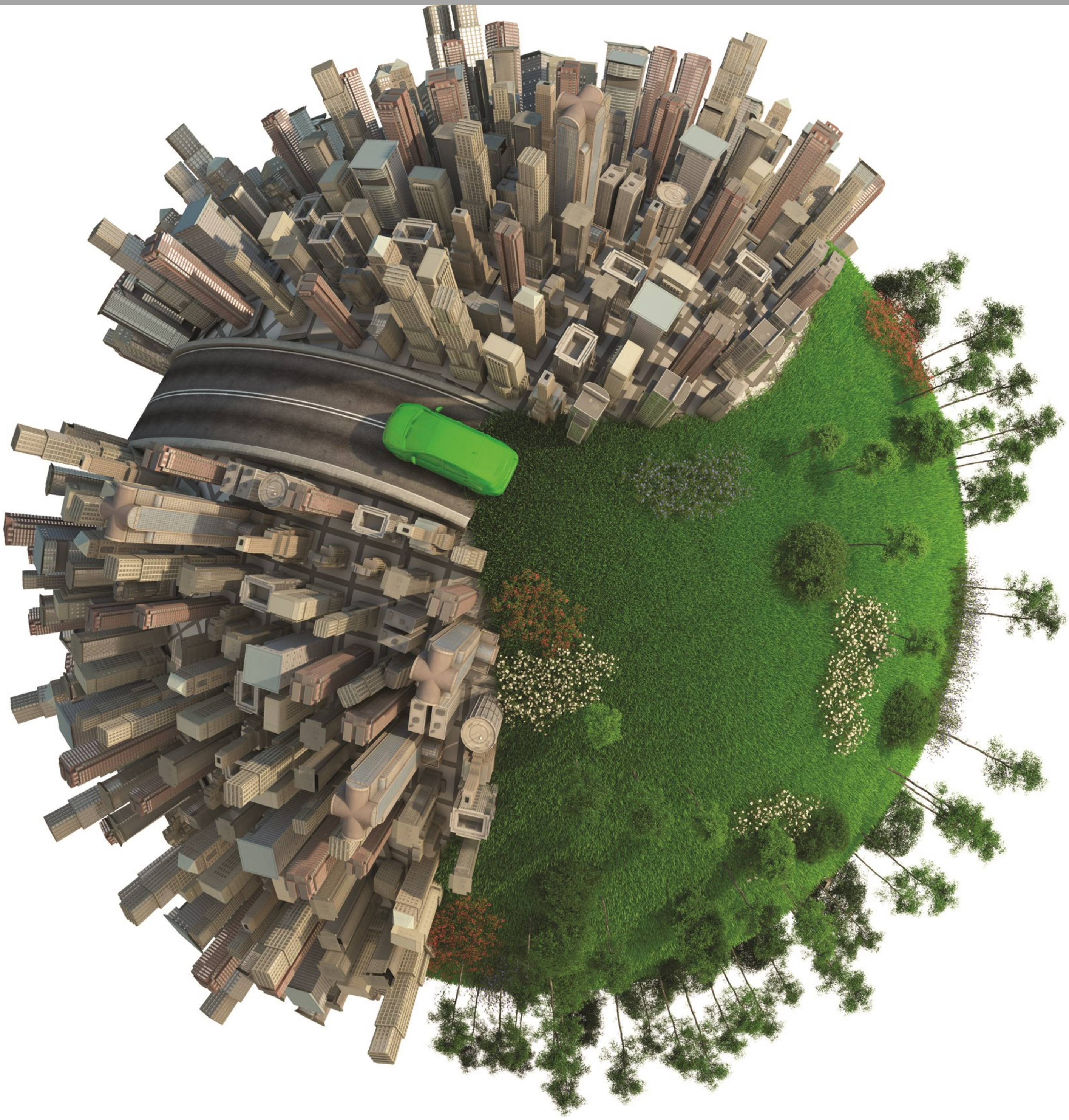
INTESA SANPAOLO BANK
Romania



Banca Comerciala Intesa Sanpaolo Romania S.A.

FINANCIAL STATEMENTS*

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

For the year 2023

*The english transaltion is only for information purposes. In oll the metters of interpretation of information, views or opinion, the original Romanian languge version of financial statemnts takes precedence over this translation.

