial assets measured at amortized cost		17,789	698,619
Payments for the purchase of financial assets measured at amortized cost		(1,586,074)	(97,935)
Interest received from investing activities		178,294	186,082
Cash payments for acquisitions of tangible and intangible assets and investment properties		(35,490)	(30,181)
Proceeds from the sale of tangible and intangible assets and investment property		4,859	5,747
Dividends proceeds		<u>1,247</u>	<u>873</u>
Net cash in investing activities		(695,310)	(833,510)
Financing activities			
Dividends paid to the sole shareholder Ministry of Finance		(634,257)	-
Interest payments on subordinated loans		(22,670)	-
Payment of lease liability		(12,624)	(11,769)
Repayments of loans from banks and other financial institutions		(84,569)	(36,386)
Interest paid for loans from banks and other financial institutions		(174)	(239)
Net cash from financing activities		(754,294)	(48,394)
Net increase in cash and cash equivalents		<u>175,757</u>	<u>660,710</u>
Cash and cash equivalents at the beginning of the period		<u>8,451,785</u>	<u>5,137,977</u>
Cash and cash equivalents at the end of the period (i)		<u>8,627,542</u>	<u>5,798,687</u>

CEC BANK SA

CONDENSED INTERIM STATEMENT OF CASH FLOW

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022
(All amounts in RON thousand, unless otherwise specified)

(i) Analysis of cash and cash equivalents

	<u>30 June 2022</u>	<u>30 June 2021</u>
Cash and cash equivalents comprise:		
Cash on hand	704,349	521,561
Cash in ATM's	263,316	210,331
Current accounts held at the National Bank of Romania	6,623,171	4,552,148
Current accounts held at other banks	<u>318,044</u>	<u>130,346</u>
Cash on hand and at banks	<u>7,908,880</u>	<u>5,414,386</u>
Loans and advances to banks - maturity less than 3 months	718,662	384,301
Cash and cash equivalents	<u>8,627,542</u>	<u>5,798,687</u>

CEC BANK SA

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022 (All amounts in RON thousand, unless otherwise specified)

1 REPORTING ENTITY

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

The Bank operates through its head office in Bucharest, as well as through the 48 county branches and similar units in the City of Bucharest (31 December 2021: 48 county branches and similar units in the City of Bucharest), 115 type A urban agencies (31 December 2021: 111), 385 type B urban agencies (31 December 2021: 386) and 461 type B rural agencies (31 December 2021: 463).

CEC Bank SA has 5,356 employees as at June 30, 2022, 58 employees less than on December 31, 2021.

The current registered office of CEC Bank SA is on Calea Victoriei nr. 13, Sector 3, Bucharest, Romania.

As at 30 June 2022, the Bank's Board of Directors includes the following people:

- 1) Valentin Mavrodin – Member *);
- 2) Bogdan Constantin Neacșu - Member;
- 3) Mihaela Lucica Popa - Member;
- 4) Ciprian Badea - Member;
- 5) Mirela Sitoiu - Member;
- 6) Mihai Gogancea Vătășoiu - Member.

As at 30 June 2022, the Bank's Executive Committee includes the following people:

- 1) Bogdan Constantin Neacșu, 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.

*) On 2 June 2022, Mr. Valentin Mavrodin was nominated by the General Meeting of Shareholders as President of the Bank's Board of Directors and will perform his duties after receiving approval from the National Bank of Romania.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022
(All amounts in RON thousand, unless otherwise specified)

2 BASIS OF PREPARATION

These condensed interim financial information for the six months ended 30 June 2022 have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" and should be read in conjunction with the Bank's second set of historical financial information as at and for the year ended on 31 December 2021. That Historical Financial Information represents a second set of financial statements regarding the financial year ended on 31 December 2021 which was prepared to correct a significant accounting error identified in the Financial Statements as at 31 December 2021, approved by the Bank's General Shareholders Meeting on 9 May 2022 and on which the Independent Auditor's Report was issued on 9 May 2022. Both the present condensed interim financial information and the historical financial information on 31 December 2021 have been prepared to obtain funding, including through capital market operations.

The condensed interim financial statements for the six months ended on 30 June 2022 do not include all the information required for a complete set of financial statements prepared in accordance with the International Financial Reporting Standards adopted by the European Union. However, selected explanatory notes are included to explain events and transactions that are significant to understanding changes in the bank's financial position and performance since the last annual financial statements.

These condensed interim financial information have been prepared based on the going concern principle.

a) Basis of measurement

The condensed interim financial information 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 condensed interim financial information are prepared and stated in Romanian lei ("RON"), the Bank's functional and presentation currency, in accordance with Romanian accounting legislation, as well as banking regulations issued by the National Bank of Romania.

c) Use of estimates and judgments

The preparation of condensed interim financial information in accordance with IAS 34 "Interim financial reporting", adopted by the European Union, requires management to use estimates, judgments and assumptions that affect the amounts recognized in the financial statements, as well as the reported value of assets, liabilities, in the following financial year. The estimates and judgments associated therewith are based on historical data and other factors considered to be relevant in the given circumstances, and the result of these factors forms the basis of the judgments used in determining the carrying amount of assets and liabilities for which no other valuation sources are available. Actual results may differ from the estimated values.

Estimates and judgments are reviewed periodically. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period in which the estimate is revised and future periods, if the revision affects both the current period and future periods.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022
(All amounts in RON thousand, unless otherwise specified)

2 BASIS OF PREPARATION (CONTINUED)

Information related to these estimates used in the application of accounting policies that have a significant effect on the financial statements, as well as estimates that involve a significant degree of uncertainty, are stated in Note 4.

The significant accounting policies and methods presented below have been applied consistently to all periods stated in these financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES

In preparing this set of condensed interim financial information, the Bank used the same accounting policies stated in the Bank's last set of annual financial statements for the year ended on 31 December 2021.

4 SIGNIFICANT ACCOUNTING ESTIMATES

The Bank makes estimates and assumptions that affect the reported value of assets and liabilities in the following reporting period. Estimates and judgments are continually reviewed and are based on past experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In addition to experience and historical information, described in the last set of annual financial statements, the Bank also considered the effects of current conditions in the financial industry, detailed in Note 10, in reviewing these estimates.

5 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value hierarchy analysis of financial instruments recorded at fair value

Level 1 - includes instruments listed on active markets for identical assets or liabilities;

Level 2 - includes instruments whose fair value is determined using observable information for the asset or liability, either directly (such as prices) or indirectly (such as price derivatives); and

Level 3 - includes instruments whose fair value is determined using information that is not based on observable market data (unobservable inputs).

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022
(All amounts in RON thousand, unless otherwise specified)

5 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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

Assets and liabilities measured at fair value as at 30 June 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets				
<i>Other financial assets</i>				
<i>Financial assets held for trading and measured at fair value through profit or loss, of which:</i>	<u>112,356</u>	-	-	<u>112,356</u>
Debt securities	112,356	-	-	112,356
Derivatives – Swap on exchange rate	-	815	-	815
<i>Financial assets measured at fair value through other comprehensive income, of which:</i>	<u>9,977,085</u>	<u>1,229,936</u>	<u>14,605</u>	<u>11,221,626</u>
Securities	9,977,085	1,229,936	-	11,207,021
Equity investments	-	-	14,605	14,605
<i>Financial assets mandatorily at fair value through profit or loss, out of which:</i>	-	-	<u>20,868</u>	<u>20,868</u>
Debt securities	-	-	20,868	20,868
Total financial assets carried at fair value	<u>10,089,441</u>	<u>1,230,751</u>	<u>35,473</u>	<u>11,355,665</u>
Financial liabilities				
<i>Other financial liabilities</i>				
Derivatives – Swap on exchange rate	-	9,363	-	9,363
Total financial liabilities carried at fair value	<u>-</u>	<u>9,363</u>	<u>-</u>	<u>9,363</u>

Assets and liabilities measured at fair value as at 31 December 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets				
<i>Other financial assets</i>				
Derivatives - Swap on exchange rate	-	431	-	431
<i>Financial assets measured at fair value through other comprehensive income, of which:</i>	<u>11,238,692</u>	<u>1,525,270</u>	<u>14,094</u>	<u>12,778,056</u>
Securities	11,238,692	1,525,270	-	12,763,962
Equity investments	-	-	14,094	14,094
<i>Financial assets compulsorily measured at fair value through profit or loss, of which:</i>	-	-	<u>21,177</u>	<u>21,177</u>
Debt securities	-	-	21,177	21,177
Total financial assets carried at fair value	<u>11,238,692</u>	<u>1,525,701</u>	<u>35,271</u>	<u>12,799,664</u>

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022

(All amounts in RON thousand, unless otherwise specified)

5 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Financial liabilities**Other financial liabilities**

Derivatives - Swap on exchange rate	-	831	-	831
Total financial liabilities carried at fair value	<u>-</u>	<u>831</u>	<u>-</u>	<u>831</u>

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 the fair value is disclosed as at 30 June 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total fair value</u>	<u>Total book value</u>
Financial assets					
Cash and cash equivalents at central banks	967,665	6,623,171	-	7,590,836	7,590,836
Loans and advances to banks	-	1,462,039	-	1,462,039	1,462,039
Loans and advances to customers	-	-	28,012,857	28,012,857	27,915,405
Investments in debt instruments at amortized cost	3,471,898	-	-	3,471,898	3,934,896
Other financial assets	-	-	56,757	56,757	56,757
Total financial assets	<u>4,439,563</u>	<u>8,085,210</u>	<u>28,069,614</u>	<u>40,594,387</u>	<u>40,959,933</u>

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total fair value</u>	<u>Total book value</u>
Financial liabilities					
Deposits from banks	-	690,411	-	690,411	690,411
Deposits from customers	-	47,726,257	-	47,726,257	47,464,313
Borrowings from banks and other financial institutions	-	358,717	-	358,717	358,717
Subordinated liabilities	-	1,427,539	-	1,427,539	1,427,539
Other financial liabilities	-	-	52,610	52,610	52,610
Total financial liabilities	<u>-</u>	<u>50,202,924</u>	<u>52,610</u>	<u>50,255,534</u>	<u>49,993,590</u>

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022
(All amounts in RON thousand, unless otherwise specified)

5 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total fair value</u>	<u>Total book value</u>
Financial assets					
Cash and cash equivalents at central banks	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	<u>3,131,868</u>	<u>7,987,847</u>	<u>26,116,922</u>	<u>37,236,637</u>	<u>36,841,924</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total fair value</u>	<u>Total book value</u>
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	<u>-</u>	<u>46,089,086</u>	<u>708,693</u>	<u>46,797,779</u>	<u>46,585,551</u>

a) Loans and advances to banks and cash at central banks

Loans and advances to banks include interbank placements and other items pending collection. Cash at central banks includes the mandatory minimum reserve and current accounts held with the National Bank of Romania.

The fair value of variable rate placements and overnight deposits is equal to their book value.

b) Loans and advances to customers

Loans and advances are net of adjustments for expected credit losses. The estimated fair value of loans and advances represents the present value of future cash flows to be received. Estimated cash flows are discounted at current market rates to determine their fair value. The estimated fair value of fixed rate loans is based on discounted cash flows using prevailing money market interest rates for debt with similar credit risk and remaining maturity.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022

(All amounts in RON thousand, unless otherwise specified)

5 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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

Group	Market value	Valuation techniques	Significant unobservable inputs	Average interest	The sensitivity of the market value assessment in unobservable inputs
Corporate loans to customers in the agriculture industry, excluding loans granted on the basis of subsidies to be received	2,053,731	Discounted future cash flows	The probability of default and the loss in case of default as elements that reflect the credit risk in the discount rate of future flows.	2.95% for EUR 7.01% for RON	Individually increasing any unobservable input (probability of default, loss in case of default, discount rate) would generate a lower market value.
Loans to local public institutions	3,140,438	Discounted future cash flows	The probability of default and the loss in case of default as elements that reflect the credit risk in the discount rate of future flows.	2.79% for EUR 8.40% for RON	Individually increasing any unobservable input (probability of default, loss in case of default, discount rate) would generate a lower market value.
Corporate loans to customers in the retail industry	2,323,054	Discounted future cash flows	The probability of default and the loss in case of default as elements that reflect the credit risk in the discount rate of future flows.	3.27% for EUR 7.18% for RON	Individually increasing any unobservable input (probability of default, loss in case of default, discount rate) would generate a lower market value.
Corporate loans to customers in the construction industry	1,589,309	Discounted future cash flows	The probability of default and the loss in case of default as elements that reflect the credit risk in the discount rate of future flows.	3.67% for EUR 7.25% for RON	Individually increasing any unobservable input (probability of default, loss in case of default, discount rate) would generate a lower market value.
Corporate loans to customers in the industrial manufacturing industry	4,025,157	Discounted future cash flows	The probability of default and the loss in case of default as elements that reflect the credit risk in the discount rate of future flows.	2.84% for EUR 6.87% for RON 3.69% for USD	Individually increasing any unobservable input (probability of default, loss in case of default, discount rate) would generate a lower market value.
Retail consumer loans	1,614,310	Discounted future cash flows	The probability of default and the loss in case of default as elements that reflect the credit risk in the discount rate of future flows.	4.22% for EUR 8.47% for RON	Individually increasing any unobservable input (probability of default, loss in case of default, discount rate) would generate a lower market value.
Corporate loans to customers in the services industry	5,352,979	Discounted future cash flows	The probability of default and the loss in case of default as elements that reflect the credit risk in the discount rate of future flows.	2.94% for EUR 6.91% for RON	Individually increasing any unobservable input (probability of default, loss in case of default, discount rate) would generate a lower market value.
Loans granted on the basis of subsidies to be received	363,528	Discounted future cash flows	The probability of default and the loss in case of default as elements that reflect the credit risk in the discount rate of future flows.	5.04% for RON	Individually increasing any unobservable input (probability of default, loss in case of default, discount rate) would generate a lower market value.
Retail mortgage loans	7,240,503	Discounted future cash flows	The probability of default, as element that reflects the credit risk in the discount rate of future flows.	3.46% for EUR 4.89% for RON 4.10% for USD	Individually increasing any unobservable input (probability of default, loss in case of default, discount rate) would generate a lower market value.
Cards/ Overdraft	309,848	Discounted future cash flows	The probability of default, as element that reflects the credit risk in the discount rate of future flows.	13.37% for RON	Individually increasing any unobservable input (probability of default, loss in case of default, discount rate) would generate a lower market value.
Total	28,012,857				

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022

(All amounts in RON thousand, unless otherwise specified)

5 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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

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

- d) Financial assets measured at fair value through other comprehensive income - Government bonds

The fair value of government bonds measured at fair value through other comprehensive income is determined using BID quotes (expressed as yield) from Bloomberg, the BGN source.

- e) Financial assets measured at fair value through other elements of comprehensive income – Participation interests

Financial assets measured at fair value through other comprehensive income include shares that are not traded on an active market (FRGC S.A. - Romanian Guarantee Fund for Private Entrepreneurs, Transfond SA - Funds Transfer and Settlement Company, Biroul de Credit S.A.) and shares that are valued on an active market (VISA Inc). In the case of shares that are not quoted on an active market, it is not possible to obtain the market value for these equity securities and, consequently, no recent values regarding their trading price are publicly accessible. Management does not intend to sell these shares in the near future. The bank determined the fair value for these securities using the net asset method based on published financial statements.

In the case of VISA Inc. shares, for which there is an active market, they are valued monthly using the NYSE quoted price.

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

Group	Market value	Valuation techniques	Significant unobservable inputs	The sensitivity of the market value assessment in unobservable inputs
Participation interests valued at fair value through other elements of comprehensive income	14,605	The market value for VISA shares is determined according to the conversion coefficient communicated by VISA and the NYSE stock market quote. 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 in the financial performance of the issuer has an impact on the increase or decrease of the market value

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022

(All amounts in RON thousand, unless otherwise specified)

5 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

f) Financial assets compulsorily measured at fair value through profit or loss - Debt securities
Debt instruments held by the Bank include shares that are traded on an active market (VISA Inc), which are valued monthly using the quoted price on the NYSE.

