

CEC Bank SA

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

30 JUNE 2023

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

CEC BANK SA

SUMMARY INTERIM FINANCIAL STATEMENTS

AS AT 30 JUNE 2023

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CEC BANK SA

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2023

(All amounts in RON thousand, unless otherwise specified)

	Note	Six months ended on 30 June 2023	Six months ended on 30 June 2022
Interest income calculated using the effective interest method		1,906,682	1,047,766
Interest expenses		(1,127,452)	(376,724)
Net interest income	6	<u>779,230</u>	<u>671,042</u>
Commission income		181,039	178,850
Commission expenses		(47,612)	(44,580)
Net commission income	7	<u>133,427</u>	<u>134,270</u>
Net gain from trading		41,015	27,254
(Net loss) from financial derivatives		(47,777)	(11,161)
(Net loss) /net gain from financial assets mandatorily measured at fair value through profit or loss		2,021	(601)
Net gain from the sale of financial assets measured at fair value through other comprehensive income		2,493	1,006
(Net loss) /net gain from foreign exchange differences		41,935	(5,980)
Other operating income		6,776	6,734
Operating income		<u>959,120</u>	<u>822,564</u>
Impairment loss on loans and advances to customers, provisions for loan commitments and financial guarantees given	8	(87,382)	(226,664)
(Net loss) from impairment of debt instruments		(3,436)	(551)
Staff costs		(267,166)	(234,007)
Depreciation and amortisation expenses		(62,493)	(48,865)
Other operating expenses	9	(188,891)	(201,883)
Operating expenses		<u>(609,368)</u>	<u>(711,970)</u>
Profit before tax		<u>349,752</u>	<u>110,594</u>
Income tax expense	19	(53,528)	(19,465)
Net Profit for the period		<u>296,224</u>	<u>91,129</u>
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Change in the fair value of financial assets measured through other items of comprehensive income, net of tax		259,659	(727,957)
Net gain from transactions with financial assets measured through other items of comprehensive income, transferred to profit or loss upon disposal, net of tax		(2,094)	(845)
<i>Items that will not be reclassified to profit or loss:</i>			
Net gain from the revaluation of land and buildings		-	-
Corrections of the previous year		-	(595)
Other comprehensive income for the period		<u>257,565</u>	<u>(729,397)</u>
Total comprehensive income for the period		<u>553,789</u>	<u>(638,268)</u>

Bogdan Constantin Neacșu

General Manager - President of Executive Committee

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The accompanying notes from pages 8 to 89 form an integral part of these condensed interim financial information.

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Ștefan Silviu Fota

Director, Accounting Department



SUMMARY INTERIM STATEMENT OF THE FINANCIAL POSITION

SUMMARY INTERIM FINANCIAL STATEMENTS AS AT 30 JUNE 2018

(All amounts in RON thousand, unless otherwise specified)

	<u>Notes</u>	<u>30 June 2023</u>	<u>31 December 2022</u>
Assets			
Cash and cash equivalents at central banks		6,785,181	10,069,054
Derivative financial assets		862	-
Loans and advances to banks		3,469,644	6,119,076
Loans and advances to customers	10	30,659,302	29,224,037
Financial assets held for trading and measured at fair value through profit and loss		92,240	6,289
Financial assets mandatorily at fair value through profit or loss		18,429	16,341
Financial assets measured at fair value through other comprehensive income	11	19,338,800	10,369,254
-of which pledged securities (repo agreements)		5,140	1,444,881
Financial assets measured at amortized cost	12	7,490,181	4,770,943
-of which pledged securities (repo agreements)		449,901	320,258
Property and equipment		776,278	749,364
Intangible assets		101,325	90,487
Investment property		57,393	59,872
Right-of-use assets		106,381	94,080
Deferred tax assets	19	23,947	75,064
Other financial assets		97,021	79,497
Other assets		32,444	25,358
Total assets		<u>69,049,428</u>	<u>61,748,716</u>
Liabilities			
Derivative financial liabilities		756	24,950
Deposits from banks	13	714,354	2,698,249
Deposits from customers	14	60,539,535	52,430,729
Borrowings from banks and other financial institutions	15	253,887	278,242
Debt securities issued	16	1,284,178	653,636
Subordinated liabilities	17	1,435,393	1,439,628
Current income tax liability		26,347	21,805
Lease liabilities		109,562	96,475
Provisions		42,748	47,804
Other financial liabilities		108,339	89,799
Other liabilities		87,199	74,055
Total liabilities		<u>64,602,298</u>	<u>57,855,372</u>
Equity			
Share capital	18	2,499,746	2,499,746
Revaluation reserve for property and equipment		559,028	559,956
Reserves for financial assets at fair value measured through other items of comprehensive income		(382,002)	(639,567)
Other reserves		295,515	295,517
Retained earnings		1,474,843	1,177,692
Total equity		<u>4,447,130</u>	<u>3,893,344</u>
Total liabilities and equity		<u>69,049,428</u>	<u>61,748,716</u>

Bogdan Constantin Neacsu
General Manager - President of Executive Committee

Ștefan Silviu Fota
Director, Accounting Department

CEC BANK SA

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2023

(All amounts in RON thousand, unless otherwise specified)

	<u>Note</u>	<u>Share capital</u>	<u>Revaluation reserve</u>	<u>Reserves for financial assets measured at fair value through other comprehensive income</u>	<u>Other reserves</u>	<u>Retained earnings</u>	<u>Total</u>
Balance as at 1 January 2023		<u>2,499,746</u>	<u>559,956</u>	<u>(639,567)</u>	<u>295,517</u>	<u>1,177,691</u>	<u>3,893,343</u>
Comprehensive income:							
Net profit of the period		-	-	-	-	296,224	296,224
Other comprehensive income:							
Changes in the fair value of financial assets measured at fair value through other comprehensive income, net of deferred tax		-	-	257,565	-	-	257,565
Total comprehensive income		-	-	257,565	-	296,224	553,789
Revaluation reserve representing realized surplus, net of deferred tax		-	(928)	-	-	928	-
Decrease other land-sale reserves		-	-	-	(2)	-	(2)
Total other contributions and distributions		<u>-</u>	<u>(928)</u>	<u>-</u>	<u>(2)</u>	<u>928</u>	<u>(2)</u>
Balance as at 30 June 2023		<u>2,499,746</u>	<u>559,028</u>	<u>(382,002)</u>	<u>295,515</u>	<u>1,474,843</u>	<u>4,447,130</u>

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CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2023

(All amounts in RON thousand, unless otherwise specified)

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

CEC BANK SA

CONDENSED INTERIM STATEMENT OF CASH FLOW

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2023

(All amounts in RON thousand, unless otherwise specified)

	<u>Notes</u>	<u>Six months ended on 30 June 2023</u>	<u>Six months ended on 30 June 2022</u>
Profit before tax		349,752	110,594
Adjustments for non-monetary items:			
Expected losses on financial instruments, provisions for loan commitments and financial guarantees given	8	87,382	226,664
Depreciation and amortisation expense		62,493	48,865
Net loss from financial derivatives		8,190	11,161
Gain on disposal of fixed assets		(2,682)	(1,396)
Income from other operations		(20)	(415)
Net gain on financial assets measured at fair value through other comprehensive income		(2,493)	(1,006)
Net loss/ Net gain from financial assets mandatorily measured at fair value through profit or loss		(2,088)	309
Loss/ Gain from foreign exchange differences		(53,234)	(16,861)
Income/(Expense) from adjustments for expected losses related to other assets		6	980
Dividends income		(1,564)	(1,247)
Interest expense		1,127,452	376,724
Interest income		(1,906,682)	(1,047,766)
Other adjustments		1,271	716
		<u>(332,217)</u>	<u>(292,678)</u>
(Increase)/decrease in operating assets:			
Increase in loans and advances to customers		(1,530,080)	(2,557,097)
Increase in financial assets held for trading and measured at fair value through profit or loss		(85,951)	(112,356)
Increase in other assets		(33,668)	(51,372)
Increase/decrease in operating liabilities:			
Decrease in deposits from banks		(2,020,464)	(1,354,427)
Increase in deposits from customers		7,813,766	5,470,673
Decrease /(increase) in other liabilities		(55,688)	27,895
Net cash used in operating activities before interest and tax		3,813,074	1,130,638
Interest received from loans and advances to customers		1,519,653	791,124
Interest paid for deposits from customers and banks		(664,133)	(320,766)
Payments for leases of low-value assets		(1,075)	(1,287)
Recoveries from sold loans and advances to customers and from previously written-off loans	8	48,778	48,985
Income tax paid		(46,439)	(23,333)
Net cash used in operating activities		4,669,858	1,625,361

CONDENSED INTERIM STATEMENT OF CASH FLOW

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2023
(All amounts in RON thousand, unless otherwise specified)

	<u>Notes</u>	Six months ended on 30 June 2023	Six months ended on 30 June 2022
Investment activities:			
Proceeds from financial assets measured at fair value through other comprehensive income		5,162,563	1,736,101
Payments for the acquisition of financial assets measured at fair value through other comprehensive income		(13,714,654)	(1,012,036)
Proceeds from debt securities measured at amortized cost		1,781	17,789
Payments for the purchase of debt securities measured at amortized cost		(2,600,599)	(1,586,074)
Payments for the purchase of equity instruments		66	-
Interest received from investing activities		169,604	178,294
Cash payments for acquisitions of tangible and intangible assets and investment properties		(83,223)	(35,490)
Proceeds from the sale of tangible and intangible assets and investment property		4,031	4,859
Dividends proceeds		<u>1,564</u>	<u>1,247</u>
Net cash in investing activities		(11,058,868)	(695,310)
Financing activities			
Dividends paid to the sole shareholder Ministry of Finance		-	(634,257)
Proceeds from debt securities issued		630,542	
Interest payments on subordinated loans		(77,255)	(22,670)
Payment of lease liability		(15,682)	(12,624)
Repayments of loans from banks and other financial institutions		(24,420)	(84,569)
Interest paid for loans from banks and other financial institutions		<u>(104)</u>	<u>(174)</u>
Net cash from financing activities		513,081	(754,294)
Net (decrease)/increase in cash and cash equivalents		(5,875,929)	175,757
Cash and cash equivalents at the beginning of the period		<u>15,770,282</u>	<u>8,451,785</u>
Cash and cash equivalents at the end of the period (i)		<u>9,894,353</u>	<u>8,627,542</u>

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CONDENSED INTERIM STATEMENT OF CASH FLOW

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2023
(All amounts in RON thousand, unless otherwise specified)

(i) Analysis of cash and cash equivalents

	<u>30 June 2023</u>	<u>30 June 2022</u>
Cash and cash equivalents comprise:		
Cash on hand	994,115	704,349
Cash in ATM's	371,133	263,316
Current accounts held at the National Bank of Romania	5,419,933	6,623,171
Current accounts held at other banks	<u>109,057</u>	<u>318,044</u>
Cash on hand and at banks	<u>6,894,238</u>	<u>7,908,880</u>
Loans and advances to banks - maturity less than 3 months	3,000,115	718,662
Cash and cash equivalents	<u>9,894,353</u>	<u>8,627,542</u>

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2023
(All amounts in RON thousand, unless otherwise specified)

1 REPORTING ENTITY

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

The Bank operates through its head office in Bucharest, as well as through the 48 county branches and similar units in the City of Bucharest (31 December 2022: 48 county branches and similar units in the City of Bucharest), 116 type A urban agencies (31 December 2022: 115), 385 type B urban agencies (31 December 2022: 386) and 462 type B rural agencies (31 December 2022: 462).

CEC Bank SA has 5,023 employees as at June 30, 2023, 287 employees less than on December 31, 2022.

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

As at 30 June 2023, the Bank's Board of Directors includes the following people:

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

As at 30 June 2023, the Bank's Executive Committee includes the following people:

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

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2023

(All amounts in RON thousand, unless otherwise specified)

2 BASIS OF PREPARATION

These condensed interim financial information for the six months ended 30 June 2023 have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" and should be read in conjunction with the Bank's annual financial statements as at and for the year ended on 31 December 2022.

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

a) Basis of measurement

The condensed interim financial information have been prepared on a fair value basis for derivative assets and liabilities at fair value through profit or loss, financial assets measured at fair value through other items of comprehensive income, financial assets held for trading and measured at fair value through profit or loss, financial assets mandatorily at fair value through profit or loss and investment property

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

b) Functional and presentation currency

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

c) Use of estimates and judgments

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

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

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2023
(All amounts in RON thousand, unless otherwise specified)

2 BASIS OF PREPARATION (CONTINUED)

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

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

3 SIGNIFICANT ACCOUNTING POLICIES

In preparing this set of condensed interim financial information, the Bank used the same accounting policies stated in the Bank's last set of annual financial statements for the year ended on 31 December 2022.

4 SIGNIFICANT ACCOUNTING ESTIMATES

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

5 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value hierarchy analysis of financial instruments recorded at fair value

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

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

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

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2023

(All amounts in RON thousand, unless otherwise specified)

5 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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

Assets and liabilities measured at fair value as at 30 June 2023:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets				
Other financial assets				
<i>Financial assets held for trading and measured at fair value through profit or loss, of which:</i>	<u>92,240</u>	—	—	<u>92,240</u>
Debt securities	92,240	-	-	92,240
Derivatives – Swap on exchange rate	-	862	-	862
<i>Financial assets measured at fair value through other comprehensive income, of which:</i>	<u>18,321,243</u>	<u>989,445</u>	<u>28,112</u>	<u>19,338,800</u>
Securities	18,321,243	989,445	-	19,310,688
Equity investments	-	-	28,112	28,112
<i>Financial assets mandatorily at fair value through profit or loss, out of which:</i>	—	—	<u>18,429</u>	<u>18,429</u>
Debt securities	-	-	18,429	18,429
Non-financial assets				
Land and buildings	-	-	595,127	595,127
Total assets carried at fair value	<u>18,413,483</u>	<u>990,307</u>	<u>641,668</u>	<u>20,045,458</u>
Financial liabilities				
Other financial liabilities				
Derivatives – Swap on exchange rate	-	756	-	756
Total financial liabilities carried at fair value	<u>—</u>	<u>756</u>	<u>—</u>	<u>756</u>

Assets and liabilities measured at fair value as at 31 December 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets				
Other financial assets				
<i>Financial assets held for trading and measured at fair value through profit or loss, of which:</i>	<u>6,289</u>	—	—	<u>6,289</u>
Debt securities	6,289	-	-	6,289
Derivatives - Swap on exchange rate	-	-	-	-
<i>Financial assets measured at fair value through other comprehensive income, of which:</i>	<u>9,815,878</u>	<u>527,103</u>	<u>26,273</u>	<u>10,369,254</u>
Securities	9,815,878	527,103	-	10,342,981
Equity investments	-	-	26,273	26,273
<i>Financial assets compulsorily measured at fair value through profit or loss, of which:</i>	—	—	<u>16,341</u>	<u>16,341</u>
Debt securities	-	-	16,341	16,341

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2023

(All amounts in RON thousand, unless otherwise specified)

5	FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)				
	Non-financial assets				
	Land and buildings	-	-	598,081	598,081
	Total assets carried at fair value	<u>9,822,167</u>	<u>527,103</u>	<u>640,695</u>	<u>10,989,965</u>
	Financial liabilities				
	Other financial liabilities				
	Derivatives - Swap on exchange rate	-	24,950	-	24,950
	Total financial liabilities carried at fair value	<u>-</u>	<u>24,950</u>	<u>-</u>	<u>24,950</u>

