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

Independent Auditors' Report

(free translation[1])

To the sole Shareholder of CEC Bank SA

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

Report on the Audit of the Financial Statements

Opinion

1. We have audited the financial statements of CEC Bank SA ("the Bank"), which comprise the statement of financial position as at 31 December 2022, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

2. The financial statements as at and for the year ended 31 December 2022 are identified as follows:

• Net assets/Total equity:	Lei 3,893,344 thousand
• Net profit for the year:	Lei 424,326 thousand

3. In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union and with the National Bank of Romania's Order no. 27/2010 for the approval of the accounting regulations in accordance with IFRS, with subsequent changes ("NBR Order no. 27/2010").

Basis for Opinion

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

[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 financial statements, which was subject to our audit.

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

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

Key Audit Matters

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

Impairment of loans and advances to customers

As at 31 December 2022, the financial statements include:

- gross loans and advances to customers of RON 30,872,784 thousand (31 December 2021: RON 27,019,528 thousand,
- related expected credit losses of RON 1,648,747 thousand (31 December 2021: RON 1,368,498 thousand

and, for the year then ended:

- net impairment loss recognized in the statement of profit or loss of RON 461,831 thousand (31 December 2021: RON 366,366 thousand.

See Notes 2.7 (viii) Significant accounting policies – Impairment of financial instruments, 3 - Financial risk management, 11 - Net impairment losses for expected credit losses related to loans and advances to customers and 18 – Loans and advances to customers, to the financial statements.

The key audit matter	How the matter was addressed in our audit
➢ Impairment allowances represent management's best estimate of the expected credit losses ("ECLs") within loans and advances to customers (collectively, "loans", "exposures") at amortized cost at the reporting date. We focused on this area as the measurement of impairment allowances requires management to make complex and subjective judgements. ➢ Impairment allowances for collectively assessed exposures are determined by modelling techniques relying on key parameters such as the probability of default (PD), exposure at default (EAD) and loss given default (LGD), taking into account historical experience, identification of exposures with a significant increase in credit risk (SICR), forward-looking information and management judgment (together "collective impairment allowance"). ➢ Impairment allowances for individually significant non-performing (Stage 3) exposures are determined on an individual	Our audit procedures, performed, where relevant, with the assistance from our own financial risk management, information technology (IT) audit and valuation specialists, included, among others: ➢ Inspecting the Bank's ECL impairment provisioning methods and models and assessing their compliance with the requirements of the relevant financial reporting standards. This included challenging management on whether the level of the methodology's sophistication continues to be appropriate based on an assessment of the entity-level and portfolio-level factors; ➢ Testing the design, implementation and operating effectiveness of selected controls in the impairment process. This included testing the controls over: • ECL model selection; • completeness and accuracy of relevant data inputs in the Bank's systems (mainly for loan exposure, maturity date, collateral values and interest rates data); • approval of loans; • system computation of debt service and forbearance

basis by means of a discounted cash flows analysis. The process relies on a number of sensitive assumptions, in particular those in respect of the recovery scenarios and the expected proceeds from the sale of the related collateral and estimated period for collateral disposal. ➢ In the wake of the geopolitical volatility following the outbreak of the Russia-Ukraine war, and given the adverse macroeconomic effects of the increase in energy and other commodity prices, resulting inflationary pressures and disruptions in the global supply chains, as well as of the rise in interest rates, measurement of ECLs was associated with additional complexities and an increased estimation uncertainty. Among other things, application of post-model adjustments was required from management in arriving at the year-end estimate of impairment losses. ➢ In light of the above factors, we considered impairment of loans and advances to customers to be associated with a significant risk of material misstatement in the financial statements. Therefore, the area required our increased attention in the audit and as such was determined to be a key audit matter.	monitoring; • IT environment for data security and access; ➢ Assessing the consistency of application of the SICR and default criteria, and also, for a risk-based sample of exposures, challenging the loans' classification into the stages of IFRS 9; ➢ For collective impairment allowance: • Challenging the macroeconomic forecasts used in the ECL model in terms of their relevance and source accuracy by comparing them with a selection of publicly available forecasts. As part of the procedure, we challenged the consideration of the economic uncertainty relating to the current geopolitical volatility and the adverse macroeconomic effects of the resulting inflationary pressures and rise in interest rates, by means of inquiries of the management board members and inspection of publicly available information; • Testing the relevance and reliability of the data used in the process of calculating the PD, EAD and LGD parameters applied in the collective ECL model, on a sample basis, by reference to the supporting documentation, such as credit risk memoranda, debt service status, forbearance occurrence, repayment schedules and underlying data for collections occurring after default; • Challenging any significant post-model adjustments, by evaluating key underlying assumptions and inspecting the calculation methods; • Based on the outcome of the preceding procedures, recomputing the ECLs. ➢ For impairment allowances calculated individually, for a risk-based sample of loans, challenging the Bank's cash flow projections and key assumptions used therein, including realizable values of collaterals and recovery periods, by reference to the information in respective loan files and collateral appraisal reports, our knowledge of the relevant industry and of the borrower; ➢ Assessing the accuracy and completeness of the ECL-related financial statement disclosures against the requirements of the relevant financial reporting standards.

Emphasis of Matter - comparative information

6. We draw attention to Note 2.30 Significant accounting policies of the financial statements which indicates that the comparative information presented as at and for the year ended 31 December 2021 has been restated. Our opinion is not modified in respect of this matter.

Other information

7. The Board of Directors is responsible for the preparation and presentation of other information. The other information comprises the Board of Directors' Report (which includes also the Non-financial Statement), the Annual Report (as per requirements of the Financial Supervisory Authority Regulation 5/2018), but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other Reporting Responsibilities Related to Other Information – Board of Directors' Report

With respect to the Board of Directors' Report we read and report whether the Board of Directors' Report is prepared, in all material respects, in accordance with NBR Order no. 27/2010, articles 12, 13, 15, 16 and 17 of the accounting regulations in accordance with International Financial Reporting Standards applicable to credit institutions.

Based solely on the work required to be undertaken in the course of the audit of the financial statements, in our opinion:

a) The information given in the Board of Directors' Report for the financial year for which the financial statements are prepared is consistent, in all material respects, with the financial statements;

b) The Board of Directors' Report has been prepared, in all material respects, in accordance with NBR Order no. 27/2010, articles 12, 13, 15, 16 and 17 of the accounting regulations in accordance with International Financial Reporting Standards applicable to credit institutions.

In addition, in light of the knowledge and understanding of the Bank and its environment obtained in the course of our audit we are required to report if we have identified material misstatements in the Board of Directors' Report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

8. Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with NBR Order no. 27/2010 and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibility for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements - Report on Compliance with the ESEF Regulation

16. In accordance with Law no. 162/2017 on statutory audits of annual financial statements and consolidated financial statements and amendment of certain regulations, we are required to express an opinion on compliance of the financial statements, as included in the annual report, with the requirements of the Commission Delegated Regulation (EU) 2018/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the "RTS on ESEF").

Responsibilities of Management

17. Management is responsible for the preparation of the financial statements in a digital format that complies with the RTS on ESEF. This responsibility includes the preparation of the financial statements in the applicable xHTML format, including ensuring consistency between the digital format and the signed financial statements and the design, implementation and maintenance of internal controls relevant to the application of the RTS on ESEF.

Auditors' Responsibilities

18. Our responsibility is to express an opinion on whether the financial statements included in the annual report comply, in all material respects, with the RTS on ESEF, based on the evidence we have obtained. We conducted our reasonable assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000) issued by the International Auditing and Assurance Standards Board.

    A reasonable assurance engagement in accordance with ISAE 3000 involves performing procedures to obtain evidence about compliance with the RTS on ESEF. The nature, timing and extent of procedures selected depend on the auditor's judgment, including the assessment of the risks of material departures from the requirements set out in the RTS on ESEF, whether due to fraud or error. Our procedures included evaluating the appropriateness of the digital format of the financial statements and assessing consistency between the digital format and the signed and audited financial statements, stamped by us for identification purposes.

    We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

19. In our opinion, the financial statements of the Company, as included in the annual report, as at and for the year ended 31 December 2022 have been prepared, in all material respects, in accordance with the requirements of the RTS on ESEF.

Report on Other Legal and Regulatory Requirements

20. We were appointed by the General Shareholders' Meeting on 21 September 2020 to audit the financial statements of CEC Bank SA for the year ended 31 December 2022. Our total uninterrupted period of engagement is 8 years, covering the periods ending 31 December 2015 to 31 December 2022.

21. We confirm that:

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

The engagement partner on the audit resulting in this independent auditors' report is Grecu Tudor Alexandru.

Refer to the original signed Romanian version

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

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

Bucharest, 26 April 2023

CEC Bank SA

FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2022

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

CEC BANK SA

FINANCIAL STATEMENTS

31 DECEMBER 2022

Contents **PAGE**

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED AS AT 31 DECEMBER 2022
(All amounts are in thousand RON unless otherwise stated)

	Note	2022	2021
Interest income calculated using the effective interest method	5	2,624,941	1,553,948
Interest expense	5	(1,085,936)	(478,613)
Net interest income		1,539,005	1,075,335
Commission income	6	369,785	343,122
Commission expense	6	(55,909)	(45,618)
Net commission income		313,876	297,504
Net gain from trading		95,035	45,640
Net loss from financial derivatives	7	(154,477)	(11,966)
Net gain/(loss) from financial assets mandatorily measured at fair value through profit or loss		(5,079)	1,747
Net gain from the sale of financial assets measured at fair value through other comprehensive income		1,686	52,256
Net gain from foreign exchange differences		26,557	4,351
Other operating income	8	22,754	14,552
Operating income		1,839,357	1,479,419
Impairment loss on loans and advances to customers, provisions for loan commitments and financial guarantees given	11	(333,406)	(212,895)
Net loss from impairment of debt instruments		(1,218)	(1,253)
Staff costs	9	(490,380)	(445,965)
Depreciation and amortisation expenses	21, 22,23,24	(105,844)	(76,760)
Other operating expenses	10	(401,729)	(309,690)
Operating expenses		(1,332,577)	(1,046,563)
Profit before tax		506,780	432,856
Income tax expense	12	(82,454)	(66,268)
Net Profit for the year		424,326	366,588

The accompanying notes from pages 9 to 164 form an integral part of these financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED AS AT 31 DECEMBER 2022
(All amounts are in thousand RON unless otherwise stated)

	Note	2022	2021 Restated*
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Change in the fair value of financial assets measured through other items of comprehensive income, net of tax		(385,218)	(428,606)
Net gain from transactions with financial assets measured through other items of comprehensive income, transferred to profit or loss upon disposal, net of tax		(1,416)	(43,895)
Items that will not be reclassified to profit or loss:			
Net gain from revaluation of land and buildings	38	16	111,085
Prior year corrections		(594)	(714)
Other comprehensive income		(387,212)	(362,130)
Total comprehensive income for the year		37,114	4,458

(*) The information has been restated as described in Note 2.30

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

CEC BANK S.A. CABINET PREŞEDINTE DIRECTOR GENERAL

Bogdan Constantin Neacşu
General Manager-President of Executive Committee

Ştefan Silviu Fota
Director, Accounting Division

CEC BANK SA

STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED AS AT 31 DECEMBER 2022
(All amounts are in thousand RON unless otherwise stated)

	Note	31 December 2022	31 December 2021 Restated*
Assets			
Cash and balance at central banks	13	10,069,054	7,108,541
Derivative financial assets	14	-	431
Loans and advances to banks and public institutions	15	6,119,076	1,724,312
Loans and advances to customers	18	29,224,037	25,651,030
Financial assets held for trading and measured at fair value through profit and loss	20	6,289	-
Financial assets mandatorily at fair value through profit or loss	19	16,341	21,177
Financial assets measured at fair value through other comprehensive income	16	10,369,254	12,778,056
- of which pledged securities (repo agreements)		1,444,881	521,624
Financial assets measured at amortized cost	17	4,770,943	2,332,805
of which pledged securities (repo agreements)		320,258	353,526
Property and equipment	21	749,364	716,742
Intangible assets	22	90,487	69,067
Investment property	23	59,872	76,823
Right-of-use assets	24	94,080	78,933
Deferred tax assets	33	75,064	-
Other financial assets	25	79,497	34,587
Other assets	26	25,358	21,606
Total assets		61,748,716	50,614,110
Liabilities			
Derivative financial liabilities	14	24,950	831
Deposits from banks	27	2,698,249	2,008,329
Deposits from customers	28	52,430,729	42,024,374
Borrowings from banks and other financial institutions	29	278,242	443,199
Debt securities issued	30	653,636	
Subordinated liabilities	31	1,439,628	1,400,956
Current income tax liability		21,805	5,928
Deferred tax liabilities	33	-	5,717
Lease liabilities	34	96,475	81,662
Provisions	32	47,804	15,913
Other financial liabilities	36	89,799	708,693
Other liabilities	35	74,055	62,275
Total liabilities		57,855,372	46,757,877
Equity			
Share capital	37	2,499,746	2,499,746
Revaluation reserve for property and equipment	38	559,956	566,750
Reserves for financial assets at fair value measured through other items of comprehensive income		(639,567)	(252,933)
Other reserves	39	295,517	270,181
Retained earnings		1,177,692	772,489
Total equity		3,893,344	3,856,233
Total liabilities and equity		61,748,716	50,614,110

(*) The information has been restated as described in Note 2.30

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

Bogdan Constantin Neacşu
General Manager – President of Executive Committee

Ştefan Silviu Fota
Director, Accounting Division

The accompanying notes from pages 9 to 164 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

AS AT 31 DECEMBER 2022
(All amounts are in thousand RON unless otherwise stated)

	Note	Share capital	Revaluation reserve	Revaluation reserve for financial assets at fair value measured through other comprehensive income	Other reserves	Retained earnings	Total
Balance as at 1 January 2022		2,499,746	566,750	(252,933)	270,181	772,489	3,856,233
Comprehensive income:							
Net Profit for the year		-	-	-	-	424,326	424,326
Other comprehensive income:							
Losses from change in the fair value of financial assets measured through other comprehensive income, net of deferred tax		-	-	(386,634)	-	-	(386,634)
Increase in revaluation reserve, net of deferred tax	38	-	16	-	-	-	16
Retained earnings from corrections		-	-	-	-	(594)	(594)
Total comprehensive income		-	16	(386,634)	-	423,732	37,114
Other contributions and distributions:							
Revaluation reserve representing realised surplus, net of deferred tax	38	-	(6,810)	-	-	6,810	-
Decrease in other reserves – sale of land		-	-	-	(3)	-	(3)
Legal reserve		-	-	-	25,339	(25,339)	-
Total other contributions and distributions		-	(6,810)	-	25,336	(18,529)	(3)
Balance as at 31 December 2022		2,499,746	559,956	(639,567)	295,517	1,177,692	3,893,344

Bogdan Constantin Neacșu
General Manager – President of Executive Committee

Ștefan Silviu Fota
Director, Accounting Division

The accompanying notes from pages 9 to 164 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

AS AT 31 DECEMBER 2022
(All amounts are in thousand RON unless otherwise stated)

	Note	Share capital	Revaluation reserve	Revaluation reserve for financial assets at fair value measured through other comprehensive income	Other reserves	Retained earnings	Total
				Restated*			
Balance as at 1 January 2021		2,499,746	458,554	219,568	248,553	1,059,626	4,486,047
Comprehensive income:							
Net Profit for the year		-	-	-	-	366,588	366,588
Other comprehensive income:							
Losses from change in the fair value of financial assets measured through other comprehensive income, net of deferred tax		-	-	(570,551)	-	-	(570,551)
Increase in revaluation reserve, net of deferred tax	38	-	111,085	-	-	-	111,085
Correction of accounting errors (*)		-	-	98,050	-	-	98,050
Retained earnings from corrections		-	-	-	-	(714)	(714)
Total comprehensive income		-	111,085	(472,501)	-	365,874	4,458
Other contributions and distributions:							
Revaluation reserve representing realised surplus, net of deferred tax	38	-	(2,889)	-	-	2,889	-
Decrease in other reserves – sale of land		-	-	-	(15)	-	(15)
Legal reserve		-	-	-	21,643	(21,643)	-
Dividends distributed to shareholders		-	-	-	-	(634,257)	(634,257)
Total other contributions and distributions		-	(2,889)	-	21,628	(653,011)	(634,272)
Balance as at 31 December 2021		2,499,746	566,750	(252,933)	270,181	772,489	3,856,233

(*) The information has been restated as described in Note 2.30

Bogdan Constantin Neacșu
General Manager – President of Executive Committee

Ștefan Silviu Fota
Director, Accounting Division

The accompanying notes from pages 9 to 164 form an integral part of these financial statements.

STATEMENT OF CHANGES IN CASH FLOW

FOR THE YEAR ENDED AS AT 31 DECEMBER 2022
(All amounts are in thousand RON unless otherwise stated)

	Note	2022	2021
Profit before tax	12	506,780	432,856
Adjustments for non-monetary items:			
Expected losses on financial instruments, provisions for loan commitments and financial guarantees given	11	333,406	212,895
Depreciation and amortisation expense	21,22,23,24	105,844	76,760
Net loss from financial derivates		71,375	4,438
Gain on disposal of fixed assets		(3,618)	(4,122)
Income from other operations		(2,836)	(794)
Net gain on financial assets measured at fair value measured through other comprehensive income		(1,686)	(52,256)
Net loss from financial assets mandatorily measured at fair value through profit or loss		4,836	(1,747)
Gain from foreign exchange differences		(308,242)	(87,955)
Income/ (Expense) from adjustments for expected losses regarding other assets	10	737	586
Dividends income	8	(6,850)	(919)
Interest expense	5	1,085,936	478,613
Interest income	5	(2,624,941)	(1,553,948)
Other adjustments		2,408	3,037
		(836,851)	(492,556)
(Increase)/decrease in operating assets:			
Increase in loans and advances to customers		(4,002,925)	(4,533,010)
Increase in financial assets held for trading and measured at fair value through profit or loss		(6,289)	-
Increase/(decrease) in other assets		(120,359)	6,697
Increase/(decrease) in operating liabilities:			
Increase/(decrease) in deposits from banks		594,709	923,750
Increase in deposits from customers		10,341,784	7,176,914
Decrease/(increase) in other liabilities		83,153	21,397
Net cash used in operating activities before interest and tax		6,053,222	3,103,192
Interest received from loans and advances to customers		2,058,282	1,213,694
Interest paid for deposits from customers and banks		(799,135)	(449,241)
Payments for leases of low-value assets		(2,795)	(2,458)

The accompanying notes from pages 9 to 164 form an integral part of these financial statements.

(All amounts are in thousand RON unless otherwise stated)

	Note	2022	2021
Recoveries from assigned credits and from previously written-off loans	11	157,564	146,223
Income tax paid		(74,022)	(58,712)
Net cash used in operating activities		7,393,116	3,952,698
Investment activities:			
Proceeds from financial assets measured at fair value through other comprehensive income	16	3,549,422	5,513,178
Payments for the acquisition of financial assets measured at fair value through other comprehensive income	16	(1,397,885)	(7,714,196)
Proceeds from investments in debt instruments measured at amortized cost	17	28,233	699,039
Payments for investments in debt instruments measured at amortized cost	17	(2,422,681)	(762,124)
Payments for equity investments		(5,209)	-
Interest received from investing activities		537,585	483,748
Cash payments for the acquisition of tangible and intangible assets and real estate investments	21,22, 23	(121,730)	(119,685)
Proceeds from the sale of tangible and intangible assets and real estate investments		8,997	6,950
Dividends proceeds		6,850	919
Net cash in investing activities		183,581	(1,892,171)
Financing activities			
Dividends paid to the sole shareholder Ministry of Finance		(634,257)	-
Proceeds from debt securities issued		653,636	-
Proceeds from subordinated loans		-	1,400,000
Interest payments on subordinated loans		(84,473)	-
Payment of lease liability		(27,673)	(23,878)
Repayment of loans from banks and other financial institutions	29	(164,924)	(122,151)
Loan withdrawals from banks and other financial institutions	29	-	-
Interest paid for loans from banks and other financial institutions		(509)	(690)
Net cash from financing activities		(258,200)	1,253,281

(All amounts are in thousand RON unless otherwise stated)

	Note	2022	2021
Net increase in cash and cash equivalents		7,318,497	3,313,808
Cash and cash equivalents at the beginning of the year		8,451,785	5,137,977
Cash and cash equivalents at the end of the year (i)		15,770,282	8,451,785

(i) Analysis of cash and cash equivalents

	31 December 2022	31 December 2021
Cash and cash equivalents comprise:		
Cash on hand (Note 13)	1,088,633	574,904
Cash in ATM's (Note 13)	354,905	270,102
Current accounts held at the National Bank of Romania (Note 13)	8,625,516	6,263,535
Current accounts held at other banks (Note 15)	571,824	76,090
Cash on hand and at banks	10,640,878	7,184,631
Money market placements – maturity less than 3 months (Note 15)	5,129,404	1,267,154
Cash and cash equivalents	15,770,282	8,451,785

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

Bogdan Constantin Neacșu
General Manager – President of Executive Committee

Ștefan Silviu Fota
Director, Accounting Division

CEC BANK S.A. CABINET PREȘEDINTE DIRECTOR GENERAL 1

1 REPORTING ENTITY

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

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

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

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

The Bank operates through its Head Office located in Bucharest and through its network of 48 county branches and similar units from Bucharest, 115 first rank urban agencies, 386 second rank urban agencies and 462 second rank rural agencies.

Overall, as at 31 December 2022 there are: 963 agencies and 48 branches (31 December 2021: 960 agencies, of which: 111 fist rank urban agencies, 386 second rank urban agencies, 463 second rank rural agencies and 48 county branches).

CEC Bank SA has 5,310 employees as at 31 December 2022, 104 less than as at 31 December 2021.

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

1 REPORTING ENTITY (CONTINUED)

As at 31 December 2022, the Bank's Board of Directors includes the following people:

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

As at 31 December 2022, the Bank's Executive Committee includes the following people:

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

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

a) Basis of measurement

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

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

b) Functional and presentation currency

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

c) Use of estimates and judgments

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The following new Standards, amendments to Standards and Interpretations are not yet mandatorily effective for annual periods beginning on or after 1 January 2021, and have not been applied in preparing these financial statements. The Bank plans to adopt these pronouncements when they become effective.

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Effective for annual periods beginning on or after 1 January 2023 Early application is permitted)

The amendments introduced a definition of 'accounting estimates' and included other amendments to IAS 8 clarifying how to distinguish changes in accounting policies from changes in estimates. The distinction is important as changes in accounting policies are generally applied retrospectively while changes in estimates are accounted for in the period in which the change occurs.

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

e) New Standards not yet adopted by the European Union

Amendments to IAS 1 Presentation of Financial Statements Classification of Liabilities as Current or Non-current (Effective for annual periods beginning on or after 1 January 2024. Early application is permitted)

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

Amendments to IAS 1 Presentation of Financial Statements Non-Current Liabilities with Covenants (Effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively.Early application is permitted. Specific transition requirements apply for companies that have early-adopted the previously issued but not yet effective 2020 amendments).

Under existing IAS 1 requirements, companies classify a liability as current when they do not have an unconditional right to defer settlement for at least 12 months after the reporting date. The amendments, as issued in 2020, has removed the requirement for a right to be unconditional and instead requires that a right to defer settlement must exist at the reporting date and have substance (the classification of liabilities is unaffected by management's intentions or expectations about whether the company will exercise its right to defer settlement or will choose to settle early).

The amendments, as issued in 2022, further clarify that when the right to defer settlement is subject to a company complying with conditions (covenants) specified in a loan arrangement, only covenants with which the company must comply on or before the reporting date affect the classification of a

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

liability as current or non-current. Covenants with which the company must comply after the reporting date do not affect a liability's classification at that date. However, the amendments require companies to disclose information about these future covenants to help users understand the risk that those liabilities could become repayable within 12 months after the reporting date. The amendments also clarify how a company classifies a liability that can be settled in its own shares (e.g. convertible debt).

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

Amendments to IFRS 16 Leases Lease Liability in a Sale and Leaseback (Effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively. Early application is permitted)

Amendments to IFRS 16 Leases impact how a seller-lessee accounts for variable lease payments in a sale-and-leaseback transaction. The amendments introduce a new accounting model for variable payments and will require seller-lessees to reassess and potentially restate sale-and-leaseback transactions entered into since 2019.

The amendments confirm the following:

- on initial recognition, the seller-lessee includes variable lease payments when it measures a lease liability arising from a sale-and-leaseback transaction;
- after initial recognition, the seller-lessee applies the general requirements for subsequent accounting of the lease liability such that it recognises no gain or loss relating to the right of use it retains.

A seller-lessee may adopt different approaches that satisfy the new requirements on subsequent measurement.

These amendments do not change the accounting for leases other than those arising in a sale and leaseback transaction.

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

(All amounts are in RON thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Foreign currency

The functional currency is the currency of the primary economic environment in which the Bank operates.
The functional currency of the Bank is the national currency of Romania, Romanian LEU ("RON").
Monetary assets and liabilities are converted into RON at the exchange rate of NBR at the end of that period.
Foreign exchange gains or losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into RON at the official exchange rates at the end of the year are recognised in profit or loss (as "Net gains/(loss) from foreign exchange differences").

Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined.
Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.
The exchange rate of major foreign currencies was:

Currency	31 December 2022	31 December 2021	Increase/ (decrease) (%)
Euro (EUR)	1: RON 4.9474	1: RON 4.9481	(0.01)
US Dollar (USD)	1: RON 4.6346	1: RON 4.3707	6.04

2.3 Interest income and interest expenses

Interest income and interest expenses for financial instruments are recognized in the income statement using the effective interest rate method on an accrual basis.
The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the gross carrying amount of the financial asset or financial liability.
When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call options and other similar options) but does not consider future impairment losses.
The method of calculation includes all commission fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.
Commission fees received by the Bank to originate loans at market interest rates are an integral part to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

2.4 Commissions income and fees expenses

Commission and expense income and expenses are fees and charges other than those relating to the origination of a financial asset or liability and which are part of the effective interest rate.

The income from commissions and charges and commissions comes from the financial services offered/received by the bank and includes: commission on commitments of financial guarantees,

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

commissions on card transactions, cash management fees, investment advice and financial planning, asset management services as well as credit risk insurance expenses for the loan and debt portfolio.

The revenue from fees and charges shall be accounted for in the profit or loss account as the Bank meets the performance obligation under the contractual terms in accordance with IFRS 15, respectively:

• at the time of service, if the obligation to execute is fulfilled at a certain time

• as the Bank meets the obligation, in time, if the obligation to execute is fulfilled in time, and the client receives and consumes the benefits simultaneously

Trading fees arising from transactions in securities, collection and payment services, exchanges, document transmission to customers, etc. are usually recorded at the time the service is provided.

Fees related to continuous management, account management, deposit and custody services, asset management and payment cards are normally recognized over time during the duration of the contract. The income is measured on a linear basis and is distributed evenly, usually monthly, over the duration of the contract.

The fees on loans granted other than those related to initiation which are part of the actual interest income shall be either recorded at the time the service is provided or recognized over time during the duration of the contract, based on the type of services provided.

The amount of Commission income is determined on the basis of contractual terms.

2.5 Dividends

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

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

Dividends are recognized only when the Bank's right to receive the dividend payment is established.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Income tax expense

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of prior periods.
Income tax is equal with the value of payable/recoverable income tax considering the taxable profit/ fiscal loss over a period of time.

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

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

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against a deferred tax assets can be used.

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

The tax rate used to calculate the current and deferred tax position at 31 December 2022 is 16% (2021: 16%).

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Financial assets and liabilities

(i) Classification

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

- Debt instruments including loans

Financial assets measured at fair value through profit or loss

- Derivatives
- Debt instruments

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

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

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

Loans and debt instruments

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

a) Analysis of the business model;

b) Analysis of the contractual cash flows characteristics ("SPPI test").

a) Analysis of the business model

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

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

(i) Held to collect contractual cash flows

Financial assets that are held within a business model whose objective is to hold assets to collect contractual cash flows. These financial assets are managed to obtain cash flows through the collection

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

(ii) Held to collect contractual cash flows and sale

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

There are various goals that are consistent with this type of business model. For example, the business model's objective may be to manage liquidity needs on a daily basis, maintain a certain portfolio yield level, or correlate the duration of financial assets with the duration of the debt that those assets fund. To achieve such an objective, the Bank will collect contractual cash flows but will also sell financial assets. [IFRS 9.B4.1.4A].

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

(iii) Other business models

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

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

Bank's loan portfolio - Loans and advances to customers

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

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

In accordance with IFRS 9, paragraph B4.1.3, sales due to the increase in credit risk of assets are in line with a business model whose objective is to hold financial assets to collect contractual cash flows.

Considering the fact that in the previous years, the Bank has made sales to maintain a lower level of nonperforming assets in its portfolio, according to the NBR's recommendations; sales are in line with the ownership model for collection.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Thus, based on the above, the Bank's business model for the loan portfolio is "held to collect contractual cash flows".
Government securities portfolio of the Bank - Debt securities measured at fair value through other comprehensive income , debt instruments measured at amortized cost and debt securities held for trading and measured at fair value through profit and loss.
The Bank holds debt instruments represented by government securities issued by the Ministry of Public Finance of Romania.
The Bank's government securities portfolios are held for:

1) collection of contractual cash flows;
2) collection of contractual cash flows and sale;
3) for trading

1) Collection of contractual cash flows

The cash flows of a sub-portfolio of government securities are realized through the collection of contractual cash flows.
Between 2014 and 2022, the Bank did not record sales from this sub-portfolio of government securities, which were held until maturity.
Thus, the Bank's business model for the government securities portfolio is "held to collect contractual cash flows".

2) Collection of contractual cash flows and sale

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

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

3) For trading

Securities held for trading, measured at fair value through profit and loss (FVTPL) are securities that cannot be classified as measured at amortized cost or measured at fair value through other comprehensive income.
The classification decision for securities in the trading portfolio - FVTPL is taken at the time of the transaction, depending on the objectives of the Bank.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

Derivatives

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

Equity instruments

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(vii) Measurement

Initial measurement

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

Transaction costs are:

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

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

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

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

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

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

Subsequent measurement

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

Fair value measurement

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(a) manages the group of financial assets and financial liabilities based on the entity's net exposure to a particular market risk (or risks) or credit risk of a particular counterparty, in accordance with the entity's documented risk management strategy or investment strategy;
(b) provides information on this about the assets and liabilities group to the key management personnel of the entity; and
(c) market risks, including the duration of the entity's exposure to a particular market risk (or risks) resulting from financial assets and financial liabilities is substantially the same.

Valuation techniques, such as discounted cash flow models or models based on recent underlaying transactions, or taking into account investors' financial data, are used to measure the fair value of certain financial instruments for which external market price information is not available.
Fair value appraisals are analyzed according to the level within the fair value hierarchy as follows:

(i) level one includes valuations at quoted (unadjusted) prices on active markets for identical assets or debts,
(ii) the second level includes evaluation techniques by using observable information on assets or liabilities, either directly (such as prices) or indirectly (such as price derivatives), and
(iii) level three includes assessments that are not based on observable market data (unobservable inputs).

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

Measurement at amortized cost

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) for purchased or originated credit-impaired financial assets by applying the effective interest rate adjusted for credit for the amortized cost of the financial asset at the initial recognition; and

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

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

(iii) Changes in financial assets and liabilities

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

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

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

The Bank monitors the changes to the contractual clauses in order to establish those changes that result in derecognition of the credit.

The criteria set by the Bank to assess contractual changes that may lead to derecognition were determined in view of their significance (quantitative or qualitative) so that the requirements of IFRS 9.3.2.3 are met. Quantitatively these changes exceed the materiality threshold of 10%, by analogy with the threshold specified in IFRS 9 in derecognition of financial liabilities. From a qualitative point of view, the amendments concern contractual clauses which significantly change the nature of the risks associated with the original contract. The qualitative criterion applies when a transmission of contractual obligations takes place (assignment of debt, novation, change of credit currency).

(iv) Initial recognition

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

The Bank initially recognizes the loans, advances and deposits attracted at the time they are originated.

All other financial assets and liabilities (including those designated at fair value through profit or loss) are initially recognized at the settlement date. Derivatives are recognized when the parties become participants in the transaction.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Derecognition

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

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

(ii) retains the contractual rights to receive the cash flows from the financial asset but assumes a contractual obligation to pay the cash flows to one or more recipients through a contract that meets the following conditions:

(a) the Bank has no obligation to pay amounts to prospective beneficiaries, unless the Bank collects equivalent amounts from the transferred asset;

(b) the Bank is forbidden by contractual terms to transfer the asset to sell or to pledge the initial asset, for reasons other than guaranteeing the obligation to pay potential cash-flow beneficiaries;

(c) the Bank transfers any cash flows it collects on behalf of the beneficiaries without significant delays.

or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retail control of the financial asset.

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

(vi) Reclassification

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

Types of reclassifications:

(a) Reclassification of financial assets from financial assets measured at amortized cost category to financial assets measured at fair value through the profit or loss account category.

- Fair value is measured at the date of reclassification and the difference between previously amortized cost and fair value is recognized in profit or loss.

(b) Reclassification of financial assets from financial assets measured at fair value through profit or loss category to financial assets measured at amortized cost category.

- Fair value is measured at the date of reclassification and will be considered the gross carrying amount of the asset.
- The effective interest rate will be determined on the basis of the fair value as at the reclassification date, and for the impairment measurement, the reclassification date will be considered the date of the initial recognition.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

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

(vii) Off-setting

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

(a) must not be contingent on a future event; and
(b) must be legally enforceable in all the following circumstances:
  (i) in the normal course of business,
  (ii) in the non-payment, and
  (iii) insolvency or bankruptcy.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(viii) Impairment of financial instrument

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

(a) the debt service exceeded 30 days at the end of the current month or exceeded 30 days on the last day of any previous two months;

(b) credit exposure is classified as a restructured performance exposure;

(c) the exposure is included in the observation list monitored by the Bank in accordance with the provisions of regulations on supervision and administration of supervised and non-performing loans. The identified events that generate a significant increase in credit risk include, for example, difficult market conditions or adverse evolution in the financial statements that reflect changes in the credit / customer situation as compared to the situation at the date of the granting of the credit, without these being instances of improbability of payment, which anticipate the full non-recovery of the receivables without recourse to the enforcement actions over the guarantees.

(d) the exposure has been classified as impaired exposures at the close of any previous two months.

Impairment identification

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

It is not always possible to identify a single isolated event that generated the impairment. Most likely, impairment is the result of the combined effect of a group of events.

According to the Bank's internal valuation methodology, the criteria used to determine the existence of objective evidence of impairment refer to events that lead to the estimation of an improbability of recovering the entire claim by the Bank without recourse to enforcement of collateral:

(a) overdue principal or interest payments with a debt service of more than 90 days;
(b) the exposure is unlikely to be fully recovered by the Bank without the collateral being executed, regardless of the existence of overdue amounts or the number of days past due.

Improbability of recovery is quantified by:

- significant financial difficulties of the debtor (inability to honor payments to suppliers, significant debts to the state budget, reporting of significant net losses, etc.);

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- financial results that no longer support the reimbursement of financial obligations in conjunction with the lack of alternative sources or projects supporting the repayment of debts.

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

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

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

(f) fraud situations;

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

(h) the death of the debtor.

Estimation of expected credit loss

Loans and advances to customers

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

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

Forward looking adjustments are based on the correlation between the macroeconomic indicators (GDP evolution, interest rate -ROBOR 3M evolution) and the companies' default rate, respectively between GDP evolution and average net salary increase adjusted by inflation rate and the individuals' default rate. The default rate is observed at the banking system level (NBR data, as the Bank does not have enough own data to estimate correlations).

The projections of macroeconomic indicators considered by Bank refers to GDP projections published by the World Bank, the inflation projections published by National Bank of Romania and the increase of average salary (in 2023) similar with the average of increase from last ten years and 75% from this average in 2024.

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(i) an unbiased and probability weighted amount, which is determined by evaluating a range of possible outcomes;

(ii) time value of money;

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

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

For loans and receivables for which no impairment and no SICR has been identified, expected loss shall be determined over their lifetime from default events occurring within 12 months after the reporting date, on the basis of a collective analysis.

For loans for which there is significant increase in credit risk compared to the time of granting, expected credit loss is estimated over the life of the financial asset, on the basis of a collective analysis (for loan portfolios with similar credit risk).

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

For the purposes of identifying further significant credit risk growth/impairment of exposures, the Bank will monitor the indicators of credit risk growth in relation to the modified contractual obligations, distinguishing between borrowers whose repayment capacity will not be affected in the long term by the current situation and borrowers for which recovery of the repayment capacity is unlikely to be restored after the state of emergency and/or alert has been overcome and business is resumed. For the latter, credit risk increases/impairment of exposures will be appropriately recognized.

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restructured loans

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

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

a) the granting of concessions, irrespective of the existence / absence of outstanding amounts, in the conditions of financial difficulties of the debtor;
b) the contract was classified before the restructuring as non-performing or would have been classified as non-performing if it had not been modified;
c) the contractual change implies a total or partial cancellation of the debt;
d) at the same time with the granting of the concession or at a date close to granting it, following the granting of a new loan, the debtor makes principal or interest payments related to another contract with the Bank, which was classified as non-performing or would have been classified as non-performing in absence of refinancing;
e) at the same time with the granting of the concession or at a date close to granting it, following the granting of a new loan, the debtor makes principal or interest payments related to another contract concluded with the Bank, which has recorded outstanding amount for at least 30 days at least once in the last 3 months prior to refinancing;
f) a change involving the extinguishment of the obligation by taking over the collateral when the change represents a concession;
g) the modified contract had more than 30 days past due (without being non-performing) at least once in the last 3 months prior to the restructuring or would have been in this situation if it had not been modified.

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

Loans subject to restructuring operations are classified as performing or non-performing assets starting with the date of the restructuring, based on the level of diminishing financial obligation (DO). If the diminished financial obligation that is considered to be caused by postponement of principal, interest, or fees is lower than 1%, the loan will be classified as forborne performing. If the DO level is higher than 1%, the loan will be classified as nonperforming. If, after 12 months, the conditions for the exiting of the exposures from the non-performing category are met simultaneously, the loan will be classified as performing assets with restructuring measures. These loans are monitored within a minimum 24-month observation period starting with the date of restructuring (for forborne performing) or starting with the date of exit from the category of non-performing loans for classification in the performing / non-performing loans category. Any additional restructuring measures applied within the observation period, as well as any overrun of the 30-day debt service over the period, lead to the classification of the restructured loan in the category of non-performing loans.

If at the time of the restructuring request analysis the DO is below the materiality threshold (1%) and the Bank has reasonable uncertainties regarding the ability to fully repay the new obligations in a timely manner, the credit is classified as non-performing.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

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

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

Write-off loans

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Off balance sheet commitments

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

Assets valued at fair value through other comprehensive income

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

Investments in equity instruments

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

2.8 Lease payments

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

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

(i) Identification of a lease

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

b) Non-leasing components (services)

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

c) Not separable non-lease components

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

d) VAT treatment

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

(ii) Lease term

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

(i) Recognition and measurement

Recognition and measurement exemptions

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Initial measurement – lease liability

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

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

a) fixed payments less any lease incentives receivable

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

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

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

According to IFRS 16 paragraph 38, such payments are not part of the lease liability, but they are recognized in the income statement when the event or condition that trigger those payments occurs.

d) other lease liabilities components.

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

For each reporting period, the Bank will calculate the lease liabilities in the original currency of the contract and convert them in RON by using the exchange rate from the reporting day. The Bank will recognise any exchange rate differences in Profit or Loss account.
The right of use asset is not a monetary item and it is recognised in RON, the Bank's functional currency. As such, the right of use asset is not subsequently measured to account for any exchange rates differences, as it is the case for lease liability.

2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

Initial measurement – right-of-use asset

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

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

a. the amount of the initial measurement of the lease liability;
b. lease payments made at or before the commencement date, less any lease incentives received;
c. Initial direct costs.

In accordance with the guidance from IFRS 16 paragraph 24, the cost of the right-of-use should also include the initial direct costs incurred by the Bank in order to conclude the lease contract.

Initial direct costs are defined as "...incremental costs of obtaining a lease that would not have been incurred if the lease had not been obtained...".

Subsequent measurement – lease liability

a) Subsequent measurement of the lease liability

The Bank measures the lease liability by:

- increasing the carrying amount to reflect interest in the lease liability;
- reducing the carrying amount to reflect the lease payments made;
- re-measuring the carrying amount to reflect any reassessments or lease modifications or to reflect revised fixed lease payments.

b) Reassessment of the lease liability

The Bank re-measures the lease liability to reflect changes to lease payments. The Bank will recognize the amount of re-measurement of the lease liability as an adjustment to the right-of-use asset.

The Bank will re-measure the lease liability by discounting the lease payments using a revised discount rate if either:

- there are contractual changes which modify the lease payments or the lease term;
- there is a change in the assessment of an option to purchase the underlying asset, in the context of a purchase option.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Bank will re-measure the lease liability by discounting the revised lease payments using the initial discount rate if either there is a change in the guaranteed residual value and there is a change in an index or a rate used to determine those payments.

The Bank will account for a lease modification as a separate lease if both criteria below are met:

- the modification extends the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the lease increases by an amount commensurate with the stand-alone selling price for the right to use the underlying assets with which the scope of the contract has been increased and any appropriate adjustments to that stand-alone selling price to reflect the circumstances of the particular contract.

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

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

Subsequent measurement – right-of-use asset

After the commencement date of the contract, the Bank will measure the right-of-use asset applying the cost model. The value of right-of use asset is decreased by any accumulated depreciation and any accumulated impairment adjustments and adjusted foras a result of any re-measurement of the lease liability.

The Bank will calculate the amortization of the right to use the asset on a straight-line basis in accordance with the requirements of IAS 16 "Property, plant and equipment".

The Bank will depreciate the right-of-use asset over the shorter period between the lease term and the useful life of the right-of-use asset. Also, the Bank will apply the impairment requirements in IAS 36 to the right-of-use assets.

2.10 Cash and cash equivalents at Central Bank

Cash and cash equivalents comprise of cash balances on hand and nostro accounts with banks, including current account with the National Bank of Romania. Cash is recorded at nominal value and cash equivalents are recorded at amortised cost in the balance sheet.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents are short-term investments which are readily convertible to cash and which are subject to an insignificant risk of changes in value.
Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents.
For the purposes of the cash flow statement, cash and cash equivalents comprise of balances with less than three months maturity from the date of formation, including cash and non-restricted balances with the central bank, current accounts with banks and short-term placements with banks.

2.11 Derivatives

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

Derivatives include currency swaps contracts and currency forward transactions on the exchange rate and on debt instruments. The positive fair value of the derivatives is carried as asset and the negative fair value is carried as liability.

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

2.12 Loans and advances to banks

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

2.13 Investment property

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

The Bank records as investment property the following tangible assets:

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

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

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

2.14 Tangible assets

(i) Recognition and measurement

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

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

Evaluations are made by certified external and internal evaluators.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Upon revaluation of tangible assets, accumulated depreciation at the date of revaluation is eliminated from the gross carrying amount of the asset and the gross carrying amount after the recording of revaluation is equal to its revaluated amount.

(ii) Subsequent costs

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

(iii) Depreciation

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

(iv) Derecognition

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

The estimated useful lives by categories are as follows:

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Intangible assets

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

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

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

2.16 Impairment of non-financial assets

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

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

2.17 Debt securities issued

Debt securities issued are classified as financial liabilities. The debt securities issued are initially recognized at fair value to which possible transaction costs are added and then measured at amortized cost using the effective interest rate method.

2.18 Deposits from banks and customers

Deposits from banks and customers are initially measured at fair value plus transaction costs, and subsequently measured at amortised cost using the effective interest method.
Deposits from banks are recorded when the Bank receives money or other assets from other counterparty banks.
Customer accounts are non-derivative liabilities to individuals, state or corporate customers.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Borrowings from banks and other financial institutions

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

2.20 Sale and repurchase agreements of securities

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

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

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

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

2.21 Provisions

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

2.22 Contingent assets and liabilities

Contingent liabilities are not recognized in the financial statements. They are disclosed in notes unless the possibility of an outflow of economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Financial guarantees

The Bank issues financial guarantees and commitments to provide loans.

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

Financial guarantee liability is initially recognised at its fair value which is normally highlighted by the amount of fees received.

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

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

2.24 Repossessed assets

Repossessed assets represent financial and non-financial assets repossessed by the Bank through enforcement or giving in settlement to cover outstanding loans from customers. Financial assets (cash and securities) taken over by the Bank due to enforcement are accounted in treasury accounts, respectively securities, in counterparty with related receivables accounts and "Creditors " account (for any difference to be returned to the customer). Net gain or loss from derecognition of the credit is recognized in profit or loss.

Movable and immovable property other than securities and cash, taken over by the Bank through enforcement are initially recognized at the lower of the values between: a) the value of the financial assets, considering the foreclosed asset or the asset received as payment of the debt as collateral, and b) the fair value of the recovered asset, minus selling cost, in the "Inventories" category in the account "Other assets held for sale" in counterparty with related receivables accounts and "Creditors" account (for any difference to be returned to the customer). Net gain or loss from derecognition of the credit is recognized in profit or loss.

Immovable property that has come into the Bank's possession as a result of the payment transactions are initially recognized at the smallest of the values between: a) the value of the financial assets, considering the foreclosed asset or the asset received as payment of the debt as collateral, and b) the fair value of the recovered asset, minus selling cost in the category "Inventories" through the account "Other assets held for sale" in counterparty with the receivables accounts.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Bank classifies foreclosed assets and property taken over through foreclosure or giving in payment procedure as non-current assets held for sale in accordance with IFRS 5. This accounting treatment implies the availability of assets for immediate sale in their current condition (IFRS 5.7), approval by the management body of an individual plan for the sale of the asset in the short term (usually one year) and compliance with an active sale policy (IFRS 5.8).

Assets taken into the Bank's assets through foreclosure or giving in payment procedure which subsequently change their destination, which fall within the category of assets, will be transferred from "Inventories" category into the assets accounts.

2.25 Segment reporting

The Bank discloses information at segment level to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

An operating segment is a component of the Bank:

(a) that engages in business activities from which it may earn revenues and incur expenses

(b) whose operating results are regularly reviewed by the entity's chief operating decision maker to take decisions about resources to be allocated to the segment and assess its performance, and

(c) for which discrete financial information is available.

Segment reporting is based on the following business lines of the Bank: corporate, authorities of public local administration, individuals, small and medium entities (referred to as "SME") and treasury, the latter including financial institutions.

2.26 Employee benefits

Short term benefits

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

Pension plans/ social and pension contributions

The Bank, in the normal course of business, makes payments to the Romanian state funds on behalf of its employees for the pension fund and health care fund. All the employees of the Bank are members and are also legally obliged to make defined contributions (included in the social security contributions) to the Romanian state pension plan. All related contributions to the Romanian state pension plan are recognized as an expense in the profit and loss statement for the period when incurred. The Bank does not operate any independent pension scheme and, consequently, has no other obligation in respect of pensions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Post- employment benefits

Based on the Work Convention valid for 2022, signed with the Trade Union Federation of CEC Bank Employees, Bank's employees who retire as a result of the age limit/disability in 2022 may receive on this occasion, a premium, at the justified proposal of the management of the unit, in consultation with trade union leaders.

2.27 Deposit Guarantee Fund contribution

Individuals and some categories of companies deposits, including small and medium enterprises, are guaranteed until a certain level (EUR 100,000) by the Deposit Guarantee Fund in the Banking System ("Fund") according to effective law (Law 311/2015 regarding the deposit guarantee schemes and the Deposit Guarantee Fund). The credit institutions from Romania are obliged to pay an annual contribution to BDGF ("Banking Deposit Guarantee Fund") in order to guarantee the deposits of clients in case of the credit institution insolvency and an annual subscription to the Resolution Fund. The Bank applied the provisions of IFRIC 21 "Levies", according to which the Fund contribution meets the definition of a levy.

2.28 Share capital

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

2.29 Trade and other payables

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

2.30 Corrections of the financial statements for the financial year ended 31 December 2021

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

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

(All amounts are in RON thousands unless otherwise stated)

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

Statement of financial position

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

Other comprehensive income

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

(All amounts are in RON thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Statement of changes in equity

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

(All amounts are in RON thousands unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Where necessary, the comparisons have been adjusted to the disclosures in accordance with the IFRS of the current year.

The statement of financial position as at 1 January 2021 was not disclosed in this set of financial statements given that the lines in the financial statements are not materially affected by these reclassifications.

The effect of reclassifications for presentation purposes on the Statement of Financial Position was as follows for the amounts as at 31 December 2021:

Items from the Statement of Financial Position	31 December 2021 Previously reported	Reclassification	31 December 2021 Corrected
Property, plant and equipment	719,067	(2,325)	716,742
Intangible assets	76,093	(7,026)	69,067
Other financial assets	25,236	9,351	34,587
Total	**820,396**	-	**820,396**

3 FINANCIAL RISK MANAGEMENT

a) Introduction

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

Risk management framework

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

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

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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The Bank, through its training, management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.The Bank's Audit Committee is responsible for monitoring the compliance with the Bank's risk management procedures. The Audit Committee is assisted in fulfilling these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

b) Credit risk

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

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

On 13.05.2016 the "Law on payment of immovable property with the aim of extinguishing the obligations under the credit" came into force.

As at 31.12.2022, the Bank received notifications regarding the law on full settlement of mortgage / home equity loans for 13 loans with an on-balance sheet exposure of RON 6,083 thousand, for which the Bank made adjustments for expected credit loss of RON 4,980 thousand, respectively real estate guarantees of RON 6,154 thousand, so that the estimated impact on the portfolio of loans and financial position of the Bank is insignificant.

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

Until now, the Bank has taken over the payment as a result of the provisions of Law 77/2016: 9 buildings and 10 lands. Debt repayments amounting to RON 1,177 thousand were made in 2022, representing receivables residuals recorded in off balance sheet accounts.