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

Group	Market value	Valuation techniques	Significant unobservable inputs	The sensitivity of the market value assessment in unobservable inputs
Debt securities must be measured at fair value through profit or loss	20,868	The market value is determined according to the conversion coefficient communicated by VISA and the stock exchange quote from the NYSE.	Financial performance of the issuer	The increase or decrease in the financial performance of the issuer has an impact on the increase or decrease of the market value

The following table presents a reconciliation from opening balances to closing balances for fair value measurement classified at level 3 in the fair value hierarchy

	Participation interests	Debt securities
Balance as at 1 January 2022	14,094	21,177
Total gains or losses:		
- in the profit or loss account	-	(309)
- in other elements of comprehensive income	(418)	-
Acquisitions	-	-
Issues	-	-
Settlements	-	-
Transfers to Level 3	-	-
Transfers from level 3	-	-
Exchange rate differences	929	-
Balance as at 30 June 2022	14,605	20,868

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

The fair value of government bonds is determined using BID quotes (expressed as yield) from Bloomberg, BGN or BVAL (where BGN is not available) source.

h) Derivative financial assets and liabilities

As at 30 June 2022, the value of derivatives (FX swap/forward) is determined using the interest rates Robid/Robor/Euribor/USD Depo/GBP Depo/CHF Depo displayed by Thomson Reuters or Bloomberg, as well as the exchange rates published by the BNR in determining the remaining term rate.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022
(All amounts in RON thousand, unless otherwise specified)

5 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

i) Financial assets held for trading – Government bonds

The fair value of government bonds is determined daily using BID quotes (expressed as yield) from Bloomberg, BGN or BVAL (where BGN is not available) source.

j) Financial assets and liabilities

Management considered that the fair value is the same as the book value considering that these financial assets and liabilities are estimated to be settled within one month or have no fixed maturity, respectively are short-term and the book value is not significantly different from their fair value.

6 NET INTEREST INCOME

	Six months ended on 30 June 2022	Six months ended on 30 June 2021
Interest income calculated using the effective interest method from:		
Current accounts, deposits loans and advances to banks	28,922	3,102
Treasury bills, bonds and other investment securities	229,593	211,177
Loans and advances to customers, out of which:	789,251	558,329
<i>Interest income on impaired loans</i>	33,551	33,047
Contractual modification loss not determined by credit risk	<u>(4,554)</u>	<u>(4,731)</u>
Total interest income	<u>1,047,766</u>	<u>772,608</u>
Interest expense related to financial liabilities measured at amortized cost arising from:		
Savings instruments from customers	18	22
Current accounts and term deposits from customers	290,429	227,017
Loans and deposits from banks	36,509	5,176
Interest expense on lease liabilities	254	215
Other borrowed funds	261	350
Subordinated loan	<u>49,253</u>	<u>-</u>
Total interest expense	<u>376,724</u>	<u>232,780</u>
Net interest income	<u>671,042</u>	<u>539,828</u>

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022
(All amounts in RON thousand, unless otherwise specified)

7 NET COMMISSION INCOME	<u>Six months ended on 30 June 2022</u>	<u>Six months ended on 30 June 2021</u>
Commission income		
Commissions from operations with cards	48,790	41,384
Commissions from cash transactions	33,830	29,346
Commissions from current accounts opening	62,325	61,967
Other commissions	<u>23,485</u>	<u>21,772</u>
Total commissions from contracts with customers	168,430	154,469
Commissions from financial guarantees and loan commitments given	10,420	5,623
Total commissions income	<u>178,850</u>	<u>160,092</u>
Commission expense		
Commissions for inter-bank transactions	16,474	12,246
Commissions for financial risk insurance	962	523
Commissions for financial services	7,914	6,619
Total commission expense	<u>25,350</u>	<u>19,388</u>
Net commission income	<u>153,500</u>	<u>140,704</u>

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	The 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 operations, card operations, cash collection services, tax collection services due to the authorities, LG issuance/modification, online transaction services, insurance intermediation, other financial services. Commissions for interbank transactions, cash operations, card transactions, LG issuance/modification, 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 the services are provided. Transaction-related income is recognized when the transaction occurs.
Assets management service	The Bank provides securities custody services for which it charges a custody commission. The custody commission is calculated monthly and retained from the client's current account.	Revenue from banking services is recognized over time as services are provided.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022

(All amounts in RON thousand, unless otherwise specified)

8	NET IMPAIRMENT LOSS ON LOANS AND ADVANCES TO CUSTOMERS, PROVISIONS FOR LOAN COMMITMENTS AND FINANCIAL GUARANTEES GIVEN	Six months ended on	Six months ended on
		<u>30 June 2022</u>	<u>30 June 2021</u>
	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	268,286	218,501
	Net charge with adjustments for expected loss on current account and deposits with the NBR	52	83
	Net charge with adjustments for expected losses on correspondent accounts, deposits and loans with credit institutions	(2,046)	204
	Losses from non-recoverable receivables not covered by adjustments for expected loss of credit	2,229	781
	Provisions for loan commitments and financial guarantees given	9,357	(691)
	Recoveries from loans sold	(6,916)	(24,246)
	Recoveries from loans previously written off	<u>(44,298)</u>	<u>(47,353)</u>
	Total net charge with adjustments for expected credit losses	<u>226,664</u>	<u>147,279</u>
9	OTHER OPERATING EXPENSES	Six months ended on	Six months ended on
		<u>30 June 2022</u>	<u>30 June 2021</u>
	Visa and Mastercard expenses	19,230	12,735
	Third parties expenses	16,434	8,013
	Advertising and publicity	8,205	2,688
	Materials and inventories	8,535	6,205
	Other taxes	27,668	23,876
	Provision for litigations and for internal or external fraud	(795)	(888)
	Other operating expenses	2,785	2,182
	Rent expenses	1,378	945
	Travel and transportation expenses	7,437	6,136
	Expenses with deposits' guarantee fund (*)	51,911	22,122
	Repairs and maintenance of property and equipment	65,388	50,540
	Expenses with post and telecommunications	13,352	10,274
	(Gain) on sale of fixed assets and investment property	(1,395)	(4,034)
	Net charge for impairment of other financial and non-financial assets	980	(58)
	Total	<u>221,113</u>	<u>140,736</u>

(*)Expenses with the Bank's contribution to the Deposit Guarantee Fund and the Bank Resolution Fund increased during 2022 by RON 29,789 thousand compared to 2021, generated by the increase in deposits attracted from customers throughout 2021.

10 FINANCIAL RISK MANAGEMENT

a) Introduction

The most important financial risks to which the Bank is exposed are credit risk, liquidity risk, market risk and interest rate risk outside the trading portfolio. Market risk includes currency risk and equity instruments price risk. This note presents information regarding the Bank's exposure to each of the aforementioned risks, the Bank's objectives and policies, and risk assessment and management processes.

Risk Management - general framework

The Bank's Board of Directors is responsible for establishing and monitoring the Bank's risk management framework. Thus, the Board of Directors analyzes, 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. Also, the Bank's Board of Directors reconsiders and approves the risk profile, establishing acceptable levels for significant risks and ensures that the necessary measures are taken to identify, evaluate, monitor and control significant risks, including for outsourced activities.

Within the limits of the powers delegated by the Board of Directors, the Steering Committee, the Assets and Liabilities Management Committee, the Risk Management Committee and the Operational Risk Management Committee operate, which are responsible for developing and monitoring the Bank's risk management policies in the areas specified by them. All committees report regularly to the Board of Directors.

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

Through training courses, management standards and procedures, the bank aims to develop a disciplined and constructive control environment, where all employees understand their roles and obligations.

The Bank's Audit Committee is responsible for monitoring compliance with risk management procedures. The Audit Committee is assisted in the performance of its functions by the Internal Audit Department. Internal Audit conducts both regular and ad hoc reviews of risk management controls and procedures, and the results of the reviews are reported to the Audit Committee.

b) Credit risk

Credit risk is the risk of a financial loss for the Bank if a customer or counterparty of a financial instrument cannot meet the contractual terms.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022

(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk associated with placement and investment activities is managed through market risk management procedures. This risk is controlled both by selecting partners with good risk ratings, by monitoring their activities and ratings, and by monitoring exposure limits and, where appropriate, by obtaining collaterals.

On 13.05.2016, the "*Law on datio in solutum of real estate property in order to settle obligations assumed through loans*" entered into force.

As at 30.06.2022, the number of loans recorded in the Bank's balance sheet for which *datio in solutum* notices were recorded was 13, with an exposure of RON 6,861 thousand for which the Bank made adjustments for expected losses in the amount of RON 5,232 thousand, respectively real estate collaterals in the amount of RON 9,079 thousand, so that the estimated impact of the implementation of the law on the loan portfolio and the Bank's financial situation is insignificant.

As at 31.12.2021, the number of loans recorded in the Bank's balance sheet for which *datio in solutum* notices were recorded was 15, with an exposure of RON 7,692 thousand for which the Bank made adjustments for expected losses in the amount of RON 5,924 thousand, respectively real estate collaterals in the amount of RON 4,404 thousand, so that the estimated impact of the implementation of the law on the loan portfolio and the Bank's financial situation is insignificant.

Until now, the Bank has taken over in payment as a result of the provisions of Law 77/2016: 9 buildings and 10 plots of land. In the first half of 2022, there were no debt remissions representing residual claims recorded in off-balance sheet accounts.

An analysis of the ratio between mortgage loans and related real estate collaterals (LTV analysis) as at the reporting date is stated in Note 9.

As at 30.06.2022, the Bank has a portfolio of loans granted to individuals that can benefit from the provisions of the law on *datio in solutum* amounting to RON 3,898,337 thousand, with collaterals amounting to RON 7,343,296 thousand. The adjustments for expected losses related to the respective portfolio amount to RON 43,553 thousand.

As at 31.12.2021, the Bank has a portfolio of loans granted to individuals that can benefit from the provisions of the law on *datio in solutum* amounting to RON 3,051,855 thousand, with collaterals amounting to RON 5,904,148 thousand. The adjustments for expected losses related to the respective portfolio amount to RON 37,913 thousand.

The Bank is exposed to credit risk mainly as a result of the lending activity as well as other transactions from which the Bank recognizes financial assets. The value that represents the maximum exposure to this credit risk is given by the book value of the assets recognized in the balance sheet.

The Bank is exposed to credit risk from many other financial assets, including derivative instruments and securities, with the maximum risk exposure being equal to the book value of these instruments. In addition, the Bank is exposed to off-balance sheet credit risk through lending commitments for which the maximum exposure is the value of the commitment.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022
(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

To minimize this risk, the Bank has established exposure limits and procedures for the careful evaluation of loan applicants and for monitoring the ability of customers to repay the loan and the related interest during the loan period.

The credit risk is reduced by the value of the collaterals received. The amount of the adjustment of impaired loans is based on the analyses carried out by the management as at the balance sheet date, after taking into account the potential cash flows from the enforcement of collaterals, net of the costs of obtaining and selling them.

Management closely monitors the evolution of the portfolio and forecasted cash flows to ensure that they reflect revised estimates of forecasted cash flows in impairment assessments.

Credit risk management

The Bank's Board of Directors has delegated, through the Steering Committee, the responsibility of credit risk management to the Credit Committee (including the Restructuring Committee). Separately, the Risk Management Department, which reports to the Management Committee, is responsible for overseeing the Bank's credit risk, including:

- *Formulating credit policies* in consultation with units, covering collateral requirements, credit assessment, risk classification and reporting, legal and documentation procedures, and compliance with statutory and regulatory requirements.
- *Establishment of the authorization structure* for the approval and renewal of credit facilities, approval of changes in the contractual terms (restructuring). Authorization limits are allocated by credit committee levels. Credit facilities of larger amounts require the approval of the highest level of the Credit Committee, the Steering Committee or the Board of Directors, as applicable.
- *Credit risk review and assessment.* The Credit Committee evaluates all credit exposures above the established limits, before the facilities are approved or submitted for approval to the Board of Directors and/or granted to customers. Renewal and revision of facilities are subject to the same evaluation process.
- *Limiting the concentration of exposure* by third parties, geographic areas and industries (for loans and advances to customers) and by issuer, credit rating category, market liquidity and country (for securities).
- *Verification of facility compliance* with established exposure limits, including those for specific industries and products.
- *Providing periodic reports* on the quality of the portfolio to the Board of Directors and taking appropriate rectification measures.
- *Providing advice, recommendations and expertise* to units to promote best practice in the Bank in terms of credit risk management.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022

(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

The concentration of credit risk related to financial instruments exists for groups of customers or other third parties that have similar economic characteristics and whose ability to meet contractual obligations is similarly affected by changes in the economic environment or other conditions. The concentration of credit risk in respect of loans and advances granted by the Bank is shown below.

The presentation of exposures and adjustments for expected losses are grouped into portfolios with the following 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 subsidies
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 30 June 2022, split by stages:

	Stage 1	Stage 2	Stage 3	POCI	Total
Crediting commitments					
Exposure	4,292,001	279,274	78,691	-	4,649,966
Provision	16,447	1,051	207	-	17,705
Net crediting commitments	4,275,554	278,223	78,484	-	4,632,261
Guarantee commitments					
Exposure	1,585,236	221,387	64,907	-	1,871,529
Provision	3,975	526	91	-	4,592
Net guarantee commitments	1,581,261	220,861	64,816	-	1,866,937

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

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022
(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

The Bank monitors the concentration of credit risk by geographical region. An analysis of concentrations of credit risk exposures at the reporting date is presented below:

	Gross exposure	Adjustments for expected credit losses	Net exposure
	<u>30 June 2022</u>	<u>30 June 2022</u>	<u>30 June 2022</u>
Bucharest-Ilfov	10,161,046	523,559	9,637,487
Center	1,967,282	167,693	1,799,589
North-East	2,872,162	88,149	2,784,013
North-West	4,236,359	225,775	4,010,584
South East	3,829,812	133,204	3,696,608
South-Muntenia	2,427,571	170,168	2,257,403
South-West Oltenia	2,373,193	67,411	2,305,782
West	1,525,208	101,269	1,423,939
Total loans	<u>29,392,633</u>	<u>1,477,228</u>	<u>27,915,405</u>

	Gross exposure	Adjustments for loan impairment	Net exposure
	<u>31 December 2021</u>	<u>31 December 2021</u>	<u>31 December 2021</u>
Bucharest-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 loans	<u>27,019,528</u>	<u>1,368,498</u>	<u>25,651,030</u>

The above analysis refers to the gross exposure of loans and advances to customers (balance sheet exposure only).

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022
(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

The split of gross loans and advances to customers by class and category, as at 30 June 2022 (gross amounts):

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>POCI</u>	<u>Total</u>
Individuals – personal needs loans fully collateralised with real estate collaterals	160,599	30,064	39,421	-	230,084
Individuals – personal needs loans without real estate collaterals or not fully covered	1,322,377	51,108	81,005	-	1,454,490
Individuals – Mortgage loans	6,485,272	661,773	58,367	-	7,205,412
Cards/ Overdraft	295,934	8,065	12,286	-	316,285
Total loans for individuals	<u>8,264,182</u>	<u>751,010</u>	<u>191,079</u>	<u>-</u>	<u>9,206,271</u>
Legal entities Agriculture	1,711,962	275,624	192,493	-	2,180,079
Public local administrations	2,764,512	403,321	6,880	-	3,174,713
Legal entities Industry	3,530,740	361,157	496,808	61,567	4,450,272
Legal entities Commerce	2,030,180	223,662	190,737	-	2,444,579
Legal entities Construction	1,427,420	81,764	240,142	-	1,749,326
Legal entities Services	3,975,210	1,326,754	516,589	-	5,818,553
Bridge loans for subsidies	342,177	20,146	6,517	-	368,840
Total corporate loans and advances	<u>15,782,201</u>	<u>2,692,428</u>	<u>1,650,166</u>	<u>61,567</u>	<u>20,186,362</u>
Total gross loans and advances	<u>24,046,383</u>	<u>3,443,438</u>	<u>1,841,245</u>	<u>61,567</u>	<u>29,392,633</u>
Collaterals	<u>17,980,123</u>	<u>2,787,130</u>	<u>1,554,791</u>	<u>63,839</u>	<u>22,385,883</u>

The collaterals value, presented in the tables from pages 25-37 includes the value of collaterals accepted to be taken into account as a risk mitigator for the purpose of determining adjustments for expected losses; in the case of loans that have collaterals issued by the guarantee funds/Eximbank with clauses regarding the sharing of risk in the enforcement process of the other collaterals associated with the loan, the value of the collaterals is the one resulting from the application of the pari-passu principle.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022

(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

The split of gross loans and advances to customers by class and category, as at 31 December 2021 (gross amounts):

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>POCI</u>	<u>Total</u>
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	<u>274,936</u>	<u>2,076</u>	<u>15,014</u>	-	<u>292,026</u>
Total loans for individuals	<u>8,278,212</u>	<u>197,625</u>	<u>236,094</u>	-	<u>8,711,931</u>
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 subsidies	<u>137,921</u>	<u>18,969</u>	<u>5,415</u>	-	<u>162,305</u>
Total corporate loans and advances	<u>14,488,247</u>	<u>2,204,788</u>	<u>1,554,349</u>	<u>60,213</u>	<u>18,307,597</u>
Total gross loans and advances	<u>22,766,459</u>	<u>2,402,413</u>	<u>1,790,443</u>	<u>60,213</u>	<u>27,019,528</u>
Collaterals	<u>16,951,200</u>	<u>1,949,928</u>	<u>1,492,559</u>	<u>62,485</u>	<u>20,456,172</u>