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

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

Assets and liabilities for which the fair value is disclosed as at 30 June 2023:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total fair value</u>	<u>Total book value</u>
Financial assets					
Cash and cash equivalents at central banks	-	6,785,181	-	6,785,181	6,785,181
Loans and advances to banks	-	3,469,644	-	3,469,644	3,469,644
Loans and advances to customers	-	-	30,984,379	30,984,379	30,659,302
Investments in debt instruments at amortized cost	7,338,643	-	-	7,338,643	7,490,181
Investment property	-	-	93,127	93,127	57,393
Other financial assets	-	-	97,021	97,021	97,021
Total financial assets	<u>7,338,643</u>	<u>10,254,825</u>	<u>31,174,527</u>	<u>48,767,995</u>	<u>48,558,722</u>
Financial liabilities					
Deposits from banks	-	714,354	-	714,354	714,354
Deposits from customers	-	61,454,082	-	61,454,082	60,539,535
Borrowings from banks and other financial institutions	-	254,087	-	254,087	253,887
Debt securities issued	-	1,346,454	-	1,346,454	1,284,178
Subordinated liabilities	-	1,435,393	-	1,435,393	1,435,393
Other financial liabilities	-	-	108,339	108,339	108,339
Total financial liabilities		<u>65,204,370</u>	<u>108,339</u>	<u>65,312,709</u>	<u>64,335,686</u>

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2023

(All amounts in RON thousand, unless otherwise specified)

5 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total fair value</u>	<u>Total book value</u>
Financial assets					
Cash and cash equivalents at central banks	1,443,538	8,625,516	-	10,069,054	10,069,054
Loans and advances to banks	-	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	<u>5,846,608</u>	<u>14,744,592</u>	<u>28,903,464</u>	<u>49,494,664</u>	<u>50,322,479</u>

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total fair value</u>	<u>Total book value</u>
Financial liabilities					
Deposits from banks	-	2,698,249	-	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	<u>653,636</u>	<u>57,480,044</u>	<u>89,799</u>	<u>58,223,479</u>	<u>57,590,283</u>

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

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

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

b) Loans and advances to customers

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

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5 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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

Group	Market value	Valuation techniques	Significant unobservable inputs	Average interest	The sensitivity of the market value assessment in unobservable inputs
Corporate loans to customers in the agriculture industry, excluding loans granted on the basis of subsidies to be received	2,715,004	Discounted future cash flows	The probability of default and the loss in case of default as elements that reflect the credit risk in the discount rate of future flows.	6.13 % for EUR 9.89 % for RON	Individually increasing any unobservable input (probability of default, loss in case of default, discount rate) would generate a lower market value.
Loans to local public institutions	2,806,549	Discounted future cash flows	The probability of default and the loss in case of default as elements that reflect the credit risk in the discount rate of future flows.	8.34 % for RON	Individually increasing any unobservable input (probability of default, loss in case of default, discount rate) would generate a lower market value.
Corporate loans to customers in the retail industry	2,999,346	Discounted future cash flows	The probability of default and the loss in case of default as elements that reflect the credit risk in the discount rate of future flows.	5.84 % for EUR 9.73 % for RON 7.68 % for USD	Individually increasing any unobservable input (probability of default, loss in case of default, discount rate) would generate a lower market value.
Corporate loans to customers in the construction industry	2,188,733	Discounted future cash flows	The probability of default and the loss in case of default as elements that reflect the credit risk in the discount rate of future flows.	6.03 % for EUR 9.52 % for RON	Individually increasing any unobservable input (probability of default, loss in case of default, discount rate) would generate a lower market value.
Corporate loans to customers in the industrial manufacturing industry	4,975,989	Discounted future cash flows	The probability of default and the loss in case of default as elements that reflect the credit risk in the discount rate of future flows.	5.70 % for EUR 9.48 % for RON 6.58 % for USD	Individually increasing any unobservable input (probability of default, loss in case of default, discount rate) would generate a lower market value.
Retail consumer loans	1,809,107	Discounted future cash flows	The probability of default and the loss in case of default as elements that reflect the credit risk in the discount rate of future flows.	6.18 % for EUR 10.35 % for RON	Individually increasing any unobservable input (probability of default, loss in case of default, discount rate) would generate a lower market value.
Corporate loans to customers in the services industry	5,311,681	Discounted future cash flows	The probability of default and the loss in case of default as elements that reflect the credit risk in the discount rate of future flows.	5.89 % for EUR 8.87 % for RON	Individually increasing any unobservable input (probability of default, loss in case of default, discount rate) would generate a lower market value.
Loans granted on the basis of subsidies to be received	406,147	Discounted future cash flows	The probability of default and the loss in case of default as elements that reflect the credit risk in the discount rate of future flows.	9.78 % for RON	Individually increasing any unobservable input (probability of default, loss in case of default, discount rate) would generate a lower market value.
Retail mortgage loans	7,374,549	Discounted future cash flows	The probability of default, as element that reflects the credit risk in the discount rate of future flows.	6.57 % for EUR 8.14 % for RON 4.10 % for USD	Individually increasing any unobservable input (probability of default, loss in case of default, discount rate) would generate a lower market value.
Cards/ Overdraft	397,274	Discounted future cash flows	The probability of default, as element that reflects the credit risk in the discount rate of future flows.	16.53 % for RON	Individually increasing any unobservable input (probability of default, loss in case of default, discount rate) would generate a lower market value.
Total	30,984,379				

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5 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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

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

- d) Financial assets measured at fair value through other 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) from Bloomberg, the BGN source. All securities owned by CEC Bank are periodically assessed in order to evaluate their liquidity as tradeable instruments. For this purpose, the Bank considers 3 main measures and data provided by Bloomberg, as made available via the function LQA.

The 3 main measures for each ISIN are:

- Amount outstanding. This is 100% identifiable and is considered to be directly correlated with liquidity;
- Bid-ask spread. This is generally observable and is inversely correlated with liquidity;
- Trade history. This measure becomes increasingly observable following MIFID requirements on APA publication. However full trading history is still largely unavailable as of 2023, therefore not yet included in Bank's explicit assessment mechanism.

The additional data retrieved from Bloomberg (LQA function) is:

- Liquidity score of the instrument from (ranging from 0 to 100)
- Liquidity assessment are per SEC classification criteria

The bank considers as Level 1 all ISINs that cumulatively meet the following criteria at the date of the assessment:

- Total issued amount at least 1 billion EUR;
- Bid-ask spread (as retrieved from Bloomberg LQA) of maximum 70 basis points;
- Liquidity score of at least 30 (as retrieved from Bloomberg LQA);
- SEC 22E4 classification HLI (Highly liquid)

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

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

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5 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

de Fonduri și Decontări și Biroul de Credit S.A.

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

The following table presents the description of the unobservable inputs and the valuation techniques used for level 1 in accordance with IFRS 13.

Group	Market value	Valuation techniques	Significant unobservable inputs	The sensitivity of the market value assessment in unobservable inputs
Participation interests valued at fair value through other elements of comprehensive income	28,112	The market value for VISA shares is determined according to the conversion coefficient communicated by VISA and the NYSE stock market quote. For unlisted equity instruments, the market value is determined by using the net assets of the entities at the end of the last reporting period	Financial performance of the issuer	The increase or decrease in the financial performance of the issuer has an impact on the increase or decrease of the market value

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

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

Group	Market value	Valuation techniques	Significant unobservable inputs	The sensitivity of the market value assessment in unobservable inputs
Debt securities must be measured at fair value through profit or loss	18,429	The market value is determined according to the conversion coefficient communicated by VISA and the stock exchange quote from the NYSE.	Financial performance of the issuer	The increase or decrease in the financial performance of the issuer has an impact on the increase or decrease of the market value

The following table presents a reconciliation from opening balances to closing balances for fair value measurement classified at level 1 in the fair value hierarchy

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5 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

	Participation interests	Debt securities
Balance as at 1 January 2023	26,274	16,341
Total gains or losses:		
- in the profit or loss account	-	2,088
- in other elements of comprehensive income	1,968	-
Acquisitions	(66)	-
Issues	-	-
Settlements	-	-
Transfers to Level 3	-	-
Transfers from level 3	-	-
Exchange rate differences	(64)	-
Balance as at 30 June 2023	28,112	18,429

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

The fair value of investments in debt instruments such as government securities, corporate/municipal bonds is determined using BID quotations (expressed as yield) from Bloomberg, the BGN source or BVAL, if the BGN source is not available. If neither source is available, the price of the last trade in the last 30 days on the regulated market, if any, will be used. Otherwise, the yield used to determine fair value will be based on the following formula: the yield (BID) of the government/corporate/municipal bond with the nearest maturity plus the relevant credit spread for the risk category to which the issuer of the bonds being evaluated belongs, with the possibility to adjust the spread taking into account any material deterioration in the quality of the credit specific to the instrument, if applicable.

h) Derivative financial assets and liabilities

As at 30 June 2023, the value of derivative financial instruments (FX swap/forward) is determined using Robid/Robor/Euribor/USD Depo/GBP Depo/CHF Depo interest rates posted by Thomson Reuters or Bloomberg, as well as the exchange rates published by the NBR in determining the remaining forward rate.

i) Financial assets held for trading - Government securities

The fair value of government securities is determined on a daily basis using BID quotations (expressed as yield) from Bloomberg, the BGN source or BVAL, if the BGN source is not available.

j) Financial assets and liabilities

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

k) Bonds issued

The fair value of bonds issued is determined using BID quotations (expressed as yield) from Bloomberg, the BGN source or BVAL, if the BGN source is not available. If neither source is available, the price of the last trade in the last 30 days on the regulated market, if available, will be used. Otherwise, the yield used to determine the fair value will be based on the following formula: the yield (BID) of the government bond with the closest maturity plus the relevant credit spread for the risk category to which the issuer of the bond being valued belongs, with the possibility of adjusting the spread for any material deterioration in the quality of the credit specific to the instrument, if applicable.

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6		Six months ended on <u>30</u> <u>June 2023</u>	Six months ended on <u>30</u> <u>June 2022</u>
	NET INTEREST INCOME		
	Interest income calculated using the effective interest method from:		
	Current accounts, deposits loans and advances to banks	212,707	28,922
	Treasury bills, bonds and other investment securities	346,881	229,593
	Loans and advances to customers, out of which:	1,347,094	789,251
	<i>Interest income on impaired loans</i>	68,456	33,551
	Contractual modification loss not determined by credit risk	<u>(49)</u>	<u>(4,554)</u>
	Total interest income	<u>1,906,682</u>	<u>1,047,766</u>
	Interest expense related to financial liabilities measured at amortized cost arising from:		
	Savings instruments from customers	-	18
	Current accounts and term deposits from customers	974,138	290,429
	Loans and deposits from banks	36,569	36,509
	Interest expense on lease liabilities	379	254
	Other borrowed funds	169	261
	Subordinated loan	73,020	49,253
	Debt securities issued	<u>43,177</u>	-
	Total interest expense	<u>1,127,452</u>	<u>376,724</u>
	Net interest income	<u>779,230</u>	<u>671,042</u>
7	NET COMMISSION INCOME		
		Six months ended on <u>30 June 2023</u>	Six months ended on <u>30 June 2022</u>
	Commission income		
	Commissions from operations with cards	50,404	48,790
	Commissions from cash transactions	29,840	33,830
	Commissions from current accounts opening	59,781	62,325
	Other commissions	<u>27,598</u>	<u>23,485</u>
	Total commissions from contracts with customers	167,623	168,430
	Commissions from financial guarantees and loan commitments given	13,416	10,420
	Total commissions income	<u>181,039</u>	<u>178,850</u>
	Commission expense		
	Commissions for inter-bank transactions	21,518	16,474
	Commissions for financial risk insurance	975	962
	Commissions for financial services	<u>25,119</u>	<u>27,144</u>
	Total commission expense	<u>47,612</u>	<u>44,580</u>
	Net commission income	<u>133,427</u>	<u>134,270</u>

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7 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	The nature and timing of performance obligations, including significant payment deadlines	Income recognition policies in accordance with IFRS 15
Retail and corporate banking	<p>The Bank provides banking services to retail and corporate customers, including current account management, interbank transactions, cash operations, card operations, cash collection services, tax collection services due to the authorities, LG issuance/modification, online transaction services, insurance intermediation, other financial services.</p> <p>Commissions for interbank transactions, cash operations, card transactions, LG issuance/modification, are charged to the customer's account when the transaction takes place.</p> <p>Account management fees, cash collection services, tax collection services, insurance intermediation are levied on a monthly basis.</p>	<p>Income from banking services is recognized over time as the services are provided.</p> <p>Transaction-related income is recognized when the transaction occurs.</p>
Assets management service	<p>The Bank provides securities custody services for which it charges a custody commission.</p> <p>The custody commission is calculated monthly and retained from the client's current account.</p>	<p>Revenue from banking services is recognized over time as services are provided.</p>

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

	Six months ended on 30 June 2023	Six months ended on 30 June 2022
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	141,036	268,286
Net charge with adjustments for expected loss on current account and deposits with the NBR	(422)	52
Net charge with adjustments for expected losses on correspondent accounts, deposits and loans with credit institutions	2,048	(2,046)
Losses from non-recoverable receivables not covered by adjustments for expected loss of credit	2,177	2,229
Provisions for loan commitments and financial guarantees given	(6,502)	9,357
Recoveries from loans sold	(7,053)	(6,916)
Recoveries from loans previously written off	<u>(43,902)</u>	<u>(44,298)</u>
Total net charge with adjustments for expected credit losses	<u>87,382</u>	<u>226,664</u>

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9	OTHER OPERATING EXPENSES	Six months ended on 30 June 2023	Six months ended on 30 June 2022
	Third parties expenses	15,501	16,434
	Advertising and publicity	1,430	8,205
	Materials and inventories	5,631	8,535
	Other taxes	28,449	27,668
	Provision for litigations and for internal or external fraud	1,419	(795)
	Other operating expenses	5,385	-2,785
	Rent expenses	1,126	1,378
	Travel and transportation expenses	7,703	7,437
	Expenses with deposits' guarantee fund (*)	39,925	51,911
	Repairs and maintenance of property and equipment	67,616	65,388
	Expenses with post and telecommunications	17,382	13,352
	(Gain) on sale of fixed assets and investment property	(2,682)	(1,395)
	Net charge for impairment of other financial and non-financial assets	<u>6</u>	<u>980</u>
	Total	<u>188,891</u>	<u>201,883</u>

(*) Expenses with the Bank's contribution to the Deposit Guarantee Fund and the Bank Resolution Fund decreased during 2023 by RON 11,986 thousand compared to 2022.

10 **FINANCIAL RISK MANAGEMENT****a) Introduction**

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

Risk Management - general framework

The Bank's Board of Directors is responsible for establishing and monitoring the Bank's risk management framework. Thus, the Board of Directors analyzes, reviews and approves, at least annually, the Bank's risk management strategies and policies to reflect changes in internal and external factors, as well as changes in the economic environment in which the Bank operates. Also, the Bank's Board of Directors reconsiders and approves the risk profile, establishing acceptable levels for significant risks and ensures that the necessary measures are taken to identify, evaluate, monitor and control significant risks, including for outsourced activities.