INTESA SANPAOLO BANK
Romania

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INTESA SANPAOLO BANK
Romania

STATEMENT
in accordance with the provisions of art.30 of the Accounting Law no.82/1991

The annual financial statements as at 31 December 2023 have been prepared for:
Legal entity: BANCA COMERCIALA INTESA SANPAOLO ROMANIA S.A. ("Bank")
Headquarters and head office:
Municipality of Bucharest, Nicolae Titulescu Boulevard, nr 4-8, America House Building, East Wing and West Wing, 6th floor, Sector 1, postal code 011141 **Bucharest,** ROMANIA
Secondary headquarters:
Municipality of Arad, B-dul Revolutiei nr. 88, postal code 310025, jud. Arad, ROMANIA
Trade register number: J40/2449/02.03.2015
Form of ownership: 34-Stock corporations
Principal activity (code and name of NACE class): 6419-Other monetary intermediation activities
Tax identification code: 8145422

The Deputy General Manager, Simone Ieri, assumes responsibility for the preparation of the annual financial statements as at 31 December 2023 and confirms that:

a) The accounting policies used in the preparation of the annual financial statements comply with the applicable accounting regulations (i.e. International Financial Reporting Standards as adopted by the European Union).

b) The annual financial statements give a true and fair view of the financial position, financial performance and other information relating to the business.

c) The legal entity carries out its activity on a continuous basis.

Simone Ieri
Deputy General Manager

(all amounts are expressed in thousands of RON, unless otherwise specified)

	Note	2023	2022
Interest income at amortised cost		427.164	331.559
Interest expenses		-222.411	-121.996
Net interest income	7	**204.753**	**209.563**
Fee and Commission income		31.907	31.644
Fee and Commission expenses		-5.423	-4.386
Net fee commission income	8	**26.484**	**27.258**
Net income from foreign exchange transactions	9	16.457	-13.937
Net loss/gain on financial instruments		2.460	-31
Other operating income	10	5.550	1.929
Total income		**255.704**	**224.782**
Net impairment losses on financial assets	18	-13.797	-33.575
Net charge/(release) of provisions for risks and charges		8.423	15.570
Personnel expenses	11	-102.912	-89.733
Depreciation and amortisation of fixed assets	20	-24.493	-19.307
Loss on fair value valuation of investment property		-	-1.116
Other operating expenses	12	-73.306	-63.137
Profit before tax		**49.619**	**33.484**
Income tax expense	13	-8.483	-2.654
Profit for the financial year		**41.136**	**30.830**

The financial statements were approved by the Board of Directors on 28 March 2024 and signed on its behalf by:

Simone Ieri
Deputy General Manager

Marius Slemco
Head of Accounting Department

(all amounts are expressed in thousands of RON, unless otherwise specified)

	31 December 2023	**31 December 2022**
Profit for the financial year	**41.136**	**30.830**
Other comprehensive income		
Items that cannot be reclassified to the profit and loss account		
Changes from revaluation of tangible fixed assets	11.534	1.352
Related tax	-1.845	-211
	9.689	**1.141**
Items that are or could be reclassified to the income statement		
Increases (decreases) in fair value reserve related to investments in debt securities	-	-
Net revaluation reserve	31.061	-10.754
Net amount transferred from reserve to profit and loss account		
Related taxes	-4.970	1.721
	26.091	**-9.033**
Other comprehensive income, net of tax	**35.780**	**-7.892**
Overall result for the financial year	**76.916**	**22.938**

The financial statements were approved by the Board of Directors on 28 March 2024 and signed on its behalf by:

Simone Ieri
Deputy General Manager

Marius Slemco
Head of Accounting Department

(all amounts are expressed in thousands of RON, unless otherwise specified)

ASSETS	**Note**	**31 December 2023**	**31 December 2022**
Cash and cash account at the central bank	15	1.318.043	1.081.309
Loans and advances to banks	16	717.856	1.035.001
Derivative financial assets held for risk management	17	791	3.872
Financial investments	19	1.325.208	1.159.201
Loans and advances to customers	18	3.845.809	4.187.730
Assets held for sale	25	17.368	20.172
Property, plant and equipment	20	119.184	104.841
Intangible assets	21	43.021	36.190
Investment property	22	-	8.089
Other assets	24	38.561	34.959
TOTAL ASSETS		**7.425.841**	**7.671.364**
LIABILITIES			
Deposits from banks	26	69.021	214.491
Derivative financial liabilities for risk management	17	-	13.092
Loans from banks	28	563.059	667.889
Customer deposits	27	5.627.416	5.707.919
Tax deferred debts	23	8.480	1.690
Current tax liabilities	23	7.904	1.386
Provisions	29	39.451	47.824
Other debts	30	80.741	64.221
TOTAL LIABILITIES		**6.396.072**	**6.718.512**
EQUITY			
Share capital	31	1.256.814	1.256.814
Other equity instruments	31	251.629	251.629
Retained earnings		-564.728	-603.295
Other reserves	31	86.054	47.704
TOTAL EQUITY		**1.029.769**	**952.852**
TOTAL LIABILITIES AND EQUITY		**7.425.841**	**7.671.364**