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022

(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

The expected credit loss related to loans and advances provided to customers as at 30 June 2022:

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>POCI</u>	<u>Total</u>
Individuals – personal needs loans fully collateralised with real estate collaterals	1,564	756	25,093	-	27,413
Individuals – personal needs loans without real estate collaterals or not fully covered	9,433	571	38,707	-	48,711
Individuals – Mortgage loans	8,586	5,479	20,816	-	34,881
Cards/ Overdraft	<u>1,940</u>	<u>253</u>	<u>7,401</u>	=	<u>9,594</u>
Total adjustments for expected credit loss for individuals	<u>21,523</u>	<u>7,059</u>	<u>92,017</u>	=	<u>120,599</u>
Legal entities Agriculture	12,543	11,027	104,937	-	128,507
Public local administrations	27,628	4,033	2,614	-	34,275
Legal entities Industry	64,832	41,010	302,298	24,835	432,975
Legal entities Commerce	17,603	11,443	94,365	-	123,411
Legal entities Construction	23,761	6,871	130,724	-	161,356
Legal entities Services	62,385	145,976	262,432	-	470,793
Bridge loans for subsidies	<u>80</u>	<u>14</u>	<u>5,218</u>	=	<u>5,312</u>
Total adjustments for expected credit loss for companies	<u>208,832</u>	<u>220,374</u>	<u>902,588</u>	<u>24,835</u>	<u>1,356,629</u>
Total adjustments for expected credit loss	<u>230,355</u>	<u>227,433</u>	<u>994,605</u>	<u>24,835</u>	<u>1,477,228</u>
Gross loans and advances to customers	<u>24,046,383</u>	<u>3,443,438</u>	<u>1,841,245</u>	<u>61,567</u>	<u>29,392,633</u>
Net loans and advances to customers	<u>23,816,028</u>	<u>3,216,005</u>	<u>846,640</u>	<u>36,732</u>	<u>27,915,405</u>

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022
(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

The expected credit loss related to loans and advances provided to customers as at 31 December 2021:

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>POCI</u>	<u>Total</u>
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	<u>1,683</u>	<u>74</u>	<u>10,247</u>	-	<u>12,004</u>
Total adjustments for expected credit loss for individuals	<u>18,210</u>	<u>2,166</u>	<u>132,859</u>	-	<u>153,235</u>
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 subsidies	<u>26</u>	<u>11</u>	<u>4,972</u>	-	<u>5,009</u>
Total adjustments for expected credit loss for companies	<u>167,887</u>	<u>161,756</u>	<u>867,121</u>	<u>18,499</u>	<u>1,215,263</u>
Total adjustments for expected credit loss	<u>186,097</u>	<u>163,922</u>	<u>999,980</u>	<u>18,499</u>	<u>1,368,498</u>
Gross loans and advances to customers	<u>22,766,459</u>	<u>2,402,413</u>	<u>1,790,443</u>	<u>60,213</u>	<u>27,019,528</u>
Net loans and advances to customers	<u>22,580,362</u>	<u>2,238,491</u>	<u>790,463</u>	<u>41,714</u>	<u>25,651,030</u>

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022
(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

Presentation of loan commitments given as at 30 June 2022:

<u>30 June 2022</u>	<u>Low risk</u>	<u>Moderate risk</u>	<u>Total</u>
Individuals – personal needs loans without real estate collaterals or not fully covered	34,981	103	35,084
Individuals – Mortgage loans	75,792	306	76,098
Cards/ Overdraft	409,533	9,918	419,451
Gross total for individuals	520,306	10,327	530,633
Provision	381	8	389
Net total individuals	519,925	10,319	530,244
Legal entities Agriculture	859,497	74,112	933,609
Public local administrations	145,741	38,892	184,633
Legal entities Industry	839,720	128,985	968,705
Legal entities Commerce	495,323	17,777	513,100
Legal entities Construction	474,365	11,643	486,008
Legal entities Services	949,866	75,795	1,025,661
Bridge loans for subsidies	7,183	434	7,617
Gross total corporate	3,771,695	347,638	4,119,333
Provision	16,066	1,250	17,316
Net total corporate	3,755,629	346,388	4,102,017
Loans to credit institutions	-	-	-
Gross total	<u>4,292,001</u>	<u>357,965</u>	<u>4,649,966</u>
Provision	<u>16,447</u>	<u>1,258</u>	<u>17,705</u>
Net total	<u>4,275,554</u>	<u>356,707</u>	<u>4,632,261</u>

Presentation of financial guarantees given as at 30 June 2022:

<u>30 June 2022</u>	<u>Low risk</u>	<u>Moderate risk</u>	<u>Total</u>
Financial guarantees given	1,585,236	286,293	1,871,529
Provision	3,975	617	4,592
Net total	<u>1,581,261</u>	<u>285,676</u>	<u>1,866,937</u>

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022

(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

Presentation of loan commitments given as at 31 December 2021:

<u>31 December 2021</u>	<u>Low risk</u>	<u>Moderate risk</u>	<u>Total</u>
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 subsidies	-	-	-
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	<u>75.000</u>	=	<u>75.000</u>
Gross total	<u>4,619,361</u>	<u>280,636</u>	<u>4,899,997</u>
Provision	<u>9,893</u>	<u>536</u>	<u>10,429</u>
Net total	<u>4,609,468</u>	<u>280,100</u>	<u>4,889,568</u>

Presentation of financial guarantees given as at 31 December 2021

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

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022

(All amounts in RON thousand, unless otherwise specified)

10 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

30 June 2022	Low risk	Moderate risk	Total	Of which 1-30 days
Individuals – personal needs loans fully collateralised with real estate collateral	148,673	11,926	160,599	12,376
Individuals – personal needs loans without real estate collateral or not fully covered	1,079,420	242,957	1,322,377	56,938
Individuals – Mortgage loans	6,024,761	460,511	6,485,272	11,797
Cards/Overdraft	<u>274,130</u>	<u>21,804</u>	<u>295,934</u>	<u>9,308</u>
Total gross loans to individuals	<u>7,526,984</u>	<u>737,198</u>	<u>8,264,182</u>	<u>90,419</u>
Adjustment for expected credit loss for individuals	<u>18,919</u>	<u>2,604</u>	<u>21,523</u>	<u>435</u>
Total net loans to individuals	7,508,065	734,594	8,242,659	89,984
Legal entities Agriculture	1,610,732	101,230	1,711,962	65,107
Public local administrations	2,763,933	579	2,764,512	22,042
Legal entities Industry	3,095,797	434,943	3,530,740	49,008
Legal entities Commerce	1,946,697	83,483	2,030,180	117,624
Legal entities Construction	1,315,276	112,144	1,427,420	44,763
Legal entities Services	3,049,000	926,210	3,975,210	83,686
Bridge loans for subsidies	<u>312,414</u>	<u>29,763</u>	<u>342,177</u>	<u>3,748</u>
Total loans to corporate	<u>14,093,849</u>	<u>1,688,352</u>	<u>15,782,201</u>	<u>385,978</u>
Adjustment for expected credit loss for companies	<u>183,584</u>	<u>25,248</u>	<u>208,832</u>	<u>4,489</u>
Total net loans to corporate	13,910,265	1,663,104	15,573,369	381,489
Total gross	<u>21,620,833</u>	<u>2,425,550</u>	<u>24,046,383</u>	<u>476,397</u>
Total adjustments for expected credit loss	<u>202,503</u>	<u>27,852</u>	<u>230,355</u>	<u>4,924</u>
Total net loans	21,418,330	2,397,698	23,816,028	471,473
Collaterals	<u>15,952,610</u>	<u>2,027,513</u>	<u>17,980,123</u>	<u>319,099</u>

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022
(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

Internal rating

<u>31 December 2021</u>	<u>Low risk</u>	<u>Moderate risk</u>	<u>Total</u>	<u>Of which within 1-30 days</u>
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	<u>258,217</u>	<u>16,719</u>	<u>274,936</u>	<u>9,072</u>
Total gross loans to individuals	7,537,862	740,350	8,278,212	65,002
Adjustment for expected credit loss for individuals	<u>15,967</u>	<u>2,243</u>	<u>18,210</u>	<u>302</u>
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 subsidies	<u>124,344</u>	<u>13,577</u>	<u>137,921</u>	<u>4,192</u>
Total loans to corporate	12,028,253	2,459,994	14,488,247	373,745
Adjustment for expected credit loss for companies	<u>136,823</u>	<u>31,064</u>	<u>167,887</u>	<u>4,711</u>
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	<u>152,790</u>	<u>33,307</u>	<u>186,097</u>	<u>5,013</u>
Total net loans	19,413,325	3,167,037	22,580,362	433,734
Collaterals	<u>14,338,592</u>	<u>2,612,608</u>	<u>16,951,200</u>	<u>352,681</u>

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

In the analysis, both qualitative (shareholder quality, assessment of the qualification level and continuity within the company for the management team, customer focus, the borrower's experience in managing borrowed funds) and quantitative (current liquidity, solvency, profitability of the figure of business, the general indebtedness level, the level of currency risk coverage).

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

The financial performance of corporate customers is updated every 6 months based on up-to-date financial statements and qualitative factors.

In the case of individuals, the financial performance is established on the basis of the scoring from the granting of the loan and is re-valuated during the performance of the loan agreement, according to the information obtained regarding the fluctuation of incomes.

Loans classified in stage 1 granted to customers classified in the two best financial performance classes (A and B) are considered low-risk loans, other loans classified in stage I are considered 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 contractual debt service greater than 30 days at the end of the current month, or debt service according to the new definition of default has exceeded 30 days, loans placed on the watch list, performing restructured loans, exposure related to a customer for which changes have been identified in the credit/customer situation compared to the situation from the date the loan was granted without these representing events of payment default likelihood, i.e. anticipating the full default of the debt, without enforcement of collaterals, are classified in the category of loans for which the credit risk has increased significantly since initial recognition, if no impairment indicators have been identified leading to their classification in the category of impaired loans.

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

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022
(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

30 June 2022	0 days	- 30 days	31- 60 days	61- 90 days	Total
Individuals – personal needs loans fully collateralised with real estate collaterals	18,085	8,569	2,271	1,139	30,064
Individuals – personal needs loans without real estate collaterals or not fully covered	23,307	7,496	12,774	7,531	51,108
Individuals – Mortgage loans	619,077	34,330	6,193	2,173	661,773
Cards/ Overdraft	3,045	2,629	1,617	774	8,065
Total loans to individuals	663,514	53,024	22,855	11,617	751,010
Expected credit loss to individuals	5,970	661	281	147	7,059
Total net loans for individuals	657,544	52,363	22,574	11,470	743,951
Legal entities Agriculture	256,656	15,927	926	2,115	275,624
Public local administrations	403,321	-	-	-	403,321
Legal entities Industry	342,869	17,400	888	-	361,157
Legal entities Commerce	209,769	9,938	2,194	1,761	223,662
Legal entities Construction	62,938	15,297	3,238	291	81,764
Legal entities Services	1,285,913	28,966	11,373	502	1,326,754
Bridge loans for subsides	19,347	519	280	-	20,146
Total corporate loans	2,580,813	88,047	18,899	4,669	2,692,428
Expected credit loss to corporate	211,624	6,741	1,784	225	220,374
Total net loans for corporate	2,369,189	81,306	17,115	4,444	2,472,054
Total gross	3,244,327	141,071	41,754	16,286	3,443,438
Total adjustments for expected credit loss	217,594	7,402	2,065	372	227,433
Total net loans	3,026,733	133,669	39,689	15,914	3,216,005
Collaterals	2,632,796	124,426	22,582	7,326	2,787,130

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022
(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

31 December 2021	0 days	- 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	<u>206</u>	<u>23</u>	<u>1,266</u>	<u>581</u>	<u>2,076</u>
Total loans to individuals	<u>134,078</u>	<u>31,985</u>	<u>21,513</u>	<u>10,049</u>	<u>197,625</u>
Expected credit loss to individuals	<u>1,453</u>	<u>350</u>	<u>254</u>	<u>109</u>	<u>2,166</u>
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 subsidies	<u>18,857</u>	<u>13</u>	<u>66</u>	<u>33</u>	<u>18,969</u>
Total corporate loans	<u>2,102,556</u>	<u>58,289</u>	<u>30,569</u>	<u>13,374</u>	<u>2,204,788</u>
Expected credit loss to corporate	<u>153,516</u>	<u>5,065</u>	<u>2,121</u>	<u>1,054</u>	<u>161,756</u>
Total net loans for corporate	1,949,040	53,224	28,448	12,320	2,043,032
Total gross	<u>2,236,634</u>	<u>90,274</u>	<u>52,082</u>	<u>23,423</u>	<u>2,402,413</u>
Total adjustments for expected credit loss	<u>154,969</u>	<u>5,415</u>	<u>2,375</u>	<u>1,163</u>	<u>163,922</u>
Total net loans	2,081,665	84,859	49,707	22,260	2,238,491
Collaterals	<u>1,822,249</u>	<u>81,109</u>	<u>34,019</u>	<u>12,551</u>	<u>1,949,928</u>

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022

(All amounts in RON thousand, unless otherwise specified)

10 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) described in the latest annual financial statements:

30 June 2022	0 days	1-30 days	31-60 days	61-90 days	91-180 days	181-360 days	More than 360 days	Total
Individuals – personal needs loans fully collateralised with real estate collaterals	6,092	3,012	847	284	3,174	4,179	21,833	39,421
Individuals – personal needs loans without real estate collaterals or not fully covered	9,565	966	217	158	19,255	23,498	27,346	81,005
Individuals – Mortgage loans	20,123	1,388	692	2,004	5,762	6,492	21,906	58,367
Cards/ Overdraft	5,700	273	128	178	1,440	1,448	3,119	12,286
Total gross loans to individuals	<u>41,480</u>	<u>5,639</u>	<u>1,884</u>	<u>2,624</u>	<u>29,631</u>	<u>35,617</u>	<u>74,204</u>	<u>191,079</u>
Expected credit loss to individuals	<u>20,055</u>	<u>3,315</u>	<u>1,132</u>	<u>1,011</u>	<u>9,676</u>	<u>16,177</u>	<u>40,651</u>	<u>92,017</u>
Total net loans for individuals	21,425	2,324	752	1,613	19,955	19,440	33,553	99,062
Legal entities Agriculture	35,582	16,390	-	624	44,013	5,918	89,966	192,493
Public local administrations	1,185	-	-	-	1,185	1,184	3,326	6,880
Legal entities Industry	182,762	179,310	618	454	4,679	32,730	157,822	558,375
Legal entities Commerce	49,404	23,354	1,600	6,024	12,014	5,344	92,997	190,737
Legal entities Construction	83,630	31,746	4,370	-	63,423	15,737	41,236	240,142
Legal entities Services	260,971	45,741	6,159	24,512	14,471	65,116	99,619	516,589
Bridge loans for subsidies	<u>2,092</u>	<u>147</u>	<u>-</u>	<u>-</u>	<u>342</u>	<u>242</u>	<u>3,694</u>	<u>6,517</u>
Total gross loans to corporate entities	<u>615,626</u>	<u>296,688</u>	<u>12,747</u>	<u>31,614</u>	<u>140,127</u>	<u>126,271</u>	<u>488,660</u>	<u>1,711,733</u>
Expected credit loss to corporate	<u>243,334</u>	<u>171,989</u>	<u>4,321</u>	<u>27,986</u>	<u>75,743</u>	<u>63,348</u>	<u>340,702</u>	<u>927,423</u>
Total net loans for corporate	372,292	124,699	8,426	3,628	64,384	62,923	147,958	784,310
Total gross	<u>657,106</u>	<u>302,327</u>	<u>14,631</u>	<u>34,238</u>	<u>169,758</u>	<u>161,888</u>	<u>562,864</u>	<u>1,902,812</u>
Total adjustments for expected credit loss	<u>263,389</u>	<u>175,304</u>	<u>5,453</u>	<u>28,997</u>	<u>85,419</u>	<u>79,525</u>	<u>381,353</u>	<u>1,019,440</u>
Total net loans	393,717	127,023	9,178	5,241	84,339	82,363	181,511	883,372
Collaterals	<u>616,553</u>	<u>255,721</u>	<u>10,219</u>	<u>8,818</u>	<u>107,504</u>	<u>125,839</u>	<u>493,976</u>	<u>1,618,630</u>

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022

(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

31 December 2021	0 days	1-30 days	31-60 days	61-90 days	91-180 days	181-360 days	More than 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	<u>6,816</u>	<u>240</u>	<u>66</u>	<u>62</u>	<u>1,507</u>	<u>2,836</u>	<u>3,487</u>	<u>15,014</u>
Total gross loans to individuals	<u>51,387</u>	<u>5,019</u>	<u>906</u>	<u>1,003</u>	<u>29,673</u>	<u>46,418</u>	<u>101,688</u>	<u>236,094</u>
Expected credit loss to individuals	<u>23,154</u>	<u>2,247</u>	<u>336</u>	<u>188</u>	<u>9,596</u>	<u>27,937</u>	<u>69,401</u>	<u>132,859</u>
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 subsidies	<u>151</u>	<u>70</u>	<u>148</u>	<u>-</u>	<u>-</u>	<u>1,417</u>	<u>3,629</u>	<u>5,415</u>
Total gross loans to corporate entities	<u>673,938</u>	<u>64,995</u>	<u>78,338</u>	<u>15,478</u>	<u>76,776</u>	<u>140,305</u>	<u>564,732</u>	<u>1,614,562</u>
Expected credit loss to corporate	<u>316,917</u>	<u>15,973</u>	<u>30,125</u>	<u>7,112</u>	<u>36,770</u>	<u>66,177</u>	<u>412,546</u>	<u>885,620</u>
Total net loans for corporate	357,021	49,022	48,213	8,366	40,006	74,128	152,186	728,942
Total gross	<u>725,325</u>	<u>70,014</u>	<u>79,244</u>	<u>16,481</u>	<u>106,449</u>	<u>186,723</u>	<u>666,420</u>	<u>1,850,656</u>
Total adjustments for expected credit loss	<u>340,071</u>	<u>18,220</u>	<u>30,461</u>	<u>7,300</u>	<u>46,366</u>	<u>94,114</u>	<u>481,947</u>	<u>1,018,479</u>
Total net loans	385,254	51,794	48,783	9,181	60,083	92,609	184,473	832,177
Collaterals	<u>620,538</u>	<u>66,270</u>	<u>79,877</u>	<u>15,144</u>	<u>77,912</u>	<u>130,784</u>	<u>564,519</u>	<u>1,555,044</u>

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022
(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

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 the market price or indexes of similar assets.