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

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10 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

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

b) Credit risk

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

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

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

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

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

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

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

Credit risk management

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

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10 FINANCIAL RISK MANAGEMENT (CONTINUED)

- *Formulating credit policies* in consultation with units, covering collateral requirements, credit assessment, risk classification and reporting, legal and documentation procedures, and compliance with statutory and regulatory requirements.

- *Establishment of the authorization structure for* the approval and renewal of credit facilities, approval of changes in the contractual terms (restructuring). Authorization limits are allocated by credit committee levels. Credit facilities of larger amounts require the approval of the highest level of the Credit Committee, the Steering Committee or the Board of Directors, as applicable.

- *Credit risk review and assessment.* The Credit Committee evaluates all credit exposures above the established limits, before the facilities are approved or submitted for approval to the Board of Directors and/or granted to customers. Renewal and revision of facilities are subject to the same evaluation process.

- *Limiting the concentration of exposure* by third parties, geographic areas and industries (for loans and advances to customers) and by issuer, credit rating category, market liquidity and country (for securities).

- *Verification of facility compliance* with established exposure limits, including those for specific industries and products.

- *Providing periodic reports* on the quality of the portfolio to the Board of Directors and taking appropriate rectification measures.

- *Providing advice, recommendations and expertise* to units to promote best practice in the Bank in terms of credit risk management.

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

The presentation of exposures and adjustments for expected losses are grouped into portfolios with the following characteristics:

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

The table below presents the loans commitments and financial guarantees net of provision outstanding as at 30 June 2023, split by stages:

	Stage 1	Stage 2	Stage 3	POCI	Total
Crediting commitments					
Exposure	4,263,615	215,753	56,768	170	4,536,306
Provision	19,743	4,725	2,565	2	27,035

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FINANCIAL RISK MANAGEMENT (CONTINUED)

Net crediting commitments	4,243,872	211,028	54,203	168	4,509,271
Guarantee commitments					
Exposure	1,573,630	276,960	39,838	-	1,890,428
Provision	4,504	2,678	4,879	-	12,061
Net guarantee commitments	1,569,126	274,282	34,959	-	1,878,367

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

	Gross exposure	Adjustments for	Net exposure
	30 June 2023	expected credit losses	30 June 2023
		30 June 2023	
Bucharest-Ilfov	11,202,441	728,157	10,474,284
Center	2,103,130	160,817	1,942,313
North-East	3,248,197	118,409	3,129,788
North-West	4,654,940	270,465	4,384,475
South East	4,467,870	192,278	4,275,592
South-Muntenia	2,633,247	122,529	2,510,718
South-West Oltenia	2,551,740	89,717	2,462,023
West	1,614,090	133,981	1,480,109
Total loans	<u>32,475,655</u>	<u>1,816,353</u>	<u>30,659,302</u>
	Gross exposure	Adjustments for loan	Net exposure
	31 December 2022	impairment	31 December 2022
		31 December 2022	
Bucharest-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 loans	<u>30,872,784</u>	<u>1,648,747</u>	<u>29,224,037</u>

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10 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

The split of gross loans and advances to customers by class and category, as at 30 June 2023 (gross amounts):

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>POCI</u>	<u>Total</u>
Individuals – personal needs loans fully collateralised with real estate collaterals	180,672	27,940	42,585	-	251,197
Individuals – personal needs loans without real estate collaterals or not fully covered	1,488,308	46,504	158,944	-	1,693,755
Individuals – Mortgage loans	6,496,898	601,519	76,678	-	7,175,095
Cards/ Overdraft	389,688	5,404	18,240	-	413,332
Total loans for individuals	<u>8,555,566</u>	<u>681,367</u>	<u>296,447</u>	=	<u>9,533,379</u>
Legal entities Agriculture	2,293,177	297,951	244,080	-	2,835,208
Public local administrations	2,458,444	337,609	49,948	-	2,846,001
Legal entities Industry	4,103,100	824,700	306,196	120,115	5,354,111
Legal entities Commerce	2,547,528	352,795	285,377	-	3,185,700
Legal entities Construction	1,979,493	70,558	369,177	-	2,419,228
Legal entities Services	3,887,351	1,416,285	587,590	-	5,891,226
Bridge loans for subsidies	<u>383,956</u>	<u>21,021</u>	<u>5,824</u>	=	<u>410,801</u>
Total corporate loans and advances	<u>17,653,049</u>	<u>3,320,919</u>	<u>1,848,192</u>	<u>120,115</u>	<u>22,942,275</u>
Total gross loans and advances	<u>26,208,615</u>	<u>4,002,286</u>	<u>2,144,638</u>	<u>120,115</u>	<u>32,475,655</u>
Collaterals	<u>18,881,221</u>	<u>3,495,018</u>	<u>1,671,218</u>	<u>120,115</u>	<u>24,167,572</u>

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

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(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

The split of gross loans and advances to customers by class and category, as at 31 December 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	<u>341,791</u>	<u>6,358</u>	<u>15,801</u>	-	<u>363,950</u>
Total loans for individuals	<u>8,543,890</u>	<u>721,551</u>	<u>240,774</u>	-	<u>9,506,215</u>
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 subsidies	<u>404,880</u>	<u>20,728</u>	<u>4,591</u>	-	<u>430,199</u>
Total corporate loans and advances	<u>16,554,129</u>	<u>3,039,512</u>	<u>1,656,980</u>	<u>115,948</u>	<u>21,366,569</u>
Total gross loans and advances	<u>25,098,019</u>	<u>3,761,063</u>	<u>1,897,754</u>	<u>115,948</u>	<u>30,872,784</u>
Collaterals	<u>18,151,704</u>	<u>3,229,458</u>	<u>1,563,768</u>	<u>115,948</u>	<u>23,060,878</u>

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2023

(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

The expected credit loss related to loans and advances provided to customers as at 30 June 2023:

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>POCI</u>	<u>Total</u>
Individuals – personal needs loans fully collateralised with real estate collaterals	1,236	466	24,704	-	26,406
Individuals – personal needs loans without real estate collaterals or not fully covered	11,635	619	96,854	-	109,109
Individuals – Mortgage loans	6,044	3,527	27,254	-	36,825
Cards/ Overdraft	2,958	119	12,745	-	15,822
Total adjustments for expected credit loss for individuals	<u>21,873</u>	<u>4,731</u>	<u>161,557</u>	=	<u>188,162</u>
Legal entities Agriculture	15,419	10,850	126,409	-	152,678
Public local administrations	24,585	3,376	11,491	-	39,452
Legal entities Industry	78,127	78,812	181,660	44,058	382,657
Legal entities Commerce	30,401	21,864	146,826	-	199,091
Legal entities Construction	27,955	4,987	216,572	-	249,514
Legal entities Services	76,357	184,206	339,207	-	599,770
Bridge loans for subsidies	166	15	4,849	-	5,030
Total adjustments for expected credit loss for companies	<u>253,010</u>	<u>304,110</u>	<u>1,027,014</u>	<u>44,058</u>	<u>1,628,191</u>
Total adjustments for expected credit loss	<u>274,883</u>	<u>308,841</u>	<u>1,188,571</u>	<u>44,058</u>	<u>1,816,353</u>
Gross loans and advances to customers	<u>26,208,615</u>	<u>4,002,286</u>	<u>2,144,638</u>	<u>120,115</u>	<u>32,475,655</u>
Net loans and advances to customers	<u>25,933,732</u>	<u>3,693,445</u>	<u>956,067</u>	<u>76,057</u>	<u>30,659,302</u>

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NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2023

(All amounts in RON thousand, unless otherwise specified)

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FINANCIAL RISK MANAGEMENT (CONTINUED)

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

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>POCI</u>	<u>Total</u>
Individuals – personal needs loans fully collateralised with real estate collateral	1,415	510	23,353	-	25,278
Individuals – personal needs loans without real estate collateral or not fully covered	11,258	697	64,727	-	76,682
Individuals – Mortgage loans	6,420	3,746	21,893	-	32,059
Cards/ Overdraft	<u>2,712</u>	<u>185</u>	<u>10,904</u>	-	<u>13,801</u>
Total adjustments for expected credit loss for individuals	<u>21,805</u>	<u>5,138</u>	<u>120,877</u>	=	<u>147,820</u>
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 subsidies	<u>179</u>	<u>18</u>	<u>3,895</u>	-	<u>4,092</u>
Total adjustments for expected credit loss for companies	<u>242,800</u>	<u>264,013</u>	<u>958,592</u>	<u>35,522</u>	<u>1,500,927</u>
Total adjustments for expected credit loss	<u>264,605</u>	<u>269,151</u>	<u>1,079,469</u>	<u>35,522</u>	<u>1,648,747</u>
Gross loans and advances to customers	<u>25,098,019</u>	<u>3,761,063</u>	<u>1,897,754</u>	<u>115,948</u>	<u>30,872,784</u>
Net loans and advances to customers	<u>24,833,414</u>	<u>3,491,912</u>	<u>818,285</u>	<u>80,426</u>	<u>29,224,037</u>

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2023

(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

Presentation of loan commitments given as at 30 June 2023:

30 June 2023	Low risk	Moderate risk	Total
Individuals – personal needs loans without real estate collaterals or not fully covered	35,956	49	36,005
Individuals – Mortgage loans	37,826	51	37,877
Cards/ Overdraft	494,329	8,468	502,797
Individuals – personal needs loans fully collateralised with real estate collaterals	226	0	226
Gross total for individuals	568,337	8,568	576,905
Provision	599	206	805
Net total individuals	567,738	8,362	576,100
Legal entities Agriculture	983,878	104,474	1,088,352
Public local administrations	141,678	32,536	174,214
Legal entities Industry	724,242	57,797	782,039
Legal entities Commerce	532,045	19,225	551,270
Legal entities Construction	481,593	19,125	500,718
Legal entities Services	819,380	29,898	849,278
Bridge loans for subsidies	12,462	1,068	13,530
Gross total corporate	3,695,278	264,123	3,959,401
Provision	19,144	7,086	26,230
Net total corporate	3,676,134	257,037	3,933,171
Loans to credit institutions	-	-	-
Gross total	<u>4,263,615</u>	<u>272,691</u>	<u>4,536,306</u>
Provision	<u>19,743</u>	<u>7,292</u>	<u>27,035</u>
Net total	<u>4,243,872</u>	<u>265,399</u>	<u>4,509,271</u>

Presentation of financial guarantees given as at 30 June 2023:

30 June 2023	Low risk	Moderate risk	Total
Financial guarantees given	1,573,630	316,798	1,890,428
Provision	4,504	7,557	12,061
Net total	<u>1,569,126</u>	<u>309,241</u>	<u>1,878,367</u>

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CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2023

(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

Presentation of loan commitments given as at 31 December 2022:

<u>31 December 2022</u>	<u>Low risk</u>	<u>Moderate risk</u>	<u>Total</u>
Individuals – personal needs loans without real estate collaterals or not fully covered	37,595	101	37,696
Individuals – Mortgage loans	47,828	64	47,892
Cards/ Overdraft	434,103	3,162	443,421
Gross total for individuals	519,526	9,483	529,009
Provision	538	141	679
Net total individuals	518,988	9,342	528,330
Legal entities Agriculture	858,549	128,512	987,061
Public local administrations	112,714	51,952	164,666
Legal entities Industry	780,368	76,021	856,389
Legal entities Commerce	508,683	16,643	525,356
Legal entities Construction	502,009	21,501	530,746
Legal entities Services	760,492	76,431	836,923
Bridge loans for subsidies	13,340	257	13,597
Gross total corporate	3,536,155	378,583	3,914,738
Provision	19,460	5,589	31,214
Net total corporate	<u>3,516,695</u>	<u>366,829</u>	3,883,524
Gross total	<u>4,055,681</u>	<u>388,066</u>	4,443,747
Provision	<u>19,998</u>	<u>11,895</u>	31,893
Net total	<u>4,035,683</u>	<u>376,171</u>	4,411,854

Presentation of financial guarantees given as at 31 December 2022

<u>31 December 2022</u>	<u>Low risk</u>	<u>Moderate risk</u>	<u>Total</u>
Financial guarantees given	1,581,223	377,155	1,958,378
Provision	4,478	9,201	13,679
Net total	<u>1,576,745</u>	<u>367,954</u>	<u>1,944,699</u>

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2023

(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

Internal rating				Of which
30 June 2023	Low risk	Moderate risk	Total	within
				1-30 days
Individuals – personal needs loans fully collateralised with real estate collaterals	171,256	9,416	180,672	10,638
Individuals – personal needs loans without real estate collaterals or not fully covered	1,226,653	261,655	1,488,308	57,527
Individuals – Mortgage loans	6,079,151	417,747	6,496,898	20,697
Cards/Overdraft	348,269	41,419	389,688	10,099
Total gross loans to individuals	<u>7,825,329</u>	<u>730,237</u>	<u>8,555,566</u>	<u>98,961</u>
Adjustment for expected credit loss for individuals	19,035	2,838	21,873	621
Total net loans to individuals	7,806,294	727,399	8,533,693	98,340
Legal entities Agriculture	2,015,052	278,125	2,293,177	136,208
Public local administrations	2,458,444	-	2,458,444	30,679
Legal entities Industry	3,742,885	360,215	4,103,100	113,515
Legal entities Commerce	2,401,482	146,046	2,547,528	119,488
Legal entities Construction	1,799,456	180,037	1,979,493	93,453
Legal entities Services	3,047,005	840,346	3,887,351	151,233
Bridge loans for subsidies	337,022	46,934	383,956	33,452
Total loans to corporate	15,801,346	1,851,703	17,653,049	678,028
Adjustment for expected credit loss for companies	224,206	28,804	253,010	8,866
Total net loans to corporate	15,577,140	1,822,899	17,400,039	669,162
Total gross	<u>23,626,675</u>	<u>2,581,940</u>	<u>26,208,615</u>	<u>776,989</u>
Total adjustments for expected credit loss	243,241	31,642	274,883	9,487
Total net loans	23,383,434	2,550,298	25,933,732	767,502
Collaterals	<u>16,966,313</u>	<u>1,914,912</u>	<u>18,881,225</u>	<u>590,740</u>

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2023

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FINANCIAL RISK MANAGEMENT (CONTINUED)

Internal rating				Of which within 1- 30 days
<u>31 December 2022</u>	<u>Low risk</u>	<u>Moderate risk</u>	<u>Total</u>	
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	<u>310,370</u>	<u>31,421</u>	<u>341,791</u>	<u>9,129</u>
Total gross loans to individuals	<u>7,798,304</u>	<u>745,586</u>	<u>8,543,890</u>	<u>93,612</u>
Adjustment for expected credit loss for individuals	<u>18,898</u>	<u>2,907</u>	<u>21,805</u>	<u>660</u>
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 subsidies	<u>366,844</u>	<u>38,036</u>	<u>404,880</u>	<u>5,500</u>
Total loans to corporate	<u>14,481,466</u>	<u>2,072,663</u>	<u>16,554,129</u>	<u>471,220</u>
Adjustment for expected credit loss for companies	<u>208,772</u>	<u>34,028</u>	<u>242,800</u>	<u>7,035</u>
Total net loans to corporate	14,272,694	2,038,635	16,311,329	464,185
Total gross	<u>22,279,770</u>	<u>2,818,249</u>	<u>25,098,019</u>	<u>564,832</u>
Total adjustments for expected credit loss	<u>227,670</u>	<u>36,935</u>	<u>264,605</u>	<u>7,695</u>
Total net loans	22,052,100	2,781,314	24,833,414	557,137
Collaterals	<u>16,052,137</u>	<u>2,099,567</u>	<u>18,151,704</u>	<u>355,955</u>

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

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

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

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

Loans classified in stage 1 granted to customers classified in the two best financial performance classes (A and B) are considered low-risk loans, other loans classified in stage I are considered moderate-risk loans.