The financial statements were approved by the Board of Directors on 28 March 2024 and signed on its behalf by:

Simone Ieri
Deputy General Manager

Marius Slemco
Head of Accounting Department

(all amounts are expressed in thousands of RON, unless otherwise specified)

	Share capital	Capital premium	Accumulated losses	Fair value reserve related to financial investments	Other reserves	Total
Balance at 31 December 2021	**1,196,814**	**251,629**	**-632.479**	**-12.114**	**66.064**	**869.914**
Overall result situation						
Profit for the financial year	-	-	30.830	-		30.830
Net change in financial investment reserve	-	-	-	-9.033	-	-9.033
Legal reserve	-	-	-1.674		1.674	-
Revaluation reserve	-	-	28	-	1.113	**1.141**
Share capital increase	60.000	-	-		-	60.000
Total transactions with shareholders	**60.000**	-	-	-	-	**60.000**
Total overall result			**29.184**	**-9.033**	**2.787**	**22.938**
Balance at 31 December 2022	**1.256.814**	**251.629**	**-603.295**	**-21.147**	**68.851**	**952.852**
Balance at 31 December 2022	**1.256.814**	**251.629**	**-603.295**	**-21.147**	**68.851**	**952.852**
Overall result situation						
Profit for the financial year	-	-	41.136	-	-	41.136
Net change in financial investment reserve	-	-	-	26.091	-	26.091
Legal reserve	-	-	-2.481	-	2.481	-
Revaluation reserve	-	-	-87	-	9.776	9.689
Share capital increase	-	-	-	-	-	-
Total transactions with shareholders	**-**	**-**	**-**	**-**	**-**	**-**
Total overall result	**-**	-	38.568	26.091	12.257	76.916
Balance at 31 December 2023	**1.256.814**	**251.629**	**-564.727**	**4.944**	**81.108**	**1.029.769**

The financial statements were approved by the Board of Directors on 28 March 2024 and signed on its behalf by:

Simone Ieri — Marius Slemco
Deputy General Manager — Head of Accounting Department

The explanatory notes on pages 7 to 81 are an integral part of the financial statements.

(all amounts are expressed in thousands of RON, unless otherwise specified)

	Note	2023	2022
Cash flows from operating activities			
Profit for the financial year before tax		**49.621**	**33.484**
Adjustments for non-monetary items:			
Depreciation and amortization of tangible and intangible fixed assets	20,21	24.493	19.307
Net (loss)/gain on impairment of financial assets	18	17.083	43.841
Change in fair value of financial assets measured at fair value through profit or loss		-10.011	2.363
Change in fair value of investment property	22	-	1.116
Other non-monetary adjustments		-22.904	-15.976
Operating profit before changes in operating assets and liabilities		**58.282**	**84.135**
(Increase)/decrease in loans and advances to customers		324.481	240.650
(Increase)/decrease in other assets		-798	595
(Increase)/decrease in loans ans advances to banks		32.893	-35.299
Changes in operating liabilities:			
Increase/(decrease) in deposits from banks		-145.470	-110.586
Increase/(decrease) in customer deposits		-80.504	778.292
Increase/(decrease) in other liabilities		16.521	-5.554
Net cash from/(used in) operating activities		**147.123**	**868.098**
Cash flows from investing activities			
Sale of tangible fixed assets		5.586	47
Purchases of tangible and intangible fixed assets		-36.494	-16.948
Net inflows/(outflows) from/(outflows of) financial assets		-	32.954
Dividends received		1.150	950
Net cash from investing activities		**-110.349**	**17.003**
Cash flows from financing activities			
Repayment of loans from financial institutions (principal and interest)		-142.567	-290.434
Receipts from loans from financial institutions		-	195.744
Credit disbursement to credit institutions		-100.124	-
Increase from contribution to share capital		-	60.000
Net cash used in financing activities		**-242.691**	**-34.690**
Net decrease/(increase) in cash and cash equivalents		-147.636	934.546
Cash and cash equivalents on 1 January		**1.722.402**	**787.856**
Cash and cash equivalents at 31 December	31	**1.574.766**	**1.722.402**