Fair value of real estate and other type (inventory or equipment) collaterals at the end of the reporting period was estimated by indexing the value determined by the Bank's evaluation department, by adjustment coefficients depending on the type of collateral, the date of the last evaluation of the collateral, the legal standing of the customers, the location of the collateral, the costs of enforcement, and the duration of capitalization.

The types of collaterals accepted by the Bank as at 30.06.2022 are presented in the table below:

<u>Type of collateral</u>	<u>Collateral value</u>	<u>(%)</u>	<u>Collaterals for balance sheet exposures</u>	<u>Collaterals for off balance sheet exposures</u>
Guarantees received from public administration and related entities	4,292,734	9.59	4,132,540	160,194
Guarantees received from other financial Institutions	226,319	0.51	211,474	14,845
Real estate	29,172,185	65.16	26,862,981	2,309,204
Pledge over (movable assets, inventory, cash collateral)	6,184,978	13.82	4,684,458	1,500,520
Other (assignment of receivables)	<u>4,888,989</u>	<u>10.92</u>	<u>3,222,733</u>	<u>1,666,256</u>
Total	<u>44,765,205</u>	<u>100</u>	<u>39,114,186</u>	<u>5,651,019</u>

The types of collaterals accepted by the Bank as at 31.12.2021 are presented in the table below:

<u>Type of collateral</u>	<u>Collateral value</u>	<u>(%)</u>	<u>Collaterals for balance sheet exposures</u>	<u>Collaterals for off balance sheet exposures</u>
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)	<u>4,511,544</u>	<u>10.92</u>	<u>2,519,983</u>	<u>1,991,561</u>
Total	<u>41,312,626</u>	<u>100</u>	<u>35,421,519</u>	<u>5,891,107</u>

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022
(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

The effect of changing expected loss for loans and advances to customers can be analyzed as at 30 June 2022 as follows:

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Opening balance at 1 January	186,097	163,922	1,018,479	1,368,498
Transfers to stage 1	13,365	(9,652)	(3,713)	-
Transfers to stage 2	(8,350)	34,464	(26,114)	-
Transfers to stage 3	(2,827)	(15,801)	18,628	-
Increases due to new loans granted during the year	35,100	17,635	15,222	67,957
Decreases due to closed loans in year	(9,251)	(2,648)	(10,799)	(22,698)
Net remeasurement during the year	16,407	39,978	166,642	223,027
Write-off	-	-	(167,235)	(167,235)
Interest adjustments	-	-	8,472	8,472
Other adjustments	(186)	(465)	(142)	(793)
Closing balance at 30 June	<u>230,355</u>	<u>227,433</u>	<u>1,019,440</u>	<u>1,477,228</u>

Transfers between stages capture the net movement of financial assets that are in a different stage at the end of the period than at the beginning of the year. Transfers between each stage are based on opening balances and impairment adjustments at the beginning of the period.

During the first half of 2022, the Bank has written off loans granted to customers in the gross amount of RON 167,235 thousand by directly reducing the non-recoverable loans fully covered with adjustments for expected losses.

During the first half of 2022, the Bank concluded debt assignment contracts with third party entities. Assignments were made by selling individual receivables. Through these contracts, receivables from non-performing retail and corporate loans, both secured and unsecured, were sold in the amount of RON 802 thousand gross balance sheet receivables (in the amount of RON 524 thousand net balance sheet receivables) and in the amount of RON 9,283 thousand off-balance sheet receivables.

The amount of the receivables that was collected was RON 6,817. 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.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022

(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

The effect of changing expected loss for loans and advances to customers can be analyzed as at 30 June 2021 as follows:

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Opening balance at 1 January	272,957	166,432	788,201	1,227,590
Transfers to stage 1	10,437	(7,809)	(2,628)	-
Transfers to stage 2	(7,774)	35,278	(27,504)	-
Transfers to stage 3	(237)	(5,666)	5,903	-
Increases due to new loans granted during the year	18,172	8,677	13,857	40,706
Decreases due to closed loans in year	(13,658)	(679)	(33,701)	(48,038)
Net remeasurements during the year	(82,556)	(34,787)	343,176	225,833
Write-off	-	-	(208,931)	(208,931)
Interest adjustments	-	-	(9,655)	(9,655)
Other adjustments	(908)	(345)	(510)	(1,763)
Closing balance at 30 June	<u>196,433</u>	<u>161,101</u>	<u>868,208</u>	<u>1,225,742</u>

Transfers between stages capture the net movement of financial assets that are in a different stage at the end of the period than at the beginning of the year. Transfers between each stage are based on opening balances and impairment adjustments at the beginning of the period.

During the first half of 2021, the Bank has written off loans granted to customers in the gross amount of RON 208,931 thousand by directly reducing the non-recoverable loans fully covered with adjustments for expected losses.

During the first half of 2021, the Bank concluded debt assignment contracts with third party entities. Assignments were made by selling individual receivables. Through these contracts, receivables from non-performing retail and corporate loans, both secured and unsecured, were sold in the amount of RON 34.436 thousand gross balance sheet receivables (in the amount of RON 17.508 thousand net balance sheet receivables) and in the amount of RON 37,004 thousand off-balance sheet receivables.

The amount of the receivables that was collected was RON 24,246 thousand (of which RON 8,302 thousand from assignment of portfolios). 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.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022
(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

Analysis of the impact of the COVID-19 pandemic and economic turbulence on the loan portfolio

In the context of the COVID_19 pandemic, in accordance with the measures adopted in European countries, the Bank used both public and private moratoria in order to support customers who faced certain difficulties related to the cash deficit generated by the state of emergency/state of alert and the restrictions imposed by the authorities. The moratoria applied by the Bank comply with the provisions of the EBA GL 2020/02 Guidelines regarding legislative and non-legislative moratoria applied to the payment of loans in the context of the COVID_19 crisis, amended by EBA GL 2020/15. Payment deferrals based on the legislative moratoria granted to customers during 2020-2021 were carried out in accordance with GEO 37/2020 and GEO 227/2020 regarding the granting of facilities for loans granted by credit institutions and non-banking financial institutions to certain categories of borrowers, as subsequently amended and supplemented.

Starting from April 2020, the Bank started to implement payment deferral mechanisms in accordance with the legislative requirements and the regulatory framework. The bank applied the public (legislative) moratorium introduced by Government Ordinance for individuals and companies, as well as the private (non-legislative) moratorium implemented at the level of the Romanian Banks Association, only for companies.

The Financial Stability Committee recommended the regulatory authorities to use the flexibility of international standards regarding the application of the criteria of significant increase in credit risk ("SICR"), respectively the classification by stages of exposures for which payment deferral measures were approved. The Basel Committee on Banking Supervision (BCBS) has announced a delay in the implementation of the Basel III package until January 1, 2023, and the International Accounting Standards Board (IASB) has issued guidance on the application of IFRS 9 in the context of the COVID-19 crisis.

Thus, the Bank did not automatically reclassify into Stage 2 or Stage 3 the exposures for which payment deferral measures were approved, but the stage classification was carried out based on an analysis that took into account the differentiation between debtors affected by a liquidity crisis in the short term and those for which the effects of the pandemic represent a significant increase in credit risk for the lifetime of the loan, with a view to the appropriate classification in Stage 2 or Stage 3 of these debtors.

The Bank's analysis was focused on the industries most affected by the COVID-19 pandemic (restaurants, hotels, tourism, events, but also other services, industrial manufacturing, constructions), for the appropriate identification and reclassification in Stage 2 and Stage 3, respectively.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022
(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

As at 30.06.2022, the balance sheet exposures related to loans to customers who requested the suspension of payments in the context of the COVID_19 pandemic during 2021 are presented as follows:

Customer type	Stage 1	Stage 2	Stage 3	Total
Individuals	6,249	1,702	792	8,743
Legal entities	-	-	-	-
Agriculture /Public local administrations				
Corporate entities	-	14,975	10,116	25,091
Small and Medium- sized Enterprises	13,808	38,261	1,392	53,461
Total	20,057	54,938	12,300	87,295

The classification by stages was carried out taking into account the financial standing of the customers, existing before the COVID_19 crisis, but also after the events generated by this crisis, objectively estimating the prospect of prolonging the cash deficits in the medium and long term and their transformation into financial hardship, in order to assess the significant increase in credit risk or the occurrence of payment default likelihood.

From the point of view of the types of retail loans, as at 30.06.2022:

Exposure type	Stage 1	Stage 2	Stage 3	Total
Secured consumer loans	437	262	194	893
Unsecured consumer loans	585	29	311	925
Mortgage loan	5,226	1,411	288	6,925
Total	6,248	1,702	793	8,743

The structure of the loan portfolio that benefited from moratoria from the point of view of debt service, is presented as at 30.06.2022 as follows:

Type of customer	0 days	1-30 days	30-90 days	over 90 days	Total
Individuals	7,750	317	19	657	8,743
Legal entities	-	-	-	-	-
Agriculture					
Corporate entities	25,091	-	-	-	25,091
Small and Medium-sized Enterprises	30,854	21,215	-	1,392	53,461
Total	63,695	21,532	19	2,049	87,295

Based on the existing credit portfolio as at 30.06.2022, the Bank has created a stress scenario regarding credit risk in the context of the COVID_19 pandemic and economic turbulence (inflation, rising energy prices, delays in supply/retail chains, interest rate increases). The scenario takes into account the deterioration of the credit quality, for the customers considered the most affected who requested the suspension of payments during 2021, respectively the significant increase of the credit risk compared to the time of granting for 20% of the loans classified in Stage 1 and the impairment of 50% of the loans classified in Stage 2 and implicitly the reassessment of the adjustments for expected losses related to those loans.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022

(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

Applying the stress factor as described above causes the level of adjustments for expected losses to increase by RON 76.23 million, respectively RON 20.56 million for loans that migrated from Stage 1 to Stage 2 and RON 55.67 million for loans that have migrated from Stage 2 to Stage 3.

Migration	Balance sheet exposure	Adjustments for expected credit loss before scenario	Adjustments for expected credit loss after scenario	Impact
Stage 1-Stage 2	231,021	2,779	23,343	20,564
Stage 2-Stage 3	159,670	16,134	71,800	55,666
Total	390,691	18,913	95,143	76,230

The increase in the level of expected credit losses in the scenario generates an insignificant decrease (below 1 pp) of the total equity ratio, a decrease not relevant for the minimum limit of 17.44% of the overall capital requirement (OCR).

Assumptions and techniques used in estimating adjustments for expected credit losses:

The 12-month average probability of default, estimated at the level of the loan portfolio as at 30.06.2022 and used to determine the adjustments for expected losses (before applying the post model adjustment coefficients presented on page 45) is:

Group	12-month average
CAG (Legal entities Agriculture)	CAG 2.42%
CAP (Public local administrations)	CAP 1.33%
CCM (Legal entities Commerce)	CCM 3.94%
CCO (Legal entities Construction)	CCO 4.87%
CIN (Legal entities Industry)	CIN 4.89%
CSA (Individuals – personal needs loans fully collateralised with real estate collaterals)	CSA 2.54%
CSN (Individuals – personal needs loans without real estate collaterals or not fully covered)	CSN 2.75%
CSS (Legal entities Services)	CSS 4.94%
CTS (Bridge loans for subsidies)	CTS 0.42%
IP (Individuals – Mortgage loans)	IP 0.32%
OW (Cards/Overdraft)	OW 2.79%

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

- scenario 1, with an 85% probability of achievement, using the latest macroeconomic forecasts published by the World Bank. For the estimates related to the year 2022, an economic growth of +1.9% in 2022, +4.1% in 2023 was considered;
- scenario 2, with a 5% probability of achievement, which takes into account the 20% reduction in the amplitude of economic growth mentioned in the base scenario (for the estimates related to the year 2022: +1.52% in 2022, +3.28% in 2023);
- scenario 3, with a 10% probability of achievement, which takes into account the macroeconomic forecast published by the World Bank and a reduced gap of 6 months between macroeconomic changes and the expected default rate. For the estimates related to 2022, an economic growth of +1.9% in 2022, +4.1% in 2023 was considered. The spread of the negative effect of reduced economic growth in 2022 over a shorter period (6 months instead of 12 months used in scenarios 1 and 2) implies a more optimistic estimate.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022
(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

In addition to the inherent estimation uncertainty, the economic effects of the pandemic have caused increased uncertainties, in particular, regarding macroeconomic forecasts and their probabilities of occurrence, and therefore actual results may differ materially from those estimated. The Bank believes that these forecasts represent the best estimate of possible results.

Sensitivity analysis of adjustments for expected losses determined by changes in macroeconomic factors as at 30.06.2022 (RON thousand):

Balance sheet exposure	Scenario 1	Recorded	Scenario 2	Scenario 3
Individuals	9,302,779	9,302,779	9,302,779	9,302,779
Corporate entities	20,471,686	20,471,686	20,471,686	20,471,686
Total	29,774,465	29,774,465	29,774,465	29,774,465
Adjustments for expected credit losses	Scenario 1	Recorded	Scenario 2	Scenario 3
Individuals	108,090	108,235	108,397	108,530
Legal entities	1,329,044	1,332,814	1,337,779	1,341,912
Total	1,437,134	1,441,049	1,446,176	1,450,442

Scenario 1, an optimistic one, considers a probability of 70% of the base scenario, and 30% of the scenario that takes into account an economic growth of 40% above the base scenario. A decrease in economic growth below the level forecast in the baseline scenario has not been considered.

Scenario 2, a moderately pessimistic one, considers a probability of 45% of the basic scenario, 50% of the scenario that takes into account the 40% reduction of the forecasted economic growth and 5% of the scenario that takes into account the decrease to 6 months of the gap between macroeconomic changes and the expected default rate.

Scenario 3, a pessimistic one, considers a probability of 10% of the base scenario and 90% of the scenario that takes into account a 40% decrease in the forecasted economic growth.

Considering the difficult-to-estimate negative effect of the COVID 19 pandemic, as well as the perspective of the economic situation in the context of the increase in energy/gas prices, difficulties in the supply/distribution chain, the Russian-Ukrainian war, the increase in inflation and interest rates, the Bank made some adjustments to the post-model expected credit loss adjustment ratios for loans classified in S2 according to the industry risk, as well as for part of the loans classified S1.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022
(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

The bank used the following post model adjustment coefficients of expected credit losses for exposures classified S2 and S1:

Homogenous portfolio	ECL adjustment coefficient S2	ECL adjustment coefficient S1
CSS (Legal entities Services)	2.8	
CIN (Legal entities Industry)	2.5	
CCO (Legal entities Construction)	2.5	
CCM (Legal entities Commerce)	2.5	
CAG (Legal entities Agriculture)	2.5	1.4
CAP (Public local administrations)	2.5	
CSN (Individuals – personal needs loans without real estate collaterals or not fully covered)	1.3	1.4
CSA (Individuals – personal needs loans fully collateralised with real estate collaterals)	1.5	1.7
IP (Individuals – Mortgage loans)	1.5	1.7
CTS (Loans for subsidies)	1.3	
OW (Cards/Overdraft)	1.3	

The level of the overlay coefficients was determined taking into account the increase in ECL when migrating between stages, observed at the portfolio level and the estimate of the increase in the probability of migration from S2 to S3 by 33% for corporate loans and 16.5% for retail loans, respectively the probability of migration from S1 to S2 with 16.5% for retail loans and 15% for corporate loans – agriculture, with the following adjustments: increasing the probability of declassification by 20% for secured retail loans, respectively by 10% for loans from the corporate portfolio - services (includes real estate financing), in the context of negative estimates regarding the evolution of the real estate market.