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

Based on past experience, outstanding loans with contractual debt service greater than 30 days, or for which the debt service according to the new definition of default has exceeded 30 days, loans placed on the watch list, performing restructured loans, exposure related to a customer for which changes have been identified in the credit/customer situation compared to the situation at loan origination (changes that are not events of default, i.e. leading to unlikely full recovery without collateral realization), are classified as loans for which the credit risk has increased significantly since initial recognition, if no impairment indicators have been identified leading to their classification in the category of impaired loans.

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

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10 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

30 June 2023	0 days	- 30 days	31- 60 days	61- 90 days	Total
Individuals – personal needs loans fully collateralised with real estate collaterals	17,964	6,301	3,083	592	27,940
Individuals – personal needs loans without real estate collaterals or not fully covered	17,017	5,942	15,285	8,260	46,504
Individuals – Mortgage loans	550,592	37,213	10,869	2,845	601,519
Cards/ Overdraft	1,916	1,672	1,131	685	5,404
Total loans to individuals	<u>587,489</u>	<u>51,128</u>	<u>30,368</u>	<u>12,382</u>	<u>681,367</u>
Expected credit loss to individuals	3,855	414	321	141	4,731
Total net loans for individuals	583,634	50,714	30,046	12,241	676,635
Legal entities Agriculture	250,837	24,179	19,506	3,429	297,951
Public local administrations	334,001	0	3,608	0	337,609
Legal entities Industry	749,876	43,396	29,848	1,580	824,700
Legal entities Commerce	327,853	16,542	7,030	1,370	352,795
Legal entities Construction	43,496	6,747	13,808	6,507	70,558
Legal entities Services	1,374,385	7,892	8,860	25,148	1,416,285
Bridge loans for subsidies	15,448	4,123	1,265	185	21,021
Total corporate loans	<u>3,095,896</u>	<u>102,879</u>	<u>83,925</u>	<u>38,219</u>	<u>3,320,919</u>
Expected credit loss to corporate	286,086	7,609	5,920	4,495	304,110
Total net loans for corporate	2,809,810	95,270	78,006	33,724	3,016,810
Total gross	<u>3,683,385</u>	<u>154,007</u>	<u>114,293</u>	<u>50,601</u>	<u>4,002,286</u>
Total adjustments for expected credit loss	289,941	8,023	6,241	4,636	308,841
Total net loans	3,393,444	145,984	108,052	45,965	3,693,445
Collaterals	<u>3,234,903</u>	<u>135,902</u>	<u>84,828</u>	<u>39,386</u>	<u>3,495,018</u>

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2023

(All amounts in RON thousand, unless otherwise specified)

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FINANCIAL RISK MANAGEMENT (CONTINUED)

31 December 2022	0 days	- 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	<u>2,553</u>	<u>2,160</u>	<u>997</u>	<u>648</u>	<u>6,358</u>
Total loans to individuals	<u>627,631</u>	<u>52,168</u>	<u>25,251</u>	<u>16,501</u>	<u>721,551</u>
Expected credit loss to individuals	<u>4,216</u>	<u>457</u>	<u>281</u>	<u>184</u>	<u>5,138</u>
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 subsidies	<u>20,483</u>	<u>245</u>	<u>-</u>	<u>-</u>	<u>20,728</u>
Total corporate loans	<u>2,850,132</u>	<u>101,206</u>	<u>46,966</u>	<u>41,208</u>	<u>3,039,512</u>
Expected credit loss to corporate	<u>253,426</u>	<u>4,444</u>	<u>3,225</u>	<u>2,918</u>	<u>264,013</u>
Total net loans for corporate	2,596,706	96,762	43,741	38,290	2,775,499
Total gross	<u>3,477,763</u>	<u>153,374</u>	<u>72,217</u>	<u>57,709</u>	<u>3,761,063</u>
Total adjustments for expected credit loss	<u>257,642</u>	<u>4,901</u>	<u>3,506</u>	<u>3,102</u>	<u>269,151</u>
Total net loans	3,220,121	148,473	68,711	54,607	3,491,912
Collaterals	<u>3,056,510</u>	<u>87,790</u>	<u>45,356</u>	<u>39,802</u>	<u>3,229,458</u>

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(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

(iii) Depreciated loans and advances (Stage 3 and POCI), loans and advances to customers that present objective impairment indicators according to accounting policy 2.7 (vi) described in the latest annual financial statements:

30 June 2023	<u>0 days</u>	<u>1-30 days</u>	<u>31-60 days</u>	<u>61-90 days</u>	<u>91-180 days</u>	<u>181-360 days</u>	<u>More than 360 days</u>	<u>Total</u>
Individuals – personal needs loans fully collateralised with real estate collaterals	9,609	2,593	1,163	453	2,915	3,102	22,750	42,585
Individuals – personal needs loans without real estate collaterals or not fully covered	10,958	589	339	229	45,164	39,710	61,955	158,944
Individuals – Mortgage loans	20,645	2,009	247	150	12,756	14,944	25,927	76,678
Cards/ Overdraft	8,897	243	121	171	1,124	2,552	5,132	18,240
Total gross loans to individuals	<u>50,109</u>	<u>5,434</u>	<u>1,870</u>	<u>1,003</u>	<u>61,959</u>	<u>60,308</u>	<u>115,764</u>	<u>296,447</u>
Expected credit loss to individuals	<u>21,447</u>	<u>2,369</u>	<u>676</u>	<u>467</u>	<u>17,805</u>	<u>36,460</u>	<u>82,333</u>	<u>161,557</u>
Total net loans for individuals	28,662	3,065	1,194	536	44,154	23,848	33,431	134,890
Legal entities Agriculture	8,406	35,097	3,210	6,027	15,801	43,205	132,334	244,080
Public local administrations	47,222	-	-	-	-	1,216	1,510	49,948
Legal entities Industry	126,125	40,175	680	-	26,413	89,003	143,915	426,311
Legal entities Commerce	62,328	44,081	1,315	-	21,634	85,039	70,980	285,377
						100,18		
Legal entities Construction	53,701	25,698	-	554	77,493	9	111,542	369,177
Legal entities Services	197,052	16,081	35,427	85	46,121	116,205	176,619	587,590
Bridge loans for subsidies	<u>104</u>	<u>152</u>	<u>-</u>	<u>-</u>	<u>1,093</u>	<u>20</u>	<u>4,455</u>	<u>5,824</u>
Total gross loans to corporate entities	<u>494,938</u>	<u>161,28</u>	<u>40,632</u>	<u>6,666</u>	<u>188,555</u>	<u>434,877</u>	<u>641,355</u>	<u>1,968,307</u>
Expected credit loss to corporate entities	<u>185,922</u>	<u>80,067</u>	<u>14,959</u>	<u>2,507</u>	<u>89,134</u>	<u>219,816</u>	<u>478,667</u>	<u>1,071,072</u>
Total net loans for corporate	309,016	81,217	25,673	4,159	99,421	215,061	162,688	897,235
Total gross	<u>545,047</u>	<u>166,718</u>	<u>42,502</u>	<u>7,669</u>	<u>250,513</u>	<u>495,185</u>	<u>757,119</u>	<u>2,264,753</u>
Total adjustments for expected credit loss	<u>207,369</u>	<u>82,436</u>	<u>15,635</u>	<u>2,974</u>	<u>106,939</u>	<u>256,276</u>	<u>561,000</u>	<u>1,232,629</u>
Total net loans	337,678	84,282	26,867	4,695	143,574	238,909	196,119	1,032,124
Collaterals	<u>463,618</u>	<u>131,854</u>	<u>28,779</u>	<u>6,086</u>	<u>170,737</u>	<u>362,972</u>	<u>627,287</u>	<u>1,791,333</u>

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10 FINANCIAL RISK MANAGEMENT (CONTINUED)

	<u>0 days</u>	<u>1-30 days</u>	<u>31-60 days</u>	<u>61-90 days</u>	<u>91-180 days</u>	<u>181-360 days</u>	<u>More than 360 days</u>	<u>Total</u>
31 December 2022								
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	<u>7,786</u>	<u>241</u>	<u>59</u>	<u>76</u>	<u>1,537</u>	<u>2,739</u>	<u>3,363</u>	<u>15,801</u>
Total gross loans to individuals	<u>45,682</u>	<u>5,242</u>	<u>1,380</u>	<u>1,683</u>	<u>53,260</u>	<u>47,730</u>	<u>85,797</u>	<u>240,774</u>
Expected credit loss to individuals	<u>20,466</u>	<u>2,238</u>	<u>407</u>	<u>577</u>	<u>15,895</u>	<u>27,512</u>	<u>53,782</u>	<u>120,877</u>
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 subsidies	<u>1,377</u>	<u>19</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>182</u>	<u>3,013</u>	<u>4,591</u>
Total gross loans to corporate entities	<u>692,221</u>	<u>84,180</u>	<u>17,150</u>	<u>35,762</u>	<u>224,210</u>	<u>300,006</u>	<u>419,399</u>	<u>1,772,928</u>
Expected credit loss to corporate	<u>310,419</u>	<u>23,450</u>	<u>10,487</u>	<u>20,079</u>	<u>94,941</u>	<u>195,082</u>	<u>339,656</u>	<u>994,114</u>
Total net loans for corporate	381,802	60,730	6,663	15,683	129,269	104,924	79,743	778,814
Total gross	<u>737,903</u>	<u>89,422</u>	<u>18,530</u>	<u>37,445</u>	<u>277,470</u>	<u>347,736</u>	<u>505,196</u>	<u>2,013,702</u>
Total adjustments for expected credit loss	<u>330,885</u>	<u>25,688</u>	<u>10,894</u>	<u>20,656</u>	<u>110,836</u>	<u>222,594</u>	<u>393,438</u>	<u>1,114,991</u>
Total net loans	407,018	63,734	7,636	16,789	166,634	125,142	111,758	898,711
Collaterals	<u>674,251</u>	<u>81,390</u>	<u>18,106</u>	<u>36,210</u>	<u>210,861</u>	<u>248,361</u>	<u>410,537</u>	<u>1,679,717</u>

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10 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

The types of collaterals accepted by the Bank as at 30.06.2023 are presented in the table below:

<u>Type of collateral</u>	<u>Collateral value</u>	<u>(%)</u>	<u>Collaterals for balance sheet exposures</u>	<u>Collaterals for off balance sheet exposures</u>
Guarantees received from public administration and related entities	6,736,249	25.20	6,736,249	-
Guarantees received from other financial Institutions	179,536	0.67	173,949	5,587
Real estate	15,947,795	59.66	14,744,987	1,202,808
Pledge over (movable assets, inventory, cash collateral)	3,125,242	11.69	2,512,393	612,849
Other (assignment of receivables)	744,549	2.79	571,994	172,555
Total	<u>26,733,371</u>	<u>100</u>	<u>24,739,572</u>	<u>1,993,799</u>

The types of collaterals accepted by the Bank as at 31.12.2022 are presented in the table below:

<u>Type of collateral</u>	<u>Collateral value</u>	<u>(%)</u>	<u>Collaterals for balance sheet exposures</u>	<u>Collaterals for off balance sheet exposures</u>
Guarantees received from public administration and related entities	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	<u>25,910,731</u>	<u>100</u>	<u>23,576,094</u>	<u>2,334,637</u>

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(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

The effect of changing expected loss for loans and advances to customers can be analyzed as at 30 June 2023 as follows:

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Opening balance at 1 January	264,605	269,151	1,114,991	1,648,747
Transfers to stage 1	29,230	(24,179)	(5,051)	-
Transfers to stage 2	(10,676)	102,903	(92,227)	-
Transfers to stage 3	(2,218)	(13,737)	15,955	-
Increases due to new loans granted during the year	33,179	17,500	4,086	54,764
Decreases due to closed loans in year	(12,127)	(17,587)	(17,128)	(46,842)
Net remeasurement during the year	(26,522)	(13,349)	201,328	161,457
Assignment of receivables	-	-	(19,998)	(19,998)
Interest adjustments	-	-	19,428	19,428
Other adjustments	<u>(299)</u>	<u>(725)</u>	<u>(180)</u>	<u>(1,204)</u>
Closing balance at 30 June	<u>275,172</u>	<u>319,977</u>	<u>1,221,204</u>	<u>1,816,353</u>

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

During the first half of 2023, the Bank concluded debt assignment contracts with third party entities. Assignments were made by selling individual receivables.

The amount of the receivables that was collected was RON 5,669 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.

The effect of changing expected loss for loans and advances to RETAIL customers in the first six months of year 2023 was as follows:

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CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2023

(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Opening balance at 1 January	25,077	5,830	126,630	157,538
Transfer to Stage 1	2,055	(383)	(1,672)	-
Transfer to Stage 2	(257)	3,364	(3,107)	-
Transfer to Stage 3	(259)	(397)	656	-
Increase due to new loans granted in the year	4,452	4	181	4,637
Decreases due to closed loans in year	(1,405)	(110)	(2,716)	(4,231)
Net remeasurement during the year	(4,495)	(2,936)	46,114	38,683
Assignment of receivables	-	-	-	-
Interest adjustments	-	-	-	-
Other adjustments	(25)	(14)	(20)	(59)
Closing balance at 30 June	24,143	5,358	166,066	196,567

The effect of changing expected loss for loans and advances to legal entities customers in the first six months of year 2023 was as follows:

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Opening balance at 1 January	239,528	263,321	988,361	1,491,210
Transfer to Stage 1	27,175	(23,796)	(3,379)	-
Transfer to Stage 2	(10,419)	99,539	(89,120)	-
Transfer to Stage 3	(1,959)	(13,340)	15,299	-
Increase due to new loans granted in the year	28,727	17,496	3,905	50,128
Decreases due to closed loans in year	(10,722)	(17,477)	(14,412)	(42,611)
Net remeasurement during the year	(22,027)	(10,413)	155,214	122,774
Assignment of receivables	-	-	(19,998)	(19,998)
Interest adjustments	-	-	19,428	19,428
Other adjustments	(274)	(711)	(160)	(1,145)
Closing balance at 30 June	250,029	314,619	1,055,138	1,619,786

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10 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

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

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

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

The amount of the receivables that was collected was RON 6,817. This amount is found on the credit position of "Net impairment loss on loans and advances to customers" in the statement of profit or loss and other comprehensive income. The sale agreement is without recourse.

The effect of changing expected loss for loans and advances to RETAIL customers in the first six months of year 2022 was as follows:

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10 FINANCIAL RISK MANAGEMENT (CONTINUED)

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
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 30 June	<u>21,805</u>	<u>5,138</u>	<u>120,877</u>	<u>147,820</u>

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

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
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 30 June	<u>242,800</u>	<u>264,013</u>	<u>994,114</u>	<u>1,500,927</u>

10 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 Generation EU). 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.

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FINANCIAL RISK MANAGEMENT (CONTINUED)

Based on the existing loan portfolio as of 30.06.2023, 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 69,730 thousand, respectively RON 4,606 thousand for loans that have migrated from stage 1 to stage 2 and RON 65,124 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	162,282	2,200	6,806	4,606
Stage 2-Stage 3	157,834	6,619	71,743	65,124
Total	320,116	8,819	78,549	69,730

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 17.08% of the overall capital requirement (OCR).