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

As at 31 December 2022, the Bank recorded a portfolio of loans granted to individuals that can benefit from the law on full settlement of mortgage with a value of RON 4,237,374 thousand, with collateral value of RON 8,153,038 thousand. Adjustments for expected credit loss related to this portfolio have a value of RON 45,620 thousand.

As at 31 December 2021, the Bank recorded a portfolio of loans granted to individuals that can benefit from the law on full settlement of mortgage with a value of RON 3,051,855 thousand, with collateral value of RON 5,904,148 thousand. Adjustments for expected credit loss related to this portfolio have a value of RON 37,913 thousand.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

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

Credit risk is diminished by the amount of collateral received. The adjustment value for impaired loans is based on the management's analysis at the balance sheet date after taking into account the potential cash flows from the execution of the collateral, net of the costs of obtaining and selling them. Management closely monitors the evolution of the portfolio and the cash flow forecast such to ensure it reflects the revised estimates of expected future cash flows in the impairment assessments

Credit risk management

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

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

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

The table below presents the loans commitments and financial guarantees net of provision outstanding as at 31 December 2022, split by stages:

	Stage 1	Stage 2	Stage 3	POCI	Total
Crediting commitments					
Exposure	4,055,681	334,753	53,300	13	**4,443,747**
Provision	19,998	4,956	6,936	3	**31,893**
Net crediting commitments	**4,035,683**	**329,797**	**46,364**	**10**	**4,411,854**
Guarantee commitments					
Exposure	1,581,223	319,441	57,714	-	**1,958,378**
Provision	4,478	2,208	6,993	-	**13,679**
Net guarantee commitments	**1,576,745**	**317,233**	**50,721**	-	**1,944,699**

The table below presents the loans commitments and financial guarantees net of provision outstanding 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**
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**

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

	Gross exposure 31 December 2022	Adjustments for expected credit loss 31 December 2022	Net exposure 31 December 2022
Bucuresti-Ilfov	10.807.001	605.310	10.201.691
Center	2.015.138	157.048	1.858.090
North-East	2.902.297	100.919	2.801.378
North-West	4.389.404	241.794	4.147.610
South-East	4.262.371	164.636	4.097.735
South-Muntenia	2.501.975	179.428	2.322.547
South-West Oltenia	2.439.462	80.729	2.358.733
West	1.555.136	118.883	1.436.253
Total	**30.872.784**	**1.648.747**	**29.224.037**

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

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The split of gross loans and advances to customers by class and category, as at 31 December 2022 (gross amounts):

	Stage 1	Stage 2	Stage 3	POCI	Total
Individuals – personal needs loans fully collateralised with real estate collaterals	198,248	29,361	44,832	-	272,441
Individuals – personal needs loans without real estate collaterals or not fully covered	1,389,888	51,998	121,701	-	1,563,587
Individuals – Mortgage loans	6,613,963	633,834	58,440	-	7,306,237
Cards/Overdraft	341,791	6,358	15,801	-	363,950
Total loans for individuals	8,543,890	721,551	240,774	-	9,506,215
Legal entities Agriculture	2,085,004	286,618	200,785	-	2,572,407
Public local administrations	2,601,911	395,792	8,656	-	3,006,359
Legal entities Industry	3,852,526	526,713	353,693	115,948	4,848,880
Legal entities Commerce	2,218,137	259,830	250,086	-	2,728,053
Legal entities Construction	1,449,955	145,675	286,862	-	1,882,492
Legal entities Services	3,941,716	1,404,156	552,307	-	5,898,179
Bridge loans for subsides	404,880	20,728	4,591	-	430,199
Total corporate loans and advances	16,554,129	3,039,512	1,656,980	115,948	21,366,569
Total gross loans and advances	25,098,019	3,761,063	1,897,754	115,948	30,872,784
Collaterals	18,769,652	3,184,293	1,595,467	115,948	23,665,360

The collaterals value, presented in the tables from pages 55 – 67 includes the collaterals value accepted to be taken into account as a risk reducing factor in order to determine adjustments for expected losses; in case of loan with guarantees issued by guarantee funds/ Eximbank with terms regarding the risk sharing in the enforcement process of the other guarantees related to the loan, the value of the guarantees is the one resulted after pari-passu principle application.

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The expected credit loss related to loans and advances to customers as at 31 December 2022:

	Stage 1	Stage 2	Stage 3	POCI	Total
Individuals – personal needs loans fully collateralised with real estate collaterals	1,415	510	23,353	-	25,278
Individuals – personal needs loans without real estate collaterals or not fully covered	11,258	697	64,727	-	76,682
Individuals – Mortgage loans	6,420	3,746	21,893	-	32,059
Cards/Overdraft	2,712	185	10,904	-	13,801
Total adjustments for expected credit loss for individuals	21,805	5,138	120,877	-	147,820
Legal entities Agriculture	14,361	11,361	113,883	-	139,605
Public local administrations	26,042	3,955	2,793	-	32,790
Legal entities Industry	74,252	51,707	228,566	35,522	390,047
Legal entities Commerce	26,727	15,633	135,122	-	177,482
Legal entities Construction	22,005	9,338	160,573	-	191,916
Legal entities Services	79,234	172,001	313,760	-	564,995
Bridge loans for subsides	179	18	3,895	-	4,092
Total adjustments for expected credit loss for companies	242,800	264,013	958,592	35,522	1,500,927
Total adjustments for expected credit loss	264,605	269,151	1,079,469	35,522	1,648,747
Gross loans and advances to clients	25,098,019	3,761,063	1,897,754	115,948	30,872,784
Net loans and advances to clients	24,833,414	3,491,912	818,285	80,426	29,224,037

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

Presentation of loan commitments given as at 31 December 2022:

31 December 2022	Stage 1	Stage 2	Stage 3	Total
Individuals – personal needs loans without real estate collaterals or not fully covered	37,595	82	19	37,696
Individuals – Mortgage loans	47,828	64	-	47,892
Cards/Overdraft	434,103	6,840	2,478	443,421
Gross total for individuals	519,526	6,986	2,497	529,009
Provision	538	52	89	679
Net total individuals	518,988	6,934	2,408	528,330
Legal entities Agriculture	858,549	120,263	8,249	987,061
Public local administrations	112,714	51,952	-	164,666
Legal entities Industry	780,368	54,758	21,263	856,389
Legal entities Commerce	508,683	15,454	1,219	525,356
Legal entities Construction	502,009	20,697	8,040	530,746
Legal entities Services	760,492	64,386	12,045	836,923
Bridge loans for subsides	13,340	257	-	13,597
Gross total corporate	3,536,155	327,767	50,816	3,914,738
Provision	19,460	4,904	6,850	31,214
Net total corporate	3,516,695	322,863	43,966	3,883,524
Gross total	4,055,681	334,753	53,313	4,443,747
Provision	19,998	4,956	6,939	31,893
Net total	4,035,683	329,797	46,374	4,411,854

Presentation of financial guarantees given as at 31 December 2022:

31 December 2022	Stage 1	Stage 2	Stage 3	Total
Financial guarantees given	1,581,223	319,441	57,714	1,958,378
Provision	4,478	2,208	6,993	13,679
Net total	1,576,745	317,233	50,721	1,944,699

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

Presentation of loan commitments given as at 31 December 2021:

31 December 2021	Stage 1	Stage 2	Stage 3	Total
Individuals – personal needs loans without real estate collaterals or not fully covered	41,211	64	-	41,275
Individuals – Mortgage loans	60,260	-	-	60,260
Cards/Overdraft	383,870	402	2,672	386,944
Gross total for individuals	485,341	466	2,672	488,479
Provision	220	-	1	221
Net total individuals	485,121	466	2,671	488,258
Legal entities Agriculture	813,669	36,952	27,134	877,755
Public local administrations	138,510	39,793	-	178,303
Legal entities Industry	1,171,451	23,533	43,841	1,238,825
Legal entities Commerce	356,335	36,084	163	392,582
Legal entities Construction	467,293	13,947	48	481,288
Legal entities Services	1,111,066	45,747	10,952	1,167,765
Bridge loans for subsides	-	-	-	-
Gross total corporate	4,058,324	196,056	82,138	4,336,518
Provision	9,683	393	132	10,208
Net total corporate	4,048,641	195,663	82,006	4,326,310
Loans to credit institutions	75,000	-	-	75,000
Gross total	4,618,665	196,522	84,810	4,899,997
Provision	9,903	393	133	10,429
Net total	4,608,762	196,129	84,677	4,889,568

Presentation of financial guarantees given as at 31 December 2021:

31 December 2021	Stage 1	Stage 2	Stage 3	Total
Financial guarantees given	1,506,698	183,700	55,792	1,746,190
Provision	2,233	233	43	2,509
Net total	1,504,465	183,467	55,749	1,743,681

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

Internal rating 31 December 2022	Low risk	Moderate risk	Total	Of which 1-30 days
Individuals – personal needs loans fully collateralised with real estate collaterals	187,528	10,720	198,248	10,819
Individuals – personal needs loans without real estate collaterals or not fully covered	1,127,966	261,922	1,389,888	60,943
Individuals – Mortgage loans	6,172,440	441,523	6,613,963	12,721
Cards/Overdraft	310,370	31,421	341,791	9,129
Total gross loans to individuals	7,798,304	745,586	8,543,890	93,612
Adjustment for expected credit loss for individuals	18,898	2,907	21,805	660
Total net loans to individuals	**7,779,406**	**742,679**	**8,522,085**	**92,952**
Legal entities Agriculture	1,816,683	268,321	2,085,004	89,616
Public local administrations	2,601,911	-	2,601,911	6,085
Legal entities Industry	3,311,902	540,624	3,852,526	192,487
Legal entities Commerce	2,098,552	119,585	2,218,137	45,455
Legal entities Construction	1,319,521	130,434	1,449,955	69,182
Legal entities Services	2,966,053	975,663	3,941,716	62,895
Bridge loans for subsides	366,844	38,036	404,880	5,500
Total loans to corporate	14,481,466	2,072,663	16,554,129	471,220
Adjustment for expected credit loss for companies	208,772	34,028	242,800	7,035
Total net loans to corporate	**14,272,694**	**2,038,635**	**16,311,329**	**464,185**
Total gross	22,279,770	2,818,249	25,098,019	564,832
Total adjustments for expected credit loss	227,670	36,935	264,605	7,695
Total net loans	**22,052,100**	**2,781,314**	**24,833,414**	**557,137**
Collaterals	16,572,254	2,197,398	18,769,652	368,702

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

The financial performance of corporate clients is updated every 6 months based on updated financial statements In the case of individuals, the financial performance is determined on the basis of the scoring from the granting of the loan and is revalued during the course of the loans according to the information obtained regarding the fluctuation of income.

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

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

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

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

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

31 December 2022	0 days	1-30 days	31 - 60 days	61- 90 days	Total
Individuals – personal needs loans fully collateralised with real estate collaterals	20,313	6,592	1,580	876	29,361
Individuals – personal needs loans without real estate collaterals or not fully covered	20,077	6,716	14,226	10,979	51,998
Individuals – Mortgage loans	584,688	36,700	8,448	3,998	633,834
Cards/Overdraft	2,553	2,160	997	648	6,358
Total loans to individuals	627,631	52,168	25,251	16,501	721,551
Expected credit loss to individuals	4,216	457	281	184	5,138
Total net loans for individuals	**623,415**	**51,711**	**24,970**	**16,317**	**716,413**
Legal entities Agriculture	261,471	15,871	7,738	1,538	286,618
Public local administrations	346,027	49,352	-	413	395,792
Legal entities Industry	514,681	3,742	6,547	1,743	526,713
Legal entities Commerce	210,213	1,693	18,010	29,914	259,830
Legal entities Construction	115,172	17,461	9,206	3,836	145,675
Legal entities Services	1,382,085	12,842	5,465	3,764	1,404,156
Bridge loans for subsides	20,483	245	-	-	20,728
Total corporate loans	2,850,132	101,206	46,966	41,208	3,039,512
Expected credit loss to corporate	253,426	4,444	3,225	2,918	264,013
Total net loans for corporate	**2,596,706**	**96,762**	**43,741**	**38,290**	**2,775,499**
Total gross	3,477,763	153,374	72,217	57,709	3,761,063
Total expected credit loss	257,642	4,901	3,506	3,102	269,151
Total net loans	**3,220,121**	**148,473**	**68,711**	**54,607**	**3,491,912**
Collaterals	3,006,495	93,004	45,356	39,438	3,184,293

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

31 December 2022	0 day	1-30 days	31-60 days	61-90 days	91-180 days	181-360 days	Over 360 days	Total
Individuals – personal needs loans fully collateralised with real estate collaterals	9,415	3,124	747	555	3,613	5,444	21,934	44,832
Individuals – personal needs loans without real estate collaterals or not fully covered	11,147	277	395	375	38,679	33,003	37,825	121,701
Individuals – Mortgage loans	17,334	1,600	179	677	9,431	6,544	22,675	58,440
Cards/Overdraft	7,786	241	59	76	1,537	2,739	3,363	15,801
Total gross loans to individuals	45,682	5,242	1,380	1,683	53,260	47,730	85,797	240,774
Expected credit loss to individuals	20,466	2,238	407	577	15,895	27,512	53,782	120,877
Total net loans for individuals	**25,216**	**3,004**	**973**	**1,106**	**37,365**	**20,218**	**32,015**	**119,897**
Legal entities Agriculture	19,846	19,684	1,500	3,762	9,162	52,913	93,918	200,785
Public local administrations	1,433	-	-	-	6,893	-	330	8,656
Legal entities Industry	247,620	1,701	1,336	1,095	11,030	89,264	117,595	469,641
Legal entities Commerce	99,092	51,018	899	2,570	37,325	19,088	40,094	250,086
Legal entities Construction	82,404	45	-	80	86,222	67,840	50,271	286,862
Legal entities Services	240,449	11,713	13,415	28,255	73,578	70,719	114,178	552,307
Bridge loans for subsides	1,377	19	-	-	-	182	3,013	4,591
Total gross loans to corporate entities	692,221	84,180	17,150	35,762	224,210	300,006	419,399	1,772,928
Expected credit loss to corporate	310,419	23,450	10,487	20,079	94,941	195,082	339,656	994,114
Total net loans for corporate	**381,802**	**60,730**	**6,663**	**15,683**	**129,269**	**104,924**	**79,743**	**778,814**
Total gross	737,903	89,422	18,530	37,445	277,470	347,736	505,196	2,013,702
Total expected credit loss	330,885	25,688	10,894	20,656	110,836	222,594	393,438	1,114,991
Total net loans	**407,018**	**63,734**	**7,636**	**16,789**	**166,634**	**125,142**	**111,758**	**898,711**
Collaterals	685,731	81,390	18,106	36,210	210,861	247,998	431,119	1,711,415

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

31 December 2021	0 day	1-30 days	31-60 days	61-90 days	91-180 days	181-360 days	Over 360 days	Total
Individuals – personal needs loans fully collateralised with real estate collaterals	11,042	2,614	427	652	3,327	2,093	22,703	42,858
Individuals – personal needs loans without real estate collaterals or not fully covered	10,455	640	223	132	19,707	34,026	58,046	123,229
Individuals – Mortgage loans	23,074	1,525	190	157	5,132	7,463	17,452	54,993
Cards/Overdraft	6,816	240	66	62	1,507	2,836	3,487	15,014
Total gross loans to individuals	51,387	5,019	906	1,003	29,673	46,418	101,688	236,094
Expected credit loss to individuals	23,154	2,247	336	188	9,596	27,937	69,401	132,859
Total net loans for individuals	**28,233**	**2,772**	**570**	**815**	**20,077**	**18,481**	**32,287**	**103,235**
Legal entities Agriculture	21,657	3,130	208	197	6,311	14,916	107,169	153,588
Public local administrations	1,832	-	-	-	1,040	1,705	4,526	9,103
Legal entities Industry	218,618	9,216	60,213	1,401	25,796	17,043	188,562	520,849
Legal entities Commerce	28,589	42,600	25	-	3,389	23,912	73,728	172,243
Legal entities Construction	141,912	1,106	-	3,356	2,098	4,452	43,171	196,095
Legal entities Services	261,179	8,873	17,744	10,524	38,142	76,860	143,947	557,269
Bridge loans for subsides	151	70	148	-	-	1,417	3,629	5,415
Total gross loans to corporate entities	673,938	64,995	78,338	15,478	76,776	140,305	564,732	1,614,562
Expected credit loss to corporate	316,917	15,973	30,125	7,112	36,770	66,177	412,546	885,620
Total net loans for corporate	**357,021**	**49,022**	**48,213**	**8,366**	**40,006**	**74,128**	**152,186**	**728,942**
Total gross	725,325	70,014	79,244	16,481	106,449	186,723	666,420	1,850,656
Total expected credit loss	340,071	18,220	30,461	7,300	46,366	94,114	481,947	1,018,479
Total net loans	**385,254**	**51,794**	**48,783**	**9,181**	**60,083**	**92,609**	**184,473**	**832,177**
Collaterals	620,538	66,270	79,877	15,144	77,912	130,784	564,519	1,555,044

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

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

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The types of collaterals accepted by the Bank as at 31 December 2022 are presented in the table below:

Type of collateral	Collateral value	(%)	Collaterals for balance sheet exposures	Collaterals for off balance sheet exposures
Guarantees received from public administration and related entities	5,233,568	20.20	5,233,568	-
Guarantees received from other financial Institutions	185,128	0.71	175,790	9,338
Real estate	16,237,799	62.67	14,879,589	1,358,210
Pledge over (movable assets, inventory, cash collateral)	3,568,666	13.77	2,771,931	796,735
Other (assignment of receivables)	685,570	2.65	515,216	170,354
Total	25,910,731	100	23,576,094	2,334,637

The types of collaterals accepted by the Bank as at 31 December 2021 are presented in the table below:

Type of collateral	Collateral value	(%)	Collaterals for balance sheet exposures	Collaterals for off balance sheet exposures
Guarantees received from public administration and related entities	3,836,563	16.56	3,836,563	-
Guarantees received from other financial Institutions	190,382	0.82	174,785	15,597
Real estate	15,186,039	65.56	13,574,992	1,611,047
Pledge over (movable assets, inventory, cash collateral)	3,252,470	14.04	2,436,473	815,997
Other (assignment of receivables)	697,319	3.01	460,757	236,562
Total	23,162,773	100	20,483,570	2,679,203

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

Analysis of the impact of the economic turbulences on the loan portfolio and on the evolution of the financial market

The Bank has identified trends, uncertainties, demands, commitments or events that are reasonably likely to have a negative impact on the loan portfolio, like:

• The ongoing Russian-Ukrainian war has a lasting impact on the future economic growth in the region and has prompted the European Union institutions to actively change the strategic development plans in the energy sector with consequences on the EU funds size which have been complemented by the new EU funds package (Next GenerationEU). However, the new strategy comes with new rules that are still currently under discussion, but which are expected to affect in the short term the economic growth dynamics in the region, mainly because of the conditioning to reduce the energy consumption in EU in the very short term. Considering pre-existing supply chain problems and high inflation which drives up costs, the macroeconomic context is expected to translate into reduced credit demand, savings' pace and altogether slower business activity of the banking sector. Therefore, the ability of some customers to repay their loans is also being affected and the current trend of lower non-performing loans ("NPL") rate in the Romanian banking sector could be reversed.

• The COVID-19 pandemic still presents uncertainty regarding its effects in the near future. Businesses and individuals have been financially cushioned through government support since 2020. Once the full effect of this state aid ceases, some businesses could still be in financial difficulties and such businesses and their employees could suffer negative consequences. The COVID-19 pandemic generated supply chain malfunctions, high and rising inflation not seen in decades and cost assumed by governments in support of their countries' economies brought about higher debt, such that EU fiscal rules (Stability and Growth Pact) were suspended in the past 3 years and will be suspended in 2023 as well. The long-term impact and effects of the ongoing COVID-19 pandemic cannot be fully estimated at the moment, which brings uncertainty to the business environment that could affect the quality of the loan portfolio. Nevertheless, the loan outstanding with moratoria measures is about 4.5% of total loans outstanding and the payment holiday period has ended for all the clients that applied for moratoria.

• In terms of general trends regarding the financial services industry, the sector is mainly impacted by the uncertainty of the future macroeconomic environment development, in the context of the ongoing war and adverse effects brought by the geopolitical context – increasing inflationary pressures and interest rate hikes. The activity in the financial services sector is affected by the instability and volatility on the financial markets, and by the potential general economic downturn, for which the probability has risen in the past months, based on the high frequency indicators in the Eurozone. The initial effect of higher interest rates has a positive impact on the net interest income of the banking sector. However, this development could be more than offset by lower extension of credit, higher risk costs, to which we add the negative impact from mark-to-market of securities held at fair value through profit or loss or through other comprehensive income.

(All amounts are in RON thousands unless otherwise stated)

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3 FINANCIAL RISK MANAGEMENT (CONTINUED)

Based on the existing loan portfolio as of 31.12.2022, the Bank conducted a stress scenario on credit risk in the context of the economic turmoil (inflation, rising energy prices, delays in supply chains, increased interest rates). The scenario takes into account the deterioration in credit quality for customers who requested moratoria during 2021, that is the significant increase in credit risk from origination for 20% of loans classified in Stage 1 and the depreciation of 50% of loans classified in Stage 2 and implicitly the reassessment of adjustments for expected losses for those loans.
The application of the stress factor as described above causes the level of the expected loss adjustments to be increased by RON 86,297 million, respectively RON 6,745million for loans that have migrated from stage 1 to stage 2 and RON 79,552 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	171,875	2,189	8,934	6,745
Stage 2-Stage 3	203,085	10,556	90,108	79,552
Total	374,960	12,745	99,042	86,297

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 17.94% of the overall capital requirement (OCR).

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

As at 31 December 2022, the average probability of default over 12 months estimated for the loan portfolio and used for determining adjustments for expected credit loss (before applying the post model adjustment coefficients presented on page 76) is:

	Group	12-month average
CAG (Legal entities Agriculture)	CAG	2,91%
CAP (Public local administrations)	CAP	1,35%
CCM (Legal entities Commerce)	CCM	4,62%
CCO (Legal entities Construction)	CCO	6,13%
CIN (Legal entities Industry)	CIN	5,36%
CSA (Individuals – fully collateralised personal needs loans)	CSA	3,06%
CSN (Individuals – personal needs loans without collateral or not fully covered)	CSN	3,60%
CSS (Legal entities Services)	CSS	5,58%
CTS (Bridge loans for subsidies)	CTS	0,54%
IP (Individuals – Mortgage loans)	IP	0,39%
OW (Cards/Overdraft)	OW	3,19%

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The macroeconomic indicators used to adjust the observed PD curves are:

1. Models for loans to private individuals
   - change in GDP, 6 months lag;
   - net average salary growth, adjusted with the inflation rate, 6 months lag.
2. Models for loans to legal entities
   - change in GDP, 6 months lag;
   - ROBOR 3M rate, 12 months lag.

To compute the cumulative probability of default curve (cPD) by incorporating the current forecasts for the macroeconomic indicators, the following scenarios have been used:

- base scenario with a probability of 60% taking into account the GDP, average net salary and ROBOR 3M rate as follows:
  - for GDP: estimates as per WORLD BANK Global Economic Prospects January 2023, for 2023 economic growth of 2,6% and economic growth of 4,2% in 2024;
  - an increase in the average net salary adjusted with inflation, in 2023 equal to the average growth in the last 10 years and in 2024 equal to 75% of the average growth in the last 10 years, respectively decrease of 0,18% in 2023 and increase of 2,17% in 2024;
  - ROBOR 3M rate – internal forecast provided by the Strategy and Macroeconomic Analysis Department.
- downside scenario with a probability of 30% taking into account the GDP, average net salary and ROBOR 3M rate as follows:
  - for GDP, the base scenario shifted downwards by 0.5 standard deviations (based on GDP evolution between 2005-2022), for 2023 economic growth of 0,73% and economic growth of 2,33% in 2024;
  - an increase in the average net salary adjusted with inflation, in 2023 75% of the average growth in the last 10 years and in 2024 equal to the minimum growth in the last 10 years, respectively decrease of 3,50% in 2023 and decrease of 2,42% in 2024;
  - ROBOR 3M rate – the base scenario shifted upwards by the uncertainty interval of the inflation forecast.
- upside scenario with a probability of 10% taking into account the GDP, average net salary and ROBOR 3M rate as follows:
  - for GDP, the base scenario shifted upwards by 0.25 standard deviations (based on GDP evolution between 2005-2022), for 2023 economic growth of 3,53% and economic growth of 5,13% in 2024;
  - an increase in the average net salary adjusted with inflation - annual growth equal to the average growth in the last 10 years, respectively increase of 0,94% in 2023 and increase of 6,88% in 2024;
  - ROBOR 3M rate – the base scenario shifted downwards by the uncertainty interval of the inflation forecast.