The quantitative effect of the post model adjustment coefficients was to increase the expected loss adjustments by approx. RON 153.94 million (RON 107.37 million as at 31.12.2021).

For individuals, the expectations of interest rate increases were taken into account in the classification of performing exposures. The impact of a 3 pp increase in benchmark rates was reflected in the increase in the level of indebtedness. A significant increase in credit risk is expected when:

- for unsecured loans, the monthly payment installment increases by more than RON 150;
- for secured loans granted as of the beginning of 2019, the monthly payment installment increases by more than RON 500 and the level of indebtedness increases in excess of 60%;

Based on these criteria, a total exposure of RON 544.69 million was classified in Stage 2, with an increase in adjustments for expected losses of approx. RON 3.72 million.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022

(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

As at 31.12.2021, the balance sheet exposures related to loans to customers who requested the suspension of payments in the context of the COVID_19 pandemic during 2021 are presented 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

The classification by stages was carried out taking into account the financial standing of the customers, existing before the COVID_19 crisis, but also after the events generated by this crisis, objectively estimating the prospect of prolonging the cash deficits in the medium and long term and their transformation into financial hardship, in order to assess the significant increase in credit risk or the occurrence of payment default likelihood.

From the point of view of the types of retail loans, 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 loans	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 that benefited from moratoria in the course of 2021 from the point of view of debt service, is presented as at 31.12.2021 as follows:

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 credit portfolio as at 31.12.2021, the Bank has created a stress scenario regarding credit risk in the context of the COVID_19 pandemic and economic turbulence (inflation, rising energy prices, delays in supply/retail chains). The scenario takes into account the deterioration of the credit quality, for the customers considered the most affected who requested the suspension of payments during 2021, respectively the significant increase of the credit risk compared to the time of granting for 20% of the loans classified in Stage 1 and the impairment of 50% of the loans classified in Stage 2 and implicitly the reassessment of the adjustments for expected losses related to those loans.

Applying the stress factor as described above causes the level of adjustments for expected losses to increase by RON 95.42 million, respectively RON 15.11 million for loans that migrated from Stage 1 to Stage 2 and RON 80.31 million for loans that have migrated from Stage 2 to Stage 3.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022
(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

	Balance sheet exposure	Adjustments for expected credit loss before scenario	Adjustments for expected credit loss after scenario	Impact
Migration				
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	<u>436,073</u>	<u>20,037</u>	<u>115,457</u>	<u>95,420</u>

The increase in the level of expected credit losses in the scenario generates an insignificant decrease (below 1 pp) of the total equity ratio, a decrease not relevant for the minimum limit of 16.23% of the overall capital requirement (OCR).

Assumptions and techniques used in estimating adjustments for expected credit losses:

The 12-month average probability of default, estimated at the level of the loan portfolio as at 31.12.2021 and used to determine the adjustments for expected losses (before applying the post model adjustment coefficients presented on page 49) 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 collateral)	CSA	2.38%
CSN (Individuals – personal needs loans without real estate collateral or not fully covered)	CSN	2.59%
CSS (Legal entities Services)	CSS	4.27%
CTS (Bridge loans for subsidies)	CTS	0.35%
IP (Individuals – Mortgage loans)	IP	0.29%
OW (Cards/Overdraft)	OW	2.63%

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

– scenario 1, with an 85% probability of achievement, using the latest macroeconomic forecasts published by the World Bank. For the estimates related to 2021, an economic growth of +6.0% in 2021, +4.5% in 2022, +3.9% in 2023 was considered;

– scenario 2, with a 5% probability of achievement, which takes into account the 20% reduction in the amplitude of economic growth mentioned in the base scenario (for the estimates related to the year 2021: +4.8% in 2021, +3.6% in 2022, +3.12% in 2023);

– scenario 3, with a 10% probability of achievement, which takes into account the macroeconomic forecast published by the World Bank and a reduced gap of 6 months between macroeconomic changes and the expected default rate. For the estimates related to 2021, an economic growth of +6.0% in 2021, +4.5% in 2022, +3.9% in 2023 was considered. The propagation of the negative effect of the 2020 economic downturn over a shorter period (6 months instead of 12 months) implies a more optimistic estimate.

In addition to the inherent estimation uncertainty, the economic effects of the pandemic have caused increased uncertainties, in particular, regarding macroeconomic forecasts and their probabilities of occurrence, and therefore actual results may differ materially from those estimated. The Bank believes that these forecasts represent the best estimate of possible results.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022
(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

Sensitivity analysis of adjustments for expected losses determined by changes in macroeconomic factors as at 31.12.2021 (RON thousand):

Balance sheet exposure	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	<u>1,349,696</u>	1,351,093	1,358,423	<u>1,364,880</u>

Scenario 1, an optimistic one, considers a probability of 95% of the basic scenario, and 5% of the scenario that takes into account the reduction to 6 months of the gap between the macroeconomic changes and the expected default rate. A decrease in economic growth below the level forecast has not been considered.

Scenario 2, a moderately pessimistic one, considers a probability of 45% of the basic scenario, 50% of the scenario that takes into account the 20% reduction of the forecasted economic growth and 5% of the scenario that takes into account the decrease to 6 months of the gap between macroeconomic changes and the expected default rate.

Scenario 3, a pessimistic one, considers a probability of 10% of the base scenario and 90% of the scenario that takes into account a 20% decrease in the forecasted economic growth.

Considering the difficult-to-estimate negative effect of the COVID 19 pandemic, as well as the perspective of the economic situation in the context of the increase in energy/gas prices, difficulties in the supply/distribution chain, the Bank made some adjustments to the model for estimating expected credit losses, namely the application of some post-model coefficients for adjusting expected credit losses for loans classified in S2 depending on the industry risk, as well as for part of the loans classified S1.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022
(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

The bank used the following post model adjustment coefficients of expected credit losses for exposures classified S2 and S1:

<u>Homogenous portfolio</u>	Adjustment coefficient S2	Adjustment coefficient S1
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 loans classified S2 was established within an internal model, which considered, with a different probability depending on the risk related to the economic sector, the potential loss of the declassification of exposures in stage 3. 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, respectively concerns related to the 2021/2022 agricultural year.

The quantitative effect of the mentioned measures was to increase the adjustments for expected losses by approx. RON 107 million.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022
(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

Residential mortgages

In the tables below, exposures from mortgage/real estate loans and advances to retail customers are divided according to the weight of the exposure in the corresponding eligible collaterals (loan to value -LTV). LTV is calculated as the ratio between the gross value of the exposure, or the amount committed in the case of lending commitments, and the value of the related collateral. The value of the exposures does not take into account the calculated expected loss adjustments. The market value of the collateral does not take into account any adjustment for enforcement costs. The market value of the real estate/mortgage collateral taken into account is reviewed at least once every three years on the basis of valuation reports.

The ratio between loans and related real estate collaterals (LTV) as at 30.06.2022:

LTV	Balance sheet exposure	Off balance sheet exposure
< 60%	1,867,955	4,611
61-80%	2,925,516	11,694
81-100%	2,376,264	5,584
101-120%	35,326	156
121-140%	5,534	170
>140%	<u>18,828</u>	<u>2,052</u>
Total	<u>7,229,423</u>	<u>24,267</u>

The ratio between loans and related real estate collaterals (LTV) as at 31.12.2021:

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%	<u>16,711</u>	<u>2,272</u>
Total	<u>6,391,425</u>	<u>14,279</u>

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

The bank holds collateral for loans and advances to customers in the form of deposits, mortgages on property, guarantees and other pledges on equipment or future cashflows. Fair value estimates take into account the value of collateral valued at the credit date and are reviewed in accordance with the bank's internal policy. In the case of assessing the collective adjustment for expected losses, the model justifies recovery rates, which are estimated based on historical recovery information. Generally, no collateral is taken for loans and advances to banks.

Loans with renegotiated terms

Restructuring activities include payment deferral arrangements based on business plans approved by management. The decision regarding the restructuring of credit facilities is based on the economic-financial analysis of corporate clients (based on the latest financial information held) and on the estimation of future payments or on the analysis of the repayment capacity of individuals (based on documents reflecting the actual net income).

Restructuring policies and practices are based on indicators or criteria that, in the opinion of the Bank's management, indicate the likelihood that payments will continue in the future. These policies are continually reviewed. The specialized departments analyze and approve, according to internal regulations, the restructuring proposals submitted by the Bank's units and forward them for approval to the Credit Restructuring Committee / Central Credit Committee depending on the Bank's exposure to the client/group of related clients. After restructuring, the Bank regularly monitors the restructured loans on a case-by-case basis.

As at 30 June 2022, the gross accounting value of exposures with restructuring measures is RON 1,346,430 thousand (31 December 2021: RON 1,288,248 thousand), of which RON 628,847 thousand are performing exposures with restructuring measures (31 December 2021: RON 592,731 thousand).

Repossessed collaterals

Within other assets, the Bank recognized, as at 30 June 2022, in the amount of RON 3,859 thousand (31 December 2021: RON 3,760 thousand) assets taken over in the patrimony or from the enforcement of collaterals for loans to customers. In the first half of 2022, the Bank took over assets worth RON 99 thousand (2021: RON 841 thousand) based on Law no. 77/2016 on the *datio in solutum* of real estate property in order to settle the obligations assumed through loans.

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

Investment securities

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

Romania's rating for the year 2022 confirmed by Fitch for long term debt in foreign and local currency is 'BBB -', with a negative outlook, also confirming the F3 qualification for short term debt, as well as the country ceiling 'BBB+'.

Romania's rating for the year 2021 confirmed by Fitch for long term debt in foreign and local currency is 'BBB -', with a negative outlook, also confirming the F3 qualification for short term debt, as well as the country ceiling 'BBB+'.

Each of the rating firms uses distinct rating scales; the 'BBB -' rating with a negative outlook is assigned by Fitch, the 'BBB -' rating with a stable outlook is assigned by S&P and the 'Baa3' rating with a stable outlook is assigned by Moody's. In accordance with the provisions of the internal regulations, the short-term and long-term ratings assigned by the 3 mentioned rating firms are used in the sense that based on them, the analyzed foreign credit institutions are placed in their own 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 course of day-to-day business to manage surplus cash. The quality of counterparties is continuously evaluated to reduce credit risk and the Bank's management approves exposure limits for each individual credit institution.

In order to determine the exposure limits to credit institutions, their financial information is used (in the case of Romanian legal entity banks) and ratings granted by international rating agencies, combined with financial information (in the case of foreign legal entity credit institutions and in the case of Romanian legal entities where the parent bank is a foreign entity), resulting in the inclusion in risk classes.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022

(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit institutions (with related ratings) with which the Bank has current accounts, deposits accounts and loans and advances accounts are the following:

		30 June 2022	31 December 2021	Rating 30 June 2022	Rating 31 December 2021
		<u>Total balance</u>	<u>Total balance</u>	<u>Short/long term</u>	<u>Short/long term</u>
Loans and advances to banks - neither past due not impaired					
Current account due from other banks	ING Bank	118,140	35,507	A-1/A+	A-1/A+
	Barclays Bank	9,407	1,051	F1/A+	F1/A+
	Commerzbank	22,923	4,549	P-1/A1	P-1/A1
	Societe Generale, Paris	160,763	25,461	P-1/A1	P-1/A1
	State Treasury	208	46	BBB-/A-3	A-3/BBB-
	PKO Bank Polski, Warsaw	141	83	P-1/A2	P-1/A2
	OTP Bank Budapest	911	1,658	P-2/Baa1	P-2/Baa1
	Other	5,551	7,736	-	-
Deposits due from other banks	ING Bank	-	49,988	A-1/A+	A-1/A+
	Barclays Bank	48,916	50,126	F1/A+	F1/A+
	INTESA SANPAOLO BANK ROMANIA	9,982	15,004	BBB/F2	BBB/F2
	Credit Europe Bank	-	213,968	B / B+	B / B+
	PROCREDIT BANK	10,056	-	F3/BBB-	-
	BANCA CENTRALA COOPERATISTA CREDITCOOP	29,944	-	-	-
	UniCredit Bank	-	49,782	F2/BBB	F2/BBB
	PATRIA BANK	49,355	14,815	-	-
	ALPHA BANK ROMANIA	397,278	298,815	-/Ba2	-/Ba2
	LIBRA INTERNET BANK	49,223	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	123,908	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	615	567	F1+/AA-	AA-/AA-
	COMMERZBANK	-	1,284	P-1/A1	P-1/A1
	JP Morgan Securities	2,728	2,738	F1+/AA	F1+/AA
	BCR	1,100	-	F2/BBB+	F2/BBB+
	CITI BANK PLC	593	-	F1/A+	F1/A+
Loans and advances to banks	BANCA ROMANEASCA	168,252	201,046	-	-
	EXIMBANK	252,045	175,432	-	-
Total loans and advances to banks		<u>1,462,039</u>	<u>1,724,312</u>		

As at June 30, 2022, the amounts presented in the financial position loans and advances to banks net of provisions amount to RON 1,462,039 thousand (31.12.2021: RON 1,724,312 thousand).

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Market risk

Market risk is the current or future risk of incurring losses on on- and off-balance sheet positions due to adverse market fluctuations in prices (such as equity prices), interest rates and foreign exchange rates.

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

Price risk represents the risk of recording significant losses from the sale of the government bonds portfolio (FVTOCI), and currency risk is represented by the risk of recording losses as a result of changes in exchange rates.

The bank evaluates the market risk through elements that define it, respectively: the share in total placements of government bonds, the volume of loans granted to non-bank customers, the volume of operations in foreign currencies, the important position that the Bank holds on the market of attracting cash from the population, corroborated with the analysis of exogenous and endogenous factors.

In order to assess the market risk, starting from April 2022, the Bank holds positions on Romanian government bonds within a small trading portfolio (the total maximum position limit for the management of the trading portfolio is RON 200 million equivalent, of which maximum RON 25 million equivalent for maturities greater than 10 years, maximum RON 60 million equivalent for maturities of [5-10) years and maximum RON 75 million equivalent for maturities between [2-5) years.

Positions held with the intention of trading are short-term resale positions and/or with the intention of benefiting from actual or expected short-term differences between buying and selling prices, or from other price or rate movements interest.

The market risk management policy aims to achieve a portfolio with low sensitivity to the variation in the prices of government securities, the variation in VaR and the exchange rate and the achievement of the objectives established by the risk profile. These are mainly achieved by monitoring the price of government bonds on the market as an indicator for price risk, as well as by determining and monitoring the VaR indicator and the Bank's currency position, as indicators of currency risk.

The compliance with the undertaken market risk profile shows the fulfillment of the role and responsibilities of the Bank's structures related to the identification, quantification/evaluation, monitoring, control and mitigation of market risk (mainly price risk and currency risk) and is achieved through the risk limitations established for the key risk indicators based on the risk appetite it undertakes in order to continue the activity on a prudent and sound basis.

The implementation of the policy and the achievement of the objectives regarding the management of market risk is achieved through the permanent monitoring and follow-up of:

- The key indicators underlying the determination of the risk profile, respectively "The level of the hypothetical loss that would result from the immediate sale of the portfolio of government bonds included in the category of financial assets valued at fair value through other elements of comprehensive income", for the price risk and the "Total net foreign exchange position" indicator, for foreign exchange risk;
- Level II indicators, monitored daily, namely the individual net foreign exchange position and the indicator for measuring the risk related to the currency portfolio - the Value at Risk (VaR) methodology.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022
(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

The level of risk limits accepted by the Bank for the key indicators, as well as the ranges considered for their evaluation, were established taking into account the Bank's policy regarding market risk, assessed as significant risk, correlated with the limits imposed by the NBR/EBA regulations, with the historical evolution of the values of these indicators, the size and structure of the assets and liabilities taken into account when determining them, the results obtained following the various forecasts made, budget provisions, etc.

By monitoring the price risk, the Bank aims to reduce the loss that it would record in the event of a hypothetical immediate sale of the portfolio of government securities included in the category "financial assets valued at fair value through other elements of comprehensive income", so that the impact the loss should be minimal in what regards performance of other obligations. By monitoring the foreign exchange risk, the Bank seeks to achieve an optimal portfolio correlated between the value of assets and liabilities expressed in foreign currency, as well as the setting off of trading operations on the foreign exchange market, and, respectively, maintaining a balance between long and short net open positions so that both the impact exchange rate volatility, as well as the maximum loss likely to be recorded to be minimal.