Based on the existing loan portfolio as of 31.12.2022, 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	<u>374,960</u>	<u>12,745</u>	<u>99,042</u>	<u>86,297</u>

The increase in the level of expected credit losses in the scenario generates an insignificant decrease (below 1 pp) of the total equity ratio, a decrease not relevant for the minimum limit of 17.94% of the overall capital requirement (OCR).

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

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FINANCIAL RISK MANAGEMENT (CONTINUED)

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 45) is:

	Group	12-month average at 30.06. 2023	12-month average at 31.12.2022
CAG (Legal entities Agriculture)	CAG	2.91%	2.91%
CAP (Public local administrations)	CAP	1.35%	1.35%
CCM (Legal entities Commerce)	CCM	4.62%	4.62%
CCO (Legal entities Construction)	CCO	6.12%	6.13%
CIN (Legal entities Industry)	CIN	5.35%	5.36%
CSA (Individuals – fully collateralised personal needs loans)	CSA	2.97%	3.06%
CSN (Individuals – personal needs loans without collateral or not fully covered)	CSN	3.51%	3.60%
CSS (Legal entities Services)	CSS	5.57%	5.58%
CTS (Bridge loans for subsidiaries)	CTS	0.54%	0.54%
IP (Individuals – Mortgage loans)	IP	0.38%	0.39%
OW (Cards/Overdraft)	OW	3.10%	3.19%

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

- Models for loans to private individuals
 - change in GDP, 6 months lag;
 - net average salary growth, adjusted with the inflation rate, 6 months lag.
- 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:

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10 FINANCIAL RISK MANAGEMENT (CONTINUED)

- 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.

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%

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FINANCIAL RISK MANAGEMENT (CONTINUED)

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%

In addition to the inherent estimation uncertainty, the economic effects of 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 30.06.2023 (RON thousand):

Balance sheet exposure	Actual	Base	Upside	Downside
		scenario	scenario	scenario
		100%	100%	100%
Individuals	9,599,514	9,599,514	9,599,514	9,599,514
Corporate entities	23,195,803	23,195,803	23,195,803	23,195,803
Total	32,795,317	32,795,317	32,795,317	32,795,317

Adjustments for expected credit losses	Actual	Base	Upside	Downside
		scenario	scenario	scenario
		100%	100%	100%
Individuals	179,416	178,663	177,342	181,609
Legal entities	1,600,411	1,590,151	1,567,607	1,631,864
Total	1,779,827	1,768,814	1,744,949	1,813,473

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 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

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10 FINANCIAL RISK MANAGEMENT (CONTINUED)

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.

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 168.76 million (152.65 million as at 31.12.2022).

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 during 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.

As at 30.06.2023 the total exposure decreased to RON 498.67 million, of which RON 2.33 million migrated to Stage 3.

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10 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):

		Base scenario 100%	Upside scenario 100%	Downside scenario 100%
Balance sheet exposure	Actual			
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
		Base scenario 100%	Upside scenario 100%	Downside scenario 100%
Adjustments for expected credit losses	Actual			
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.

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10 FINANCIAL RISK MANAGEMENT (CONTINUED)

Residential mortgages

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

The ratio between loans and related real estate collaterals (LTV) as at 30.06.2023:

LTV	Balance sheet exposure	Off balance sheet exposure
< 60%	2.297.599	1.376
61-80%	3.024.535	501
81-100%	1.852.539	764
101-120%	34.447	217
121-140%	6.121	635
>140%	26.296	1.020
Total	<u>7.241.536</u>	<u>4.514</u>

The ratio between loans and related real estate collaterals (LTV) as at 31.12.2022:

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%	<u>22,254</u>	<u>464</u>
Total	<u>7,382,337</u>	<u>8,263</u>

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

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10 FINANCIAL RISK MANAGEMENT (CONTINUED)

Loans with renegotiated terms

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

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

As at 30 June 2023, the gross accounting value of exposures with restructuring measures is RON 1,789,822 thousand (31 December 2022: RON 1,729,157 thousand), of which RON 1,073,261 thousand are performing exposures with restructuring measures (31 December 2022: RON 1,011,735 thousand).

Repossessed collaterals

Within other assets, the Bank recognized, as at 30 June 2023, in the amount of RON 3,757 thousand (31 December 2022: RON 3,859 thousand) assets taken over in the patrimony or from the enforcement of collaterals for loans to customers. In the first half of 2023, the Bank did not take over assets based on Law no. 77/2016 on the *datio in solutum* of real estate property in order to settle the obligations assumed through loans.

Investment securities

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

Romania's rating for the year 2023 confirmed by Fitch for long term debt in foreign and local currency is 'BBB -', with a negative outlook, also confirming the F3 qualification for short term debt, as well as the country ceiling 'BBB+'.

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

Each of the rating firms uses distinct rating scales; the 'BBB -' rating with a negative outlook is assigned by Fitch, the 'BBB -' rating with a stable outlook is assigned by S&P and the 'Baa3' rating with a stable outlook is assigned by Moody's. In accordance with the provisions of the internal regulations, the short-term and long-term ratings assigned by the 3 mentioned rating firms are used in the sense that based on them, the analyzed foreign credit institutions are placed in their own risk classes assigned by the Bank.

Loans and advances to banks

The exposure related to loans and advances to banks is neither past due, nor impaired. The Bank is making short term deposits with banks in the course of day-to-day business to manage surplus cash.

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FINANCIAL RISK MANAGEMENT (CONTINUED)

The quality of counterparties is continuously evaluated to reduce credit risk and the Bank's management approves exposure limits for each individual credit institution.

In order to determine the exposure limits to credit institutions, their financial information is used (in the case of Romanian legal entity banks) and ratings granted by international rating agencies, combined with financial information (in the case of foreign legal entity credit institutions and in the case of Romanian legal entities where the parent bank is a foreign entity), resulting in the inclusion in risk classes. Credit institutions (with related ratings) with which the Bank has current accounts, deposits accounts and loans and advances accounts are the following:

		30 June 2023	31 December 2022	Rating 30 June 2023	Rating 31 December 2022
		<u>Total balance</u>	<u>Total balance</u>	<u>Short/long term</u>	<u>Short/long term</u>
Loans and advances to banks - neither past due nor impaired					
Current account due from other banks	COMMERZBANK	20,382	18,605	P-1/A1	P-1/A1
	ING BANK	30,028	196,785	F1+/AA-	A-1/A+
	OTP BANK	666	605	P-2/Baa1	P-2/Baa1
	Trezoreria statului	947	99	BBB-/A-3	BBB-/A-3
	ALTELE	7,053	7,909	-	-
	BARCLAYS BANK	24,859	4,890	F1/A+	F1/A+
	SOCIETE GENERALE, Paris	24,933	342,912	F1/A-	P-1/A1
	PKO Bank Polski-Varsovia	189	18	P-1/A2	P-1/A2
Deposits due from other banks	Trezoreria statului	1,100,035	5,005,164	BBB-/A-3	BBB-/A-3
	BARCLAYS BANK	49,348	47,608	F1/A+	F1/A+
	GARANTI BANK	110,680		B/BB-	B/BB-
	IDEA BANK	39,848	24,803	-	-
	PATRIA BANK	116,424	-	NP/Ba2	NP/Ba2
	ALPHA BANK ROMANIA	198,193	-	-	-/Ba2
	CITIBANK Europe Dublin ROMANIA	173,657	-	-	F1/A+
	BANCA CENTRALA COOPERATISTA CREDITCOOP	46,909	-	F1/A-	F1/A-
	SMBC BANK EU AG, FRANKFURT	651,571	-	P-1/A1	P-1/A1
	COMMERZBANK	513,447	-	P-1/A1	P-1/A1
	DEUTSCHE BANK AG	3	-	F2/BBB+	F2/BBB+
Collateral deposits due from other banks	HSBC BANK LONDON	593	601	F1+/AA-	F1+/AA-
	COMMERZBANK	-	1	P-1/A1	P-1/A1
	BCR	-	4,263	F2/BBB+	F2/BBB+
	CITI BANK PLC	-	7,979	F1/A+	F1/A+
	JP MORGAN Securities	2,764	2,725	F1+/AA	F1+/AA
	JP MORGAN FRANKFURT	2	11,143	F1+/AA	F1+/AA
	ING Bank-Olanda	-	2,228	F1+/AA-	F1+/AA-
	DEUTSCHE BANK AG	347	-	F2/BBB+	F2/BBB+
	Exim Banca Românească	356,766	388,907	-	-
Reverse repo transactions	Banca Transilvania SA	-	51,831	B/BB+	B/BB+
Total loans and advances to banks		<u>3,469,644</u>	<u>6,119,076</u>		

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10 FINANCIAL RISK MANAGEMENT (CONTINUED)

As at June 30, 2023, the amounts presented in the financial position loans and advances to banks net of provisions amount to RON 3,469,644 thousand (31.12.2022: RON 6,119,076 thousand).

c) Market risk

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

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

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

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

In order to assess the market risk, starting from April 2022, the Bank holds positions on Romanian government bonds within a small trading portfolio (the total maximum position limit for the management of the trading portfolio is RON 200 million equivalent, of which maximum RON 25 million equivalent for maturities greater than 10 years, maximum RON 60 million equivalent for maturities of [5-10) years, maximum RON 75 million equivalent for maturities between [2-5) years and maximum RON 40 million equivalent for maturities less than 2 years.

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

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

The Bank assesses monthly the observance of the market risk profile in compliance with the assumed market risk appetite. The level of risk is quantified based on a scoring system of the key indicators related to the market risk according to the levels recorded by them and the weights assigned according to the importance of the indicators.

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

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

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10 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

By monitoring the price risk, the Bank aims to reduce the loss that it would record in the event of a hypothetical immediate sale of the portfolio of government securities included in the category "financial assets valued at fair value through other elements of comprehensive income", so that the impact the loss should be minimal in what regards performance of other obligations.

By monitoring the foreign exchange risk, the Bank seeks to achieve an optimal portfolio correlated between the value of assets and liabilities expressed in foreign currency, as well as the setting off of trading operations on the foreign exchange market, and, respectively, maintaining a balance between long and short net open positions so that both the impact exchange rate volatility, as well as the maximum loss likely to be recorded to be minimal.

Further that, to measure the risk related to the foreign currency portfolio, the Bank has the methodology

for measuring the VaR (Value at Risk) indicator, by which it follows the observance of the maximum probable loss to be recorded on the total foreign currency portfolio, over a certain period and with a certain confidence level.

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

The Bank's financial assets and liabilities in RON and foreign currencies as at 30 June 2023 can be analyzed as follows:

	<u>RON</u>	<u>EUR</u>	<u>Other</u>	<u>Total</u>
Balance sheet financial assets				
Cash and cash equivalents at central bank	5,230,066	1,378,563	176,552	6,785,181
Derivatives	417	364	81	862
Financial assets held for trading and measured at fair value through profit and loss	92,240	-	-	92,240
Loans and advances to banks	1,662,702	1,517,125	289,817	3,469,644
Financial assets mandatorily at fair value through profit or loss	-	-	18,429	18,429
Financial assets measured at fair value through other comprehensive income	7,951,437	11,157,725	229,638	19,338,800
Investments in debt instruments at amortized cost	5,001,981	2,406,960	81,240	7,490,181
Loans and advances to customers	23,190,760	7,264,180	204,362	30,659,302
Other financial assets	<u>60,866</u>	<u>33,238</u>	<u>2,917</u>	<u>97,021</u>
Total financial assets	<u>43,190,469</u>	<u>23,758,155</u>	<u>1,003,036</u>	<u>67,951,660</u>

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FINANCIAL RISK MANAGEMENT (CONTINUED)

	<u>RON</u>	<u>EUR</u>	<u>Other</u>	<u>Total</u>
Derivative financial assets				
Notional amount of derivatives				
– SWAP per exchange rate	516,092	74,451	298	590,841
Total derivative assets	<u>516,092</u>	<u>74,451</u>	<u>298</u>	<u>590,841</u>

	<u>RON</u>	<u>EUR</u>	<u>Other</u>	<u>Total</u>
Balance sheet financial liabilities				
Derivatives	595	141	20	756
Deposits from banks	714,255	99	-	714,354
Deposits from customers	38,698,812	20,933,608	965,237	60,597,657
Other borrowed funds	45,119	208,768	-	253,887
Debt securities issued	182,358	1,101,820	-	1,284,178
Subordinated liabilities	1,435,393	-	-	1,435,393
Other financial liabilities	47,055	1,104	2,058	50,217
Total financial liabilities	<u>41,123,587</u>	<u>22,245,540</u>	<u>967,315</u>	<u>64,336,442</u>

	<u>RON</u>	<u>EUR</u>	<u>Other</u>	<u>Total</u>
Derivative financial liabilities				
Notional amount of derivatives				
– SWAP per exchange rate	74,794	516,194	-	590,988
Total derivative liabilities	<u>74,794</u>	<u>516,194</u>	<u>-</u>	<u>590,988</u>

On balance sheet net financial assets/(liabilities)	<u>2,124,576</u>	<u>1,542,127</u>	<u>35,721</u>	<u>3,702,424</u>
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Derivative financial assets/(liabilities)	<u>441,298</u>	<u>(441,743)</u>	<u>298</u>	<u>(147)</u>
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	<u>RON</u>	<u>EUR</u>	<u>Other</u>	<u>Total</u>
Letters of guarantee issued for customers	1,698,183	188,484	3,761	1,890,428
Undrawn loan commitments	3,631,823	868,149	36,334	4,536,306

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(All amounts in RON thousand, unless otherwise specified)

10

FINANCIAL RISK MANAGEMENT (CONTINUED)

The Bank's financial assets and liabilities in RON and foreign currencies as at 31 December 2022 can be analyzed as follows:

	<u>RON</u>	<u>EUR</u>	<u>Other</u>	<u>Total</u>
Balance sheet financial assets				
Cash and cash equivalents at central bank	7,048,131	2,895,831	125,092	10,069,054
Derivatives	6,289	-	-	6,289
Loans and advances to banks	5,458,469	526,857	133,750	6,119,076
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	<u>71,589</u>	<u>7,107</u>	<u>801</u>	<u>79,497</u>
Total financial assets	<u>45,869,434</u>	<u>14,062,579</u>	<u>722,478</u>	<u>60,654,491</u>
	<u>RON</u>	<u>EUR</u>	<u>Other</u>	<u>Total</u>
Derivative financial assets				
Notional amount of derivatives				
– SWAP per exchange rate	-	1,088,428	147,953	1,236,381
Total derivative assets	<u>-</u>	<u>1,088,428</u>	<u>147,953</u>	<u>1,236,381</u>
	<u>RON</u>	<u>EUR</u>	<u>Other</u>	<u>Total</u>
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	<u>86,541</u>	<u>1,547</u>	<u>1,711</u>	<u>89,799</u>
Total financial liabilities	<u>41,170,680</u>	<u>15,531,265</u>	<u>913,288</u>	<u>57,615,233</u>
	<u>RON</u>	<u>EUR</u>	<u>Other</u>	<u>Total</u>
Derivative financial liabilities				
Notional amount of derivatives				
– SWAP per exchange rate	1,119,755	148,422	-	1,268,177
Total derivative liabilities	<u>1,119,755</u>	<u>148,422</u>	<u>-</u>	<u>1,268,177</u>

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10 FINANCIAL RISK MANAGEMENT (CONTINUED)				
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)
	<u>RON</u>	<u>EUR</u>	<u>Other</u>	<u>Total</u>
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

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

d) Interest rate risk outside the trading portfolio

Interest rate risk arising from non-trading book activities is the current and prospective risk of a negative impact to the institution's economic value of equity, or to the institution's net interest income, taking market value changes into account as appropriate, which arise from adverse movements in interest rates affecting interest rate sensitive instruments, including gap risk, basis risk, option risk and credit spread risk arising from non-trading book activities and so on.