	2023	**2022**
Interest received	381.306	293.269
Interest paid	-178.979	-95.422

The financial statements were approved by the Board of Directors on 28 March 2024 and signed on its behalf by:

Simone Ieri Deputy General Manager	Marius Slemco Head of Accounting Department

(all amounts are expressed in thousands of RON, unless otherwise specified)

1. REPORTING ENTITY

Banca Comerciala Intesa Sanpaolo Romania SA ("Bank") was established in Romania in December 1996, initially under the name "West Bank" and is authorized by the National Bank of Romania to carry out banking activities. The Bank changed its name from "West Bank" to "Sanpaolo IMI Bank Romania" after approval by the National Bank of Romania on 16 October 2003 and finally to "Banca Comerciala Intesa Sanpaolo Romania" after approval by the National Bank of Romania on 14 January 2008, following the merger between Banca Intesa and Sanpaolo IMI in Italy.

The Bank's main activity is the provision of banking services to companies and as an auxiliary activity the provision of banking services to individuals. These include: deposit opening, domestic and foreign payments, foreign exchange operations, credit lines, medium and long-term facilities, letters of guarantee, letters of credit, as well as the financing of micro, small and medium-sized enterprises operating in Romania.

As of 31 December 2023, the Bank had 33 branches, 1 agency, i.e. a total of 34 units, plus the head office and a total of 598 employees. On 31 December 2022, the Bank had 32 branches, 1 agency, i.e. a total of 33 units, plus the head office and a total of 571 employees.

The head office of the Bank is located at Bucharest, Soseaua Nicolae Titulescu, nr. 4-8, America House Building, East Wing and West Wing, 6th Floor, sector 1, postal code 011141, Bucharest, Romania.
The secondary site is: B-dul Revolutiei Nr. 88, Arad, Romania.

The Board of Directors of the Bank consists of the following members:

	31 December 2023		**31 December 2022**	
1.	Ignacio Jaquotot	President	Ignacio Jaquotot	President
2.	Giovanni Bergamini	Vice President	Giovanni Bergamini	Vice President
3.	Alexandru Ene	Member	Alexandru Ene	Member
4.	Stefano Cozzi	Member	Stefano Cozzi	Member
5.	Lorella Giovanelli	Member	Lorella Giovanelli	Member
6.	Paolo Vivona	Executive Member	Danut Sandu	Executive Member
7.	Andrea De Michelis	Executive Member	Andrea De Michelis	Executive Member

2. THE BASICS OF PREPARING FINANCIAL STATEMENTS

2.1. Declaration of conformity

As at 31 December 2023 the Bank's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and their interpretations issued by the International Accounting Standards Board (IASB) and adopted by the European Union, effective at the end of 2023.

The principal accounting policies adopted in the preparation of these financial statements are included in Note 3. These policies have been applied consistently for all periods presented unless otherwise stated.

These financial statements are prepared in accordance with the following regulations:
- Order of the National Bank of Romania no.27/2010 for the approval of the Accounting Regulations in accordance with the International Financial Reporting Standards adopted by the European Union;
- Accounting Law no.82/1991 (republished and amended).

The Bank's management has made an assessment of the Bank's capacity in terms of the going concern principle and is convinced that the Bank has the resources to continue its activities for the foreseeable future. In addition, management has not

(all amounts are expressed in thousands of RON, unless otherwise specified)

2. BASIS FOR FINANCIAL STATEMENTS (continued)

knowledge of significant uncertainties that may cause significant doubt about the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

The parent company, which prepares the consolidated financial statements, is Intesa Sanpaolo SpA, with registered office in Italy, 10121 Turin, Piazza San Carlo no. 156. The consolidated annual financial statements are available on the Intesa website (www.group.intesasanpaolo.com).

2.2. Basics of evaluation

The Bank's financial statements have been prepared on a historical cost basis, except for derivative financial instruments, financial assets at fair value through other comprehensive income and investment property, which are measured at fair value.