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

Expected evolution of GDP

Scenario	Probability	2022	2023	2024
Scenario 1	30%	4.60%	0.73%	2.33%
Scenario 2	60%	4.60%	2.60%	4.20%
Scenario 3	10%	4.60%	3.53%	5.13%

Expected evolution of ROBOR 3M

Scenario	31.12.2022	31.03.2023	30.06.2023	30.09.2023	31.12.2023	31.03.2024	30.06.2024	30.09.2024	31.12.2024
Scenario 1	7.57%	7.57%	7.62%	7.89%	8.37%	7.82%	7.67%	7.27%	6.77%
Scenario 2	7.57%	7.07%	6.62%	6.49%	6.37%	5.62%	5.37%	4.87%	4.37%
Scenario 3	7.57%	6.57%	5.62%	5.09%	4.37%	3.42%	3.07%	2.47%	1.97%

Expected evolution of inflation

Scenario	31.12.2022	31.03.2023	30.06.2023	30.09.2023	31.12.2023	31.03.2024	30.06.2024	30.09.2024	31.12.2024
Scenario 1	16.40%	14.60%	11.50%	10.10%	9.00%	8.40%	7.70%	7.10%	6.60%
Scenario 2	16.40%	14.10%	10.50%	8.70%	7.00%	6.20%	5.40%	4.70%	4.20%
Scenario 3	16.40%	13.60%	9.50%	7.30%	5.00%	4.00%	3.10%	2.30%	1.80%

Expected evolution of the average net salary

Scenario	2022	2023	2024
Scenario 1	11.39%	7.41%	4.85%
Scenario 2	11.39%	9.88%	7.41%
Scenario 3	11.39%	9.88%	9.88%

Expected evolution of the average net salary adjusted with inflation

Scenario	2022	2023	2024
Scenario 1	-4.63%	-3.50%	-2.42%
Scenario 2	-4.30%	-0.18%	2.17%
Scenario 3	-3.97%	0.94%	6.88%

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

In addition to the inherent estimation uncertainty, the economic effects of the pandemic and the Russian-Ukrainian war have caused increased uncertainties, in particular regarding macroeconomic forecasts and their probabilities of occurrence, and therefore actual results may differ materially from the estimated ones. 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 31.12.2022 (RON thousand):

Balance sheet exposure	Actual	Base scenario 100%	Upside scenario 100%	Downside scenario 100%
Individuals	9.595.665	9.595.665	9.595.665	9.595.665
Corporate entities	21.619.858	21.619.858	21.619.858	21.619.858
Total	31.215.523	31.215.523	31.215.523	31.215.523

Adjustments for expected credit losses	Actual	Base scenario 100%	Upside scenario 100%	Downside scenario 100%
Individuals	139.009	138.375	137.604	140.437
Legal entities	1.497.478	1.490.212	1.477.474	1.516.354
Total	1.636.487	1.628.587	1.615.078	1.656.791

Variables added to the parameter estimation models – ROBOR 3M interest rate and the increase of the average net salary adjusted with inflation – allow a more accurate evaluation of the impact on borrowers caused by the rising inflation and interest rates.

By increasing the performance of the ECL models through incorporating additional variables in the forward-looking models, which resulted generally in an increase of the expected default rates, the Bank has managed to reduce its reliance on overlay coefficients.

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 ratios for loans classified in S2.

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% (according to NBR approximately one third of the companies are at risk due to high debt), increased probability of declassification with 10% (estimation based on the professional judgement of the Bank's management) for loans to the services sector (which includes real estate financing), in the context of negative estimates regarding the evolution of the real estate market. These coefficients were then reduced by the increase in expected default rates (approximately 10%) due to the incorporation of additional variables in the forward-looking models.

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

Homogenous portfolio	ECL adjustment coefficient S2
CSS (Legal entities Services)	2,52
CIN (Legal entities Industry)	2,25
CCO (Legal entities Construction)	2,25
CCM (Legal entities Commerce)	2,25
CAG (Legal entities Agriculture)	2,25
CAP (Public local administrations)	2,25

The quantitative effect of the post model adjustment coefficients was an increase in expected loss adjustments by approx. RON 152.65 million (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 instalment increases by more than RON 150;
- for secured loans granted as of the beginning of 2019, the monthly payment instalment increases by more than RON 500 and the level of indebtedness exceeds 60%.

Based on these criteria, a total exposure of RON 544.69 million was classified in Stage 2 as at 30.06.2022, with an increase in adjustments for expected losses of approx. RON 3.72 million. As at 31.12.2022 the total exposure decreased to RON 523.38 million, of which RON 1.63 million migrated to Stage 3.

(All amounts are in RON thousands unless otherwise stated)

3 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.

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

The increase in the level of expected credit losses 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 80) is:

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

In determining the cumulative 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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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.

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	1,349,696	1,351,093	1,358,423	1,364,880

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.

(All amounts are in RON thousands unless otherwise stated)

3 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	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.

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

Residential mortgage lending

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

The ratio between loans and related real estate guarantees (loan-to-value-LTV) at 31 December 2022:

LTV	Balance sheet exposure	Off balance sheet exposure
< 60%	2,111,265	1,698
61-80%	3,069,418	3,132
81-100%	2,133,940	2,117
101-120%	39,980	216
121-140%	5,480	636
> 140%	22,254	464
Total	7,382,337	8,263

The ratio between loans and related real estate guarantees (loan-to-value-LTV) at 31 December 2021:

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

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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

Loans with renegotiated terms

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

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

As at 31 December 2022, the gross carrying amount of restructured loans is RON 1,729,157 thousand (31 December 2021: RON 1,288,248 thousand), out of which RON 1,011,735 thousand loans neither past due nor impaired (31 December 2021: RON 592,731 thousand).

Repossessed collaterals

The Bank has recognised as inventory as at 31 December 2022 in amount of RON 3,859 thousand (31 December 2021: RON 3,760 thousand) assets taken into patrimony or from the execution of collaterals from loans granted to clients. During 2022, the Bank took over property in the amount of RON 99 thousand (2021: RON 841 thousand) on the basis of the Law no. 77/2016 on the payment of some buildings in order to settle the obligations assumed by credits - Note 25.

Investment securities

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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The rating for Romania's long term debt confirmed by Fitch in 2022 in local currency is "BBB-", with a negative outlook, the F3 qualification was confirmed for debts on short term and also the country rating "BBB+".

Also the rating for Romania's long term debt confirmed by Fitch in 2021 in local currency is "BBB-", with a negative outlook, the F3 qualification was confirmed for debts on short term and also the country rating "BBB+".

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

Loans and advances to banks

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

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

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

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

Loans and advances to banks and public institutions – neither past due not impaired		31 December 2022 Total balance	31 December 2021 Total balance	Rating 31 December 2022 Short/Long term	Rating 31 December 2021 Short/Long term
Current account due from other banks	ING Bank	196,785	35,507	A-1/A+	A-1/A+
	Barclays Bank	4,890	1,051	F1/A+	F1/A+
	Commerzbank	18,605	4,549	P-1/A1	P-1/A1
	Societe Generale, Paris	342,912	25,461	P-1/A1	P-1/A1
	State Treasury	99	46	BBB-/A-3	BBB-/A-3
	PKO Bank Polski, Varsovia	18	83	P-1/A2	P-1/A2
	OTP Bank Budapesta	605	1,658	P-2/Baa1	P-2/Baa1
	Other	7,909	7,736	without rating	without rating
Deposits due from other banks	ING Bank	-	49,988	A-1/A+	A-1/A+
	Barclays Bank	47,608	50,126	F1/A+	F1/A+
	INTESA SANPAOLO BANK ROMANIA	-	15,004	BBB/F2	BBB/F2
	Credit Europe Bank	-	213,968	B / B+	B / B+
	Trezoreria Statului	5,005,164	-	BBB-/A-3	without rating
	Unicredit Bank	-	49,782	F2/BBB	F2/BBB
	PATRIA BANK	-	14,815	without rating	without rating
	ALPHA BANK ROMANIA	-	298,815	-/Ba2	-/Ba2
	LIBRA INTERNET BANK	-	273,738	B/BB-	B/BB-
	Banca Transilvania SA	-	71,534	B/BB+	B/BB+
	GARANTI BANK	-	40,042	B/BB-	B/BB-
	IDEA BANK	24,803	29,549	without rating	without rating
	FIRST BANK	-	109,798	without rating	without rating
	CITIBANK Europe Dublin ROMANIA	-	49,995	F1/A+	F1/A+
Collateral deposits due from other banks	HSBC Bank London	601	567	F1+/AA-	AA-/AA-
	COMMERZBANK	1	1,284	P-1/A1	P-1/A1
	JP Morgan Securities	13,868	2,738	F1+/AA	F1+/AA
	BCR	4,263	-	F2/BBB+	without rating
	CITI BANK	7,979	-	F1/A+	without rating
	ING Bank	2,228	-	F1+/AA-	F1+/AA-
Loans and advances to banks	BANCA ROMANEASCA	135,439	201,046	without rating	without rating
	EXIMBANK	253,468	175,432	without rating	without rating
Reverse repo transactions	Banca Transilvania SA	51,831	-	B/BB+	B/BB+
Total loans and advances to banks and public institutions		**6,119,076**	**1,724,312**		

As at 31 December 2022, the amounts presented in the financial position loans and advances to banks and public institutions of accruals amounted of RON 6,119,076 thousand (31 December 2021: RON 1,724,312 thousand).

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Market risk

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

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

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

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

For the assessment of market risk, starting with April 2022, the Bank holds domestic government securities within a small trading book (the maximum limit is RON 200 million equiv, out of which maximum RON 25 million equivalent for maturities above 10 years, maximum RON 60 million equivalent for maturities between [5-10) years and maximum RON 75 million equiv. for maturities between [2-5) years.

The positions held to trade are represented by the positions of short-term resale and/or with the intention of benefiting from differences on short-term, real or expected, regarding the buying and selling prices or as a result of other price changes or interest rate.

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

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

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

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

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

Also, for the risk measurement of currency portfolio, the Bank uses the methodology for determining VaR (Value-at-Risk), through which the Bank wishes the classification in the maximum loss likely to be recorded in total, within a certain period of time and with a certain probability of confidence. Internal regulations relating to the market risk are presented for approval to the Risk Management Committee.

The financial assets and liabilities held in RON and in foreign currencies at 31 December 2022 can be analysed as follows:

	RON	EUR	Others	Total
Balance sheet financial assets				
Cash and balance at Central Bank	7,048,131	2,895,831	125,092	10,069,054
Loans and advances to banks and public institutions	5,458,469	526,857	133,750	6,119,076
Financial assets held for trading	6,289	-	-	6,289
Financial assets mandatorily at fair value through profit or loss	-	-	16,341	16,341
Financial assets measured at fair value through other comprehensive income	8,279,716	1,885,709	203,829	10,369,254
Investments in debt instruments at amortized cost	2,744,084	1,982,404	44,455	4,770,943
Loans and advances to customers	22,261,156	6,764,671	198,210	29,224,037
Other financial assets	71,589	7,107	801	79,497
Total financial assets	45,869,434	14,062,579	722,478	60,654,491

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

	RON	EUR	Others	Total
Derivative financial assets				
Notional amount of derivatives — SWAP per exchange rate	-	1,088,428	147,953	1,236,381
Total derivative assets	-	1,088,428	147,953	1,236,381

	RON	EUR	Others	Total
Balance sheet financial liabilities				
Derivatives	24,626	310	14	24,950
Deposits from banks	2,698,231	18	-	2,698,249
Deposits from customers	36,700,807	14,818,359	911,563	52,430,729
Other borrowed funds	46,318	231,924	-	278,242
Debt securities issued	174,529	479,107	-	653,636
Subordinated liabilities	1,439,628	-	-	1,439,628
Other financial liabilities	86,541	1,547	1,711	89,799
Total financial liabilities	41,170,680	15,531,265	913,288	57,615,233

	RON	EUR	Others	Total
Derivative financial liabilities				
Notional amount of derivatives — SWAP per exchange rate	1,119,755	148,422	-	1,268,177
Total derivative liabilities	1,119,755	148,422	-	1,268,177
On balance sheet net financial assets/ (liabilities)	4,698,754	(1,468,686)	(190,810)	3,039,258
Derivative financial assets/ (liabilities)	(1,119,755)	940,006	147,953	(31,796)

	RON	EUR	Others	Total
Letters of guarantee issued for customers	1,787,813	167,224	3,341	1,958,378
Undrawn loan commitments	3,486,278	898,042	59,427	4,443,747

(All amounts are in RON thousands unless otherwise stated)

3 **FINANCIAL RISK MANAGEMENT (CONTINUED)**

The financial assets and liabilities held in RON and in foreign currencies at 31 December 2021 can be analysed as follows:

	RON	EUR	Other	Total
Balance sheet financial assets				
Cash and balance 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	28,861	5,644	82	34,587
Total financial assets	39,706,142	9,196,957	747,840	49,650,939

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

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

	RON	EUR	Other	Total
Derivative financial liabilities				
Notional amount of derivatives — SWAP per exchange rate	-	49,481	17,659	67,140
Total derivative liabilities	-	49,481	17,659	67,140

(All amounts are in RON thousands unless otherwise stated)

3 **FINANCIAL RISK MANAGEMENT (CONTINUED)**

On balance sheet net financial assets/(liabilities)	2,961,926	85,401	17,230	3,064,557
Derivative financial assets/ (liabilities)	49,992	(32,733)	(17,659)	(400)

	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 EUR. The open currency positions represent a source of currency risk.

d) Interest rate risk other than trading portfolio

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

Starting with April 2022 the assessment of interest rate risk takes into account that the Bank carries out trading book activities, with a small trading book having a ceiling of RON 200 million equiv. for domestic government securities.

The interest rate risk management is identified, quantified, monitor, managed and reported for all Bank's activities with potential interest rate movements at the banking book level (for activities other than trading book).

Also, starting with May 2022, the Bank re-acquired the status of primary dealer of government securities.

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

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

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

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

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

- the potential change in economic value due to changes in interest rate levels based on the standardized method;

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

- relative G.A.P. per interest rate (calculated in RON equivalent per maturity band as a percentage between the absolute GAP and total interest-bearing assets – principal accounts);
- the difference between the average active interest rate in foreign currency loans granted to individuals and corporate entities and the cost of funds plus the risk margin.

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

The Bank assesses the compliance with the interest rate risk profile assumed according to the appetite for interest rate risk; the level of risk is quantified on the basis of a system of scoring key indicators related to interest rate risk according to their levels and the weightings allocated according to the importance of the indicators on the basis of historical analysis and professional expertise.

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

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

Through its risk management policy, the bank continuously monitors and controls the level of key indicators for interest rate risk in relation to appetite for risk, the Bank aims to establish a moderate interest rate risk profile as the maximum allowed, profile in which it fit during 2022.

For the management of interest rate risk, in addition to the key indicators determining the interest rate risk profile, the Bank shall monitor on a monthly/quarterly basis the following level II indicators, namely:

- EVE (Economic Value of Equity) according to six standardized shock scenarios for the detection of extreme values, according to Guideline EBA/GL/2018/02;
- The break-even threshold level in conjunction with the average interest gap;
- The negative result obtained from the forecasts to capture the effect of the potential change of interest rates over net gains from interests.

Internal regulations on interest rate risk other than trading portfolio are presented for approval to the Risk Management Committee.

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The following table shows the interest rates per annum obtained or offered by the Bank for its interest-bearing assets and liabilities during financial year 2022:

	RON Range		EUR Range	
	Min	Max	Min	Max
Assets				
Cash and balance at Central Bank	0.13	0.70	-	0.02
Investments with National Bank of Romania	2.00	5.75	-	-
Investments with other banks	1.00	7.20	(0.63)	1.95
Treasury certificates	6.90	8.04	2.65	2.90
Loans and advances to customers (*)	1.95	23.57	2.25	9.32
Investment securities	3.88	9.93	0.18	4.27
Liabilities				
Deposits from banks	0.95	7.54	(0.55)	1.50
Deposits from customers	-	10.00	-	2.50
NBR refinancing loans	3.50	4.75	-	-
Borrowings from banks and other financial institutions	4.41	8.75	-	0.349
Debt securities issued	-	9.00	-	7.50
Subordinated liabilities	6.29	11.23	-	-

(*) During the year 2022, in respect to credit cards, the Bank has practiced zero interest rate for payments of the interest within 59 days, exclusively for transactions at merchants (transactions non rates and/or rates posted on their due account), with the condition of the full payment of the credit limit used for the specific trading cycle.

The following table shows the interest rates per annum obtained or offered by the Bank for its interest-bearing assets and liabilities during financial year 2021:

	RON Range		EUR Range	
Assets	Min	Max	Min	Max
Cash and balance at central bank	0.08	0.13	-	-
Investments with National Bank of Romania	0.75	1.25	-	-
Investments with other banks	0.75	3.65	(0.50)	-
Treasury certificates	2.25	2.29	-	-
Loans and advances to customers(*)	0.30	17.50	1.46	11.00
Investment securities	1.60	4.95	0.03	4.25
Liabilities				
Deposits from banks	0.65	2.70	(0.55)	-
Deposits from customers	-	4.75	-	0.45
Borrowings from banks and other financial institutions	3.08	3.67	-	0.349
Subordinated liabilities	-	6.23	-	-

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The following table shows the Bank's interest re-pricing analysis as at 31 December 2022 with financial assets and liabilities categorised by the earlier of the re-pricing or contractual maturity date.

	< 1 month	1 month 3 months	3 months – 1 year	1 year– 5 years	> 5 years	Non interest bearing	Total
Financial assets							
Cash and balances with Central Bank	10,069,054	-	-	-	-	-	10,069,054
Financial derivatives	-	-	-	-	-	-	-
Loans and advances to banks and public institutions	5,005,325	-	76,615	436,404	-	600,732 (*)	6,119,076
Loans and advances to customers	6,985,365	461,615	14,784,840	6,523,780	293,289	175,148 (**)	29,224,037
Financial assets held for tradin and measured at fair value through profit and loss	-	-	-	263	6,026	-	6,289
Financial assets mandatorily at fair value through profit or loss	-	-	-	-	-	16,341	16,341
Financial assets at fair value through other comprehensive income	-	3,391	4,013,115	5,594,661	731,813	26,274	10,369,254
Investments in debt instruments at amortized cost	-	-	600,615	2,382,612	1,787,716	-	4,770,943
Other financial assets	-	-	-	-	-	79,497	79,497
Total financial assets	22,059,744	465,006	19,475,185	14,937,720	2,818,844	897,992	60,654,491
Financial liabilities							
Financial derivatives	-	-	-	-	-	24,950	24,950
Deposits from banks	2,693,063	-	5,168	-	-	18	2,698,249
Deposits from customers	20,854,257	6,611,482	14,206,001	1,600,241	1,978,639	7,180,109(***)	52,430,729
Subordinated borrowing	-	1,439,628	-	-	-	-	1,439,628
Borrowings from banks and other financial institutions	16,882	8,575	97,836	154,949	-	-	278,242
Debt securities issued	-	-	-	653,636	-	-	653,636
Lease liabilities	2,353	4,583	21,583	59,218	8,738	-	96,475
Other financial liabilities	-	-	-	-	-	89,799	89,799
Total financial liabilities	23,566,555	8,064,268	14,330,588	2,468,044	1,987,377	7,294,876	57,711,708
Interest rate gap	(1,506,811)	(7,599,262)	5,144,597	12,469,676	831,467	(6,396,884)	2,942,783

(*) 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 interest is not applied.

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The following table shows the Bank's interest re-pricing analysis as at 31 December 2021 with financial assets and liabilities categorised by the earlier of the re-pricing or contractual maturity date.

	< 1 month	1 month 3 months	3 months – 1 year	1 year– 5 years	> 5 years	Non interest bearing	Total
Financial assets							
Cash and balances with Central Bank	7,108,541	-	-	-	-	-	7,108,541
Financial derivatives	-	-	-	-	-	431	431
Loans and advances to banks and public institutions	1,039,051	224,334	5,013	376,479	-	79,435(*)	1,724,312
Loans and advances to customers	5,346,426	49,969	15,709,865	4,357,700	43,577	143,493(**)	25,651,030
Financial assets mandatorily at fair value through profit or loss	-	-	-	-	-	21,177	21,177
Financial assets at fair value through other comprehensive income	-	-	-	10,588,450	2,175,512	14,094	12,778,056
Investments in debt instruments at amortized cost	-	-	-	1,183,904	1,148,901	-	2,332,805
Other financial assets	-	-	-	-	-	34,587	34,587
Total financial assets	13,494,018	274,303	15,714,878	16,506,533	3,367,990	293,217	49,650,939
Financial liabilities							
Financial derivatives	-	-	-	-	-	831	831
Deposits from banks	1,968,298	40,008	-	-	-	23	2,008,329
Deposits from customers	15,479,974	6,671,441	11,769,873	602,614	-	7,500,472(***)	42,024,374
Subordinated borrowing	1,400,956	-	-	-	-	-	1,400,956
Borrowings from banks and other financial institutions	54,788	8,507	116,205	263,699	-	-	443,199
Lease liabilities	2,069	3,986	16,024	48,952	10,631	-	81,662
Other financial liabilities	-	-	-	-	-	62,275	62,275
Total financial liabilities	18,906,085	6,723,942	11,902,102	915,265	10,631	7,563,601	46,021,626
Interest rate gap	(5,412,067)	(6,449,639)	3,812,776	15,591,268	3,357,359	(7,270,384)	3,629,313

(*) 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 interest is not applied.

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

Sensitivity analysis

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

Foreign Exchange rates Sensitivity: the table below summarises the impact of a potentially reasonable change in the value of RON against foreign currencies on the Bank's income statement and other comprehensive income calculated by applying the change to monetary financial instruments denominated in foreign currencies held by the Bank as at 31 December 2022 and 31 December 2021.

31 December 2022	Total sensitivity	Sensitivity of profit for the year	Sensitivity of other comprehensive income
Interest rate +/-1%	-219,548/ +212,100	+/-25,872	-193,676/+186,227
Foreign exchange 5% appreciation / depreciation of functional CCY	-/+5,037	-/+5,037	-

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

At 31 December 2022, if market interest rates had been 100 basis points higher/ lower for RON and 100 basis points higher/ lower for EUR and 100 basis points higher/ lower for USD, with all other variables held constant, profit for the year would have been RON 25,872 thousand (2021: RON 27,730 thousand) lower and RON 25,872 thousand higher (2021: RON 27,730 thousand). The impact was calculated on the basis of monthly average balances with variable interest.

The impact on the overall result would have been RON 193,676 thousand (2021: RON 297,080 thousand) lower, respectively RON 186,227 thousand higher (2021: RON 284,381 thousand). The calculation was based on the market value at 31.12.2022 of debt instruments measured at fair value through other comprehensive income.

At 31 December 2022, if RON had strengthened/weakened by 500 basis points against relevant foreign currencies (all other variables held constant), profit for the year would have been RON 5,037 thousand higher/ lower (2021: RON: 4,615 thousand higher/lower). Impact was calculated by applying a +/- 5% higher/lower exchange rate against the EUR and USD closing rate.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

e) Liquidity risk

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

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

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

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

The liquidity risk management policy comprises a decision-making structure for risk management, a model for the approach to funding and liquidity insurance, the accepted risk profile for liquidity risk exposure, and planning procedures after alternative action scenarios, including for contingencies.

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

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

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

The table below presents the financial liabilities as at 31 December 2022 according to their remaining contractual maturities. The amounts included in the table are contractual cash flows which are not discounted, gross accruals for loans and financial guarantees. Future cash flows which are not discounted are different to the amounts from the balance sheet because the amount from the later represents discounted cash flows. The derivatives are included in contractual value to be paid or received, except the situations when the Bank is expected to close the exchange position before its maturity and in this case the instruments are presented according to estimated future cash flows.

The table below presents an analysis of non-derivative assets at their carrying amount and according to their contractual maturities. The impaired loans are presented at their carrying amount net of provision and according to the expected timing of collection.

(All amounts are in RON thousands unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

Derivatives are presented according to their contractual maturity. When the amount to be paid is not fixed, the amount disclosed is determined based on the existing conditions at the reporting period. The payments in foreign currency are revaluated using the exchange rate at the reporting period end.