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

Also, starting from May 2022, the Bank regained the quality of primary dealer of government bonds and follows the strategy of actively participating in the Primary Market auctions of government securities issues of the Ministry of Finance, which contain a wide spectrum of maturities, for maintaining a minimum duration of the securities portfolio and a balanced contribution to the Bank's income.

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

Through the interest rate risk management policy, the Bank aims to optimize the gap between assets and liabilities sensitive to interest rate variations, both in total and over time horizons, so that the impact of interest rate variations on net interest income to be the minimum possible. The bank proposes an adequate management of combined interest on assets and liabilities with actions to promote asset and liability products to create a portfolio with low sensitivity to interest rate variations and to achieve the targets set by the risk profile.

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10 FINANCIAL RISK MANAGEMENT (CONTINUED)

Compliance with the assumed risk profile for the interest rate risk is managed through the limits established for the key indicators based on the risk appetite that the Bank assumed.

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

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

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

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

To prevent cases of non-compliance with internal limits, the Bank monitors the dynamic evolution of assets and liabilities sensitive to interest rate variations and performs simulations, forecasts, "stress testing" scenarios and so on.

In the interest rate risk assessment process, the Bank uses both backward-looking instruments, through the monthly calculation of the specific indicators of the interest rate risk, through which a historical picture of their level is obtained, as well as forward-looking instruments, such as forecasts, by which possible future events are anticipated. Through the risk management policy, to carry out a prudential activity, characterized by the permanent monitoring and control of the level of key indicators for interest rate risk in relation to risk appetite, the Bank seeks to comply with an average interest rate risk profile as the maximum level allowed.

For interest rate risk management, in addition to the key indicators that determine the interest rate risk profile, to control this risk, the Bank monitors on a monthly/quarterly basis, as appropriate, the following level II indicators, namely:

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

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10 FINANCIAL RISK MANAGEMENT (CONTINUED)

Internal regulations related to interest rate risk outside the trading book portfolio are submitted for approval to the Risk Management Committee. The following table illustrates the annual interest rates obtained or offered by the Bank for interest-bearing assets and liabilities during the first half of 2023:

	RON		EUR	
	Range		Range	
<u>Assets</u>	<u>Min</u>	<u>Max</u>	<u>Min</u>	<u>Max</u>
Cash and cash equivalents at central bank	0.69	0.74	0.02	0.05
Investments with National Bank of Romania	6.00	6.00	-	-
Investments with other banks	6.05	6.75	1.75	3.50
Treasury certificates	-	-	2.68	3.51
Loans and advances to customers (*)	6.80	26.18	3.05	10.62
Investment securities	6.09	8.90	3.55	9.00
<u>Liabilities</u>				
Deposits from banks	5.50	6.90	1.60	3.20
Deposits from customers	-	15.50	-	3.50
Borrowings from banks and other financial institutions	7.84	8.27	-	0.349
Subordinated liabilities	10.15	10.86	-	-

(*) During 2023, the Bank granted a grace period of up to 59 calendar days on credit cards, exclusively for the amounts paid to merchants using the credit card, from credit (non installment transactions and/or due installments posted on the account), provided that the Credit Limit used for the specific transaction cycle is paid in full. The following table illustrates the annual interest rates obtained or offered by the Bank for interest-bearing assets and liabilities during 2022:

	RON		EUR	
	Range		Range	
<u>Assets</u>	<u>Min</u>	<u>Max</u>	<u>Min</u>	<u>Max</u>
Cash and cash equivalents at central bank	0.13	0.70	-	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
<u>Liabilities</u>				
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 2022, the Bank granted a grace period of up to 59 calendar days on credit cards, exclusively for the amounts paid to merchants using the credit card, from credit (non installment transactions and/or due installments posted on the account), provided that the Credit Limit used for the specific transaction cycle is paid in full.

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CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2023

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10 FINANCIAL RISK MANAGEMENT (CONTINUED)

The following table presents the Bank's analysis of the interest rate change as at 30 June 2023, with financial assets and liabilities classified by the earlier of the interest rate change date or the contractual maturity date.

	< 1 month	1 month 3 months	3 months - 1 year	1 year- 5 years	> 5 years	Non interest bearing	Total
Financial assets							
Cash and balances with central bank	6,785,181	-	-	-	-	-	6,785,181
Financial derivatives	-	-	-	-	-	862	862
Loans and advances to banks	2,940,051	60,094	250,000	106,767	-	112,732(*)	3,469,644
Loans and advances to customers	8,103,946	527,398	14,933,098	6,564,343	283,970	246,547(**)	30,659,302
Financial assets held for trading and measured at fair value through profit and loss	-	5,148	-	28,790	58,302	-	92,240
Financial assets mandatorily at fair value through profit or loss	-	-	-	-	-	18,429	18,429
Financial assets measured at fair value through other comprehensive income	3,028,376	5,035,904	5,234,868	5,251,294	760,246	28,112	19,338,800
Investments in debt instruments at amortized cost	-	46,394	805,765	3,666,910	2,971,112	-	7,490,181
Other financial assets	-	-	-	-	-	97,021	97,021
Total financial assets	20,857,554	5,674,98	21,223,731	15,618,104	4,073,630	503,703	67,951,660
Financial liabilities							
Financial derivatives	-	-	-	-	-	756	756
Deposits from banks	704,166	5,028	5,061	-	-	99	714,354
Deposits from customers	15,499,227	14,137,969	17,264,367	2,225,882	4,582,976	6,829,114 (***)	60,539,535
Subordinated liabilities	-	1,435,393	-	-	-	-	1,435,393
Borrowings from banks and other financial institutions	22,261	3,137	96,532	131,957	-	-	253,887
Debt securities issued	-	-	-	1,284,178	-	-	1,284,178
Lease liabilities	2,861	5,516	23,738	62,120	15,327	-	109,562
Other financial liabilities	-	-	-	-	-	108,339	108,339
Total financial liabilities	17,663,908	15,587,043	17,389,698	3,704,137	4,598,303	6,938,308	64,446,004
Interest rate gap	3,193,646	(9,912,105)	3,834,033	11,913,967	(524,673)	(6,434,605)	3,505,656

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

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

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

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2023

(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

The following table presents the Bank's analysis of the interest rate change as at 31 December 2022, with financial assets and liabilities classified by the earlier of the interest rate change date or the contractual maturity date.

	<u>< 1 month</u>	<u>1 month 3 months</u>	<u>3 months - 1 year</u>	<u>1 year- 5 years</u>	<u>> 5 years</u>	<u>Non interest bearing</u>	<u>Total</u>
Financial assets							
Cash and balances with Central Bank	10,069,054	-	-	-	-	-	-10,069,054
Financial derivatives	-	-	-	-	-	-	-
Loans and advances to banks	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 trading 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	<u>22,059,744</u>	<u>465,006</u>	<u>19,475,185</u>	<u>14,937,720</u>	<u>2,818,844</u>	<u>897,992</u>	<u>60,654,491</u>
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 liabilities	-	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	<u>23,566,555</u>	<u>8,064,268</u>	<u>14,330,588</u>	<u>2,468,044</u>	<u>1,987,377</u>	<u>7,294,876</u>	<u>57,711,708</u>
Interest rate gap	<u>(1,506,811)</u>	<u>(7,599,262)</u>	<u>5,144,597</u>	<u>12,469,676</u>	<u>831,467</u>	<u>(6,396,884)</u>	<u>2,942,783</u>

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

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

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

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10 FINANCIAL RISK MANAGEMENT (CONTINUED)

Sensitivity analysis

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

Exchange rate sensitivity: the following table summarizes the impact of a potentially reasonable change in the value in lei compared to the foreign currency in the profit or loss account and the comprehensive income statement of the Bank calculated by applying the change in monetary financial instruments denominated in foreign currencies held by the Bank as at 30 June 2023 and as at 30 June 2022.

	Total	Sensitivity	Sensitivity
30 June 2023	<u>sensitivity</u>	<u>profit or loss account</u>	<u>of other comprehensive income</u>
Interest rate +/- 0.5%	-267,534/ +148,565	+/-92,186	-175,348/+56,379
Exchange rate, appreciation/ depreciation by 5% of the functional currency	-/+74968	-/+74,968	-
30 June 2022		Sensitivity	Sensitivity
	<u>Total</u>	<u>profit or loss account</u>	<u>of other comprehensive income</u>
Interest rate +/- 1%	-235,482 / +226,331	+/-8,439	-227,042/+217,891
Exchange rate, appreciation/ depreciation by 5% of the functional currency	-/+234,668	-/+234,668	-

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FINANCIAL RISK MANAGEMENT (CONTINUED)

As at 30 June 2023 if market interest rates had been 50 basis points higher/lower for lei and 50 basis points higher/lower for EUR and 50 basis points higher/lower for USD in the reporting period, all other variables being kept constant, the profit for the period would have been RON 92,186 thousand (30 June 2022: RON 235,482 thousand) lower respectively by RON 92,186 thousand higher (30 June 2022: RON 226,331 thousand). The impact was calculated based on average monthly balances bearing variable interest.

The impact in the global result would have been RON 175,348 thousand lower respectively by RON 56,379 thousand higher. The calculation was based on the market value as at 30 June 2023 of debt instruments measured at fair value through other comprehensive income.

As at June 30, 2023, if the leu had appreciated/depreciated by 500 basis points compared to the relevant currencies (all other variables being kept constant), the profit for the period would have been RON 74,968 thousand (30 June 2022: RON 234,668 thousand) higher/lower. The impact was calculated by applying a +/-5% higher/lower rate than the closing rate to the net position in EUR and USD.

e) Liquidity risk

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

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

The Bank has an adequate liquidity when, in the hypothetical unforeseen/critical situation, it is able to obtain the necessary funds immediately and at a reasonable cost, which does not affect the Bank's profitability by attracting additional sources, selling available assets, participating to the Open Market Operations organized by the NBR and so on.

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

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

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10 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

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

The table below presents financial liabilities as at 30 June 2023 based on their remaining contractual maturity. The amounts presented in the table represent undiscounted contractual cash flows, gross lending commitments and financial guarantees. Undiscounted cash flows differ from balance sheet amounts because the balance sheet amount represents discounted flows. Derivatives are included at the contractual amount payable or receivable, unless the Bank expects to close the position before the contractual maturity, in which case the instruments are presented based on estimated flows.

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

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

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FINANCIAL RISK MANAGEMENT (CONTINUED)

	Carrying amount	Gross Amount		3 months		1 year	> 5 years	No fixed maturity
		Inflow/ outflow < 1 month	1- 3 months	-1 year	-5 years			
30 June 2023								
Assets								
Cash and balances with central bank	6,785,181	6,785,181	6,785,181	-	-	-	-	-
Loans and advances to banks and public institutions	3,469,644	3,520,942	2,891,016	109,476	297,152	110,913	-	112,385
Loans and advances to customers	30,659,302	44,487,593	942,353	1,080,449	4,933,121	15,358,421	22,173,249	-
Financial assets held for trading and measured at fair value through profit or loss	92,240	138,057	-	5,220	-	36,063	96,774	-
Financial assets mandatory at fair value through profit or loss	18,429	18,429	-	-	-	-	-	18,429
Financial assets measured at fair value through other comprehensive income	19,338,800	20,610,418	3,028,379	5,075,082	5,342,412	6,021,278	1,115,155	28,112
Investments in debt instruments at amortized cost	7,490,181	9,505,951	-	47,292	815,741	4,254,111	4,388,807	-
Financial derivatives, out of which:								
- receivable	289,631	289,631	289,631	-	-	-	-	-
- payable	288,769	288,769	288,769	-	-	-	-	-
Other financial assets	<u>97,021</u>	<u>97,021</u>	<u>97,021</u>	=	=	=	=	=
Total financial assets	<u>67,951,660</u>	<u>85,164,454</u>	<u>13,744,812</u>	<u>6,317,519</u>	<u>11,388,426</u>	<u>25,780,786</u>	<u>27,773,985</u>	<u>158,926</u>
Liabilities								
Deposits from banks	714,354	714,819	704,385	5,078	5,356	-	-	-
Deposits from customers	60,539,535	61,436,869	27,228,099	12,554,725	20,583,735	1,086,205	-	11,105
Subordinated liabilities	1,435,393	2,769,493	73,438	-	191,169	953,958	1,550,928	-
Borrowings from other banks and other financial institutions	253,887	254,261	22,261	3,137	96,608	132,255	-	-
Debt securities issued	1,284,178	2,568,356	33,756	-	-	2,534,600	-	-
Financial derivatives, out of which:								
- receivable	342,466	342,466	193,178	149,288	-	-	-	-
- payable	343,222	343,222	193,774	149,448	-	-	-	-
Lease liabilities	109,562	120,016	2,863	5,527	23,831	63,159	24,636	-
Other financial liabilities	<u>108,339</u>	<u>108,339</u>	<u>108,339</u>	=	=	=	=	=
Total financial liabilities	<u>64,446,004</u>	<u>67,999,909</u>	<u>28,173,737</u>	<u>12,568,627</u>	<u>20,900,699</u>	<u>4,770,177</u>	<u>1,575,564</u>	<u>11,105</u>
Net liquidity gap		<u>17,164,545</u>	<u>(14,430,179)</u>	<u>(6,251,077)</u>	<u>(9,511,537)</u>	<u>21,010,965</u>	<u>26,198,552</u>	<u>147,821</u>
Loan commitments	<u>4,536,306</u>	<u>4,536,306</u>	<u>4,536,306</u>	-	-	-	-	-
Guarantee letters issued by the Bank	<u>1,890,428</u>	<u>1,890,428</u>	<u>1,890,428</u>	-	-	-	-	-

CEC BANK SA

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

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10	FINANCIAL RISK MANAGEMENT (CONTINUED)							
	Carrying	Gross		1 – 3 months		1 year-	No fixed	
31 December 2022	amount	Amount	< 1 month	3 months	- 1 year	5 years	> 5 years	naturity
		Inflow/ outflow						
Assets								
Cash and balances with central bank	10,069,054	10,069,054	10,069,054	-	-	-	-	-
Loans and advances to banks and public institutions	6,119,076	6,160,090	5,057,579	50,898	15,308	461,128	-	575,177
Loans and advances to customers	29,224,037	41,502,788	965,228	413,116	8,657,744	15,200,583	16,266,117	-
Financial assets held for trading and measured at fair value through profit or loss	6,289	10,252	-	-	368	1,758	8,126	-
Financial assets mandatory at fair value through profit or loss	16,341	16,341	-	-	-	-	-	16,341
Financial assets measured at fair value through other comprehensive income	10,369,254	11,634,059	18,368	22,097	4,136,945	6,488,025	942,350	26,274
Investments in debt instruments at amortized cost	4,770,943	5,794,757	17,223	16,504	739,435	2,943,875	2,077,720	-
Financial derivatives, out of which:								
- receivable	-	-	-	-	-	-	-	-
- payable	-	-	-	-	-	-	-	-
Other financial assets	<u>79,497</u>	<u>79,497</u>	<u>79,497</u>	-	-	-	-	-
Total financial assets	<u>60,654,491</u>	<u>75,266,838</u>	<u>16,206,949</u>	<u>502,615</u>	<u>13,549,800</u>	<u>25,095,369</u>	<u>19,294,313</u>	<u>617,792</u>
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	1,292,912	1,292,912	742,849	499,700	50,363	-	-	-
- payable	1,317,862	1,317,862	757,367	507,970	52,525	-	-	-
Lease liabilities	96,475	104,212	2,355	4,589	21,653	60,040	15,575	-
Other financial liabilities	<u>89,799</u>	<u>89,799</u>	<u>89,799</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total financial liabilities	<u>57,711,708</u>	<u>59,926,322</u>	<u>35,808,754</u>	<u>5,809,708</u>	<u>14,186,040</u>	<u>2,467,265</u>	<u>1,643,430</u>	<u>11,125</u>
Net liquidity gap	<u>- 15,340,516</u>	<u>(19,601,805)</u>	<u>(5,307,093)</u>	<u>(636,240)</u>	<u>22,628,104</u>	<u>17,650,883</u>	<u>606,667</u>	<u>-</u>
Loan commitments	<u>4,443,747</u>	<u>4,443,747</u>	<u>4,443,747</u>	=	=	=	=	=
Guarantee letters issued by the Bank	<u>1,958,378</u>	<u>1,958,378</u>	<u>1,958,378</u>	=	=	=	=	=

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

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

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

The observance in the liquidity risk profile is managed through the assessment of key risk indicators based on the risk appetite that the Bank assumes, in order to continue the activity on prudential and sound principles, respectively: LCR – Liquidity Coverage Ratio (on all reporting currencies); NSFR - Net Stable Funding Ratio (RON equivalent); the quick liquidity indicator (RON equivalent); Asset encumbrance to total assets indicator (RON equivalent), total Liabilities/Total equity indicator (Ron equivalent) and the % of the unencumbered securities portfolio in total unadjusted balance sheet liabilities (Ron equivalent).