2.3. Functional and presentation currency

The Bank's functional currency is the currency of the economic environment in which it operates. The financial statements are presented in Romanian lei ("RON"), the Bank's functional and presentation currency, rounded to the nearest thousand currency units (RON '000'), unless otherwise stated.

2.4. Use of estimates and judgements

In applying the Bank's accounting policies, management makes judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses.
The estimates and associated assumptions are based on historical data and other factors considered to be relevant in the circumstances, and the outcome of these factors forms the basis of the judgements used in determining the carrying amount of assets and liabilities for which no other sources of valuation are available. Actual results may differ from estimated values. Estimates and judgements are reviewed periodically. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in future periods affected, if the revision affects both the current period and future periods. Information about significant estimates and judgements in the application of accounting policies that have a material effect on the amounts recognised in the financial statements is disclosed in Notes 5 (risk management) and 6 (significant accounting estimates and judgements).

3. CHANGES IN ACCOUNTING POLICIES

The material accounting policies and methods have been consistently applied by the Bank throughout the financial years presented in these financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Foreign currency

Foreign currency transactions

Foreign currency transactions are converted into the Bank's functional currency at the exchange rate on the transaction date. Monetary assets and liabilities denominated in foreign currencies at the date of the statement of financial position are expressed in the functional currency at the exchange rate on that day. Translation differences are recognised in the profit and loss account. Non-monetary assets and liabilities in foreign currency that are measured at historical cost are recorded in the functional currency at the exchange rate on the transaction date. Non-monetary foreign currency assets and liabilities that are measured at fair value are recorded in the functional currency at the exchange rate at the date on which the fair value was determined.

The exchange rates of the main currencies were as follows:

Currency	31 December 2023	31 December 2022	%
Euro (EUR)	1: RON 4.9746	1: RON 4.9474	+0.55%
US Dollar (USD)	1: RON 4.4958	1: RON 4.6346	-2.99%

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Interest income and expenses

Interest income and interest expense for all financial instruments except those classified as held for trading or those measured or designated at fair value through profit or loss are recognised in 'Interest income' and 'Interest expense' in the income statement using the effective interest method. Interest relating to financial instruments measured at fair value through profit or loss is included in the change in fair value during the period under 'Net gain/(loss) on financial instruments at fair value through profit or loss'.

Interest income and expenses are recognised in the income statement using the effective interest method. In calculating the effective interest rate, the Bank estimates future cash flows taking into account all contractual terms of the financial instrument, but does not take into account future credit losses.
For financial assets impaired due to credit risk, interest income is calculated by applying the EIR to the amortised cost of financial assets impaired due to credit risk (i.e. gross carrying amount less provision for expected credit losses ("ECL")). For financial assets initiated or acquired impaired due to credit risk (POCI), the EIR reflects the ECLs in determining the future cash flows to be received from the financial asset.

The effective interest rate (EIR) calculation method includes all fees and commissions paid or received, transaction costs and other premiums and discounts that are an integral part of the effective interest rate. Transaction costs are additional costs directly attributable to the acquisition, issue or derecognition of a financial asset or liability.

Interest income on finance leases is recognised in the income statement over the lease term reflecting a constant return over the lease term. Finance lease income includes the amortisation of fees received in advance, e.g. management fees received at the inception of the lease.

c) Speze and commissions

Income from other fees and commissions arising from financial services provided by the Bank is recognised in the income statement when the service is provided, in accordance with accrual accounting principles.

Expenses from other fees and commissions mainly relate to transaction and service fees, which are recognised when the services are performed.

d) Dividends

Dividend income is recognised in the income statement at the date on which the right to receive such income is established. Dividends are reflected as a component of other operating income in the income statement.

Dividends are treated as a profit distribution for the period in which they are declared and approved by the General Meeting of Shareholders.

e) Leases as lessee

Recognition and initial assessment

At the time a contract is initiated, the Bank assesses whether that contract is, or includes, a lease. A contract is, or contains, a lease if that contract grants the right to control the use of an identified asset for a specified period of time in return for a consideration.

At the inception date, the Bank, as lessee, recognises a right-of-use asset and a liability arising from the lease.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Initial valuation of the right of use asset
On the date of commencement, the Bank shall value the right-of-use asset at cost.