31 December 2022	Carrying amount	Gross Amount Inflow/ outflow	< 1 month	1 -3 months	3 months – 1 year	1 year- 5 years	> 5 years	No fixed maturity
Assets	10,069,054	10,069,054	10,069,054	-	-	-	-	-
Cash and balances with central bank	6,119,076	6,160,090	5,057,579	50,898	15,308	461,128	-	575,177
Loans and advances to banks and public institutions	29,224,037	41,502,788	965,228	413,116	8,657,744	15,200,583	16,266,117	-
Loans and advances to customers	6,289	10,252	-	-	368	1,758	8,126	-
Financial assets held for trading and measured at fair value through profit or los	16,341	16,341	-	-	-	-	-	16,341
Financial assets mandatory at fair value through profit or loss	10,369,254	11,634,059	18,368	22,097	4,136,945	6,488,025	942,350	26,274
Financial assets measured at fair value through other comprehensive income	4,770,943	5,794,757	17,223	16,504	739,435	2,943,875	2,077,720	-
Investments in debt instruments at amortized cost								
Financial derivatives, out of which:	-	-	-	-	-	-	-	-
- receivable	-	-	-	-	-	-	-	-
- payable	79,497	79,497	79,497	-	-	-	-	-
Other financial assets	60,654,491	75,266,838	16,206,949	502,615	13,549,800	25,095,369	19,294,313	617,792
Total financial assets								
Liabilities								
Deposits from banks	2,698,249	2,698,820	2,693,431	-	5,389	-	-	-
Deposits from customers	52,430,729	53,072,098	32,912,512	5,788,273	13,784,250	575,938	-	11,125
Subordinated liabilities	1,439,628	2,848,360	79,256	-	225,859	915,390	1,627,855	-
Borrowings from other banks and other financial institutions	278,242	278,792	16,883	8,576	97,938	155,395	-	-
Debt securities issued	653,636	809,291	-	-	48,789	760,502	-	-
Financial derivatives, out of which:								
- receivable			742,849	499,700	50,363	-	-	
- payable	1,292,912	1,292,912	742,849	499,700	50,363	-	-	
Lease liabilities	1,317,862	1,317,862	757,367	507,970	52,525	-	-	
Other financial liabilities	96,475	104,212	2,355	4,589	21,653	60,040	15,575	-
Total financial liabilities	89,799	89,799	89,799	-	-	-	-	-
Net liquidity gap	57,711,708	59,926,322	35,808,754	5,809,708	14,186,040	2,467,265	1,643,430	11,125
Loan commitments	4,443,747	4,443,747	4,443,747	-	-	-	-	-

(All amounts are in RON thousands unless otherwise stated)

Guarantee letters issued by the Bank	1,958,378	1,958,378	1,958,378	-	-	-	-	-

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

31 December 2021	Carrying amount	Gross Amount Inflow/ outflow	< 1 month	1 - 3 months	3 months – 1 year	1 year- 5 years	> 5 years	No fixe maturity
Assets								
Cash and balances with central bank	7,108,541	7,108,541	7,108,541	-	-	-	-	
Loans and advances to banks and public institutions	1,724,312	1,763,507	1,116,892	227,600	19,711	396,077	-	3,22
Loans and advances to customers	25,651,030	31,376,140	771,361	824,394	4,412,621	13,367,270	12,000,494	
Financial assets mandatory at fair value through profit or loss	21,177	21,177	-	-	-	-	-	21,1
Financial assets measured at fair value through other comprehensive income	12,778,056	13,910,136	18,305	827,816	2,157,214	9,716,240	1,176,467	14,09
Investments in debt instruments at amortized cost	2,332,805	2,697,893	14,318	26,065	61,972	1,497,434	1,098,104	
Financial derivatives, out of which:								
- receivable	49,992	49,992	49,992	-	-	-	-	
- payable	49,561	49,561	49,561	-	-	-	-	
Other financial assets	34,587	34,587	34,587	-	-	-	-	-
Total financial assets	49,641,588	56,912,412	9,064,435	1,905,875	6,651,518	24,977,021	14,275,065	38,498
Liabilities								
Deposits from banks	2.008.329	2.008.598	1.968.506	40.092	-	-	-	-
Deposits from customers	42.024.374	2.237.960	25.078.649	5.721.267	10.824.092	602.835	-	11.117
Subordinated liabilities	1.400.956	2.268.795	956	-	130.830	523.320	1.613.689	-
Borrowings from other banks and other financial institutions	443.199	444.253	54.788	8.509	116.329	264.627	-	-
Financial derivatives, out of which:								
- receivable	16.838	16.838	-	16.838	-	-	-	-
- payable	17.669	17.669	9	17.660	-	-	-	-
Lease liabilities	81.662	86.548	2.070	3.991	16.067	49.381	15.039	-
Other financial liabilities	62.275	62.275	62.275	-	-	-	-	-
Total financial liabilities	46.021.626	7.109.260	27.167.253	5.774.681	11.087.318	1.440.163	1.628.728	11.117
Net liquidity gap		9.803.152	(18.102.818)	(3.868.806)	(4.435.800)	23.536.858	12.646.337	27.381
Loan commitments	4.899.997	4.899.997	4.899.997	-	-	-	-	-

Guarantee letters issued by the Banl	1.746.190	1.746.190	1.746.190	-	-	-	-	-

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit commitments are presented on the basis of earliest possible contractual maturity. For financial guarantees contracts and loan commitments the maximum amount is allocated to the earliest period in which the financial instrument can be called.

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

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

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

The Bank's classification in the liquidity risk profile is managed by assessing key risk indicators based on the risk appetite that the Bank assumes for business continuity on prudential and sound principles, i.e. the LCR liquidity coverage ratio (all reporting currencies); NSFR - Net stable funding Ratio (RON equivalent); immediate liquidity indicator and the share of the portfolio of free securities in total on-balance sheet obligations.

Through its risk management policy and risk profile, the bank monitors and controls the level of risk limitations for key liquidity risk indicators in relation to appetite for risk, the Bank aimed to achieve a moderate liquidity risk profile as the maximum allowed.

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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

- Monthly compilation of the GAP analysis and current short term liquidity– by monitoring this indicator it is observed the degree to which withdrawals could be covered from collection of assets falling due within the next 30 days;
- Liquid assets – by monitoring liquid assets (split between most liquid, less liquid and the least liquid based on their relative liquidity level) it is observed, on different levels, the assets' gradual ability to generate liquidity;
- Treasury/Total Asset Balance Unadjusted indicator - for the purpose of monitoring the portfolio of government securities held by the Bank, the component of liquid assets;
- Indicators: loans to non-bank customers/deposits received from non-bank customers; liquid spot assets/total deposits attracted on demand; the rate of monthly decrease of sources drawn from non-bank customers, loans with outstanding amounts of more than 31 days (inclusive)/total unadjusted balance sheet assets, by monitoring them with a view to identifying as a matter of urgency the increased vulnerability in terms of liquidity position or funding needs, etc.;
- Forecasts hypothetical evolution of the liquidity indicator - liquidity in the dynamic sense on different time horizons in order to prevent cases of crisis;
- The weight of government bonds pledged/unpledged in total government bonds portfolio and its evolution, as well as the weight of the main lines / balance sheets and off-balance sheet positions of the Bank in total assets and liabilities for the purpose of determining the vulnerability and concentration of liquidity arising from their structure which may represent a risk of over-estimation of the liquidity buffer and of the counterbalancing capacity.

f) Capital management

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

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

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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

In the internal process of capital adequacy to risks for 2022, the Bank envisaged maintaining a total own funds rate aiming to meet the following requirements cumulatively:

a) maintaining a global capital requirement (OCR) of 17.94%, consisting of:

- the target rates of own funds due to the pillar II adjustments (Basel III), representing SREP capital requirements (TSCRs) to be met permanently:
    - rate of own funds tier 1 basis: 6.99%;
    - rate of own funds tier 1: 9.33%;
    - total own funds rate: 12.44%.
- combined capital buffer requirement equivalent to 5.5% of total risk exposure amount, as a result of the aggregation of the requirement for the capital conservation buffer (2.5%) and the O-SII buffer requirement (0.5%) and systemic risk buffer (2%) and the anticyclic buffer requirements (0.5%)

b) maintaining an internal additional capital buffer representing 2.5% to support possible future capital requirements adjustments.

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

The Bank intends that the internal capital to be covering both the risks for which capital requirements are regulated (credit risk, operational risk, currency risk, settlement risk and credit assessment adjustment risk) as well as significant risks identified by the Bank for which regulatory capital requirements are not fully covering.

From a strategic point of view the exposures are undertaken towards counterparties with a good rating and under conditions of a good collateral coverage so as the capital required by the respective exposures be as low as possible.
Capital adequacy ratio is monitored on a monthly basis any substantial deterioration triggering the need to review the portfolio of exposures and to claim if necessary a capital increase. The Bank's own funds and own funds ratios are calculated in accordance with the National Bank of Romania's (NBR) regulations in force, and within the limits imposed by EU Regulation no. 575/2013.

At 31.12.2022 the Bank complied within the regulated indicators regarding capital adequacy, including MREL requirements.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

Capital Management takes into account the evolution of the medium and long term capital and underlies the grounding rationale of the strategy of Business and Bank policy.

Bank's targets regarding own funds level are set in the context of some internal factors (e.g. risk and estimated profit) and some external factors (e.g. market expectations and macroeconomic environment, the crisis caused by the coronavirus infection and the change in the macroeconomic context) and are focused towards an annual positive financial result and its capitalization. Internal capital requirement is internal capital necessary to cover banking risks in order to ensure the sustainability of the Bank.

As of 31.12.2022 the Bank registered a total own funds rate of 24,66%.

Starting December 2022 the Bank has liabilities, other than own funds, eligible for covering MREL requirements, carrying out a private placement of bonds to professional investors, in lei and euros, with a cumulative value of approx. RON 656.6 million.

Starting 30.06.2022 the Bank notified National Bank of Romania in respect with apply the option to exclude the unrealized gains and losses cumulated since 31.12.2019, registered in the balance sheet's section *"Modification at fair value of debt instruments assessed at fair value through profit or loss"* , which correspond to Central Administration exposures, according with Regulation No. 575/2013, registering a decrease of the negative impact of the securities' market value to own funds. This a temporary treatment, as the applicability ceased in January 2023.

As of 31.12.2022 the Bank registered a surplus of 3.67% of capital and eligible MREL liabilities, being in compliance with the MREL ratio.

Other measures made by the Bank during the year 2022 to comply to MREL requirements, along with bonds issuance, are represented by non-distribution of dividents, as well as measures to control the level and intensity of RWA (Risk Weighted Assets), througout reducing loans granting or optimizing RWA's loans.

4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

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

4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

Impairment losses on loans, advances and credit commitments

The Bank reviews the loan portfolio on a monthly basis to assess the expected credit losses for these assets in accordance with IFRS 9.

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

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

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

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

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

Fair Values of Financial Assets and Liabilities

Hierarchy analysis of the fair value of financial instruments measured at fair value:
Level 1: includes instruments quoted in active markets for identical assets or liabilities;
Level 2: includes instruments whose fair value is determined using inputs that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3: includes instruments for which the fair value is determined using inputs that are not based on observable market data (unobservable inputs).

Real estate evaluation - applied evaluation methods

- Given the characteristics and location of the Assets under Evaluation, all three evaluation approaches described below were applied depending on the type of asset being valued and the specific market information available.

4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

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

IFRS 13 identifies three widely used evaluation techniques:

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

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

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

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

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

(All amounts are in RON thousands unless otherwise stated)

4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

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

Financial assets and liabilities at fair value at 31 December 2022:

	Level 1	Level 2	Level 3	Total
Financial assets				
Other financial assets				
Financial assets held for trading and measured at fair value through profit or loss, of which:	6,289	-	-	6,289
Debt securities	6,289	-	-	6,289
Financial derivatives - Swap on exchange rate	-	-	-	-
Financial assets measured at fair value through other comprehensive income, out of which:	9,815,878	527,103	26,273	10,369,254
– Securities	9,815,878	527,103	-	10,342,981
– Equity Investments	-	-	26,273	26,273
Financial assets mandatorily at fair value through profit or loss, out of which:	-	-	16,341	16,341
– Debt securities	-	-	16,341	16,341
Non-financial assets				
- Land and buildings	-	-	598,081	598,081
Total assets carried at fair value	9,822,167	527,103	640,695	10,989,965
Financial liabilities				
Other financial liabilities				
Financial derivatives - Swap on exchange rate	-	24,950	-	24,950
Total liabilities carried at fair value	-	24,950	-	24,950

(All amounts are in RON thousands unless otherwise stated)

4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

Financial assets and liabilities at fair value at 31 December 2021:

	Level 1	Level 2	Level 3	Total
Financial assets				
Other financial assets				
Financial derivatives - Swap on exchange rate	-	431	-	431
Financial assets measured at fair value through other comprehensive income, out of which:	11,238,692	1,525,270	14,094	12,778,056
– Securities	11,238,692	1,525,270	-	12,763,692
– Equity Investments	-	-	14,094	14,094
Financial assets mandatorily at fair value through profit or loss, out of which:	-	-	21,177	21,177
– Debt securities	-	-	21,177	21,177
Non-financial assets				
- Land and buildings	-	-	599,335	599,335
Total assets carried at fair value	11,238,692	1,525,701	634,606	13,398,999
Financial liabilities				
Other financial liabilities				
Financial derivatives - Swap on exchange rate	-	831	-	831
Total liabilities carried at fair value	-	831	-	831

(All amounts are in RON thousands unless otherwise stated)

4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

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

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

Assets and liabilities for which fair value is disclosed as at 31 December 2022:

	Level 1	Level 2	Level 3	Total fair value	Total accounting value
Financial assets					
Cash and balance at Central Bank	1,443,538	8,625,516	-	10,069,054	10,069,054
Loans and advances to banks and public institutions	-	6,119,076	-	6,119,076	6,119,076
Loans and advances to customers	-	-	28,728,588	28,728,588	29,224,037
Investments in debt instruments at amortized cost	4,403,070	-	-	4,403,070	4,770,943
Investment property	-	-	95,379	95,379	59,872
Other financial assets	-	-	79,497	79,497	79,497
Total financial assets	5,846,608	14,744,592	28,903,464	49,494,664	50,322,479
Financial liabilities					
Deposits from banks	-	2,698,249	-	2,698,249	2,698,249
Deposits from customers	-	53,065,211	-	53,065,211	52,430,729
Borrowings from banks and other financial institutions	-	276,956	-	276,956	278,242
Debt securities issued	653,636	-	-	653,636	653,636
Subordinated liabilities	-	1,439,628	-	1,439,628	1,439,628
Other financial liabilities	-	-	89,799	89,799	89,799
Total financial liabilities	653,636	57,480,044	89,799	58,223,479	57,590,283

(All amounts are in RON thousands unless otherwise stated)

4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

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

	Level 1	Level 2	Level 3	Total fair value	Total accounting value
Financial assets					
Cash and balance at Central Bank	845,006	6,263,535	-	7,108,541	7,108,541
Loans and advances to banks and public institutions	-	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
Investment property	-	-	99,073	99,073	76,823
Other financial assets	-	-	34,587	34,587	34.587
Total financial assets	3,131,868	7,987,847	26,225,346	37,345,061	36,928,098
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	-	444,287	-	444,287	443,199
Subordinated liabilities	-	1,400,956	-	1,400,956	1,400,956
Other financial liabilities	-	-	708,693	708,693	708,693
Total financial liabilities	-	46,090,174	708,693	46,798,867	46,585,551

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

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

b) Loans and advances to customers

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

(All amounts are in RON thousands unless otherwise stated)

4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

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

Group	Market value	Evaluation techniques	Significant unobservable inputs	Average interest rate	The sensitivity of the valua of the market value to unobservable inputs
Legal entities Agriculture exclusively bridge loans for subsides	2,438,725	Future discounted cash flows	PD and LGD as items reflecting credit risk in the discount rate of future cash flows.	4.12% for EUR 10.31%for RON	The individual growth of any unobservable inputs (PD, LGD, discount rate) would generate a market value.
Public local administrations	2,973,569	Future discounted cash flows	PD and LGD as items reflecting credit risk in the discount rate of future cash flows.	8.71% for RON	The individual growth of any unobservable inputs (PD, LGD, discount rate) would generate a market value.
Legal entities Commerce	2,553,184	Future discounted cash flows	PD and LGD as items reflecting credit risk in the discount rate of future cash flows.	3.68% for EUR 10.49% for RON	The individual growth of any unobservable inputs (PD, LGD, discount rate) would generate a market value.
Legal entities Construction	1,690,659	Future discounted cash flows	PD and LGD as items reflecting credit risk in the discount rate of future cash flows.	3.93% for EUR 10.5% for RON	The individual growth of any unobservable inputs (PD, LGD, discount rate) would generate a market value.
Legal entities Industry	4,457,246	Future discounted cash flows	PD and LGD as items reflecting credit risk in the discount rate of future cash flows.	3.70% for EUR 10.27% for RON 6.20% for USD	The individual growth of any unobservable inputs (PD, LGD, discount rate) would generate a market value.
Individuals – personal needs loans	1,772,948	Future discounted cash flows	PD and LGD as items reflecting credit risk in the discount rate of future cash flows.	4.68% for EUR 9.78% for RON	The individual growth of any unobservable inputs (PD, LGD, discount rate) would generate a market value.
Legal entities Services	5,318,471	Future discounted cash flows	PD and LGD as items reflecting credit risk in the discount rate of future cash flows.	3.65% for EUR 10.38% for RON	The individual growth of any unobservable inputs (PD, LGD, discount rate) would generate a market value.
Bridge loans for subsides	426,107	Future discounted cash flows	PD and LGD as items reflecting credit risk in the discount rate of future cash flows.	8.46% for RON	The individual growth of any unobservable inputs (PD, LGD, discount rate) would generate a market value.
Individuals – Mortgage loans	6,742,969	Future discounted cash flows	PD and LGD as items reflecting credit risk in the discount rate of future cash flows.	4.63% for EUR 7.07% for RON 4.10% forUSD	The individual growth of any unobservable inputs (PD, LGD, discount rate) would generate a market value.
Cards/Overdraft	354,710	Future discounted cash flows	PD and LGD as items reflecting credit risk in the discount rate of future cash flows.	15.97% for RON	The individual growth of any unobservable inputs (PD, LGD, discount rate) would generate a market value.

Total **28,728,588**

4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

c) Deposits from banks, deposits from customers and 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 presented in the interest gap analysis, is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits, borrowings from banks and other financial institutions and subordinated debt without a quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

d) Debt securities issued

The fair value of the debt securities issued is determined using BID quotations (expressed as yield) from Bloomberg, the BGN or BVAL source, where BGN is not available. If none of the sources is available, the price of the last transaction made in the last 30 days on the regulated market, if any, will be used. Otherwise, the yield used to determine the fair value will be based on the following formula: the (BID) yield of the government bond with the closest maturity plus the credit spread relevant to the risk category to which the issuer of the evaluated bond belongs, allowing for any material instrument specific credit quality deterioration, if the case.

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

The fair value of government securities measured at fair value through other items of comprehensive income is determined using BID quotations (expressed as yield) in Bloomberg, source BGN.

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

Financial assets measured at fair value through other comprehensive income include shares that are not traded on an active market (FRGC S.A. - Fondul Roman de Garantare a Creditelor pentru Intreprinzatori Privati, Transfond S.A. - Societatea de Transfer de Fonduri si Decontari, Biroul de Credit S.A., SWIFT- Societatea de Telecomunicaţii Financiare Interbancare Globale) and shares quoted in an active market (VISA Inc.). In the case of shares that are not listed on an active market, it is not possible to obtain the market value for those equity securities and therefore recent values in terms of their trading price are not publicly available. Management does not intend to sell these shares in the near future. The Bank determined the fair value for them using the net asset method based on the published financial statements, in the case of FRGC S.A. - Fondul Român de Garantare a Creditelor pentru Întreprinzători Privaţi and SWIFT - Societatea de Telecomunicaţii Financiare Interbancare Globale and the dividend method, in the case of Transfond S.A. - Societatea de Transfer de Fonduri și Decontări si Biroul de Credit S.A.

In the case of Visa Inc.'s shares for which there is an active market, the market value is determined monthly based on the conversion coefficient communicated by VISA and the NYSE stock exchange quote.

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

Group	Market value	Evaluation techniques	Significant unobservable inputs	The sensitivity of the valuation of the market value to unobservable inputs
Shares measured at fair value through other comprehensive income	26,274	The market value is determined by VISA's conversion coefficient and NYSE's stock exchange rate. For unlisted equity instruments, the market value is determined by the net asset method based on the financial statements of the entities at the end of the last reporting period, as well as by the dividend method.	Financial performance of the issuer	The increase or decrease of the issuer's financial performance has an impact on the increase or decrease of the market value.

(All amounts are in RON thousands unless otherwise stated)

4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

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

The Bank's debt instruments include shares that are traded on an active market (VISA Inc.) and in their case, market value is determined monthly based on the conversion coefficient communicated by VISA and the NYSE stock exchange quote.

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

Group	Market value	Evaluation techniques	Significant unobservable inputs	The sensitivity of the valuation of the market value to unobservable inputs
Debt securities mandatorily measured at fair value through profit or loss	16,341	The market value is determined by VISA's conversion coefficient and NYSE's stock exchange rate	Financial performance of the issuer	The increase or decrease of the issuer's financial performance has an impact on the increase or decrease of the market value.

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

	Shares	Debt securities
Balance at 1 January 2022	14,094	21,177
Total gains or losses:		
- in profit or loss	-	(4,836)
- in other comprehensive income	6,267	-
Purchases	5,209	-
Issues	-	-
Settlements	-	-
Transfers into level 3	-	-
Transfers out of level 3	-	-
Exchange rate differences	704	-
Balance at 31 December 2022	26,274	16,341

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

The fair value of the investments in debt instruments is determined using BID quotations (expressed as yield) from Bloomberg, the BGN or BVAL source, where BGN is not available. If none of the sources is available, the price of the last transaction made in the last 30 days on the regulated market, if any, will be used. Otherwise, the yield used to determine the fair value will be based on the following formula: the (BID) yield of the government/Corporate/Municipal bond with the closest maturity plus the credit spread relevant to the risk category to which the issuer of the evaluated bond belongs, allowing for any material instrument specific credit quality deterioration, if the case.

4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

i) Derivative financial assets and liabilities

As of 31 December 2022, the value of financial derivative instruments (FX swap/forward) is determined using interest rates ROBID/ROBOR/EURIBOR/USD DEPO/GBP DEPO/CHF DEPO displayed by Thomson Reuters or Bloomberg, as well as official exchange rates published by NBR in order to compute forward rates for remaining period of outstanding contracts.

j) Financial assets and liabilities

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

k) Property

Following the analysis carried out by the Bank's management regarding the market value of goods on the real estate market, it emerged that it did not fluctuate significantly during 2022 and that there are no external indicators of impairment of assets compared to the analysis of 31 December 2021. Management considered that the net book value of land and buildings as at 31 December 2022 represents a fair estimate of fair values at the reporting date.

During the year ended 31 December 2022 (and 31 December 2021), there were no changes to the fair valuation at fair value in Level 3 rating techniques.