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

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

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10 FINANCIAL RISK MANAGEMENT (CONTINUED)

The main level II indicators (EWI- Early Warning Indicators), quantified/assessed/monitored/analyzed, considering the Bank's strategy and based on the size of the Bank's assets and liabilities, their structure and maturities, are presented as follows:

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

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10 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

30 June 2023	Note	Mandatorily at FVTPL	FVTPL	FVOCI – debt instruments	FVOCI – equity instruments	At amortized cost	Total carrying amount
Cash and cash equivalents at central banks		-	-	-	-	6,785,181	6,785,181
Derivatives financial assets		-	862	-	-	-	862
Loans and advances to banks		-	-	-	-	3,469,644	3,469,644
Loans and advances to customers:		-	-	-	-	30,659,302	30,659,302
- at amortized cost	10	-	-	-	-	30,659,302	30,659,302
Debt instruments:		18,429	92,240	19,310,688	-	7,490,181	26,911,538
- measured at fair value through profit or loss		-	92,240	-	-	-	92,240
- mandatorily at fair value through profit or loss		18,429	-	-	-	-	18,429
- at fair value through other comprehensive income	11	-	-	19,310,688	-	-	19,310,688
- at amortized cost	12	-	-	-	-	7,490,181	7,490,181
Equity instruments	11	-	-	-	28,112	-	28,112
Other financial assets		-	-	-	-	97,021	97,021
Total financial assets		<u>18,429</u>	<u>93,102</u>	<u>19,310,688</u>	<u>28,112</u>	<u>48,501,329</u>	<u>67,951,660</u>
Derivatives financial liabilities		-	756	-	-	-	756
Deposits from banks	13	-	-	-	-	714,354	714,354
Deposits from customers	14	-	-	-	-	60,539,535	60,539,535
Borrowings from banks and other financial institutions	15	-	-	-	-	253,887	253,887
Debt securities issued	16	-	-	-	-	1,284,178	1,284,178
Subordinated liabilities	17	-	-	-	-	1,435,393	1,435,393
Lease liabilities		-	-	-	-	109,562	109,562
Other financial liabilities		-	-	-	-	108,339	108,339
Total financial liabilities		<u>-</u>	<u>756</u>	<u>-</u>	<u>-</u>	<u>64,445,248</u>	<u>64,446,004</u>

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2023

(All amounts in RON thousand, unless otherwise specified)

10 FINANCIAL RISK MANAGEMENT (CONTINUED)

<u>31 December 2022</u>		Mandatorily at		FVOCI – debt		FVOCI – equity		At		Total
	<i>Note</i>	FVTPL	FVTPL	instruments		instruments		amortized cost		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		<u>16,341</u>	<u>6,289</u>	<u>10,342,981</u>		<u>26,273</u>		<u>50,262,607</u>		<u>60,654,491</u>
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		=	<u>24,950</u>	=		=		<u>57,686,758</u>		<u>57,711,708</u>

f) Capital management

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

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

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

Starting from 1 January 2018, the Bank exercised the option regarding the application for a 6-year transition period of the transitional measures related to the inclusion in the Bank's basic Tier 1 equity of a part of the adjustments for increased expected credit losses.

As part of the internal risk capital adequacy process, for 30 June 2023, the Bank considered maintaining a ratio of total equity that cumulatively meets the following:

- a) maintaining the global capital requirement (OCR) of 17.08%, consisting of:
- the target rates of equity due to the adjustments provided for by pillar II (Basel III), representing the SREP (TSCR) capital requirements that must be met at all times:
 - core Tier 1 equity ratio: 7.08%;
 - Tier 1 equity ratio: 9.44%;
 - total equity ratio: 12.58%.
 - the combined capital buffer requirement equal to 4.5% of the total risk exposure amount, as a result of the cumulation of the capital conservation buffer requirement (2.5%), the O-SII buffer requirement (0.5%), the requirement regarding the systemic risk buffer of (2%) and the requirement regarding the Countercyclical capital buffer (0.5%).
- b) maintaining an additional capital reserve of 2.5% from the total value of the risk exposure to support possible future adjustments of the capital requirements.

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

Thus, the Bank aims for the level of internal capital to cover both the risks for which capital requirements are regulated (credit risk, operational risk, currency risk, settlement risk and credit assessment adjustment risk) as well as for the significant risks identified by the Bank for which the regulated capital requirements are not fully covering.

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

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10 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

For the entire first half of 2023, the Bank complied with the regulatory capital requirements indicators.

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

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

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

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

As at 30 June 2023, the Bank has recorded a level of the total own funds ratio of 22.81%.

At the same time, the Bank fulfilled the MREL transitional requirement on 30.06.2023, the MREL rate level (including the applicable combined buffer amount) recorded by the Bank on 30.06.2023 being 27.98%, standing 5.12 percentage points above the MREL requirement of 22.86%.

In order to comply with the MREL requirement, minimum requirement for own funds and eligible liabilities established by the resolution authority, in accordance with the provisions of Law no. 312/2015 on the recovery and resolution of credit institutions and investment firms, as well as for the modification and completion of some normative acts in the financial field, as subsequently amended and supplemented, Transposing the provisions of Directive 2019/879 of the European Parliament and of the council – BRRD2, starting with December 2022, several MREL bonds have been issued totalling 1,250 million.

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11

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**a) Financial assets measured at fair value through other comprehensive income**

	<u>30 June 2023</u>	<u>31 December 2022</u>
Government bonds	19,310,688	10,342,981
Equity instruments (Note 11 b)	<u>28,112</u>	<u>26,273</u>
Total	<u>19,338,800</u>	<u>10,369,254</u>

As at June 30, 2023, the Bank entered into repo transactions with other banks, supported by financial assets measured at fair value through other elements of the comprehensive income, in the amount of RON 5,140 thousand (31.12.2022: RON 1,444,881 thousand). Securities pledged under repo contracts can be sold or repurchased by the counterparty.

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

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

	<u>30 June 2023</u>	<u>31 December 2022</u>
Opening balance at 1 January	10,342,981	12,763,962
Acquisitions	13,714,654	1,397,885
Sales and Redemptions	(5,160,070)	(3,547,736)
Accrued interest income	206,326	347,943
Interest income receivable	(140,863)	(457,451)
Foreign exchange differences	44,628	304,980
Gain/(loss) from changes in fair value, out of which:	303,032	(466,602)
Gain/(loss) from changes in fair value from sales	(2,493)	(1,686)
Gain/(loss) from changes in fair value from mark-to-market	305,525	(464,916)
Balance at the end of the period	19,310,688	10,342,981

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

b) The Bank held the following financial assets measured (equity investments) at fair value through other comprehensive income at 30 June 2023:

<u>Name</u>	<u>Nature of business</u>	<u>Country</u>	<u>Percentage held</u>	<u>Carrying amount</u>
Biroul de credit SA	Credit risk monitoring	Romania	4.74	1,920
FRGC SA	Fond for Guaranteeing Loans for Private Investors	Romania	3.10	190
TransFonD SA	Interbank transfers	Romania	2.69	7,232
SWIFT	Transfer of funds	Belgium	0.01	517
VISA Inc.	Processing card transactions	United States of America	<0.01	18,253
Total				<u>28,112</u>

The bank had the following holdings available for sale as at 31 December 2022:

<u>Name</u>	<u>Nature of business</u>	<u>Country</u>	<u>Percentage held</u>	<u>Carrying amount</u>
Biroul de credit SA	Credit risk monitoring	Romania	4.74	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				<u>26,273</u>

As at 30 June 2023 and 31 December 2022, the equity investments held by the Bank were not pledged.

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CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2023

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12	FINANCIAL ASSETS AT AMORTIZED COST - DEBT INSTRUMENTS	
	30 June 2023	31 December 2022
Government bonds	6,890,139	4,539,686
Bonds issued by credit institutions	452,774	111,108
Bonds issued by non-financial corporations	44,669	43,489
Bonds issued by local public administrations	106,141	78,421
Expected credit losses	<u>(3,542)</u>	<u>(1,761)</u>
Total	<u>7,490,181</u>	<u>4,770,943</u>

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

As at 30 June 2023, investments in debt instruments at amortized cost include pledged securities in the amount of RON 82,500 thousand (31 December 2022: RON 82,500 thousand) for operations with Visa, Mastercard and Sent (electronic settlement system for small values in local currency). The counterparty cannot resell or pledge these investments.

As at 30 June 2023, investments in debt instruments at amortized cost include also pledged securities to secure the EIB loan whose fair value is RON 84,931 thousand (31 December 2022: RON 126,263 thousand). The counterparty cannot resell or pledge these investments.

In addition, as at 30 June 2023, the Bank entered into repo transactions with other banks, based on as at 30 June 2023, investments in debt instruments at amortized cost whose fair value amounts to RON 449,901 thousand (31 December 2022: RON 320,258 thousand). The counterparty cannot resell or pledge these investments.

During the first half of the financial year 2023, the Bank did not sell government bonds classified as debt instruments at amortized cost.

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

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

	30 June 2023	31 December 2022
Opening balance at 1 January	4,770,943	2,332,805
Acquisitions	2,600,599	2,422,681
Maturities	-	(27,114)
Accrued interest income	140,555	120,563
Interest income receivable	(28,741)	(80,135)
Foreign exchange differences	8,606	3,262
Expected credit losses	(1,781)	(1,119)
Balance at the end of the period	7,490,181	4,770,943

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CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2023

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13	DEPOSITS FROM BANKS	30 June 2023	31 December 2022
	Sight deposits	260,142	180,075
	Out of which, current accounts to other banks (LORO)	99	18
	Term deposits	25,452	744,714
	Repo transactions	<u>428,760</u>	<u>1,773,460</u>
	Total	<u>714,354</u>	<u>2,698,249</u>
14	DEPOSITS FROM CUSTOMERS	30 June 2023	31 December 2022
	Current accounts and sight deposits		
	Savings passbooks – sight	643	3,913
	Current accounts - individuals	3,416,591	3,622,947
	Current accounts - legal entities and other clients	3,319,485	3,862,026
	Cards – individuals, legal entities and other clients	4,028,845	3,978,240
	Sight deposits – legal entities	<u>168,837</u>	<u>197,564</u>
	Total current accounts and sight deposits	<u>10,934,401</u>	<u>11,664,690</u>
	Term deposits and savings		
	Term saving passbooks (i)	14,788	78,944
	Term deposits - individuals	26,440,415	23,034,014
	Term deposits - legal entities and other clients	19,821,493	14,576,755
	Collateral deposits (ii)	3,328,250	3,076,277
	Other term deposits	<u>188</u>	<u>49</u>
	Total term deposits and savings	<u>49,605,134</u>	<u>40,766,039</u>
	Total	<u>60,539,535</u>	<u>52,430,729</u>

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

(ii) Collateral deposits are provided for:

	30 June 2023	31 December 2022
Letters of credit	9,251	1,678
Administration guarantees	136,719	131,048
Consignment	2,526,212	2,439,593
Guarantee loans	576,521	431,272
Good performance guarantees for commercial contracts	39,534	39,025
Other collateral deposits	<u>40,013</u>	<u>33,661</u>
Total	<u>3,328,250</u>	<u>3,076,277</u>

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

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15

BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTION

	<u>30 June 2023</u>	<u>31 December 2022</u>
European Investment Fund for the JEREMIE Initiative	5,931	7,130
European Bank for Investments (EIB)	208,768	231,924
Romanian-Swiss program (i)	<u>39,188</u>	<u>39,188</u>
Total	<u>253,887</u>	<u>278,242</u>

Details of the contracts are presented in the financial statements as at 31 December 2022.

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

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

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

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

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

16 DEBT SECURITIES ISSUED

	<u>30 June 2023</u>	<u>31 December 2022</u>
Debt securities issued	<u>1,284,178</u>	<u>653,636</u>
Total	<u>1,284,178</u>	<u>653,636</u>

The balance of debt securities issued as at 30 June 2023, including accrued interest, is in amount of RON 1,284,178 thousand (2022: RON 653,636).

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 coupon with a maturity date on 30 December 2025. The bonds were subscribed by professional investors through a private placement process.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2023

(All amounts in RON thousand, unless otherwise specified)

16 DEBT SECURITIES ISSUED (CONTINUED)

On 07 February 2023, the Bank issued for the second time eligible MREL Senior Non-Preferred bonds (SNPs) denominated in EUR, with maturity date on 07 February 2028, in a nominal amount of EUR 119,300 thousand, bearing a fixed rate coupon. 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 tranche of bonds denominated in lei, And the CECRO25E stock exchange symbol with ISIN XS2572123433 and the CECRO28E stock exchange symbol with ISIN XS2574275280 for trading the tranche of bonds denominated in euro) and of the Luxemburg Stock Exchange (the CECRO28E stock exchange symbol with ISIN XS2574275280 for trading the tranche 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 -tranche I, as of 7 February 2027-tranche II).

The issued bonds are eligible for MREL (Minimum Requirement for Own Funds and Eligible Liabilities (MREL)).