Initial valuation of the debt arising from the lease
At the inception date, the Bank shall value the liability under the lease at the present value of the outstanding lease payments at that date. Lease payments are discounted using the interest rate implicit in the lease contract if that rate can be determined immediately. If this rate cannot be determined immediately, the Bank uses its marginal lending rate.

The Bank's marginal lending rate is the interest rate that the Bank would have to pay to borrow over a similar period, in the same currency, with similar collateral, the funds needed to obtain an asset with a similar value to the right-of-use asset, in a similar economic environment.

Subsequent valuation of the right of use asset
After the date of commencement, the Bank values the right-of-use asset using the cost model, i.e. it values the right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses.

Subsequent valuation of the debt arising from the lease
After the commencement date, the Bank assesses the lease liability by increasing the carrying amount to reflect the interest associated with the lease liability and reducing the carrying amount to reflect the lease payments made, reflecting, if applicable, any amendments to the lease.

The interest on the debt arising under the lease for each period during the term of the lease must be the amount that produces a constant periodic rate of interest on the balance of the debt arising under the lease.

After the commencement date, the interest on the lease liability is reflected in profit or loss.

Derogations from recognition
The bank, as lessee, chooses to apply the exemptions permitted by IFRS 16:
- short-term leasing contracts;
- leases for which the underlying asset has a low value.

Accordingly, in the case of short-term leases and leases where the underlying asset has a low value, the Bank recognises lease payments associated with these leases as an expense using a straight-line basis over the lease term.

f) Net income from foreign exchange transactions

This category contains foreign exchange transaction gains and foreign exchange translation differences on monetary assets and liabilities denominated in foreign currencies.

g) Leases as lessor

A lease is classified as a finance lease when the terms and conditions of the lease transfer substantially all the risks and rewards of ownership to the lessee. Amounts due from lessees under a finance lease are recorded as receivables.

In the case of finance leases, the gross investment is the sum of all minimum lease payments plus any unguaranteed residual value. The difference between the gross investment in the lease and the net acquisition cost of the leased asset (the amount financed less taxes, advances and commissions received in full at the inception of the lease) is recognised as unrealised lease income. Finance lease income is allocated over the accounting periods to reflect a constant periodic return on the Company's net investment remaining under the leases entered into.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The net investment in finance leases falls within the scope of IFRS 9 for the purpose of impairment and derecognition; in this regard refer to accounting policies 4.i Financial assets and liabilities.

h) Income tax expense

Corporate income tax includes current tax and deferred tax. Income tax is recognised in the profit and loss account unless it relates to capital items, in which case it is recognised in equity.

Current tax is the tax payable on the profit for the period, determined on the basis of the tax rates applied at the reporting date and any adjustments relating to previous periods.

Deferred tax is determined using the balance sheet method for those temporary differences arising between the carrying amount of assets and liabilities used for reporting purposes in the financial statements and their tax base. Deferred tax is calculated on the basis of the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using the tax rates prescribed by the legislation in force at the reporting date. The deferred tax asset relating to the tax loss is recognised only to the extent that it is probable that future profits will be available against which the tax loss can be utilised.

Taxes on additional income arising from the distribution of dividends are recognised at the same time as the obligation to pay that dividend is recognised.

The corporate income tax rate used in the calculation of current and deferred tax was 16% at 31 December 2023 (31 December 2022: 16%).

i) Financial assets and liabilities

(i) Recognise

The bank initially recognises loans and advances, deposits, bonds issued and subordinated debt at the date they are created. All other financial assets and liabilities (including those at fair value through profit or loss) are initially recognised on the trade date on which the Bank became party to the contractual provisions of the financial instrument.

On initial recognition of a financial asset or financial liability, the Bank measures it at its fair value plus or minus, in the case of a financial asset or financial liability that is not measured at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

(ii) Classification of financial assets

On initial recognition, a financial asset that is a debt financial instrument is classified as measured at amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL") based on both a:

- the Bank's business model for managing financial assets, as well as the
- their contractual cash flow characteristics (hereinafter referred to as the "SPPI test").

On initial recognition of an equity investment that is not held for trading, the Bank may elect irrevocably to disclose subsequent changes in fair value in other comprehensive income (OCI). These elections are made on an investment-by-investment basis. All other financial assets are classified as FVTPL.