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

Real Estate Valuation - input data analysis according to IFRS 13 as at 31.12.2022

Evaluation results for each evaluation method used							
Crt. No.	**Evaluation method**	**Properties (Pieces)**	**Surface property land (mp)**	**Surface land concession / use (mp)**	**Surface built unfolded (mp)**	**Surface useful total (mp)**	**Fair value (RON thousands)**
1	MCV	835	72,758	59,705	256,967	203,629	540,457
2	CIN	19	6,113	263	10,507	7,543	134,408
3	MCD	160	48,056	8,615	17,533	13,375	15,441
Total		**1,014**	**126,927**	**68,583**	**285,007**	**224,547**	**690,306**

4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

Real Estate Valuation - input data analysis according to IFRS 13 as at 31.12.2021

Evaluation results for each evaluation method used							
Crt. No.	**Evaluation method**	**Properties (Pieces)**	**Surface property land (mp)**	**Surface land concession / use (mp)**	**Surface built unfolded (mp)**	**Surface useful total (mp)**	**Fair value (RON thousands)**
1	MCV	847	73,728	61,378	263,870	208,858	545,160
2	CIN	31	6,349	263	10,742	7,711	134,461
3	MCD	168	52,390	8,721	18,694	14,367	16,637
Total		**1,049**	**132,467**	**70,362**	**293,306**	**230,936**	**696,258**

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

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

Valuation techniques	**Significant unobservable inputs**	**Fair value impact**
Income Capitalization Method (MCV) Cost approach (CIN) Direct Comparison Method (MCD)	Potential Gross Income Variation (PGI):-10% Capitalization rate variation (CR): 1%	(106,508) (-19.7%)
Income Capitalization Method (MCV) Cost approach (CIN) Direct Comparison Method (MCD)	Potential Gross Income Variation (PGI): -7% Capitalization rate variation (CR): 0,5%	(67,670) (-12.5%)
Income Capitalization Method (MCV) Cost approach (CIN) Direct Comparison Method (MCD)	Potential Gross Income Variation (PGI): -3% Capitalization rate variation (CR): 0,25%	(31,614) (-5.85%)
Income Capitalization Method (MCV) Cost approach (CIN) Direct Comparison Method (MCD)	Potential Gross Income Variation (PGI): 3% Capitalization rate variation (CR): -0,25%	33,234 (6.15%)
Income Capitalization Method (MCV) Cost approach (CIN) Direct Comparison Method (MCD)	Potential Gross Income Variation (PGI): 7% Capitalization rate variation (CR): -0,50%	74,781 (13.84%)
Income Capitalization Method (MCV) Cost approach (CIN) Direct Comparison Method (MCD)	Potential Gross Income Variation (PGI): 10% Capitalization rate variation (CR): -1%	130,199 (24.1%)

(All amounts are in RON thousands unless otherwise stated)

4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

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

31 December 2022	*Note*	Mandatorily at FVTPL	FVTPL	FVOCI – debt instruments	FVOCI – equity instruments	At amortized cost	Total carrying amount
Cash and balance at central banks	13	-	-	-	-	10,069,054	10,069,054
Derivatives financial assets	14	-	-	-	-	-	-
Loans and advances to banks and public institutions	15	-	-	-	-	6,119,076	6,119,076
Loans and advances to customers:	18	-	-	-	-	29,224,037	29,224,037
- at amortized cost		-	-	-	-	29,224,037	29,224,037
Debt instruments:		16,341	6,289	10,342,981	-	4,770,943	15,136,554
- measured at fair value through profit or loss	20	-	6,289	-	-	-	6,289
- mandatorily at fair value through profit or loss	19	16,341	-	-	-	-	16,341
- at fair value through other comprehensive income	16	-	-	10,342,981	-	-	10,342,981
- at amortized cost	17	-	-	-	-	4,770,943	4,770,943
Equity instruments	16	-	-	-	26,273	-	26,273
Other financial assets	25	-	-	-	-	79,497	79,497
Total financial assets		16,341	6,289	10,342,981	26,273	50,262,607	60,654,491
Derivatives financial liabilities	14	-	24,950	-	-	-	24,950
Deposits from banks	27	-	-	-	-	2,698,249	2,698,249
Deposits from customers	28	-	-	-	-	52,430,729	52,430,729
Borrowings from banks and other financial institutions	29	-	-	-	-	278,242	278,242
Debt securities issued	30					653,636	653,636
Subordinated liabilities	31	-	-	-	-	1,439,628	1,439,628
Lease liabilities	34	-	-	-	-	96,475	96,475
Other financial liabilities	36	-	-	-	-	89,799	89,799
Total financial liabilities		-	24,950	-	-	57,686,758	57,711,708

(All amounts are in RON thousands unless otherwise stated)

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

31 December 2021	Note	Mandatorily at FVTPL	FVTPL	FVOCI – debt instruments	FVOCI – equity instruments	At amortized cost	Total carrying amount
Cash and balance at central banks	13	-	-	-	-	7,108,541	7,108,541
Derivatives financial assets	14	-	431	-	-	-	431
Loans and advances to banks and public institutions	15	-	-	-	-	1,724,312	1,724,312
Loans and advances to customers:	18	-	-	-	-	25,651,030	25,651,030
- at amortized cost		-	-	-	-	25,651,030	25,651,030
Debt instruments:		21,177	-	12,763,962	-	2,332,805	15,117,944
- mandatorily at fair value through profit or loss	19	21,177	-	-	-	-	21,177
- at fair value through other comprehensive income	16	-	-	12,763,962	-	-	12,763,962
- at amortized cost	17	-	-	-	-	2,332,805	2,332,805
Equity instruments	16	-	-	-	14,094	-	14,094
Other financial assets	25	-	-	-	-	34,587	34,587
Total financial assets		21,177	431	12,763,962	14,094	36,851,275	49,650,939
Derivatives financial liabilities	14	-	831	-	-	-	831
Deposits from banks	27	-	-	-	-	2,008,329	2,008,329
Deposits from customers	28	-	-	-	-	42,024,374	42,024,374
Borrowings from banks and other financial institutions	29	-	-	-	-	443,199	443,199
Subordinated liabilities	31	-	-	-	-	1,400,956	1,400,956
Lease liabilities	34	-	-	-	-	81,662	81,662
Other financial liabilities	36	-	-	-	-	708,693	708,693
Total financial liabilities		-	831	-	-	46,667,213	46,668,044

(All amounts are in RON thousands unless otherwise stated)

5 NET INTEREST INCOME

	2022	2021
Interest income calculated using the effective interest method arising from:		
Current accounts, deposits loans and advances to banks	158,042	11,895
Treasury bills, bonds and other Investment securities	468,506	409,579
Loans and advances to customers, out of which:	1,998,393	1,132,474
Interest income on impaired loans	93,319	52,177
Modification loss not determined by credit risk	(4,418)	(5,200)
Total interest income	2,624,941	1,553,948
Interest expense related to financial liabilities measured at amortized cost arising from:		
Savings instruments from customers	29	41
Current accounts and term deposits from customers	866,229	464,353
Loans and deposits from banks	95,211	12,178
Interest expense on lease liabilities	562	425
Other borrowed funds	476	660
Subordinated loan	123,145	956
Debt securities issued	284	-
Total interest expense	1,085,936	478,613
Net interest income	1,539,005	1,075,335

6 NET COMMISSION INCOME

	2022	2021
Commission income		
Commissions from operations with cards	101,598	90,763
Commissions from cash transactions	69,731	64,664
Commissions from current accounts opening	129,728	130,544
Other commissions	49,357	44,426
Total commissions from contracts with customers	350,414	330,397
Commissions from financial guarantees and loan commitments given	19,371	12,725
Total commissions income	369,785	343,122
Commission expense		
Commissions for inter-bank transactions	37,974	29,143
Commissions for financial risk insurance	1,908	1,425
Commissions for financial services	16,027	15,050
Total commission expense	55,909	45,618
Net commission income	313,876	297,504

6 NET COMMISSION INCOME (CONTINUED)

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

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

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

7 NET LOSS FROM FINANCIAL DERIVATIVES

	2022	2021
Currency based instruments		
Loss from foreign exchange derivative transactions	154,477	11,966
Total	154,477	11,966

Transactions includes gains and losses from forward contracts and currency swaps.
The variation in 2022 compared to 2021 is due to the increase in the number of currency swap transactions, these operations being carried out for financing purposes.

(All amounts are in RON thousands unless otherwise stated)

8 OTHER OPERATING INCOME

	2022	2021
Income from other operations	10,903	8,614
Income from dividends	6,850	919
Rental income	5,001	5,019
Total	22,754	14,552

9 STAFF COSTS

	2022	2021
Wages and salaries	441,793	411,829
Other social security contributions	9,943	9,268
Other staff costs	35,254	31,455
Provisions for other employee benefits	5,890	(127)
Provision for employee benefits upon the termination of the employment contract (i)	(2,500)	(6,460)
Total	490,380	445,965

(i) As at 31.12.2022 the Bank set up provisions for funds to support the early retirement programme applicable in 2023 in the amount of RON 5,000 thousand.

10 OTHER OPERATING EXPENSES

	2022	2021
Visa and Mastercard expenses	34,419	27,779
Third parties expenses (i)	34,497	24,383
Advertising and publicity	22,321	13,734
Materials and inventories	14,975	12,767
Other taxes	59,416	50,174
Provisions for litigations and for internal or external fraud (Note 32)	(744)	(995)
Other operating expenses	5,707	4,905
Rent expenses	2,941	2,574
Travel and transportation expenses	15,494	13,627
Expenses with deposits' guarantee fund	51,911	22,122
Repairs and maintenance of property and equipment	135,304	111,889
Expenses with post and telecommunications	28,370	22,410
(Gain)/ Loss on sale of fixed assets and investment property	(3,619)	(4,122)
Net charge for impairment of other financial and non-financial assets (Note 25 and Note 26)	737	586
Net charge for impairment of investment property	-	7,857
Total	401,729	309,690

(All amounts are in RON thousands unless otherwise stated)

10 OTHER OPERATING EXPENSES (CONTINUED)

(i) At 31 December 2022, the amount also includes the total fees for the financial year charged by the statutory auditor in the amount of RON 1,859 thousand (2021: RON 837 thousand) for:

- the statutory audit of the annual financial statements in the amount of RON 782 thousand (2021: RON 335 thousand)
- services other than audit, permitted by applicable legislation, in the amount of RON 1,077 thousand perceived in the year 2022 (2021: RON 502 thousand).

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

	2022	2021
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	461,831	366,366
Net charge with adjustments for expected loss on current account and deposits with NBR	318	306
Net charge with adjustments for expected losses on correspondent accounts, deposits and loans with credit institutions	(3,798)	4,439
Losses from non-recoverable receivables not covered by adjustments for expected loss of credit	3,853	2,181
Provision for loan commitments and financial guarantees given	32,619	(11,993)
Recoveries from loans sold	(47,233)	(44,950)
Recoveries from loans previously written off	(114,184)	(103,454)
Total net charge with adjustments for expected credit losses	333,406	212,895

12 INCOME TAX EXPENSE

	2022	2021
Current tax expense at 16 % (2021: 16%) of taxable profits determined in accordance with Romanian law	89,899	64,094
Expense / (Income) from deferred tax (see Note 33)	(7,445)	2,174
Income tax expense/ (credit)	82,454	66,268

(All amounts are in RON thousands unless otherwise stated)

12 INCOME TAX EXPENSE (CONTINUED)

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

	2022	2021
Profit before tax	506,780	432,856
Theoretical tax charge at statutory rate of 16% (2021: 16%)	81,085	69,257
The tax effect of non-deductible expenses of 8.60% (2021: 7.67%)	43,586	33,198
Tax effect of non-taxable income of 3.90% (2021: 4.98%)	19,758	21,542
Tax deductions of 3.46% (2020: 2.98%)	17,513	12,901
Sponsorship and reinvested profit tax credit of 1.60% (2021: 2.09%)	8,106	9,064
Items similar to expense and income of (2.09%) (2021: (1.19%))	(10,605)	(5,146)
Income tax expense / (credit) for the year	89,899	64,094
Effective tax rate	17.74%	14.81%

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

13 CASH AND BALANCE AT CENTRAL BANK

	31 December 2022	31 December 2021
Cash on hand	1,088,633	574,904
Cash in ATM's	354,905	270,102
Mandatory minimum reserve (i)	7,064,606	5,171,733
Other current accounts held with the National Bank of Romania (other than mandatory minimum reserve)	1,562,061	1,092,636
Expected credit losses	(1,151)	(834)
Cash and balance at Central Bank	10,069,054	7,108,541

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

(All amounts are in RON thousands unless otherwise stated)

13 CASH AND BALANCE AT CENTRAL BANK (CONTINUED)

At 31 December 2022 the mandatory minimum reserve was set at 8% (31 December 2021: 8%) for funds attracted from customers in RON and 5% (31 December 2021: 5%) for foreign currency denominated funds attracted. The interest rate granted by the National Bank of Romania for the current accounts in RON during 2022 ranged between 0.13% and 0.70% p.a. (2021 between 0.08% and 0.13% p.a.). For the current account in EUR, the National Bank of Romania granted during 2022 an interest ranged between 0% and 0.02% p.a. (2021: 0% p.a.). For the current account in USD, the National Bank of Romania granted during 2022 an interest ranged between 0.01% and 0.09% p.a. (2021: 0.01% p.a.).

As at 31 December 2022 the amounts presented in the statement of financial position regarding cash and balance at Central Bank are current and not impaired.

14 DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2022		31 December 2021	
	Asset	Liability	Asset	Liability
Financial derivatives	-	24,950	431	831

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

The contracts are short-term as follows:

	Notional		Notional	
	31 December 2022		31 December 2021	
	Contracts with a positive result	Contracts with a negative result	Contracts with a positive result	Contracts with a negative result
FX swap contracts at fair values 31 December				
Receivable amounts-RON	-	1,095,636	49,992	-
Payable amounts-RON	-	-	-	-
Receivable amounts-EUR	-	197,276	-	16,838
Payable amounts-EUR	-	(1,119,755)	(49,562)	-
Receivable amounts- other currencies	-	-	-	-
Payable amounts-other currencies	-	(197,783)	-	(17,659)
Derivatives held for risk management	-	(24,626)	430	(821)

(All amounts are in RON thousands unless otherwise stated)

14 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Derivative instruments concluded by the Bank are, generally, traded on an over-the-counter market with professional counterparties in standard contractual terms and conditions. Derivative instruments have favourable potential (assets) or unfavourable potential (liability) depending on fluctuations in market interest rates, foreign exchange rates or other variables related to their terms. Aggregate fair value of derivative assets and liabilities can fluctuate significantly from time to time. Certain monetary items denominated in a foreign currency are economically safeguarded using FX swap contracts as set out in the table above. The Bank does not use hedge accounting for its currency derivative contracts.

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

The increase in the volume of trading with derivatives during 2022 generated a net loss of RON 154,477 thousand (2021: RON 11,966 thousand).

15 LOANS AND ADVANCES TO BANKS AND PUBLIC INSTITUTIONS

	31 December 2022	31 December 2021
Current accounts held with other banks	572,118	76,131
Term deposits with other banks and public institutions	5,078,382	992,716
Sight deposits with other banks	-	279,325
Collateral deposits with other banks	28,959	4,592
Reverse repo transactions	51,837	-
Loans and advances to credit institutions	389,098	376,663
Expected credit losses	(1,318)	(5,115)
Total	6,119,076	1,724,312

As at 31 December 2022 the Bank has a term deposit with IDEA BANK SA of RON 24,919 thousand (2021: RON 29,688 thousand), a term deposit with BARCLAYS BANK LONDON of RON 47,631 thousand (2021: RON 50,151 thousand) and term deposits with the State Treasury in the amount of RON 5,005,832 thousand (2021: RON 0).

Also, as at 31 December 2021 the Bank also held term deposits with UniCredit Tiriac Bank of RON 50,016 thousand , with CREDIT EUROPE BANK of RON 175,068 thousand, with Banca Transilvania SA of RON 71,870 thousand, with ALPHA BANK of RON 250,591 thousand, with ING BANK of RON 50,013 thousand, with PIRAEUS BANK of RON 110,016 thousand, with CITIBANK Europe Dublin ROMANIA of RON 50,016 thousand, with SANPAOLO IMI Bank of RON 15,034 thousand, with LIBRA INTERNET BANK of RON 100,023 thousand and with GE GARANTI BANK SA of RON 40,230 thousand.

(All amounts are in RON thousands unless otherwise stated)

15 LOANS AND ADVANCES TO BANKS AND PUBLIC INSTITUTIONS (CONTINUED)

As at 31 December 2022 the Bank has a collateral deposit concluded for VISA through the financial institution JP Morgan Collateral Custodian Services of RON 2,725 thousand (2021: RON 2,738 thousand) and a collateral deposit for MasterCard through HSBC Bank London of RON 601 thousand (2021: RON 567 thousand), a collateral deposit for Swap through Commerzbank of RON one thousand (2021: RON 1,284 thousand), a collateral deposit for Swap through BCR of RON 4,272 thousand (2021: RON 0), a collateral deposit for Swap through JP Morgan of RON 11,149 thousand (2021: RON 0), a collateral deposit for Swap through ING Bank of RON 2,229 thousand (2021: RON 0) and a collateral deposit for Swap through CITIBANK PLC of RON 7,982 thousand (2021: RON 0).

The obligation for holding such collateral deposits is necessary to cover the amounts carried / settled periodically by the organization. Value of collateral deposits is established depending on the transactional volume of each organization.

Organizations can regularly request the update of the value of deposits maintained in their favour. Contracts are valid during the period in which they are members of organizations licensed by VISA and MasterCard.

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

Except for reverse sale and repurchase agreements, amounts due from other banks are not collateralised.
As at 31 December 2022 the Bank made reverse repo transactions with Transilvania Bank in a gross amount of RON 51,837 thousand (2021: RON 0) with maturity date on 23 January 2023.

The Bank has a right to sell or repledge securities with a fair value of RON 49,881 thousand (2021: RON 0) received under reverse sale and repurchase agreements.

The effect of collateral at 31 December 2022:

	Over-collateralised Assets		Under-collateralised Assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Reverse sale and repurchase agreements with other banks with original maturities of less than three months	-	-	51,830	49,881

(All amounts are in RON thousands unless otherwise stated)

16 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

	31 December 2022	31 December 2021
Government bonds	10,342,981	12,763,962
Equity investments (Note 16 b)	26,273	14,094
Total	10,369,254	12,778,056

As at 31 December 2022, the Bank entered into repo-type transactions with other banks with financial assets measured at fair value through other comprehensive income of RON 1,444,881 thousand as underlying (2021: RON 521,624 thousand). The securities pledged under repo agreements may be sold or repledged by the counterparty.

Ratings for investment securities classified as financial assets measured at fair value through other comprehensive income portfolio issued by the Ministry of Finance are detailed in Note 3, page 83.

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

	2022	2021
Opening balance at 1 January	12,763,962	11,062,866
Acquisitions	1,397,885	7,714,196
Sales and Redemptions	(3,547,736)	(5,460,922)
Accrued interest income	347,943	335,863
Interest income receivable	(457,451)	(398,202)
Foreign exchange differences	304,980	73,975
Gain/(loss) from changes in fair value, out of which:	(466,602)	(563,814)
Gain/(loss) from changes in fair value from sales	(1,686)	(52,256)
Gain/(loss) from changes in fair value from mark-to-market	(464,916)	(511,558)
Balance at 31 December	10,342,981	12,763,962

(All amounts are in RON thousands unless otherwise stated)

16 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 31 December 2022:

Name	Nature of business	Country	Percentage held	Carrying Amount
Biroul de credit SA	Credit risk monitoring	Romania	4.74	1,920
FRGC SA	Fond for Guaranteeing Loans for Private Investors	Romania	3.10	470
TransFonD SA	Interbank transfers	Romania	2.69	7,232
SWIFT	Transfer of funds	Belgium	<0,01	475
VISA Inc.	Processing card transactions	United States of America	<0,01	16,176
Total				26,273

The Bank held the following equity investments at 31 December 2021:

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

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

(All amounts are in RON thousands unless otherwise stated)

17 FINANCIAL ASSESTS AT AMORTIZED COST – DEBT INSTRUMENTS

	31 December 2022	31 December 2021
Government bonds	4,539,686	2,258,584
Bonds issued by credit institutions	111,108	50,017
Bonds issued by non-financial corporations	43,489	24,846
Bonds issued by local public administration	78,421	-
Expected credit losses	(1,761)	(642)
Total	4,770,943	2,332,805

Investments' classification as debt instruments at amortized cost depends both on the conditions and characteristics of the financial assets and on the ability and effective intention of the Bank to hold these instruments until maturity.
As at 31 December 2022, investments in debt instruments at amortized cost include bonds which are pledged securities of RON 82,500 thousand (31 December 2021: RON 60,000 thousand) for operations with Visa, MasterCard and Sent (electronic settlement system for small local currency payments). The counterparty cannot subsequently sell or pledge these assets.

Additionally, at 31 December 2022, investments in debt instruments at amortized cost also include pledged securities for the borrowing with the EIB with a fair value of RON 126,263 thousand (31 December 2021: RON 189,940 thousand). The counterparty cannot sell or pledge these investments.

In addition, as at 31 December 2021, the Bank entered into repo-type transactions with other banks, supported by investments in debt instruments at amortized cost whose carrying amount is RON 320,258 thousand (2021: RON 353,526 thousand). The securities pledged under repo agreements may be sold or repledged by the counterparty.

During 2022, the Bank did not sell investment securities classified as investments in debt instruments at amortized cost.

Qualitative analysis of the financial assets measures at amortized cost - debt instruments as at 31 December 2022 and 31 December 2021, depending on the issuer's rating:

31 December 2022	Government	Credit institutions	Non-financial corporations	Public administration	Total
Debt instruments, of which:	**4,539,080**	**110,752**	**42,701**	**78,410**	**4,770,943**
B+	-	-	42,701	-	42,701
BB-	-	49,745	-	-	49,745
BBB-	4,539,080	61,007	-	78,410	4,678,497

(All amounts are in RON thousands unless otherwise stated)

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

31 December 2021	Government	Credit institutions	Non-financial corporations	Public administration	Total
Debt instruments, of which:	**2,258,282**	**50,011**	**24,513**	**-**	**2,332,806**
B+	-	-	24,513	-	24,513
BB-	-	50,011	-	-	50,011
BBB-	2,258,282	-	-	-	2,258,282

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

	2022	2021
Opening balance at 1 January	2,332,805	2,267,578
Acquisitions	2,422,681	762,124
Maturities	(27,114)	(698,700)
Accrued interest income	120,563	73,716
Interest income receivable	(80,135)	(85,554)
Foreign exchange differences	3,262	13,980
Expected credit losses	(1,119)	(339)
Balance at 31 December	4,770,943	2,332,805

(All amounts are in RON thousands unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS

The Bank's loans and advances to customers are for legal entities and individuals living in Romania. The focus of the portfolio of loans granted to customers by category of clients, type of credit for individuals, respectively the field of activity for legal entities as at 31 December 2022 and 31 December 2021 is:

	31 December 2022	31 December 2021
Individuals – personal needs loans fully collateralised with real estate collaterals	272,441	256,127
Individuals – personal needs loans without real estate collaterals or not fully covered	1,563,587	1,443,287
Individuals – Mortgage loans	7,306,237	6,720,491
Cards/Overdraft	363,950	292,026
Total loans for individuals	9,506,215	8,711,931
Legal entities Agriculture	2,572,407	2,032,942
Public local administrations	3,006,359	3,361,594
Legal entities Industry	4,848,880	3,919,829
Legal entities Commerce	2,728,053	2,279,952
Legal entities Construction	1,882,492	1,445,416
Legal entities Services	5,898,179	5,105,559
Bridge loans for subsides	430,199	162,305
Total corporate loans and advances	21,366,569	18,307,597
Total loans advances to customers (gross)	30,872,784	27,019,528
Adjustments for expected credit loss	(1,648,747)	(1,368,498)
Total loans and advances to customers (net)	29,224,037	25,651,030

(All amounts are in RON thousands unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The effect of changing expected loss for loans and advances to customers can be analysed on 31 December 2022 as follows:

	Stage 1	Stage 2	Stage 3	Total
Opening balance at 1 January	186,097	163,922	1,018,479	1,368,498
Transfer to Stage 1	23,183	(12,877)	(10,306)	-
Transfer to Stage 2	(13,834)	49,318	(35,484)	-
Transfer to Stage 3	(5,329)	(13,810)	19,139	-
Increase due to new loans granted in the year	67,145	30,618	18,368	116,131
Decreases due to closed loans in year	(38,702)	(33,476)	(87,984)	(160,162)
Net remeasurement during the year	46,345	86,180	373,337	505,862
Write-off	-	-	(181,165)	(181,165)
Interest adjustments	-	-	787	787
Other adjustments	(300)	(724)	(180)	(1,204)
Closing balance at 31 December	264,605	269,151	1,114,991	1,648,747

During 2022 the Bank has written off loans granted to customers in gross value of RON 181,165 thousand by directly reducing the irrecoverable loans fully covered by the allowances for expected losses.

In 2022, the Bank has concluded loan sale agreements with third party entities. Assignments were made by selling portfolios, but also by selling individual receivables. Through these contracts, there were sold receivables from non-performing loans, individuals and legal entities, guaranteed and unsecured in gross carrying amount of RON 29,945 thousand on-balance sheet receivable (net carrying amount of RON 274 thousand on-balance sheet receivable) and in the amount of RON 129,809 thousand off-balance sheet receivable.
The amount of the receivables that was collected was RON 53,484, has been registered a gain of RON 47,233 thousand. This amount is found on the credit position of "Net impairment loss on loans and advances to customers" in the statement of profit or loss and other comprehensive income. The sale agreement is without recourse.

As at 31 December 2022, the breakdown of expected credit loss for client receivables is detailed by customer groups according to the field of activity in Note 3.

(All amounts are in RON thousands unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The effect of changing expected loss for loans and advances to RETAIL customers in 2022 was as follows:

	Stage 1	Stage 2	Stage 3	Total
Opening balance at 1 January	18,210	2,166	132,859	153,235
Transfer to Stage 1	2,189	(456)	(1,733)	-
Transfer to Stage 2	(705)	4,794	(4,089)	-
Transfer to Stage 3	(356)	(425)	781	-
Increase due to new loans granted in the year	7,967	42	278	8,287
Decreases due to closed loans in year	(2,189)	(150)	(5,931)	(8,270)
Net remeasurement during the year	(3,287)	(819)	63,862	59,756
Write-off	-	-	(67,043)	(67,043)
Interest adjustments	-	-	1,913	1,913
Other adjustments	(24)	(14)	(20)	(58)
Closing balance at 31 December	21,805	5,138	120,877	147,820

The effect of changing expected loss for loans and advances to legal entities customers in 2022 was as follows:

	Stage 1	Stage 2	Stage 3	Total
Opening balance at 1 January	167,887	161,756	885,620	1,215,263
Transfer to Stage 1	20,994	(12,421)	(8,573)	-
Transfer to Stage 2	(13,129)	44,524	(31,395)	-
Transfer to Stage 3	(4,973)	(13,385)	18,358	-
Increase due to new loans granted in the year	59,178	30,576	18,090	107,844
Decreases due to closed loans in year	(36,513)	(33,326)	(82,053)	(151,892)
Net remeasurement during the year	49,632	86,999	309,475	446,106
Write-off	-	-	(114,122)	(114,122)
Interest adjustments	-	-	1,126	1,126
Other adjustments	(276)	(710)	(160)	(1,146)
Closing balance at 31 December	242,800	264,013	994,114	1,500,927

(All amounts are in RON thousands unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The effect of changing expected loss for loans and advances to customers can be analysed as at 31 December 2021 as follows:

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

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

In 2021, the Bank has concluded loan sale agreements with third party entities. Assignments were made by selling portfolios, but also by selling individual receivables. Through these contracts, there were sold receivables from non-performing loans, individuals and legal entities, guaranteed and unsecured in gross carrying amount of RON 65,023 thousand on-balance sheet receivable (net carrying amount of RON 27,142 thousand on-balance sheet receivable) and in the amount of RON 46,415 thousand off-balance sheet receivable.
The amount of the receivables that was collected was RON 44,110 thousand (of which RON 8,302 thousand from the portfolio assignments). This amount is found on the credit position of "Net impairment loss on loans and advances to customers" in the statement of profit or loss and other comprehensive income. The sale agreement is without recourse.