17 SUBORDINATED LIABILITIES

As at 30 June 2023 and 31 December 2022:

	<u>30 June 2023</u>	<u>31 December 2022</u>
Shareholder loan	1,435,393	1,439,628
Total	<u>1,435,393</u>	<u>1,439,628</u>

18 SHARE CAPITAL

As at 31 December 2022, the share capital of CEC Bank SA was RON 2,499,746 thousand. The Bank is 100% owned by the Romanian State through the Ministry of Public Finance. The issued share capital is comprised of RON 2,290,661 thousand consisting of 22,906,616 registered shares with a value of RON 100/share.

During 2023, the share capital did not change.

	<u>30 June 2023</u>	<u>31 December 2022</u>
Share capital as per Trade Registry	<u>2,290,661</u>	<u>2,290,661</u>
IAS 29 inflation adjustment	<u>209,085</u>	<u>209,085</u>
Total share capital	<u>2,499,746</u>	<u>2,499,746</u>

19 INCOME TAX EXPENSE

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

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

	<u>30 June 2023</u>	<u>30 June 2022</u>
Current tax expense	50,980	18,845
Deferred expense tax	<u>2,548</u>	<u>620</u>
Income tax expense for the period	<u>53,528</u>	<u>19,465</u>

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2023

(All amounts in RON thousand, unless otherwise specified)

19 INCOME TAX EXPENSE (CONTINUED)

Movements in deferred tax assets are as follows:

	1 January 2023	Recognized in profit or loss account	Recognized in other comprehensive income	30 June 2023
Financial assets measured at fair value through other comprehensive income - debt instruments	123,460	-	(48,264)	75,196
Financial assets measured at fair value through other comprehensive income - investments in equity instruments	(1,638)	-	(305)	(1,943)
Revaluation reserve for land and buildings	(61,120)	1,001	-	(60,119)
Tangible and intangible assets - changes in accounting useful life	(1,647)	(148)	-	(1,795)
Right-of-use assets	341	(35)	-	306
Provisions and other liabilities	<u>15,668</u>	<u>(3,366)</u>	-	<u>12,302</u>
Total	<u>75,064</u>	<u>(2,548)</u>	<u>(48,569)</u>	<u>23,947</u>

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

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2023

(All amounts in RON thousand, unless otherwise specified)

20

SEGMENT REPORTING

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.

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.

20 SEGMENT REPORTING (CONTINUED)

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 30 June 2023 and 30 June 2022, the Bank did not record income exceeding 10% of total incomes in relation to a single customer.

The table below presents financial information per segments regarding the statement of financial position and the operating profit as at 30 June 2023, and comparative data for 2022:

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2023

(All amounts in RON thousand, unless otherwise specified)

20 SEGMENT REPORTING (CONTINUED)

30 June 2023	Corporate Customers	SME	AAPL	Private Individuals	Treasury Division	Others	Total
Gross loans and advances to customers	3,152,333	16,882,116	2,800,486	9,640,720	-	-	32,475,655
Provisions for principal Loans and advances to customers net of provisions	(283,393)	(1,282,794)	(28,074)	(192,581)	-	-	(1,786,842)
Portfolio of Debt instruments, Equity instruments and Derivative instruments, net of provisions	2,839,429	15,599,322	2,772,412	9,448,139	-	-	30,659,302
Treasury and inter-bank operations	-	-	-	-	26,940,512	-	26,940,512
Property and equipment, investment property and Intangible assets	-	-	-	-	-	934,996	934,996
Right-of-use assets	-	-	-	-	-	106,381	106,381
Other assets	-	-	-	-	-	153,412	153,412
Total assets	2,839,429	15,599,322	2,772,412	9,448,139	37,195,337	1,194,789	69,049,428
Deposits from customers and current accounts	5,380,052	4,820,210	16,057,939	34,281,334	714,354	-	61,253,889
Loans from banks and other financial institutions	-	-	39,188	-	214,699	-	253,887
Debt securities issued	-	-	-	-	1,284,178	-	1,284,178
Subordinated liabilities	-	-	-	-	1,435,393	-	1,435,393
Lease liabilities	-	-	-	-	-	109,562	109,562
Other liabilities	-	-	-	-	756	264,633	265,389
Total liabilities	5,380,052	4,820,210	16,097,127	34,281,334	3,649,380	374,195	64,602,298
Equity and related items	-	-	-	-	-	4,447,130	4,447,130
Total liabilities and equity	5,380,052	4,820,210	16,097,127	34,281,334	3,649,380	4,821,325	69,049,428

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2023

(All amounts in RON thousand, unless otherwise specified)

20 SEGMENT REPORTING (CONTINUED)

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 Loans and advances to customers net of provisions	(796,412)	(661,633)	(42,881)	(147,820)	-	-	(1,648,746)
Portfolio of Debt instruments, Equity instruments and Derivative instruments, net of provisions	7,976,365	8,864,590	3,024,687	9,358,395	-	-	29,224,037
Treasury and inter-bank operations	-	-	-	-	15,162,827	-	15,162,827
Property and equipment, investment property and Intangible assets	-	-	-	-	16,188,130	-	16,188,130
Right-of-use assets	-	-	-	-	-	899,723	899,723
Other assets	-	-	-	-	-	94,080	94,080
	-	-	-	-	-	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

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2023

(All amounts in RON thousand, unless otherwise specified)

20 SEGMENT REPORTING (CONTINUED)

30 June 2023	Corporate Customers	SME	AAPL	Private Individuals	Treasury Division	Others	Total
Net interest income	47,555	416,173	70,428	(160,878)	405,952	-	779,230
Net commission income	5,178	55,039	1,131	86,452	(14,373)	-	133,427
Net gain from trading	-	-	-	-	41,015	-	41,015
Net loss from financial derivatives	-	-	-	-	(47,777)	-	(47,777)
Net gain/(loss) from financial assets mandatorily measured at fair value through profit or loss	-	-	-	-	2,021	-	2,021
Net gain from the sale of financial assets measured at fair value through other comprehensive income	-	-	-	-	2,493	-	2,493
Net gain from foreign exchange differences	-	-	-	-	41,936	-	41,936
Other operating income	-	-	-	-	-	6,776	6,776
Operating income	52,733	471,212	71,559	(74,426)	431,267	6,776	959,120
Impairment loss on loans and advances to customers, provisions for loan commitments and financial guarantees given	38,698	(88,405)	(9,819)	(26,233)	(1,623)	-	(87,382)
Net loss from impairment of debt instruments	-	-	-	-	(3,436)	-	(3,436)
Staff costs	-	-	-	-	-	(267,166)	(267,166)
Depreciation and amortisation expenses	-	-	-	-	-	(62,493)	(62,493)
Other operating expenses	-	-	-	-	-	(188,891)	(188,891)
Operating expenses	38,698	(88,405)	(9,819)	(26,233)	(5,059)	(518,550)	(609,368)
Profit before tax	91,431	382,807	61,740	(100,659)	426,208	(511,774)	349,752
Income tax expense	-	-	-	-	-	(53,528)	(53,528)
Net Profit for the year	91,431	382,807	61,740	(100,659)	426,208	(565,302)	296,224

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2023

(All amounts in RON thousand, unless otherwise specified)

20 SEGMENT REPORTING (CONTINUED)

30 June 2022	Corporate Customers	SME	AAPL	Private Individuals	Treasury Division	Others	Total
Net interest income	61,165	313,751	61,166	63,070	171,890	-	671,042
Net commission income	(13,257)	55,208	1,591	100,942	(10,214)	-	134,270
Net gain from trading	-	-	-	-	27,254	-	27,254
Net loss from financial derivatives	-	-	-	-	(11,161)	-	(11,161)
Net gain/(loss) from financial assets mandatorily measured at fair value through profit or loss	-	-	-	-	(601)	-	(601)
Net gain from the sale of financial assets measured at fair value through other comprehensive income	-	-	-	-	1,006	-	1,006
Net gain from foreign exchange differences	-	-	-	-	(5,980)	-	(5,980)
Other operating income	-	-	-	-	-	6,734	6,734
Operating income	47,908	368,959	62,757	164,012	172,194	6,734	822,564
Impairment loss on loans and advances to customers, provisions for loan commitments and financial guarantees given	(69,516)	(124,674)	798	(35,265)	1,993	-	(226,664)
Net loss from impairment of debt instruments	-	-	-	-	(551)	-	(551)
Staff costs	-	-	-	-	-	(234,007)	(234,007)
Depreciation and amortisation expenses	-	-	-	-	-	(48,865)	(48,865)
Other operating expenses	-	-	-	-	-	(201,883)	(201,883)
Operating expenses	(69,516)	(124,674)	798	(35,265)	1,442	(484,755)	(711,970)
Profit before tax	(21,608)	244,285	63,555	128,747	173,636	(478,021)	110,594
Income tax expense	-	-	-	-	-	(19,465)	(19,465)
Net Profit for the year	(21,608)	244,285	63,555	128,747	173,636	(497,486)	91,129

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2023

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21

RELATED PARTY TRANSACTIONS

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

The nature of the related party relationships for those related parties with whom the Bank entered into significant transactions or had significant balances outstanding at 30 June 2023 is presented below. Transactions were entered into with related parties during the normal course of business at market rates.

Transactions with shareholders

The sole shareholder of the Bank is the Romanian State, represented by the Ministry of Public Finance. A number of banking transactions were initiated with the state, represented by the purchase of coupon certificates denominated in the local currency, issued by the Romanian Ministry of Public Finance. Transactions with the Ministry of Public Finance are presented in the relevant notes within these financial statements (Notes 11, 12 and 17).

Transactions with management of the Bank

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

Key management compensation is presented below:

	Expenses	Accrued liability at	Expenses	Accrued liability at
	2023	30 June	2022	31 December
	2023	2023	2022	2022
<i>Short-term benefits:</i>				
- Salaries	25,057	-	44,811	5,368
- Short-term bonuses	-	-	3,020	44
- Benefits in-kind	-	-	-	-
<i>Bonuses upon the termination of the employment contract</i>	=	=	=	=
Total	<u>25,057</u>	<u>=</u>	<u>47,831</u>	<u>5,412</u>

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

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21 RELATED PARTY TRANSACTIONS (CONTINUED)

Transactions with State-controlled entities

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

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

At 30 June 2023, the outstanding balances with related parties were as follows:

	Shareholder – Ministry of Finance	Key management personnel	Other related parties
<u>Closing balances</u>			
Total Assets	<u>26,293,985</u>	<u>3,950</u>	<u>4,514,919</u>
Out of which:			
Loans and advances to banks and public institutions (interest rate: 6,05%)	-	-	1,100,185
Financial assets held for trading and measured at fair value through profit and loss (interest rate: 2,50%-8,25%)	92,240	-	-
Financial assets measured at fair value through other comprehensive income (contractual interest rate: 0%-8,75%)	19,312,526	-	-
Investments in debt instruments at amortized cost (contractual interest rate: 1%-9,75%)	6,889,219	-	106,126
Loans and advances – gross exposure (contractual interest rate: 0%-35%)	-	3,966	3,392,937
Adjustments for expected credit loss	-	(16)	(84,329)
Total liabilities	<u>1,435,393</u>	<u>10,925</u>	<u>18,512,672</u>
Out of which:			
Deposits (contractual interest rate: 0%-13%)	-	10,925	17,919,935
Debt securities issued (contractual interest rate: 7,5%-9%)	-	-	592,737
Subordinated liabilities (contractual interest rate: 10,15%-10,86%)	1,435,393		
Contractual commitments, financial guarantees and other commitments, out of which:			
Issued	39,134	1,079	198,456
Received	521,089	103	18,611

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CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2023

(All amounts in RON thousand, unless otherwise specified)

21 RELATED PARTY TRANSACTIONS (CONTINUED)

At 31 December 2022, the outstanding balances with related parties were as follows:

	Shareholder – Ministry of Finance	Key management personnel	Other related parties
<u>Closing balances</u>			
Total Assets	<u>14,888,349</u>	<u>4,139</u>	<u>8,590,448</u>
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	<u>1,439,628</u>	<u>8,682</u>	<u>12,590,302</u>
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:			
Issued	78,748	656	184,667
Received	108,696	112	41,750

The key personnel of the Bank's management includes the following functions : Chief Balance ALM Officer (CBO), Chief Financial Officer (CFO), Chief Risk Officer (CRO), Director (Large customers Division, SME Division, Agri Division, Legal Division, Compliance Division, Contentious Division, Internal Audit Division, Antifraud and Control Division, Cards Division, Operations Division, Remote Operations Division, Arrears and Asset Recovery Division, Credit Monitoring Division, Analysis of Individual Loans Division), Head of Independent Department (Evaluation (Independent) Department). The composition of other related parties includes organizations or companies under the control of the Romanian State. The balance of the securities issued by the Ministry of Public Finance is presented in Note 11 and 12.

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

CONDENSED INTERIM FINANCIAL INFORMATION AS AT 30 JUNE 2023

(All amounts in RON thousand, unless otherwise specified)

21 RELATED PARTY TRANSACTIONS (CONTINUED)

The income and expense items with related parties for the period January - June 2023 were as follows:

	Shareholder - Ministry of Finance	Key management personnel	Other related parties
Interest income	333,419	209	271,858
Interest expenses	(73,020)	(50)	(157,496)
Net impairment loss on loans and advances to customers	-	-	(11,725)
Commission income	-	-	46

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

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

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

	<u>30 June 2023</u>	<u>31 December 2022</u>
Current accounts held at National Bank of Romania	5,419,932	8,625,517

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

	<u>30 June 2023</u>	<u>30 June 2022</u>
Interest expenses arising from REPO transactions with National Bank of Romania	-	323
Interest income from current accounts held at National Bank of Romania	51,105	2,782
Interest expense from current accounts – Lombard loan	-	13,133

EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

On 27 July 2023, the Bank completed the takeover of the package of 99.993% of the share capital of the Rural Credit Guarantee Fund (FGCR), non banking financial institution specialised in providing guarantees on behalf of the Romanian Government, from BRD Groupe Societe Generale, Banca Comercială Romanian and Raiffeisen Bank. Through this acquisition, the Bank seeks to increase its support to agriculture and rural development, which are important development segments for the Bank.

The acquisition value (provisional value) of this holding is RON 5,000,000, and by reference to total own funds it represents a percentage of 0.09%.

On 30.06.2023, the Rural Credit Guarantee Fund (FGCR) recorded a value of the guarantee portfolio in the amount of 4,826,611,963 lei and a total assets of 1,061,332,029 lei.

Bogdan Constantin Neacsu
General Manager - President of Executive Committee



Ștefan Silviu Fota
Director, Accounting Department



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

To the sole Shareholder of CEC Bank S.A.

Introduction

We have reviewed the accompanying condensed interim statement of financial position of CEC Bank S.A. ("the Bank") as at 30 June 2023, the condensed interim statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes to the condensed interim financial statements ("the condensed interim financial statements"). Management is responsible for the preparation and presentation of these condensed interim financial statements in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union. Our responsibility is to express a conclusion on these condensed interim financial statements based on our review.

Scope of review

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

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 condensed interim financial statements which was subject to our review



Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial statements as at and for the six-month period ended 30 June 2023 are not prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union.

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

Refer to the original signed Romanian version

Refer to the original signed Romanian version

Furtuna Cezar Gabriel

KPMG Audit SRL

registered in the electronic public register of financial auditors and audit firms under no AF1526

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

Bucharest, 2 Octombrie 2023

STATEMENT

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

The annual financial statements were prepared as at 30.06.2023 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 interim financial statements as at June 30, 2023 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 Neacsu
General Manager - President of Executive Committee



A handwritten signature in blue ink, appearing to be "B. Neacsu".