Also, in order to measure the risk related to the foreign currency portfolio, the Bank has the methodology for determining/measuring the VaR (Value at Risk) indicator, by which it follows the inclusion of the maximum loss likely to be recorded on the total foreign currency portfolio, over a certain period of time and with a certain level of reliability.

Internal regulations related to market risk are submitted for approval to the Risk Management Committee.

The Bank's financial assets and liabilities in RON and foreign currencies as at 30 June 2022 can be analyzed as follows:

	<u>RON</u>	<u>EUR</u>	<u>Other</u>	<u>Total</u>
Balance sheet financial assets				
Cash and cash equivalents at central bank	5,956,260	1,503,683	130,893	7,590,836
Derivatives	815	-	-	815
Financial assets held for trading and measured at fair value through profit and loss	112,356	-	-	112,356
Loans and advances to banks	816,282	534,037	111,720	1,462,039
Financial assets mandatorily at fair value through profit or loss	-	-	20,868	20,868
Financial assets measured at fair value through other comprehensive income	8,967,458	2,048,759	205,409	11,221,626
Investments in debt instruments at amortized cost	2,162,723	1,726,497	45,676	3,934,896
Loans and advances to customers	23,032,879	4,662,138	220,388	27,915,405
Other financial assets	<u>49,409</u>	<u>6,413</u>	<u>935</u>	<u>56,757</u>
Total financial assets	<u>41,098,182</u>	<u>10,481,527</u>	<u>735,889</u>	<u>52,315,598</u>

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022

(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

	<u>RON</u>	<u>EUR</u>	<u>Other</u>	<u>Total</u>
Derivative financial assets				
Notional amount of derivatives				
– SWAP per exchange rate	-	6,255,931	94,848	6,350,779
Total derivative assets	<u>=</u>	<u>6,255,931</u>	<u>94,848</u>	<u>6,350,779</u>
	<u>RON</u>	<u>EUR</u>	<u>Other</u>	<u>Total</u>
Balance sheet financial liabilities				
Derivatives	9,336	10	17	9,363
Deposits from banks	690,397	14	-	690,411
Deposits from customers	30,451,338	16,188,680	824,295	47,464,313
Other borrowed funds	47,724	310,993	-	358,717
Subordinated liabilities	1,427,539	-	-	1,427,539
Other financial liabilities	<u>51,420</u>	<u>471</u>	<u>719</u>	<u>52,610</u>
Total financial liabilities	<u>32,677,754</u>	<u>16,500,168</u>	<u>825,031</u>	<u>50,002,953</u>
	<u>RON</u>	<u>EUR</u>	<u>Other</u>	<u>Total</u>
Derivative financial liabilities				
Notional amount of derivatives				
– SWAP per exchange rate	6,276,275	94,004	-	6,370,279
Total derivative liabilities	<u>6,276,275</u>	<u>94,004</u>	<u>-</u>	<u>6,370,279</u>
On balance sheet net financial assets/(liabilities)	<u>8,420,428</u>	<u>(6,018,641)</u>	<u>(89,142)</u>	<u>2,312,645</u>
Derivative financial assets/(liabilities)	<u>(6,276,275)</u>	<u>6,161,927</u>	<u>94,848</u>	<u>(19,500)</u>
	<u>RON</u>	<u>EUR</u>	<u>Other</u>	<u>Total</u>
Letters of guarantee issued for customers	1,686,148	184,274	1,107	1,871,529
Undrawn loan commitments	3,858,363	783,923	7,680	4,649,966

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022
(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

The Bank's financial assets and liabilities in RON and foreign currencies as at 31 December 2021 can be analyzed as follows:

	<u>RON</u>	<u>EUR</u>	<u>Other</u>	<u>Total</u>
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	<u>19,510</u>	<u>5,644</u>	<u>82</u>	<u>25,236</u>
Total financial assets	<u>39,696,791</u>	<u>9,196,957</u>	<u>747,840</u>	<u>49,641,588</u>
	<u>RON</u>	<u>EUR</u>	<u>Other</u>	<u>Total</u>
Derivative financial assets				
Notional amount of derivatives				
– SWAP per exchange rate	49,992	16,748	-	66,740
Total derivative assets	<u>49,992</u>	<u>16,748</u>	<u>-</u>	<u>66,740</u>
	<u>RON</u>	<u>EUR</u>	<u>Other</u>	<u>Total</u>
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	<u>707,781</u>	<u>205</u>	<u>707</u>	<u>708,693</u>
Total financial liabilities	<u>36,744,216</u>	<u>9,111,556</u>	<u>730,610</u>	<u>46,586,382</u>
	<u>RON</u>	<u>EUR</u>	<u>Other</u>	<u>Total</u>
Derivative financial liabilities				
Notional amount of derivatives				
– SWAP per exchange rate	-	49,481	<u>17,659</u>	<u>67,140</u>
Total derivative liabilities	<u>-</u>	<u>49,481</u>	<u>17,659</u>	<u>67,140</u>

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022
(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

On balance sheet net financial assets/(liabilities)	<u>2,952,575</u>	<u>85,401</u>	<u>17,230</u>	<u>3,055,206</u>
Derivative financial assets/(liabilities)	<u>49,992</u>	<u>(32,733)</u>	<u>(17,659)</u>	<u>(400)</u>
	RON	EUR	Other	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

The main currency held by the Bank is EURO. Open foreign exchange positions are a source of foreign exchange risk.

d) Interest rate risk outside the trading portfolio

Interest rate risk is the current or future risk of adverse effects on profits and capital as a result of adverse changes in interest rates.

In assessing the interest rate risk, the Bank considers, starting from April 2022, the development of activities specific to a small trading portfolio, within a total maximum position limit of RON 200 million equivalent, available for Romanian government bonds.

The interest rate risk is identified, quantified, monitored, managed and reported in all the bank's activities that involve potential variations in interest rates at banking book level (in accordance with the provisions of Regulation no. 575/2013 of the European Parliament and of the Council, as amended, equity requirements are not calculated for activities related to the small trading portfolio).

Also, starting from May 2022, the Bank regained the quality of primary dealer of government bonds.

The main source of interest rate risk is represented by the correlation between the structure of the Bank's portfolio of assets and liabilities and the type of interest rate related thereto, taking into account the maturity date - in the case of fixed interest financial instruments, the bullet maturity and/or the principal and interest flows, according to the due date, related to current loans with a fixed interest rate (within the appropriate ranges) and the date of the price discounting - in the case of financial instruments with variable interest.

Through the interest rate risk management policy, the Bank aims to optimize the gap between assets and liabilities sensitive to interest rate variations, both in total and over time horizons, so that the impact of interest rate variations on net interest income is as small as possible. The bank proposes an adequate management of combined interest on assets and liabilities

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022

(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

with actions to promote asset and liability products in order to create a portfolio with low sensitivity to interest rate variations and to achieve the targets set by the risk profile.

Compliance with the assumed risk profile for the interest rate risk is managed through the limitations established for the key indicators based on the risk appetite that the Bank assumes based on the going concern principle.

The key indicators established by the Bank, permanently monitored and which are the basis for determining the interest rate risk profile are:

- Potential change in economic value as a result of changes in interest rate levels - IRRBB, based on the standardized method;
- The relative GAP on the interest rate (calculated in RON equivalent on maturity bands as a percentage – between the absolute GAP and total interest-bearing assets - principal accounts);
- The difference between the average active interest related to foreign currency retail and corporate loans and the cost of sources attracted in foreign currency plus the risk margin related to foreign currency loans.

The level of risk limits accepted by the Bank for the key indicators, as well as the ranges considered for their evaluation, were established taking into account the Bank's strategy regarding interest rate risk, assessed as significant risk, correlated with the limits imposed by the NBR/EBA regulations, with the historical evolution of the values of these indicators, the size and structure of the assets and liabilities taken into account when determining them, the results obtained following the various forecasts made, budget provisions, etc.

The bank evaluates the compliance the assumed interest rate risk profile according to interest rate risk appetite; the level of risk is quantified based on a scoring system of the key indicators related to the interest rate risk (specified above) according to the levels recorded by them and the weights assigned according to the importance of the indicators based on historical analysis and professional expertise.

Also, in order to prevent situations of non-compliance with internal limitations, the Bank monitors the dynamic evolution of assets and liabilities sensitive to interest rate variations and performs simulations, forecasts, "stress testing" scenarios, etc.

As part of the interest rate risk assessment process, the monthly calculation of specific interest rate risk indicators is a backward-looking tool, through which a complete picture of their level is obtained, over a determined time horizon, and the forecasts (forward-looking instruments) take into account the anticipation of cases of unforeseen situations. Through the risk management policy, in order to carry out a prudential activity, characterized by the permanent monitoring and control of the level of key indicators for interest rate risk in relation to risk appetite, the Bank seeks to comply with an average interest rate risk profile as the maximum level allowed.

For interest rate risk management, in addition to the key indicators that determine the interest rate risk profile, in order to control this risk, the Bank monitors on a monthly/quarterly basis, as appropriate, the following level II indicators, which are not part of the profile risk, namely:

- EVE (Economic Value of Equity) according to six standardized shock scenarios for detecting extreme values, according to EBA/GL/2018/02 Guidelines;
- The level of the profitability threshold corroborated with that of the average interest spread;
- The negative result obtained from forecasts to capture the effect of the potential change in interest rates on net interest income.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022

(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

Internal regulations related to interest rate risk outside the trading portfolio are submitted for approval to the Risk Management Committee.

The following table illustrates the annual interest rates obtained or offered by the Bank for interest-bearing assets and liabilities during the first half of 2022:

	RON		EUR	
	Range		Range	
<u>Assets</u>	<u>Min</u>	<u>Max</u>	<u>Min</u>	<u>Max</u>
Cash and cash equivalents at central bank	0.13	0.33	-	-
Investments with National Bank of Romania	2.00	2.00	-	-
Investments with other banks	1.00	6.50	(0.50)	0.15
Treasury certificates	-	-	-	-
Loans and advances to customers(*)	3.60	14.93	0.90	4.50
Investment securities	3.88	9.19	0.18	4.27
<u>Liabilities</u>				
Deposits from banks	0.95	5.90	(0.55)	(0.35)
Deposits from customers	-	9.05	-	0.45
NBR refinancing loans	3.50	4.75	-	-
Borrowings from banks and other financial institutions	4.41	6.13	-	0.349
Subordinated liabilities	6.29	7.89	-	-

(*) During 2022, the Bank granted a grace period of up to 59 calendar days on credit cards, exclusively for the amounts paid to merchants using the credit card, from credit (non installment transactions and/or due installments posted on the account), provided that the Credit Limit used for the specific transaction cycle is paid in full.

The following table illustrates the annual interest rates obtained or offered by the Bank for interest-bearing assets and liabilities during 2021:

	RON		EUR	
	Range		Range	
<u>Assets</u>	<u>Min</u>	<u>Max</u>	<u>Min</u>	<u>Max</u>
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
<u>Liabilities</u>				
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
Subordinated liabilities	-	6.23	-	-

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022
(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

The following table presents the Bank's analysis of the interest rate change as at 30 June 2022, with financial assets and liabilities classified by the earlier of the interest rate change date or the 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	7,590,836	-	-	-	-	-	7,590,836
Financial derivatives	-	-	-	-	-	815	815
Loans and advances to banks	486,604	119,199	168,252	300,941	-	387,043(*)	1,462,039
Loans and advances to customers	6,087,428	505,513	15,288,483	5,578,516	282,383	173,082(**)	27,915,405
Financial assets held for trading and measured at fair value through profit and loss	29,434	-	82,922	-	-	-	112,356
Financial assets mandatorily at fair value through profit or loss	-	-	-	-	-	20,868	20,868
Financial assets measured at fair value through other comprehensive income	-	1,025,831	1,353,562	7,766,714	1,060,914	14,605	11,221,626
Investments in debt instruments at amortized cost	-	-	9,933	2,337,526	1,587,437	-	3,934,896
Other financial assets	-	-	-	-	-	56,757	56,757
Total financial assets	14,194,302	1,650,543	16,903,152	15,983,697	2,930,734	653,170	52,315,598
Financial liabilities							
Financial derivatives	-	-	-	-	-	9,363	9,363
Deposits from banks	690,393	-	-	-	-	18	690,411
Deposits from customers	12,909,159	5,776,153	11,459,363	1,474,442	1,734,258	14,110,938 (***)	47,464,313
Subordinated liabilities	1,427,539	-	-	-	-	-	1,427,539
Borrowings from banks and other financial institutions	9,313	58,838	58,384	232,182	-	-	358,717
Lease liabilities	2,134	3,917	17,091	51,361	8,888	-	83,391
Other financial liabilities	-	-	-	-	-	52,610	52,610
Total financial liabilities	15,038,538	5,838,908	11,534,838	1,757,985	1,743,146	14,172,929	50,086,344
Interest rate gap	(844,236)	(4,188,365)	5,368,314	14,225,712	1,187,588	(13,519,759)	2,229,254

(*) 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.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022

(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

The following table presents the Bank's analysis of the interest rate change as at 31 December 2021, with financial assets and liabilities classified by the earlier of the interest rate change date or the contractual maturity date.

	<u>< 1 month</u>	<u>1 month 3 months</u>	<u>3 months - 1 year</u>	<u>1 year- 5 years</u>	<u>> 5 years</u>	<u>Non interest bearing</u>	<u>Total</u>
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 measured 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	<u>13,494,018</u>	<u>274,303</u>	<u>15,714,878</u>	<u>16,506,533</u>	<u>3,367,990</u>	<u>283,866</u>	<u>49,641,588</u>
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 liabilities	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	<u>18,906,085</u>	<u>6,723,942</u>	<u>11,902,102</u>	<u>915,265</u>	<u>10,631</u>	<u>7,563,601</u>	<u>46,021,626</u>
Interest rate gap	<u>(5,412,067)</u>	<u>(6,449,639)</u>	<u>3,812,776</u>	<u>15,591,268</u>	<u>3,357,359</u>	<u>(7,279,735)</u>	<u>3,619,962</u>

(*) 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.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022
(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

Sensitivity analysis

Interest rate sensitivity the following table summarizes the impact on the Bank's profit or loss account and comprehensive income statement of a reasonable change in the yield curve calculated on the basis of the interest rate gap model. Based on the interest rate fluctuation in the previous year and other analyses carried out by the Bank the potentially reasonable change is shown below.

Exchange rate sensitivity: the following table summarizes the impact of a potentially reasonable change in the value in lei compared to the foreign currency in the profit or loss account and the comprehensive income statement of the Bank calculated by applying the change in monetary financial instruments denominated in foreign currencies held by the Bank as at 30 June 2022 and as at 30 June 2021.

		Sensitivity profit or loss account	Sensitivity of other comprehensive income
30 June 2022	<u>Total sensitivity</u>		
Interest rate +/- 1%	-235,482 / +226,331	+/-8,439	-227,042/+217,891
Exchange rate, appreciation/ depreciation by 5% of the functional currency	-/+234,668	-/+234,668	-
30 June 2021	<u>Total sensitivity</u>	<u>Sensitivity profit or loss account</u>	<u>Sensitivity of other comprehensive income</u>
Interest rate +/- 1%	-351.259/ +334,275	+/-9,719	-360,979/+343,994
Exchange rate, appreciation/ depreciation by 5% of the functional currency	-/+23,103	-/+23,103	-

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022
(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

As at 30 June 2022 if market interest rates had been 100 basis points higher/lower for lei and 100 basis points higher/lower for EUR and 100 basis points higher/lower for USD in the reporting period, all other variables being kept constant, the profit for the period would have been RON 235,482 thousand (30 June 2021: RON 351,259 thousand) lower respectively by RON 226,331 thousand higher (30 June 2021: RON 334,275 thousand). The impact was calculated based on average monthly balances bearing variable interest.

As at June 30, 2022, if the leu had appreciated/depreciated by 500 basis points compared to the relevant currencies (all other variables being kept constant), the profit for the period would have been RON 234,668 thousand (30 June 2021: RON 23,103 thousand) higher/lower. The impact was calculated by applying a +/-5% higher/lower rate than the closing rate to the net position in EUR and USD.

e) Liquidity risk

Liquidity risk is the important component, along with the other significant risks, of the financial risk management system under the conditions in which the Bank operates on developed financial markets.

Liquidity risk expresses the current or future risk of negative impact on profits and capital, determined by the Bank's inability to fulfill its obligations when they are due, having as potential causes: insufficient liquid assets, the Bank's inability to liquidate assets, the inability to obtain adequate financing.

