KPMG Audit SRL
Victoria Business Park
DN1, Soseaua Bucuresti-Ploiesti nr. 69-71
Sector 1

P.O. Box 18-191
Bucharest 013685
Romania
Tel: +40 (372) 377 800
Fax: +40 (372) 377 700
www.kpmg.ro

# Independent Auditors' Report

(free translation[1])

**To the sole shareholder of CEC Bank SA**

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

## Report on the Audit of the Financial Statements

### Opinion

1. We have audited the financial statements of CEC Bank SA ("the Bank"), which comprise the statement of financial position as at 31 December 2020, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.
2. The financial statements as at and for the year ended 31 December 2020 are identified as follows:

- Total equity: Lei 4,486,047 thousand
- Net profit for the year: Lei 337,700 thousand

3. In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

### Basis for Opinion

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

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



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

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

## Key Audit Matters

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

### Impairment of loans and advances to customers

As at 31 December 2020, the financial statements include gross loans and advances to customers of RON 23,151,662 thousand, related expected credit losses of RON 1,227,590 thousand and net impairment loss recognized in the statement of profit or loss of RON 408,897 thousand (31 December 2019: gross loans and advances to customers: RON 20,759,071 thousand, expected credit losses: RON 855,785 thousand, net loss for expected credit losses recognized in the statement of profit or loss: RON 287,603 thousand).

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

| The key audit matter | How the matter was addressed in our audit |
| --- | --- |
| ➢ Impairment allowances represent management's best estimate of the expected credit losses ("ECLs") within loans and advances to customers (collectively, "loans", "exposures") at amortized cost at the reporting date. We focused on this area as the measurement of impairment allowances requires management to make complex and subjective judgements over the amount of any such impairment.<br><br>➢ Impairment allowances for collectively assessed exposures are determined by modelling techniques relying on key parameters such as the probability of default (PD), exposure at default (EAD) and loss given default (LGD), taking into account historical experience, identification of exposures with a significant increase in credit risk (SICR), forward-looking information and management judgment (together "collective | Our audit procedures, performed, where relevant, with the assistance from our own financial risk management, information technology (IT) and valuation specialists, included, among others:<br><br>➢ Inspecting the Bank's ECL impairment provisioning methods and models, and assessing their compliance with the relevant requirements of the financial reporting standards. This included challenging management on whether the level of the methodology's sophistication is appropriate based on an assessment of the entity-level and portfolio-level factors;<br><br>➢ Testing the design, implementation and operating effectiveness of selected controls in the impairment process. This included testing the controls over:<br><br>(i) completeness and accuracy of relevant data inputs (mainly for loan exposure, collaterals and interest rates data);<br><br>(ii) approval of loans;<br><br>➢ Where we did not rely on certain internal controls, we increased the extent of our sample sizes tested; |

| | |
|---|---|
| impairment allowance").<br><br>➢ Impairment allowances for individually assessed exposures are determined on an individual basis by means of a discounted cash flows analysis. The process relies on a number of complex assumptions, in particular those in respect of the recovery scenarios and the expected proceeds from the sale of the related collateral and estimated period for collateral disposal.<br><br>➢ In the wake of the COVID-19 pandemic, and also the measures applied by the government of Romania to alleviate its effects, including payment moratoriums, measurement of ECLs was associated with additional complexities and an increased estimation uncertainty. In addition, application of post-model adjustments was required from management in arriving at the year-end estimate of impairment losses.<br><br>➢ In light of the above factors, we considered impairment of loans and advances to customers to be associated with a significant risk of material misstatement in the financial statements. Therefore, the area required our increased attention in the audit and as such was determined to be a key audit matter. | ➢ Direct testing of the system computation of debt service on a sample basis;<br><br>➢ Assessing the consistency of application of the SICR criteria, and also, for a risk-based sample of exposures, independent determination of the loans' classification into the loans where credit risk has not increased significantly since initial recognition, loans where credit risk has increased significantly since initial recognition, and credit impaired loans;<br><br>➢ For collective impairment allowance:<br>• Challenging the macroeconomic forecasts used in the ECL model in terms of their relevance and source accuracy by comparing them to our own modelled forecasts. As part of the procedure, we challenged the consideration of the economic uncertainty relating to COVID-19, by means of corroborating inquiries of the Management Board and inspection of publicly available information;<br>• Testing the relevance and reliability of the data used in the process of calculating the PD, EAD and LGD parameters applied in the collective ECL model, on a sample basis, by reference to the supporting documentation, such as credit risk memorandum, debt service status, repayment schedules and underlying data for collections occurring after default;<br>• Challenging any significant post-model adjustment, by evaluating key underlying assumptions and inspecting the calculation method. As part of this procedure, we assessed the reasonableness of the Bank's treatment of the COVID-19 payment moratoriums for customers from a SICR perspective;<br>• Based on the outcome of the preceding procedures, we recomputed the ECLs for the collectively assessed loans and advances to customers.<br><br>➢ For impairment allowances calculated individually, for a risk-based sample of loans, challenging the Bank's cash flow projections and key assumptions used, including recovery periods by reference to our knowledge of the relevant industry and of the borrower. We also assessed the reasonableness of the collateral valuations and tested the underlying valuation reports;<br><br>➢ Assessing the accuracy, completeness and relevance of the ECL-related financial statements disclosures against the requirements of the relevant financial reporting standards. |

## Other information – Board of Directors ' Report

6. The Board of Directors is responsible for the preparation and presentation of other information. The other information comprises the Board of Directors' Report, which includes also the Non-financial Statement, but does not include the financial statements and our auditors' report thereon.

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

   In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

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

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

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

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

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

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

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

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

## Auditors' Responsibility for the Audit of the Financial Statements

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

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

    - Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
    - Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
    - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
    - Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
    - Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

## Report on Other Legal and Regulatory Requirements

15. We were appointed by the General Shareholders' Meeting on 21 September 2020 to audit the financial statements of CEC Bank SA for the year ended 31 December 2020. Our total uninterrupted period of engagement is 6 years, covering the periods ending 31 December 2015 to 31 December 2020.

16. We confirm that:

   - our audit opinion is consistent with the additional report presented to the Audit Committee of the Bank, which we issued on 27 April 2021. We also remained independent of the audited entity in conducting the audit.
   - we have not provided to the Bank the prohibited non-audit services (NASs) referred to in Article 5(1) of EU Regulation (EU) No 537/2014.

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

| **Grecu Tudor Alexandru** | **KPMG Audit SRL** |
|---|---|
| **Refer to the original signed Romanian version** | |
| registered in the electronic public register of financial auditors and audit firms under no AF2368 | registered in the electronic public register of financial auditors and audit firms under no FA9 |

Bucharest, 28 April 2021