As at 31 December 2021, the breakdown of expected credit loss for client receivables is detailed by customer groups according to the field of activity in Note 3.

(All amounts are in RON thousands unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The effect of changing expected loss for loans and advances to RETAIL customers in 2021 was as follows:

	Stage 1	Stage 2	Stage 3	Total
Opening balance at 1 January	23,460	6,302	83,756	113,518
Transfer to Stage 1	812	(246)	(566)	-
Transfer to Stage 2	(1,923)	3,236	(1,313)	-
Transfer to Stage 3	(668)	(2,228)	2,896	-
Increase due to new loans granted in the year	5,975	2	46	6,023
Decreases due to closed loans in year	(1,599)	(83)	(17,386)	(19,068)
Net remeasurement during the year	(7,734)	(4,810)	103,264	90,720
Write-off	-	-	(26,963)	(26,963)
Interest adjustments	-	-	(10,748)	(10,748)
Other adjustments	(113)	(7)	(127)	(247)
Closing balance at 31 December	18,210	2,166	132,859	153,235

The effect of changing expected loss for loans and advances to legal entities customers in 2021 was as follows:

	Stage 1	Stage 2	Stage 3	Total
Opening balance at 1 January	249,497	160,130	704,445	1,114,072
Transfer to Stage 1	37,010	(34,804)	(2,206)	-
Transfer to Stage 2	(84,290)	159,399	(75,109)	-
Transfer to Stage 3	(15,370)	(93,847)	109,217	-
Increase due to new loans granted in the year	26,056	10,725	16,545	53,326
Decreases due to closed loans in year	(16,406)	(6,312)	(34,901)	(57,619)
Net remeasurement during the year	(27,575)	(32,967)	353,526	292,984
Write-off	-	-	(202,799)	(202,799)
Interest adjustments	-	-	17,752	17,752
Other adjustments	(1,034)	(569)	(850)	(2,453)
Closing balance at 31 December	167,888	161,755	885,620	1,215,263

(All amounts are in RON thousands unless otherwise stated)

18 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The table below shows off-balance sheet receivables during the year that the Bank continues to pursue in the recovery process.

	31 December 2022	31 December 2021
Derecognition of loans and advances at amortized cost classified in Stage 3, no prospects for recovery,	(49,365)	(169,883)
Total	(49,365)	(169,883)

The Bank did not purchase receivables portfolios or other assets during the period 2021-2022.

Approximately 90% of the off-balance sheet receivables that still have real guarantees in the guarantee structure were derecognised in the period 2014-2019, the prospect of continuing recoveries being a distant one. The real estate remaining under collateral shows an accentuated depreciation being unsalable or difficult to sell, a situation confirmed by the long period elapsed since the start of the executions. In the current economic context, in which a reduction in transactions is estimated - both in the residential real estate market and in the market for other real estate, it is estimated that the off-balance sheet recoveries will be reduced compared to historical values.

19 FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	31 December 2022	31 December 2021
Debt instruments	16,341	21,177
Total	16,341	21,177

20 FINANCIAL ASSETS HELD FOR TRADING AND MEASURED AT FAIR VALUE THROUGHT PROFIT AND LOSS

The structure of financial assets held for trading and measured at fair value through profit or loss is presented in the table below:

	31 December 2022	31 December 2021
Debt instruments	6,289	-
Total	6,289	-

The securities include bonds denominated in RON issued by the Ministry of Finance.

Ratings for investment securities classified as financial assets held for trading at fair value through profit or loss portfolio are detailed in Note 3.

(All amounts are in RON thousands unless otherwise stated)

21 PROPERTY AND EQUIPMENT

	Land and buildings	Technical installations and machinery	Assets in course of construction	Other installations, equipment and furniture	Total
Gross cost at 1 January 2021	541,875	296,331	9,191	46,729	894,126
Additions (*)	954	43,700	8,033	1,890	54,577
fers	6,006	100	(6,091)	(15)	-
Disposals	(1,378)	(28,232)	(277)	(1,577)	(31,464)
Reclassifications from property and equipment to investment property	(113)	-	(120)	-	(233)
Revaluation expenses	(709)	-	-	-	(709)
Revaluation income	4,492	-	-	-	4,492
Reversal of accumulated depreciation	(49,916)	-	-	-	(49,916)
Reevaluation impact (Note 38)	130,796	-	-	-	130,796
Gross cost at 31 December 2021	632,007	311,899	10,736	47,027	1,001,669
Gross cost at 1 January 2022	632,007	311,899	10,736	47,027	1,001,669
Additions (*)	4,197	51,102	14,905	3,444	73,648
Transfers	9,149	223	(9,374)	2	-
Disposals	(2,533)	(45,262)	(9)	(2,169)	(49,973)
Reclassifications from/to property and equipment to investment property	11,883	-	(398)	-	11,485
Gross cost at 31 December 2022	654,703	317,962	15,860	48,304	1,036,829

(All amounts are in RON thousands unless otherwise stated)

21 PROPERTY AND EQUIPMENT (CONTINUED)

	Land and buildings	Technical nstallations and machinery	Assets in course of construction	Other installations, equipment and furniture	Total
Accumulated depreciation at 1 January 2021	64,630	219,687	-	38,718	323,035
Depreciation charge for the year	18,384	21,929	-	1,516	41,829
Disposals	(406)	(28,069)	-	(1,526)	(30,001)
Accumulated depreciation from property, and equipment to investment property	(20)	-	-	-	(20)
Reversal of accumulated depreciation	(49,916)	-	-	-	(49,916)
Accumulated depreciation at 31 December 2021	32,672	213,547	-	38,708	284,927
Accumulated depreciation at 1 January 2022	32,672	213,547	-	38,708	284,927
Depreciation charge for the year	24,039	24,063	-	1,750	49,852
Disposals	(254)	(45,178)	-	(2,047)	(47,479)
Accumulated depreciation from property, and equipment to investment property	165	-	-	-	165
Accumulated depreciation at 31 December 2022	56,622	192,432	-	38,411	287,465
Net book value at 31 December 2021	559,335	98,352	10,736	8,319	716,742
Net book value at 31 December 2022	598,081	125,530	15,860	9,893	749,364

(*)During 2022 the Bank purchased computers, laptops, IT equipment, workstations, servers, ATMs, multifunctional machines, telephones, furniture, air conditioners, power plants, thermal power plants, cars and electric car charging stations in amount of RON 54,546 thousand.

There were also works of arrangement of the Bank's headquarters in amount of RON 14,905 thousand.

At 31 December 2022, the committee established by the Bank performed impairment tests of assets and applying professional judgment estimated that during 2022 there were no internal signs for impairment in any group of assets, and there was no need to re-estimate the economic useful life, consequently, no depreciation allowance calculation and no accounting recording of impairment for assets depreciation was required.

Also, because the market value of real estate assets did not fluctuated significantly during 2022 and there were no external indicators for assets depreciation compared with the analysis at 31 December 2021, the management considered that the carrying amount of land and buildings at 31 December 2022 represents a reliable estimate of fair values at the reporting date.

(All amounts are in RON thousands unless otherwise stated)

21 PROPERTY AND EQUIPMENT (CONTINUED)

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

During 2022, the Bank has sold one building and recorded net income of RON 167 thousands.

As at 31 December 2022, CEC Bank owns 622 land properties and 863 buildings (as at 31 December 2021, CEC Bank owned 632 land and 891 buildings).

22 INTANGIBLE ASSETS

	2022	2021
Gross cost as at 1 January	249,778	196,647
Purchases	48,092	53,203
Transfers	-	-
Disposals	(83)	(72)
Gross cost as at 31 December	297,787	249,778
Accumulated depreciation as at 1 January	180,711	168,678
Depreciation charge	26,672	12,105
Transfers	-	-
Disposals	(83)	(72)
Adjustments for previous year	-	-
Accumulated depreciation as at 31 December	207,300	180,711
Net book value	90,487	69,067

(All amounts are in RON thousands unless otherwise stated)

23 INVESTMENT PROPERTY

	2022	2021
Gross cost as at 1 January	112,060	114,309
Purchases	-	26
Reclassifications from/to property and equipment	(11,485)	233
Disposals	(8,524)	(2,508)
Gross cost as at 31 December	92,051	112,060
Accumulated depreciation and impairment as at 1 January	35,237	24,856
Depreciation charge for the year	2,750	3,658
Impairment adjustments usage	(2,246)	7,764
Accumulated depreciation for reclassifications from property and equipment	(165)	20
Disposals	(3,397)	(1,061)
Accumulated depreciation and impairment as at 31 December	32,179	35,237
Net book value	59,872	76,823

At 31 December 2022, the committee established by the Bank performed impairment tests of assets and applying professional judgment estimated that during 2022 there were no internal signs for impairment and there was no need to re-estimate the economic useful life in any group of assets, consequently, no depreciation allowance calculation and no accounting recording of impairment for assets depreciation was required.

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

During 2022, the rent income from investment property has been in the amount of RON 3,856 thousand (2021: RON 3,942 thousand). Direct operating expenses (building tax, repairs, maintenance) arising from investment property that did not generate rental income during 2022 was in the amount of RON 2,076 thousand (2021: RON 1,817 thousand). Direct operating expenses of investment properties that generated rental income during 2022 was in the amount of RON 446 thousand (2021: RON 462 thousand).

During 2022, the Bank disposed of one building and had 39 investment property sales (28 buildings and 11 land) as a result of which recorded RON 3,396 thousand net income (2021: RON 4,062 thousand).

The Bank did not acquire investment property under finance leases.

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

	31 December 2022	31 December 2021
Not later than 1 year	4,410	3,753
Later than 1 year and not later than 5 year	10,689	4,788
Later than 5 years	16,367	38
Total	31,466	8,579

(All amounts are in RON thousands unless otherwise stated)

24 RIGHT-OF-USE ASSETS

	Commercial buildings	Auto	Equipments	Land	Total
Gross cost as at 1 January 2021	107,585	-	1,533	7,645	116,763
Changes in leasing contracts	16,131	-	885	59	17,075
Additions	6,401	-	718	-	7,119
Disposals	(11,811)	-	-	(289)	(12,100)
Gross cost as at 31 December 2021	118,306	-	3,136	7,415	128,857
Gross cost as at 1 January 2022	118,306	-	3,136	7,415	128,857
Changes in leasing contracts	29,507	-	446	809	30,762
Additions	12,848	2,242	-	789	15,879
Disposals	(8,224)	(1,006)	-	(4)	(9,234)
Gross cost as at 31 December 2022	152,437	1,236	3,582	9,009	166,264

	Commercial buildings	Auto	Equipments	Land	Total
Accumulated depreciation as at 1 January 2021	29,586	-	1,148	1,093	31,827
Depreciation charge for the year	21,598	-	819	533	22,950
Disposals	(4,564)	-	-	(289)	(4,853)
Accumulated depreciation as at 31 December 2021	46,620	-	1,967	1,337	49,924
Accumulated depreciation as at 1 January 2022	46,620	-	1,967	1,337	49,924
Depreciation charge for the year	24,704	216	1,060	591	26,571
Disposals	(4,292)	(18)	-	(1)	(4,311)
Accumulated depreciation as at 31 December 2022	67,032	198	3,027	1,927	72,184
Net book value at 31 December 2021	71,686	-	1,169	6,078	78,933
Net book value at 31 December 2022	85,405	1,038	555	7,082	94,080

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

	31 December 2022	31 December 2021
Interest expense on lease liabilities	562	425
Depreciation charge for leases	26,570	22,951
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	2,795	2,458

(All amounts are in RON thousands unless otherwise stated)

25 OTHER FINANCIAL ASSETS

	31 December 2022	31 December 2021
Amounts in course of settlement with banks (i)	69,631	24,218
Amounts to be recovered from banks and clients	19	19
Other debtors and advances for non-current assets	10,704	11,013
Allowances for impairment — other debtors	(857)	(663)
Total	79,497	34,587

(i) Within 'Amounts in course of settlement with banks' account there are included commissions and penalties due from corporate clients and individuals of RON 36,582 thousand (2021: RON 1,063 thousand) as well as cash in the process of settlement, intra-cash settlements on customer transactions and other settlement accounts with: own operations, reconciliation operations, EPOS deposits/withdrawals, ATM supplies, etc.
Other financial assets are not collateralized as at 31 December 2022 and 2021. For the amounts detailed as at 31 December 2022, the Bank intends to recover them during 2023.

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

	31 December 2022	31 December 2021
Balance at beginning of the year	663	656
Derecognition of other financial assets (write-down)	(5)	(60)
Charge/(release) of provision to income statement (Note 10)	199	67
Balance at end of the year	857	663

(All amounts are in RON thousands unless otherwise stated)

26 OTHER ASSETS

	31 December 2022	31 December 2021
Prepaid expenses/Prepayments	16,137	9,567
Other guarantees for rent and utilities (i)	783	754
Receivables from the state budget	3,315	4,320
Other assets (ii)	4,320	6,082
Impairments of other assets	(1,166)	(1,166)
Other debtors	4,347	4,072
Adjustments for expected loss - other debtors	(2,378)	(2,023)
Other assets, net	25,358	21,606

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

(ii) From the total of 'Other assets' category as at 31 December 2022, RON 3,859 thousand (31 December 2021: RON 3,760 thousand) represents repossessed collaterals from foreclosed loans to customers (RON 1,502 thousand) and RON 2,357 thousand (31 December 2021: RON 2,258 thousand) represents the Bank's patrimony under Law no. 77/2016 with subsequent modifications and completions regarding the payment of some buildings in order to settle the obligations assumed by credits.
The assets do not meet the definition of non-current assets held for sale, and are classified as other assets. The assets were initially recognised at fair value when acquired.

Impairment of other assets that can be reconciled as follows:

	31 December 2022	31 December 2021
Balance at beginning of the year	3,189	2,837
Derecognition of other assets	(183)	(167)
Charge/(release) of provision to income statement (Note 10)	538	519
Balance at end of year	3,544	3,189

27 DEPOSITS FROM BANKS

	31 December 2022	31 December 2021
Sight deposits	180,075	728,066
Out of which, current accounts to other banks (LORO)	18	23
Term deposits	744,714	409,201
Repo transactions	1,773,460	871,062
Total	2,698,249	2,008,329

As at 31 December 2022 and at 31 December 2021 all "Deposits from banks" were on a short term basis - maturity of under a year.

(All amounts are in RON thousands unless otherwise stated)

28 DEPOSITS FROM CUSTOMERS

	31 December 2022	31 December 2021
Current accounts and sight deposits		
Saving passbooks – sight	3,913	4,506
Current accounts – individuals	3,622,947	3,707,590
Current accounts – legal entities and other clients	3,862,026	4,337,468
Current accounts cards – individuals, legal entities and other clients	3,978,240	4,031,519
Sight deposits – legal entities	197,564	316,192
Total current accounts and sight deposits	11,664,690	12,397,275
Term deposits and savings		
Term saving passbooks (i)	78,944	111,749
Term deposits – individuals	23,034,014	20,858,762
Term deposits – legal entities and other clients	14,576,755	6,039,219
Collateral deposits (ii)	3,076,277	2,616,110
Other term deposits	49	1,259
Total term deposits and savings	40,766,039	29,627,099
Total	52,430,729	42,024,374

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

(ii) Collateral deposits are provided for:

	31 December 2022	31 December 2021
Letter of credit	1,678	18,794
Administration guarantees	131,048	104,310
Consignment	2,439,593	2,148,698
Guarantee loans	431,272	295,263
Guarantees for good performance of commercial contracts	39,025	35,172
Other collateral deposits	33,661	13,873
Total	3,076,277	2,616,110

(All amounts are in RON thousands unless otherwise stated)

29 BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2022	31 December 2021
European Investment Fund for the JEREMIE Initiative (i)	7,130	10,495
European Bank for Investments (EIB) (ii)	231,924	340,681
Romanian-Swiss program (iii)	39,188	92,023
Total	278,242	443,199

(i) On 2 July 2014 the Bank signed a Finance and Risk Sharing Agreement with the European Investment Fund (EIF) for the JEREMIE Initiative, amounting to EUR 10 million in RON equivalent (EIF's risk sharing rate is 50%, CEC Bank's risk sharing rate is 50%).

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

The outstanding amount of the loan as at 31.12.2022 is RON 7,129,794.43

Under the terms of the contract, the interest rate on 31 December 2022 was 8.75% (1M ROBOR + 1,63% p.a.). The final payment term is 31 December 2026.

(ii) Between 2013 and 2014, CEC Bank signed with the European Investment Bank (EIB) three loan agreements amounted to a total of EUR 145 million to finance facilities for small and medium-sized enterprises ("SMEs"), public sector entities and medium-capitalized enterprises and to encourage the youth employment. The loans have been fully drawn as of 31.12.2022.

The outstanding tranches of the loans as at 31.12.2022 are as follows:

- EUR 15 million with fixed interest rate of 0.282% p.a., with final maturity on 29 June 2026.
- EUR 15 million with fixed interest rate of 0.089% p.a., with final maturity on 30 September 2023.
- EUR 20 million with fixed interest rate of 0.268% p.a., with final maturity on 29 April 2024.
  EUR 15 million with fixed interest rate of 0.349% p.a., with final maturity on 12 October 2024.
- EUR 5 million with fixed interest rate of 0.069% p.a., with final maturity on 19 July 2023.

(All amounts are in RON thousands unless otherwise stated)

29 BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS (CONTINUED)

On 30 July 2020 the Bank signed a new loan agreement with the EIB worth EUR 50 million. to finance small and medium enterprises ("SMEs") and companies with average market capitalization ("MidCaps").
The loan bears a fixed interest rate of 0.099% p.aand the final maturity is 30 September 2025.
The outstanding amount of the loan as at 31.12.2022 is EUR 30,000,000.

As at 31 December 2022 for the loan agreement signed with the European Bank for Investments (EIB) the Bank pledged financial assets measured at amortized cost as collateral, with a fair value of RON 126,262,636 (31 December 2021: RON 189,939,864).

(iii) On 16 January 2014, CEC Bank signed a collaboration agreement with the Department for SMEs, Business and Tourism - DIMMAT within the Romanian-Swiss SME Program. The total amount of the Agreement including supplements, amounts to RON 92,024,424 (CHF 24,390,000, and the withdrawals amount to RON 92,023,272.81.

The loan has zero interest, program completed on 30.06.2019.

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, resulting an outstanding amount of the loan on 31.12.2022 of RON 39,187,829.52.

As at 31 December 2022, the conditions set out in the financing agreements with the European Investment Fund ("EIF") and the European Investment Bank ("EIB") are complied with.

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

	2022	2021
Opening balance at 1 January	443,199	565,380
Repayments of loans from banks and other financial institutions	(164,924)	(122,151)
Bank and other financial institution loan drawdowns	-	-
Total changes in cash flows financing	(164,924)	(122,151)
Interest expenses on loans from banks and other financial institutions	476	660
Interest payments on loans from banks and other financial institutions	(509)	(690)
Other changes	(33)	(30)
Balance at 31 December	278,242	443,199

(All amounts are in RON thousands unless otherwise stated)

30 DEBT SECURITIES ISSUED

	31 December 2022	31 December 2021
Debt securities issued	653,636	-
Total	653,636	-

The balance of debt securities issued as at 31 December 2022, including accrued interest, is in amount of RON 653,636 thousand (2021: RON 0).

On 30 December 2022, under the MTN (Medium term Notes) programme, the Bank issued its first eligible MREL Senior Non-Preferred bonds (SNPs) denominated in RON and EUR, in nominal amount of RON 175,350 thousand and EUR 97,300 thousand respectively, bearing a fixed rate cupon with a maturity date on 30 December 2025. The bonds were subscribed by professional investors through a private placement process.
According to the terms and conditions of the issue, the bonds were listed on February 17, 2023 on the regulated market of the Bucharest Stock Exchange (the symbol of the stock exchange CECRO25 and ISIN XS2572123516 for trading the tranch of bonds denominated in lei, And the CECRO25E stock exchange symbol with ISIN XS2572123433 for trading the tranet of bonds denominated in euro). The instruments have an early redemption clause for tax reasons, regulatory reasons or at the option of the issuer (as of 30 December 2024).
The issued bonds are eligible for MREL (Minimum Requirement for Own Funds and Eligible Liabilities (MREL).

The base prospectus of the Bank's MTN (Medium term Notes) Program has obtained the approval of the CSSF (at the Luxembourg Commission de Surveillance du Secteur Financier) on 21 December 2022. Under the Program, the bank may issue bonds within a total ceiling of EUR 600 million (or equivalent in other currencies).

31 SUBORDINATED LIABILITIES

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

	31 December 2022	31 December 2021
Shareholder loan	1,439,628	1,400,956
Total	1,439,628	1,400,956

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

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

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

(All amounts are in RON thousands unless otherwise stated)

31 SUBORDINATED LIABILITIES (CONTINUED)

The reconciliation of the movements of subordinated liabilities with the cash flows generated by the financing activity are shown in the table below:

	2022	2021
Opening balance at 1 January	1,400,956	-
Repayments of subordinated liabilities	-	-
Subordinated liabilities drawdowns	-	1,400,000
Total changes in cash flows financing	-	1,400,000
Interest expenses on subordinated liabilities	123,145	956
Interest payments on subordinated liabilities	(84,473)	-
Other changes	38,672	956
Balance at 31 December	1,439,628	1,400,956

32 PROVISIONS

	31 December 2022	31 December 2021
Provisions for litigations	433	805
Provisions for internal and external frauds	1,799	2,171
Provisions for loan commitments and financial guarantees given	45,572	12,937
Total	47,804	15,913

The movement in provisions for litigations are listed below:

	31 December 2022	31 December 2021
Balance at 1 January	805	1,814
Additional provisions, including increases to existing provisions	71	176
Unused amounts reversed during periods	(443)	(1,185)
Balance at 31 December	433	805

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

	31 December 2022	31 December 2021
Balance at 1 January	2,171	2,157
Additional provisions, including increases to existing provisions	7	81
Unused amounts reversed during periods	(379)	(67)
Balance at 31 December	1,799	2,171

(All amounts are in RON thousands unless otherwise stated)

32 PROVISIONS (CONTINUED)

The movement in provisions for loan commitments and financial guarantees given as at 31 December 2022 is shown below:

	Stage 1	Stage 2	Stage 3	Total
Opening balance at 1 January	12,136	625	176	12,937
Transfer to Stage 1	3,742	(3,715)	(27)	-
Transfer to Stage 2	(3,178)	3,267	(89)	-
Transfer to Stage 3	(35)	(1,334)	1,369	-
Increase due to new loans commitments /guarantees granted in the year	12,505	1,236	928	14,669
Decreases due to closed loans commitments /guarantees in year	(3,595)	(591)	(29)	(4,215)
Net remeasurement during the year	2,899	7,671	11,595	22,165
Write-off	-	-	-	-
Interest adjustments	-	-	-	-
Other adjustments	2	5	9	16
Closing balance at 31 December	24,476	7,164	13,932	45,572

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

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

Within provision for litigations are included the amounts provided for certain litigations in which the Bank is involved as defendant and litigations that could result in future cash outflows. Based on the status of the legal proceedings, a cash outflow (provisions balance as at 31 December 2022) of RON 433 thousand (31.12.2021: RON 805 thousand) is estimated. The Bank's management considers that these legal cases will not have a significant negative impact over financial result and position of the Bank. See also Note 43 *Contingent liabilities and commitments.*

(All amounts are in RON thousands unless otherwise stated)

33 DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and deferred tax liabilities at 31 December 2022 are attributable to the temporary differences detailed in the table below:

		31 December 2022	
	Assets	Liabilities	Net
Fair value of financial assets measured at fair value through other comprehensive income - debt instruments	771,628	-	771,628
Fair value of financial assets measured at fair value through other comprehensive income - investments in equity instruments	-	(10,238)	(10,238)
Revaluation reserve for land and buildings	-	(382,002)	(382,002)
Other tangible and intangible assets (i)	-	(10,286)	(10,286)
Right-of-use assets	2,134	-	2,134
Provisions and other liabilities	97,916	-	97,916
Total	871,678	(402,526)	469,152
Deferred tax assets at 16 %	139,468	(64,404)	75,064

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

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

(All amounts are in RON thousands unless otherwise stated)

33 DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

(i) Deferred tax on other tangible and intangible assets is due to the change in the useful life of certain classes of assets (Notes 21 and 22).