The bank has adequate liquidity potential when, in the hypothetical unforeseen/critical situation, it is able to obtain the necessary funds (by attracting additional sources, selling assets, participating in REPO auctions organized by the NBR, etc.) immediately and at a reasonable cost, which does not affect the Bank's profitability.

The liquidity risk management policy represents the transposition within the internal regulations of the ILAAP (Internal Liquidity Assessment Adequacy Process) requirements and takes into account all internal liquidity adequacy assessment processes, as an EBA requirement. The policy and profile are an integral part of the regulations related to liquidity risk management, being developed in order to demonstrate the solidity, effectiveness and comprehensiveness of the ILAAP (respectively the treatment of liquidity risk depending on the scale and complexity of the Bank's activities).

The policy in the field of liquidity risk management includes a decision-making structure for risk management, a model for approaching financing and liquidity assurance operations, the accepted risk profile for exposure to liquidity risk, and planning procedures according to alternative scenarios of action, including for unforeseen situations.

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

The policy regarding the internal process of assessing the adequacy of liquidity to risks seeks to integrate into the general practice of liquidity management at least the following: the liquidity planning process, maintaining an adequate level of liquidity to cover certain risks to which the Bank is likely to be subject, monitoring specific liquidity risk indicators, identifying vulnerabilities and evaluating potential dangers in a timely manner, in conjunction with permanent actions to prevent to such situations, the process of obtaining conclusions and making decisions, including in crisis conditions.

Through the liquidity risk management policy, part of a solid and specific framework for liquidity risk management, including the process of identification, evaluation/quantification, monitoring, mitigation and control, the Bank aims to achieve a balanced portfolio of the Bank's assets and liabilities, which ensure both optimal/sufficient liquidity, on maturity bands, adequate management of assets and liabilities, leading to the maintenance of sufficient liquidity, including the liquidity reserve, and ensuring compliance with the risk profile accepted by the Bank.

Internal regulations related to liquidity risk are submitted for approval to the Risk Management Committee.

The table below presents financial liabilities as at 30 June 2022 based on their remaining contractual maturity. The amounts presented in the table represent undiscounted contractual cash flows, gross lending commitments and financial guarantees. Undiscounted cash flows differ from balance sheet amounts because the balance sheet amount represents discounted flows. Derivatives are included at the contractual amount payable or receivable, unless the Bank expects to close the position before the contractual maturity, in which case the instruments are presented based on estimated flows.

The table below presents the maturity analysis of non-derivative financial assets at book value and based on contractual maturities. Impaired loans are presented at book value net of adjustments for expected credit losses and based on the repayment estimate. Derivatives are presented based on contractual maturity.

When the payment amount is not fixed, the amount presented is determined based on the conditions existing at the end of the reporting period. Foreign currency payments are revalued using the closing exchange rate at the end of the reporting period.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022
(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

30 June 2022	< 1 month	1 - 3 months 3 months	1 year- - 1 year	1 year- 5 years	> 5 years	No fixed <u>maturity</u>	Total
Assets							
Cash and balances with central bank	7,590,836	-	-	-	-	-	7,590,836
Loans and advances to banks	641,806	78,573	-	420,298	-	321,362	1,462,039
Loans and advances to customers	701,358	63,393	6,140,987	9,179,700	11,829,967	-	27,915,405
Financial assets held for trading and measured at fair value through profit or loss	29,434	-	82,922	-	-	-	112,356
Financial assets mandatory at fair value through profit or loss	-	-	-	-	-	20,868	20,868
Financial assets measured at fair value through other comprehensive income	-	1,025,831	1,353,562	7,766,714	1,060,914	14,605	11,221,626
Investments in debt instruments at amortized cost	-	-	9,933	2,337,526	1,587,437	-	3,934,896
Financial derivatives, out of which:							
- receivable	94,848	-	-	-	-	-	94,848
- payable	94,033	-	-	-	-	-	94,033
Other financial assets	56,757	-	-	-	-	-	56,757
Total financial assets	9,021,006	1,167,797	7,587,404	19,704,238	14,478,318	356,835	52,315,598
Liabilities							
Deposits from banks	690,726	-	-	-	-	-	690,726
Deposits from customers	31,078,134	5,325,571	10,746,594	568,574	-	11,113	47,729,986
Subordinated liabilities	27,539	-	-	-	1,400,000	-	1,427,539
Borrowings from other banks and other financial institutions	9,314	58,838	58,471	232,874	-	-	359,497
Financial derivatives, out of which:							
- receivable	-	6,266,939	-	-	-	-	6,266,939
- payable	27	6,276,275	-	-	-	-	6,276,302
Lease liabilities	2,134	3,917	17,091	51,361	8,888	-	83,391
Other financial liabilities	52,610	-	-	-	-	-	52,610
Total financial liabilities	31,860,484	5,397,662	10,822,156	852,809	1,408,888	11,113	50,353,112
Net liquidity gap	(22,839,478)	(4,229,865)	(3,234,752)	18,851,429	13,069,430	345,722	1,962,486
Loan commitments	4,649,966	-	-	-	-	-	4,649,966
Guarantee letters issued by the Bank	1,871,529	-	-	-	-	-	1,871,529

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022

(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

31 December 2021	< 1 month	1 - 3 months 3 months	1 year- - 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 measured 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 liabilities	956	-	-	-	1,400,000	-	1,400,956
Borrowings from other 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

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

Lending commitments are not presented based on their contractual maturity as they can be used at any time.

The Bank's management believes that, although a substantial part of the deposits have a maturity of less than three months, the diversification of these deposits in number and types of deposits, as well as the Bank's previous experience, indicate that these deposits provide a stable long-term funding source.

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 at short notice to meet liquidity requirements.

The implementation of the policy and the achievement of the liquidity risk objectives are achieved, mainly and without limitation, through the monitoring and permanent follow-up of the risk limitations of key indicators and level II indicators – early warning indicators.

The Bank's inclusion in the liquidity risk profile is managed through the evaluation of key risk indicators based on the risk appetite that the Bank assumes, in order to continue the activity on prudential and sound principles, respectively: LCR – Liquidity Coverage Ratio (on all reporting currencies); NSFR - Net Stable Funding Ratio (RON equivalent); the liquidity indicator, in RON equivalent (determined according to BNR Regulation no. 25/2011); the immediate liquidity indicator and the weight of the portfolio of unencumbered securities in total unadjusted balance sheet liabilities.

Through the risk management policy and the Bank's risk profile, in order to carry out a prudential activity characterized by the permanent monitoring and control of the level of risk limitations for the key indicators for liquidity risk in relation to risk appetite, the Bank aims to be placed in a moderate liquidity risk profile as the maximum level allowed.

The level of risk limits accepted by the Bank for the key indicators, as well as the intervals taken into account when evaluating the values recorded by them, were established taking into account the Bank's policy regarding liquidity risk management, assessed as a significant risk, correlated with the limits imposed by the NBR/EBA regulations, with the historical evolution of the values of these indicators, the size and structure of the assets and liabilities taken into account when determining them, the results obtained following the various forecasts made, budget provisions, etc.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022
(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

The main level II indicators, early warning indicators, quantified/assessed/monitored/analyzed, considering the Bank's strategy and based on the size of the Bank's assets and liabilities, their structure and maturities, etc., are presented as follows:

- The ratio between the cumulative compensation capacity and the cumulative contractual deficit up to the 30-day period and the ratio between the compensation capacity and the net outflows of liquidities quantified during a crisis period of 30 calendar days;
- Liquid assets - by monitoring liquid assets, classified into the categories of most liquid assets, less liquid assets and least liquid assets, depending on their relative level of liquidity, their gradual ability to generate liquidity is followed by degrees.
- The government bonds/total balance sheet assets indicator – for the purpose of monitoring the government bonds portfolio held by the bank, the composition of liquid assets.
- Indicators: loans granted to non-banking customers/ deposits attracted from non-banking customers; spot liquid assets/spot total deposits attracted; the rate of monthly decrease of the sources attracted from non-banking customers, loans with arrears of more than 31 days (inclusive)/total balance sheet assets by monitoring them, aiming for the urgent identification of the increase in vulnerability in terms of the liquidity position or of the financing requirement, etc.
- Forecasts regarding the hypothetical evolution of the LCR indicator, respectively - LCR in a dynamic sense, on different time horizons in order to prevent crisis cases/unforeseen situations.
- The share of the pledged/non-pledged government bonds portfolio in the total government bonds portfolio and its evolution,-in order to monitor the evolution of the structure of the portfolio of state securities.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022
(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

30 June 2022	Note	Mandatorily at FVTPL	FVTPL	FVOCI – debt instruments	FVOCI – equity instruments	At amortized cost	Total carrying amount
Cash and cash equivalents at central banks		-	-	-	-	7,590,836	7,590,836
Derivatives financial assets		-	815	-	-	-	815
Loans and advances to banks		-	-	-	-	1,462,039	1,462,039
Loans and advances to customers:		-	-	-	-	27,915,405	27,915,405
- at amortized cost	10	-	-	-	-	27,915,405	27,915,405
Debt instruments:		20,868	112,356	11,207,021	-	3,934,896	15,275,141
- measured at fair value through profit or loss		-	112,356	-	-	-	112,356
- mandatorily at fair value through profit or loss		20,868	-	-	-	-	20,868
- at fair value through other comprehensive income	11	-	-	11,207,021	-	-	11,207,021
- at amortized cost	12	-	-	-	-	3,934,896	3,934,896
Equity instruments	11	-	-	-	14,605	-	14,605
Other financial assets		-	-	-	-	56,757	56,757
Total financial assets		<u>20,868</u>	<u>113,171</u>	<u>11,207,021</u>	<u>14,605</u>	<u>40,959,933</u>	<u>52,315,598</u>
Derivatives financial liabilities		-	9,363	-	-	-	9,363
Deposits from banks	13	-	-	-	-	690,411	690,411
Deposits from customers	14	-	-	-	-	47,464,313	47,464,313
Borrowings from banks and other financial institutions	15	-	-	-	-	358,717	358,717
Subordinated liabilities	16	-	-	-	-	1,427,539	1,427,539
Lease liabilities		-	-	-	-	83,391	83,391
Other financial liabilities		-	-	-	-	52,610	52,610
Total financial liabilities		<u>-</u>	<u>9,363</u>	<u>-</u>	<u>-</u>	<u>50,076,981</u>	<u>50,086,344</u>

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022

(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

31 December 2021		Mandatorily at		FVOCI – debt	FVOCI – equity	At	Total
	Note	FVTPL	FVTPL	instruments	instruments	amortized cost	carrying amount
Cash and cash equivalents at central banks		-	-	-	-	7,108,541	7,108,541
Derivatives financial assets		-	431	-	-	-	431
Loans and advances to banks		-	-	-	-	1,724,312	1,724,312
Loans and advances to customers:		-	-	-	-	25,651,030	25,651,030
- at amortized cost	10	-	-	-	-	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		21,177	-	-	-	-	21,177
- at fair value through other comprehensive income	11	-	-	12,763,962	-	-	12,763,962
- at amortized cost	12	-	-	-	-	2,332,805	2,332,805
Equity instruments	11	-	-	-	14,094	-	14,094
Other financial assets		-	-	-	-	25,236	25,236
Total financial assets		<u>21,177</u>	<u>431</u>	<u>12,763,962</u>	<u>14,094</u>	<u>36,841,924</u>	<u>49,641,588</u>
Derivatives financial liabilities		-	831	-	-	-	831
Deposits from banks	13	-	-	-	-	2,008,329	2,008,329
Deposits from customers	14	-	-	-	-	42,024,374	42,024,374
Borrowings from banks and other financial institutions	15	-	-	-	-	443,199	443,199
Subordinated liabilities	16	-	-	-	-	1,400,956	1,400,956
Lease liabilities		-	-	-	-	81,662	81,662
Other financial liabilities		-	-	-	-	708,693	708,693
Total financial liabilities		<u>-</u>	<u>831</u>	<u>-</u>	<u>-</u>	<u>46,667,213</u>	<u>46,668,044</u>

f) Capital management

The Bank's capital management objectives are a "broader" concept than the term "capital" found in the balance sheet and are represented by:

- the Bank's capital must comply with the requirements provided by national rules and those imposed by the EBA (European Banking Authority);
- the Bank's capital must ensure the Bank's activity in the following period as well, in order to ensure income for the shareholder and benefits for other affiliated parties of the Bank;
- the Bank's capital must ensure a strong base to enable the Bank's development.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022

(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

Starting with 1 January 2014, the Bank calculates equity and equity requirements according to Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 regarding prudential requirements for credit institutions and investment companies and National Bank of Romania Regulation No. 5/20.12.2013 on prudential requirements for credit institutions.

Starting from 1 January 2018, the Bank exercised the option regarding the application for a 5-year transition period of the transitional measures related to the inclusion in the Bank's basic Tier 1 equity of a part of the adjustments for increased expected credit losses.

As part of the internal risk capital adequacy process, for 30 June 2022, the Bank considered maintaining a ratio of total equity that cumulatively meets the following:

- a) maintaining the global capital requirement (OCR) of 17.44%, consisting of:
- the target rates of equity due to the adjustments provided for by pillar II (Basel III), representing the SREP (TSCR) capital requirements that must be met at all times:
 - core Tier 1 equity ratio: 6.99%;
 - Tier 1 equity ratio: 9.33%;
 - total equity ratio: 12.44%.
 - the combined capital buffer requirement equal to 5.0% of the total risk exposure amount, as a result of the cumulation of the capital conservation buffer requirement (2.5%), the O-SII buffer requirement (0.5%) and the requirement regarding the systemic risk buffer of (2%).
- b) maintaining an additional capital reserve of 2.0% (2.5% starting from 1 January 2022 of which 0.5% representing the O-SII buffer was included in the combined buffer, together with the full transposition of CRD V into the legislation national) from the total value of the risk exposure to support possible future adjustments of the capital requirements.

With regard to capital management, the Bank evaluates the adequacy of capital to risks in accordance with the "Policy regarding the internal process of assessing the adequacy of capital to risks", the NBR regulations, the package of CRD IV and CRD V regulations respectively.

Thus, the Bank aims for the level of internal capital to cover 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 for the significant risks identified by the Bank for which the regulated capital requirements are not fully covering.

From a strategic point of view, exposures are undertaken with third parties with a good financial performance rating and subject to consistent collateral coverage so that the capital required for such exposures is as low as possible.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022
(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

The degree of capital adequacy is monitored monthly, any substantial deterioration generating the need to review the portfolio of exposures and, if necessary, increase the related capital.

The Bank's equity and the Bank's equity ratio are calculated in accordance with the regulations in force of the National Bank of Romania, respectively in accordance with the provisions of Regulation (EU) 575/2013.

For the entire first half of 2022, the bank qualified within the regulated capital adequacy indicators. The total equity ratio was above the total capital requirements of the National Bank of Romania within the SREP (Supervisory, Review and Evaluation Process) and above the global capital requirement-OCR, which also includes capital buffers. An adequate level of capital and general financial indicators was maintained, in accordance with the principles of banking prudence.

Capital management considers the evolution of capital in the medium and long term and is the basis for the foundation of the Bank's general business strategy and policy.

The Bank's targets regarding the level of equity are established in the context of certain internal factors (for example: risk and expected profit) and external factors (for example: expectations regarding the market and the macroeconomic climate, the crisis caused by the coronavirus infection and the change in the macroeconomic context) and have in mind the annual achievement of a positive financial result and its capitalization.

The internal capital requirement represents the internal capital needed to cover banking risks in order to ensure the Bank's sustainability.

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.

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.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022

(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

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. 91¹ 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.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022
(All amounts in RON thousand, unless otherwise specified)11 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER
COMPREHENSIVE INCOME

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

	<u>30 June 2022</u>	<u>31 December 2021</u>
Government bonds	11,207,021	12,763,962
Equity instruments (Note 11 b)	<u>14,605</u>	<u>14,094</u>
Total	<u>11,221,626</u>	<u>12,778,056</u>

As at June 30, 2022, the Bank entered into repo transactions with other banks, supported by financial assets measured at fair value through other elements of the comprehensive income, in the amount of RON 123,262 thousand (31.12.2021: RON 521,624 thousand). Securities pledged under repo contracts can be sold or repurchased by the counterparty.

The ratings for the debt securities included in the portfolio of financial assets measured at fair value through other comprehensive income are detailed in Note 10.

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

	<u>30 June 2022</u>	<u>31 December 2021</u>
Opening balance at 1 January	12,763,962	11,062,866
Acquisitions	1,012,036	7,714,196
Sales and Redemptions	(1,735,095)	(5,460,922)
Accrued interest income	181,158	335,863
Interest income receivable	(161,338)	(398,202)
Foreign exchange differences	14,476	73,975
Gain/(loss) from changes in fair value, out of which:	(868,178)	(563,814)
Gain/(loss) from changes in fair value from sales	(1,006)	(52,256)
Gain/(loss) from changes in fair value from mark-to-market	(867,172)	(511,558)
Balance at the end of the period	11,207,021	12,763,962

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022
(All amounts in RON thousand, unless otherwise specified)11 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER
COMPREHENSIVE INCOME (CONTINUED)b) The Bank held the following financial assets measured at fair value through other
comprehensive income at 30 June 2022:

<u>Name</u>	<u>Nature of business</u>	<u>Country</u>	<u>Percentage held</u>	<u>Carrying amount</u>
Biroul de credit SA	Credit risk monitoring	Romania	4.74	944
FRGC SA	Fond for Guaranteeing Loans for Private Investors	Romania	3.10	470
TransFonD SA	Interbank transfers	Romania	2.69	1,978
SWIFT	Transfer of funds	Belgium	0.02	475
VISA Inc.	Processing card transactions	United States of America	<0.01	10,738
Total				<u>14,605</u>

The bank had the following holdings available for sale as at 31 December 2021:

<u>Name</u>	<u>Nature of business</u>	<u>Country</u>	<u>Percentage held</u>	<u>Carrying amount</u>
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				<u>14,094</u>

As at 30 June 2022 and 31 December 2021, the equity investments held by the Bank were not pledged.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022

(All amounts in RON thousand, unless otherwise specified)

12 FINANCIAL ASSETS AT AMORTIZED COST - DEBT INSTRUMENTS

	<u>30 June 2022</u>	<u>31 December 2021</u>
Government bonds	3,784,054	2,258,584
Bonds issued by credit institutions	51,031	50,017
Bonds issued by non-financial corporations	25,333	24,846
Bonds issued by local public administrations	75,647	-
Expected credit losses	<u>(1,169)</u>	<u>(642)</u>
Total	<u>3,934,896</u>	<u>2,332,805</u>

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

As at 30 June 2022, investments in debt instruments at amortized cost include pledged securities in the amount of RON 60,000 thousand (31 December 2021: RON 60,000 thousand) for operations with Visa, Mastercard and Sent (electronic settlement system for small values in local currency). The counterparty cannot resell or pledge these investments.

As at 30 June 2022, investments in debt instruments at amortized cost include also pledged securities to secure the EIB loan whose fair value is RON 155,150 thousand (31 December 2021: RON 189,940 thousand). The counterparty cannot resell or pledge these investments.

In addition, as at 30 June 2022, the Bank entered into repo transactions with other banks, based on as at 30 June 2022, investments in debt instruments at amortized cost whose fair value amounts to RON 162,481 thousand (31 December 2021: RON 325,552 thousand). The counterparty cannot resell or pledge these investments.

During the first half of the financial year 2022, the Bank did not sell government bonds classified as debt instruments at amortized cost.

The ratings for the debt securities included in the portfolio of financial assets at amortized cost are detailed in Note 10.

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

	<u>30 June 2022</u>	<u>31 December 2021</u>
Opening balance at 1 January	2,332,805	2,267,578
Acquisitions	1,586,074	762,124
Maturities	(17,261)	(698,700)
Accrued interest income	48,435	73,716
Interest income receivable	(17,014)	(85,554)
Foreign exchange differences	2,385	13,980
Expected credit losses	(528)	(339)
Balance at the end of the period	3,934,896	2,332,805

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022

(All amounts in RON thousand, unless otherwise specified)

13 DEPOSITS FROM BANKS

	<u>30 June 2022</u>	<u>31 December 2021</u>
Sight deposits	235,049	728,066
Out of which, current accounts to other banks (LORO)	18	23
Term deposits	180,441	409,201
Repo transactions	<u>274,921</u>	<u>871,062</u>
Total	<u>690,411</u>	<u>2,008,329</u>

14 DEPOSITS FROM CUSTOMERS

	<u>30 June 2022</u>	<u>31 December 2021</u>
Current accounts and sight deposits		
Savings passbooks – sight	4,411	4,506
Current accounts - individuals	3,610,199	3,707,590
Current accounts - legal entities and other clients	10,638,228	4,337,468
Cards – individuals, legal entities and other clients	3,698,124	4,031,519
Sight deposits – legal entities	<u>229,923</u>	<u>316,192</u>
Total current accounts and sight deposits	<u>18,180,885</u>	<u>12,397,275</u>
Term deposits and savings		
Term saving passbooks (i)	102,304	111,749
Term deposits - individuals	20,660,105	20,858,762
Term deposits - legal entities and other clients	5,714,752	6,039,219
Collateral deposits (ii)	2,806,224	2,616,110
Other term deposits	<u>43</u>	<u>1,259</u>
Total term deposits and savings	<u>29,283,428</u>	<u>29,627,099</u>
Total	<u>47,464,313</u>	<u>42,024,374</u>

(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:

	<u>30 June 2022</u>	<u>31 December 2021</u>
Letters of credit	10,666	18,794
Administration guarantees	114,015	104,310
Consignment	2,213,379	2,148,698
Guarantee loans	384,627	295,263
Good performance guarantees for commercial contracts	36,166	35,172
Other collateral deposits	<u>47,371</u>	<u>13,873</u>
Total	<u>2,806,224</u>	<u>2,616,110</u>

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022
(All amounts in RON thousand, unless otherwise specified)

15 BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	<u>30 June 2022</u>	<u>31 December 2021</u>
European Investment Fund for the JEREMIE Initiative	8,536	10,495
European Bank for Investments (EIB)	310,993	340,681
Romanian-Swiss program (i)	<u>39,188</u>	<u>92,023</u>
Total	<u>358,717</u>	<u>443,199</u>

Details of the contracts are presented in the financial statements as at 31 December 2021

- (i) On 16 January 2014, CEC Bank signed a collaboration agreement with the Department for SMEs, the Business Environment and Tourism - DIMMAT within the Romanian-Swiss Program for SMEs, in the amount of RON 72,829,224 (19,890,000 Swiss francs in RON equivalent at an exchange rate of RON 3.6616) in order to grant investment loans to SMEs.

After supplementing the ceiling, the budget was increased by 4,500,000 Swiss francs in RON equivalent at a rate of RON 4.2656, the total value of the contract amounting to RON 92,024,424. The loan has zero interest rate.

During the Program, 5 addenda were signed to the Collaboration Agreement, the changes aimed both at the flexibility of the conditions for granting loans, the addition of funds and the possibility of granting new investment loans from the amounts accumulated in the transit account until 31.12.2018.

For the implementation of the Program, 40 withdrawals were made in the amount of RON 92,023,272.81. The program has been completed on 30.06.2019. Amounts accumulated in the transit account from customer repayments will be transferred to the Executive Agency upon request.

On 16 June 2022, upon the request of the Ministry of Entrepreneurship and Tourism, the Bank repaid RON 52,835,443.29 from the loan.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022
(All amounts in RON thousand, unless otherwise specified)**16 SUBORDINATED LIABILITIES**

As at 30 June 2022 and 31 December 2021, the Bank complies with the subordinated loan contractual clauses with the financing party.

	<u>30 June 2022</u>	<u>31 December 2021</u>
Shareholder loan	1,427,539	1,400,956
Total	<u>1,427,539</u>	<u>1,400,956</u>

17 SHARE CAPITAL

As at 31 December 2021, the share capital of CEC Bank SA was RON 2,499,746 thousand. The Bank is 100% owned by the Romanian State through the Ministry of Public Finance. 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.

During 2022, the share capital did not change.

	<u>30 June 2022</u>	<u>31 December 2021</u>
Share capital as per Trade Registry	<u>2,290,661</u>	<u>2,290,661</u>
IAS 29 inflation adjustment	<u>209,085</u>	<u>209,085</u>
Total share capital	<u>2,499,746</u>	<u>2,499,746</u>

18 INCOME TAX EXPENSE

Income tax of the interim reporting period comprises current and deferred tax.

The Bank has the obligation to declare and pay annual income tax, with advance payments made every quarter.

	<u>30 June 2022</u>	<u>30 June 2021</u>
Current tax expense	18,845	35,332
Deferred expense tax	<u>620</u>	<u>6,168</u>
Income tax expense for the period	<u>19,465</u>	<u>41,500</u>

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022

(All amounts in RON thousand, unless otherwise specified)

18 INCOME TAX EXPENSE (CONTINUED)

Movements in deferred tax assets are as follows:

	1 January 2022	Recognized in profit or loss account	Recognized in other comprehensive income	30 June 2022
Financial assets measured at fair value through other comprehensive income - debt instruments	49,025	-	138,909	187,934
Financial assets measured at fair value through other comprehensive income - investments in equity instruments	(523)	-	(129)	(652)
Revaluation reserve for land and buildings	(63,336)	1,249	-	(62,087)
Tangible and intangible assets - changes in accounting useful life	(1,209)	(224)	-	(1,433)
Right-of-use assets	423	(41)	-	382
Provisions and other liabilities	<u>9,903</u>	<u>(1,604)</u>	-	<u>8,299</u>
Total	<u>(5,717)</u>	<u>(620)</u>	<u>138,780</u>	<u>132,443</u>

	1 January 2021	Recognized in profit or loss account	Recognized in other comprehensive income	30 June 2021
Financial assets measured at fair value through other comprehensive income - debt instruments	(41,185)	-	9,248	(31,937)
Financial assets measured at fair value through other comprehensive income - investments in equity instruments	(356)	-	(245)	(601)
Revaluation reserve for land and buildings	(44,400)	681	26	(43,693)
Tangible and intangible assets - changes in accounting useful life	(1,045)	(11)	-	(1,056)
Right-of-use assets	307	117	-	424
Provisions and other liabilities	<u>12,803</u>	<u>(6,955)</u>	-	<u>5,848</u>
Total	<u>(73,876)</u>	<u>(6,168)</u>	<u>9,029</u>	<u>(71,015)</u>

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022
(All amounts in RON thousand, unless otherwise specified)

19 DIVIDENDS PAID

In 2021, the General Assembly of Shareholders approved the distribution of dividends for the financial years 2019 and 2020 in the amount of RON 634,257 thousand due to the Romanian State as the sole shareholder of the Bank. Thus, in the financial statements as at 31 December 2021, the Bank stated dividends to be paid under "Other financial liabilities".

Following the Decision of the General Shareholders Meeting, in January 2022, the Bank paid dividends for the financial years 2019 and 2020 in the amount of RON 634,257 thousand.

20 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 30 June 2022 is presented 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 State, represented by the Ministry of Public Finance. A number of banking transactions were initiated with the state, represented by the purchase of coupon certificates denominated in the local currency, issued by the Romanian Ministry of Public Finance. Transactions with the Ministry of Public Finance are presented in the relevant notes within these financial statements (Notes 11, 12 and 16).

Transactions with management of the Bank

The Bank carried out a number of banking transactions with the Bank's management in the normal course of business.

Key management compensation is presented below:

	Expenses <u>2022</u>	Accrued liability at 30 June <u>2022</u>	Expenses <u>2021</u>	Accrued liability at 31 December <u>2021</u>
<i>Short-term benefits:</i>				
- Salaries	21,926	-	39,643	4,789
- Short-term bonuses	3,002	-	2,208	-
- Benefits in-kind	-	-	-	-
<i>Bonuses upon the termination of the employment contract</i>				
	=	=	513	89
Total	<u>24,928</u>	=	<u>42,364</u>	<u>4,878</u>

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

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022
(All amounts in RON thousand, unless otherwise specified)

20 RELATED PARTY TRANSACTIONS (CONTINUED)

Transactions with State-controlled entities

The Bank carried out a number of banking transactions with organizations or companies under the control of the Romanian State in the normal course of business. The transactions with organizations or companies controlled by the Romanian State took place in the ordinary course of business.

The Bank applied the simplified treatment related to the presentation of related party transactions according to IAS 24.

At 30 June 2022, the outstanding balances with related parties were as follows:

<u>Closing balances</u>	<u>Shareholder - Ministry of Finance</u>	<u>Key management personnel</u>	<u>Other related parties</u>
Total Assets	<u>15,102,926</u>	<u>5,892</u>	<u>3,814,972</u>
Out of which:			
Financial assets held for trading and measured at fair value through profit and loss (interest rate: 2.50%-5,85%)	112,356	-	-
Financial assets measured at fair value through other comprehensive income (contractual interest rate: 0.45%-5,85%)	11,207,021	-	-
Investments in debt instruments at amortized cost (contractual interest rate: 0.45%-7,33%)	3,783,549	-	75,637
Loans and advances - gross exposure (contractual interest rate: 0.45%-35%)	-	5,930	3,806,761
Adjustments for expected credit loss	-	(38)	(67,426)
Total liabilities	<u>1,427,539</u>	<u>8,885</u>	<u>10,482,652</u>
Out of which:			
Deposits (contractual interest rate: 0%-4,5%)	-	8,885	10,482,652
Subordinated liabilities (contractual interest rate: 6.29%-7,89%)	1,427,539	-	-
Contractual commitments, financial guarantees and other commitments, out of which:	<u>30,743</u>	<u>916</u>	<u>242,201</u>
Issued	12,155	814	230,342
Received	18,588	102	11,859

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022
(All amounts in RON thousand, unless otherwise specified)

20 RELATED PARTY TRANSACTIONS (CONTINUED)

At 31 December 2021, the outstanding balances with related parties were as follows:

<u>Closing balances</u>	<u>Shareholder - Ministry of Finance</u>	<u>Key management personnel</u>	<u>Other related parties</u>
Total Assets	<u>15,022,244</u>	<u>5,519</u>	<u>3,676,784</u>
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	<u>1,400,956</u>	<u>7,999</u>	<u>3,543,877</u>
Out of which:			
Deposits (contractual interest rate: 0%-13%)	-	7,999	3,543,877
Subordinated liabilities (contractual interest rate: 0%-6,23%)	1,400,956	-	-
Contractual commitments, financial guarantees and other commitments, out of which:	<u>224,272</u>	<u>569</u>	<u>343,470</u>
Issued	701	491	290,602
Received	223,571	78	52,868

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, Agri Division, Legal Division, Compliance Division, Contentious Division, Internal Audit Division, Antifraud and Control Division, Cards Division, Operations Division, Remote Operations Division, Arrears and Asset Recovery Division, Credit Monitoring Division, Analysis of Individual Loans Division), Head of Independent Department (Evaluation (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 Public Finance is presented in Note 11 and 12.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022

(All amounts in RON thousand, unless otherwise specified)

20 RELATED PARTY TRANSACTIONS (CONTINUED)

The income and expense items with related parties for the period January - June 2022 were as follows:

	Shareholder - Ministry of Finance	Key management personnel	Other related parties
Interest income	228,051	201	177,432
Interest expenses	(49,253)	(52)	(28,405)
Net impairment loss on loans and advances to customers	-	-	(6,432)
Commission income	-	-	49

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

	Shareholder - Ministry of Finance	Key management personnel	Other related parties
Interest income	211,177	97	70,083
Interest expenses	-	(30)	(19,656)
Net impairment loss on loans and advances to customers	-	11	(24,062)
Commission income	-	-	35

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

	30 June 2022	31 December 2021
Current accounts held at National Bank of Romania	6,623,171	6,263,534

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

	30 June 2022	30 June 2021
Interest expenses arising from REPO transactions with National Bank of Romania	323	-
Interest income from current accounts held at National Bank of Romania	2,782	1,017
Interest expense from current accounts – Lombard loan	13,133	-

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2022
(All amounts in RON thousand, unless otherwise specified)

21 EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

There have been no significant events recorded subsequent to the date of the summary interim financial statements that require adjustments or presentation in these summary interim financial statements.

Bogdan Constantin Neacșu
General Manager - President of Executive Committee




Ștefan Silviu Fota

Director, Accounting Department



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Independent Auditors' Report on Review of Condensed Interim Financial Information (free translation¹)

To the Shareholders of CEC Bank S.A.

Introduction

We have reviewed the accompanying condensed interim statement of financial position of CEC Bank S.A. ("the Bank") as at 30 June 2022, the condensed interim statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes to the condensed interim financial information ("the condensed interim financial information"). Management is responsible for the preparation and presentation of these condensed interim financial information in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union. Our responsibility is to express a conclusion on these condensed interim financial information based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of condensed interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information as at and for the six-month period ended 30 June 2022 are not prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union.

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 interim condensed financial information which was subject to our review.



Emphasis of Matter – Non-compliance with MREL

We draw attention to Note 10.f “Capital management” to the condensed interim financial information, which describes that the Bank failed to meet the minimum requirement for own funds and eligible liabilities (“MREL”) starting 30 June 2022 and presents the key measures aimed to restore compliance before 31 March 2023. Our conclusion is not modified in respect of this matter.

Refer to the original signed Romanian version

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

Greco Tudor Alexandru

registered in the electronic public register of financial auditors and audit firms under no AF2368

KPMG Audit SRL

registered in the electronic public register of financial auditors and audit firms under no FA9

Bucharest, 28 October 2022