Movements in deferred tax assets/liabilities at 31 December 2022 are as follows:

	1 January 2022	Recognised in profit or loss account	Recognised in other comprehensive income	31 December 2022
Financial assets measured at fair value through other comprehensive income – debt instruments	49,025	-	74,435	123,460
Financial assets measured at fair value through other comprehensive income - investments in equity instruments	(523)	-	(1,115)	(1,638)
Revaluation reserve for land and buildings	(63,336)	2,200	16	(61,120)
Tangible and intangible assets - changes in accounting useful life	(1,209)	(438)	-	(1,647)
Right-of-use assets	423	(82)	-	341
Provisions and other liabilities	9,903	5,765	-	15,668
Total	(5,717)	7,445	73,336	75,064

(All amounts are in RON thousands unless otherwise stated)

33 DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

Movements in deferred tax assets/liabilities at 31 December 2021 are as follows:

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

34 LEASE LIABILITIES

	31 December 2022	31 December 2021
Lease liabilities	96,408	81,627
Debts attached	67	35
Total	96,475	81,662

The analysis of maturity of lease liabilities

	31 December 2022	31 December 2021
Less than one month	2,355	2,070
Between two and three months	4,589	3,991
Between four and six months	7,484	5,779
Between seven and nine months	7,232	5,310
Between ten and twelve months	6,937	4,978
Between thirteen and sixty months	60,040	49,381
Over sixty months	15,575	15,038
Total	104,212	86,547

(All amounts are in RON thousands unless otherwise stated)

35 OTHER LIABILITIES

	31 December 2022	31 December 2021
Social Contributions due to State Budget	19,054	16,699
Taxes payable to State Budget	13,549	8,169
Employee profit participation	30,801	26,999
Other liabilities	1,358	703
Provision for employee benefits upon the termination of the employment contract (Note 9)	5,000	7,500
Provision for employee benefits in the form of compensatory absences	4,293	2,205
Total liabilities	74,055	62,275

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

36 OTHER FINANCIAL LIABILITIES

	31 December 2022	31 December 2021
Deferred income from financial guarantees issued	1,257	1,191
Sundry creditors	58,542	45,717
Dividens payable (i)	-	634,257
Other financial liabilities	30,000	27,528
Total	89,799	708,693
Current	89,799	708,693

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

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.

37 SHARE CAPITAL

The share capital of the Bank was RON 2,499,746 thousand as at 31 December 2022 (31 December 2021: RON 2,499,746 thousand). The Bank is 100% state owned, Ministry of Public Finance being the sole shareholder. The issued share capital is comprised of RON 2,290,661 thousand consisting of 22,906,616 registered shares with a value of RON 100/share.

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

(All amounts are in RON thousands unless otherwise stated)

38 REVALUATION RESERVES

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

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

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

	Revaluation reserve gross	Deferred tax	Total net
Balance as at 1 January 2021	518,582	(60,028)	458,554
The revaluation reserve representing the surplus realized	(3,195)	306	(2,889)
Net result from revaluation (Note 21)	130,796	(19,711)	111,085
Balance as at 31 December 2021	646,183	(79,433)	566,750
Balance as at 1 January 2022	646,183	(79,433)	566,750
The revaluation reserve representing the surplus realized	(7,520)	710	(6,810)
Net result from revaluation (Note 21)	-	16	16
Balance as at 31 December 2022	638,663	(78,707)	559,956

39 RESERVES FOR FINANCIAL ASSETS AT FAIR VALUE MEASURED THROUGH OTHER ITEMS OF COMPREHENSIVE INCOME

	31 December 2022	31 December 2021
Fair value reserve on investment securities available for sale (net of deferred tax)	(639,567)	(252,933)
Total	(639,567)	(252,933)

(All amounts are in RON thousands unless otherwise stated)

39 RESERVES FOR FINANCIAL ASSETS AT FAIR VALUE MEASURED THROUGH OTHER ITEMS OF COMPREHENSIVE INCOME (CONTINUED)

This note discloses the movements in the reserves for financial assets at fair value measured through other items of comprehensive income.

	Reserve for investments Available for sale			Total	
	Government bonds	Equity investment	Gross	Deferred tax	Total Net
Balance as at 1 January 2021	258,885	2,224	261,109	(41,541)	219,568
Net gain/(loss) from changes in fair value from mark-to-market (Nota 16 a)	(511,558)	1,044	(510,514)	81,682	(428,832)
Net gain/(loss) from changes in fair value from sales (Nota 16 a)	(52,256)	-	(52,256)	8,361	(43,895)
Adjustments for depreciation of securities	226	-	226	-	226
Balance as at 31 December 2021	(304,703)	3,268	(301,435)	48,502	(252,933)

	Reserve for investments Available for sale			Total	
	Government bonds	Equity investment	Gross	Deferred tax	Total Net
Balance as at 1 January 2022	(304,703)	3,268	(301,435)	48,502	(252,933)
Net gain/(loss) from changes in fair value from mark-to-market (Nota 16 a)	(464,916)	6,970	(457,946)	73,050	(384,896)
Net gain/(loss) from changes in fair value from sales (Nota 16 a)	(1,686)	-	(1,686)	270	(1,416)
Adjustments for depreciation of securities	(322)	-	(322)	-	(322)
Balance as at 31 December 2022	(771,627)	10,238	(761,389)	121,822	(639,567)

40 OTHER RESERVES

	31 December 2022	31 December 2021
Statutory legal reserve (i)	226,742	201,403
General banking risk reserve (ii)	65,840	65,841
Reserve from goods received free of charge	2,935	2,937
Total	295,517	270,181

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

40 OTHER RESERVES (CONTINUED)

capital. In 2022 the Bank transferred RON 25,339 thousand to statutory legal reserve (2021: RON 21,643 thousand).

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

41 RELATED PARTY TRANSACTIONS

The Bank segment reporting is compliant with the management requirements use. The reporting segments are presented in a manner which is consistent with the internal reporting documentation submitted to the Executive Committee.

The reporting format is based on the internal management reporting format. The items of assets and liabilities, incomes and expenses are allocated to the reporting segments either directly or based on reasonable criteria established by the management.

The reporting segment of the Bank as described below:

Corporate – are legal entities which are not SMEs according to Commission Recommendation 2003/361/EC, respectively Law nr. 346/2004.

The companies in this category usually have specific and sophisticated needs. Through its centralized and customized approach, the Bank seeks to ensure high operational efficiency, a prompt assessment of the specific needs of this type of clients in order to offer the appropriate customized solutions, but also an in-depth perspective of the risk profile in order to maintain a high quality loan portfolio.

The Corporate clients have access to an all-inclusive package of banking products and services. The incomes generated by this segment resulting from lending operations, current business operations (transaction banking, treasury, trade finance and retail products).

SME'S – the segment is represented by the economic entities defined by the Commission Recommendation 2003/361/EC, as well as Law nr. 346/2004 regarding the stimulation of SME's set up and development, with further modification and amendments. SME are defined as those enterprises which cumulatively meet the following conditions:

a) the annual average of employees is below 250;

b) an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million, according to the latest approved financial statements.

The SME segment comprises the largest set of companies having the most diverse types of entities, such as limited liability companies, freelancers, sole proprietorships and others.

41 RELATED PARTY TRANSACTIONS (CONTINUED)

Lending products accessed by the SME are: loans for working capital or investments, letters of guarantee, EU project co-financing, credit cards, invoice discounting or factoring.

Another important category of products refers to general operations, incoming and outgoing payments, cheques, promissory notes, FX operations, salary payment agreements or bancassurance services. Increased attention is given to the digitalization of our products and services, our clients showing more and more interest in internet & mobile banking, e-commerce, last generation POSs.

Authorities of Public Local Administration - the authorities through which local autonomy is carried out in communes, cities and municipalities are: local, communal city and municipal councils, as deliberative authorities, and mayors as executive authorities. Local councils and mayors are elected under the conditions provided by the law for the election of local public administration authorities. Local councils and mayors function as authorities of the local public administration and solve public affairs in communes, cities and municipalities, under the conditions of the law. The classification is based on the NACE code of the main activity.

Lending products accessed by AAPL clients are investment loans, for financing the objectives of local interest.

Private Individuals

The Bank provide individuals with a wide range of banking products and services, including loans (consumer loans, car purchase loans, personal need loans and mortgage loans), savings and deposit accounts, payment services and securities trading.

Treasury Division

The Bank comprise in this category the treasury services which provides income streams from treasury activities, namely trading revenues, net income from financial assets held at fair value through profit or loss, as well as from interest contribution.

"Others" segment incorporates amounts that are not tracked by management at segment level (including capital).

In terms of geographical distribution, the Bank operates entirely in the Romanian territory.

As at 31 December 2022 and 31 December 2021, the Bank did not record income exceeding 10% of total incomes in relation to a single customer.

(All amounts are in RON thousands unless otherwise stated)

41 RELATED PARTY TRANSACTIONS (CONTINUED)

The table below presents financial information per segments regarding the statement of financial position and the operating profit, for the financial year ended at 31 December 2022, and comparative data for 2021:

31 December 2022	Corporate Customers	SME	AAPL	Private Individuals	Treasury Division	Others	Total
Gross loans and advances to customers	8,772,777	9,526,223	3,067,568	9,506,215	-	-	30,872,783
Provisions for principal	(796,412)	(661,633)	(42,881)	(147,820)	-	-	(1,648,746)
Loans and advances to customers net of provisions	7,976,365	8,864,590	3,024,687	9,358,395	-	-	29,224,037
Portfolio of Debt instruments, Equity instruments and Derivative instruments, net of provisions	-	-	-	-	15,162,827	-	15,162,827
Treasury and inter-bank operations	-	-	-	-	16,188,130	-	16,188,130
Property and equipment, investment property and Intangible assets	-	-	-	-	-	899,723	899,723
Right-of-use assets	-	-	-	-	-	94,080	94,080
Other assets	-	-	-	-	-	179,919	179,919
Total assets	**7,976,365**	**8,864,590**	**3,024,687**	**9,358,395**	**31,350,957**	**1,173,722**	**61,748,716**
Deposits from customers and current accounts	8,307,245	3,320,794	9,728,409	31,074,281	2,698,249	-	55,128,978
Loans from banks and other financial institutions	-	-	39,188	-	239,054	-	278,242
Debt securities issued	-	-	-	-	653,636	-	653,636
Subordinated liabilities	-	-	-	-	1,439,628	-	1,439,628
Lease liabilities		-	-	-	-	96,475	96,475
Other liabilities	-	-	-	-	24,950	233,463	258,413
Total liabilities	**8,307,245**	**3,320,794**	**9,767,597**	**31,074,281**	**5,055,517**	**329,938**	**57,855,372**
Equity and related items	-	-	-	-	-	3,893,344	3,893,344
Total liabilities and equity	**8,307,245**	**3,320,794**	**9,767,597**	**31,074,281**	**5,055,517**	**4,223,282**	**61,748,716**

(All amounts are in RON thousands unless otherwise stated)

41 RELATED PARTY TRANSACTIONS (CONTINUED)

31 December 2021	Corporate Customers	SME	AAPL	Private Individuals	Treasury Division	Others	Total
Gross loans and advances to customers	7,070,903	7,806,948	3,429,746	8,711,931	-	-	27,019,528
Provisions for principal	(488,583)	(683,886)	(42,794)	(153,235)	-	-	(1,368,498)
Loans and advances to customers net of provisions	6,582,320	7,123,062	3,386,952	8,558,696	-	-	25,651,030
Portfolio of Debt instruments, Equity instruments and Derivative instruments, net of provisions	-	-	-	-	15,132,469	-	15,132,469
Treasury and inter-bank operations	-	-	-	-	8,832,853	-	8,832,853
Property and equipment, investment property and Intangible assets	-	-	-	-	-	862,632	862,632
Right-of-use assets	-	-	-	-	-	78,933	78,933
Other assets	-	-	-	-	-	56,193	56,193
Total assets	**6,582,320**	**7,123,062**	**3,386,952**	**8,558,696**	**23,965,322**	**997,758**	**50,614,110**
Deposits from customers and current accounts	7,327,871	3,351,026	2,317,163	29,028,314	2,008,329		44,032,703
Loans from banks and other financial institutions	-	-	92,023	-	351,176	-	443,199
Debt securities issued	-	-	-	-	-	-	-
Subordinated liabilities	-	-	-	-	1,400,956	-	1,400,956
Lease liabilities		-	-	-	-	81,662	81,662
Other liabilities	-	-	-	831	798,526	799,357	258,413
Total liabilities	**7,327,871**	**3,351,026**	**2,409,186**	**29,028,314**	**3,761,292**	**880,188**	**46,757,877**
Equity and related items	-	-	-	-	-	3,856,233	3,856,233
Total liabilities and equity	**7,327,871**	**3,351,026**	**2,409,186**	**29,028,314**	**3,761,292**	**4,736,421**	**50,614,110**

(All amounts are in RON thousands unless otherwise stated)

41 RELATED PARTY TRANSACTIONS (CONTINUED)

31 December 2022	Corporate Customers	SME	AAPL	Private Individuals	Treasury Division	Others	Total
Net interest income	46,258	788,662	218,954	77,699	407,432	-	1,539,005
Net commission income	11,472	155,396	947	169,724	(23,663)	-	313,876
Net gain from trading	-	-	-	-	95,035	-	95,035
Net loss from financial derivatives	-	-	-	-	(154,477)	-	(154,477)
Net gain/(loss) from financial assets mandatorily measured at fair value through profit or loss	-	-	-	-	(5,079)	-	(5,079)
Net gain from the sale of financial assets measured at fair value through other comprehensive income	-	-	-	-	1,686	-	1,686
Net gain from foreign exchange differences	-	-	-	-	26,557	-	26,557
Other operating income	-	-	-	-		22,754	22,754
Operating income	**57,730**	**944,058**	**219,901**	**247,423**	**347,491**	**22,754**	**1,839,357**
Impairment loss on loans and advances to customers, provisions for loan commitments and financial guarantees given	(100,280)	(190,674)	2,894	(48,826)	3,480	-	(333,406)
Net loss from impairment of debt instruments	-	-	-	-	(1,218)	-	(1,218)
Staff costs	-	-	-	-	-	(490,380)	(490,380)
Depreciation and amortisation expenses	-	-	-	-	-	(105,844)	(105,844)
Other operating expenses	-	-	-	-	-	(401,729)	(401,729)
Operating expenses	**(100,280)**	**(190,674)**	**2,894**	**(48,826)**	**2,262**	**(997,953)**	**(1,332,577)**
Profit before tax	**(42,550)**	**753,384**	**222,795**	**198,597**	**349,753**	**(975,199)**	**506,780**
Income tax expense	-	-	-	-	-	(82,454)	(82,454)
Net Profit for the year	**(42,550)**	**753,384**	**222,795**	**198,597**	**349,753**	**(1,057,653)**	**424,326**

(All amounts are in RON thousands unless otherwise stated)

41 RELATED PARTY TRANSACTIONS (CONTINUED)

31 December 2021	Corporate Customers	SME	AAPL	Private Individuals	Treasury Division	Others	Total
Net interest income	71,926	443,294	120,323	32,110	407,682	-	1,075,335
Net commission income	9,836	136,995	1,167	165,283	(15,777)	-	297,504
Net gain from trading	-	-	-	-	45,640	-	45,640
Net loss from financial derivatives	-	-	-	-	(11,966)	-	(11,966)
Net gain/(loss) from financial assets mandatorily measured at fair value through profit or loss	-	-	-	-	1,747	-	1,747
Net gain from the sale of financial assets measured at fair value through other comprehensive income	-	-	-	-	52,256	-	52,256
Net gain from foreign exchange differences	-	-	-	-	4,351	-	4,351
Other operating income	-	-	-	-		14,552	14,552
Operating income	**81,762**	**580,289**	**121,490**	**197,393**	**483,933**	**14,552**	**1,479,419**
Impairment loss on loans and advances to customers, provisions for loan commitments and financial guarantees given	(51,073)	(68,439)	(13,477)	(75,160)	(4,746)	-	(212,895)
Net loss from impairment of debt instruments	-	-	-	-	(1,253)		(1,253)
Staff costs	-	-	-	-	-	(445,965)	(445,965)
Depreciation and amortisation expenses	-	-	-	-	-	(76,760)	(76,760)
Other operating expenses	-	-	-	-	-	(309,690)	(309,690)
Operating expenses	**(51,073)**	**(68,439)**	**(13,477)**	**(75,160)**	**(5,999)**	**(832,415)**	**(1,046,563)**
Profit before tax	**30,689**	**511,850**	**108,013**	**122,233**	**477,934**	**(817,863)**	**432,856**
Income tax expense	-	-	-	-	-	(66,268)	(66,268)
Net Profit for the year	**30,689**	**511,850**	**108,013**	**122,233**	**477,934**	**(884,131)**	**366,588**

(All amounts are in RON thousands unless otherwise stated)

42 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or to exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.
The nature of the related party relationships for those related parties with whom the Bank entered into significant transactions or had significant balances outstanding at 31 December 2022 is detailed below. Transactions were entered into with related parties during the normal course of business at market rates.

Transactions with shareholders

The sole shareholder of the Bank is the Romanian Government, represented by the Ministry of Public Finance. A number of banking transactions were initiated, by which the Bank acquired coupon notes denominated in local currency issued by the Romanian Ministry of Public Finance. These transactions were carried out under commercial terms and conditions and at market rate. The transactions with the Romanian Ministry of Public Finance are presented in the relevant notes to these financial statements (Notes 16, 17 and 20).

Transactions with management of the Bank

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

Key management compensation is presented below:

	Expenses 31 December 2022	Accrued liability at 31 December 2022	Expenses 31 December 2021	Accrued liability at 31 December 2021
Short-term benefits:				
- Salaries	44,811	5,368	39,643	4,789
- Short-term bonuses	3,020	44	2,208	-
- Benefits in-kind	-	-	-	-
Bonuses upon the termination of the employment contract	-	-	513	89
Total	47,831	5,412	42,364	4,878

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

(All amounts are in RON thousands unless otherwise stated)

42 RELATED PARTY TRANSACTIONS (CONTINUED)

Transactions with State-controlled entities

The Bank performed a number of banking transactions with organisations or companies controlled by the Romanian State, in the ordinary course of business. The transactions with organisations or companies controlled by the Romanian State took place in the ordinary course of business.

The Bank applied IAS 24 regarding the simplified treatment in the presentation of related party transactions.

At 31 December 2022, the outstanding balances with related parties were as follows:

Closing balances	Shareholder – Ministry of Finance	Key management personnel	Other related parties
Total Assets	14,888,349	4,139	8,590,448
Out of which:			
Loans and advances to banks and public institutions (interest rate: 6.40%-6,65%)	-	-	5,005,832
Financial assets held for trading and measured at fair value through profit and loss (interest rate: 2.50%-8,25%)	6,289	-	-
Financial assets measured at fair value through other comprehensive income (contractual interest rate: 0.7%-7.99%)	10,342,980	-	-
Investments in debt instruments at amortized cost (contractual interest rate: 1%-9.75%)	4,539,080	-	78,410
Loans and advances – gross exposure (contractual interest rate: 0%-35%)	-	4,165	3,574,361
Adjustments for expected credit loss	-	(26)	(68,155)
Total liabilities	1,439,628	8,682	12,590,302
Out of which:			
Deposits (contractual interest rate: 0%-13%)	-	8,682	12,141,414
Debt securities issued (contractual interest rate: 7.5%-9%)	-	-	448,888
Subordinated liabilities (contractual interest rate: 6.29%-11,23%)	1,439,628		
Contractual commitments, financial guarantees and other commitments, out of which:	187,444	768	226,417
Issued	78,748	656	184,667
Received	108,696	112	41,750

(All amounts are in RON thousands unless otherwise stated)

42 RELATED PARTY TRANSACTIONS (CONTINUED)

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

Closing balances	Shareholder - Ministry of Finance	Key management personnel	Other related parties
Total Assets	15,022,244	5,519	3,676,784
Out of which:			
Financial assets measured at fair value through other comprehensive income (contractual interest rate: 0.45%-6,75%)	12,763,962	-	-
Investments in debt instruments at amortized cost (contractual interest rate: 0.45%-6,75%)	2,258,282	-	-
Loans and advances - gross exposure (contractual interest rate: 0%-13,16%)	-	5,532	3,737,912
Adjustments for expected credit loss	-	(13)	(61,128)
Total liabilities	1,400,956	7,999	3,543,877
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:	224,272	569	343,470
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 Finance is presented in Note 16, 17 and 20 of the present financial statements.

(All amounts are in RON thousands unless otherwise stated)

42 RELATED PARTY TRANSACTIONS (CONTINUED)

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

	Shareholder Ministry of Finance	Key management personnel	Other related parties
Interest income	460,065	310	453,768
Interest expense	(123,145)	(78)	(106,601)
Net impairment loss on loans and advances to customers	-	4	(7,916)
Commission income	-	-	112

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

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

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

	31 December 2022	31 December 2021
Current accounts held at National Bank of Romania (Note 13)	8,625,517	6,263,534

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

	31 December 2022	31 December 2021
Interest expenses arising from REPO transactions with National Bank of Romania	2,508	-
Interest income from current accounts held at National Bank of Romania	14,016	2,352
Interest expense from current accounts – Lombard loan	19,993	-

(All amounts are in RON thousands unless otherwise stated)

43 CONTINGENT LIABILITIES AND COMMITMENTS

Litigations

As at 31 December 2022 the Bank is subject to several legal actions arisen in the normal course of business. The potential obligations existence regarding the litigations will be confirmed by future events that are not entirely controlled by the Bank. From the same reason, the Bank cannot reliably estimate the time in which it can effectively record the losses.

	31 December 2022	31 December 2021
Contingent liabilities related to third party litigations (including customers) and to other operational risk events in compliance with IAS 37	29,268	14,545

During 2022, the Bank increased by RON 14,723 thousand the balance of contingent liabilities due to the records of possible penalties stipulated in the third party rental agreements.

Taxation

The Romanian taxation system is undergoing a process of consolidation and harmonization with the European Union legislation. Accordingly, there are still different interpretations of the fiscal legislation. In various circumstances, the tax authorities may have different approaches to certain issues, and assess additional tax liabilities, together with late payment interest and penalties (currently, penalties determined by the duration of delay, plus 0.01% per day delay). In Romania, tax periods remain open for tax inspection for 5 years. The Bank's management considers that the tax liabilities included in these financial statements are fairly stated.

Transfer pricing

Romanian tax legislation includes the "market value" principle according to which transactions between related parties should be carried out at market value. Local taxpayers engaged in related party transactions have to prepare and make available upon the written request of the Romanian Tax Authorities their transfer pricing documentation file. Failure to present the transfer pricing documentation file, or presenting an incomplete file, may lead to non-compliance penalties; additionally, notwithstanding the contents of the transfer pricing documentation, the tax authorities may interpret the facts and transactions differently from management and impose additional tax liabilities resulting from transfer price adjustments. The Company's management believes that the Company will not suffer losses in case of a fiscal inspection on the subject of transfer prices. However, the impact of any challenge by the tax authorities cannot be reliably estimated. It may be significant to the financial condition and/or the overall operations of the entity.

(All amounts are in RON thousands unless otherwise stated)

43 CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

Credit related commitments

The Bank made investments on the inter-bank market and granted loans that were not fully drawn by the clients. The validity period of these commitments does not exceed the contractual maturity and their utilisation is restricted by contractual provisions.
At any time the Bank has commitments for loan granting. These commitments take the form of approved loans and credit line facilities. The amounts reflected in the commitments for loan granting are based on the assumption that all the amounts may be withdrawn without restrictions.

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing. Commitments to extend credits represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments, if the unused commitments would be withdrawn. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

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

	31 December 2022	31 December 2021
Letters of guarantee issued for customers, out of which:	1,958,378	1,746,190
Guarantees for auctions	9,371	4,225
Good performance guarantees	376,296	240,418
Guarantees for advances refunds	784,423	771,373
Guarantees for payment insurance	287,455	173,565
Guarantees for custom duties and other claims	8,215	7
Other guarantees	492,618	556,602
Undrawn credit commitments	4,443,747	4,899,997
Total	6,402,125	6,646,187
Provision for undrawn loan commitments and financial guarantees issued (Note 32)	45,572	12,937

Part of the issued to customers guarantees are covered by cash collateral deposits in amount of RON 56,387 thousand (2021: RON 17,761 thousand).

44 EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

On 7 February 2023, under the MTN (Medium term Notes) programme, the Bank issued a new issue of eligible MREL Senior Non-Preferred bonds (SNPs) denominated in EUR, with a maturity of 7 February 2028, in a nominal amount of EUR 119,300 thousand. The bonds were subscribed by professional investors through a private placement process and were listed on 7 February 2023 on the regulated market of the Luxembourg Stock Exchange and on 22 February 2023 on the regulated market of the Bucharest Stock Exchange (ISIN XS2574275280).

Bogdan Constantin Neacșu
General Manager - President of Executive Committee

Ștefan Silviu Fota
Director, Accounting Division

CEC BANK S.A.
CABINET PREȘEDINTE DIRECTOR GENERAL
1

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

The annual financial statements were prepared as at 31.12.2022 for:

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

The General Manager - President of Executive Committee, Bogdan Constantin Neacsu takes full responsibility for preparing the annual financial statements as at December 31, 2022 and confirms that:

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

Bogdan Constantin Neacşu
General Manager - President of Executive Committee

CEC BANK
1
CABINET PREŞEDINTE DIRECTOR GENERAL