Business model

The business model reflects how the Bank manages a group of assets to generate cash flows and determines whether the cash flows received result from the collection of contractual cash flows, from sales or both. Accordingly, the Bank has identified the following business models:

- Hold-to-collect;
- Hold-to-collect and sale;

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In order to classify a financial asset in the "hold-to-collect " model, the Bank assesses whether sales are compatible with this category:

a) there is no limitation on sales made due to increased credit risk. Sales close to maturity are allowed if certain criteria are met;
b) for all other sales, the Bank will need to assess whether these sales have a significant value and frequency level.

As part of this sales assessment, the Bank established the following criteria:

- When there was an increase in credit risk;
- When sales are considered close to maturity;
- When sales are considered significant for loans and investments in securities;
- When sales are considered frequent.

Assessment of whether contractual cash flows represent only principal and interest payments (SPPI test)

With regard to the initial recognition of a financial instrument, the Bank assesses, at the level of each instrument, whether the cash flows represent only the payment of principal and interest (SPPI), which offsets the time value of money, credit risk and other principal credit risks (e.g. liquidity risk, administrative costs and reasonable profit margin). The principal for the purpose of applying the SPPI test is the "fair value of the asset at initial recognition" and may change over the lifetime of the financial asset (e.g. if there are repayments).Contractual interest is defined as consideration for: the time value of money, the credit risk associated with the principal due, other principal credit risks and costs (e.g. liquidity risk), costs (e.g. administrative costs), profit margin.

The valuation of the SPPI is a one-off exercise and is performed at the initial recognition of the financial asset.

Cash flow characteristics that are not related to the main lending activity will most likely not pass the SPPI test. All loans and debt instruments that do not meet the SPPI criteria are measured at fair value through profit or loss (FVTPL).

Reclassifications

Reclassifications between valuation categories will only be allowed when the Bank changes its business model for an asset group. Such changes are expected to be very rare.

Financial debts

The Bank classifies financial liabilities, other than financial guarantees and loan commitments, at amortised cost (AC) The Bank has classified its financial liabilities (Deposits from banks, Deposits from customers, Loans) at amortised cost.

(iii) Derecognition

The Bank derecognises a financial asset when the contractual rights to receive cash flows from that financial asset expire or when the Bank has transferred the contractual rights to receive cash flows from that financial asset in a transaction in which it has transferred substantially all the risks and rewards of ownership. Any interest in the transferred financial assets retained or created by the Bank is recognised separately as an asset or liability. The Bank derecognises loans with estimated recoverability of zero, fully provided for impairment.

(iv) Compensation

Income and expenses are presented on a net basis only when permitted by accounting standards or for profits and losses arising from a group of similar transactions.

(v) Valuation at amortised cost

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, less principal repayments, plus or minus cumulative amortisation, determined using the effective interest rate method, of the differences between the amount initially recognised and the maturity date value, less reductions for impairment of assets.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(vi) Valuation at fair value

Fair value is the price that would be received from the sale of an asset or the price that would be paid to transfer a liability in a normal transaction between market participants at the valuation date, which takes place in a principal market (the market with the largest volume and level of activity) or, in the absence of a principal market, in the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects the effect of the risk of non-performance (default risk).

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is considered active if transactions in the asset or debt occur with sufficient frequency and volume to consistently provide pricing information.

The fair value of financial instruments traded on active markets at the reporting date is based on the mid-market price (stock exchanges, dealer markets, broker markets) or the *mid-market* price that is set by the broker/dealer or displayed through electronic financial information delivery systems (Bloomberg, Reuters), without any deduction for transaction costs. Where there is no quoted price in an active market, the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs.

The valuation technique chosen incorporates all the factors that market participants would consider in pricing a transaction.

For all other financial instruments not traded in an active market, fair value is determined using an appropriate valuation technique. The valuation technique includes pricing models or the discounted cash flow method. Where discounted cash flow methods are used, estimates of future cash flows are determined based on management's best estimates and the discount rate is the market rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, data for the model is based on the corresponding market values at the reporting date. Where a fair value cannot be reliably estimated, unquoted shares that do not have a market price in an active market are valued at cost and tested for impairment at the reporting date.
The Bank recognises transfers between levels of the fair value hierarchy on the date of the event or change in circumstances giving rise to the transfer.

(vii) Identification and assessment of impairment

The Bank holds financial assets at amortised cost ("AC") in the form of loans and advances to customers, leasing contracts, loans and advances to banks and securities. For financial assets measured at AC, expected impairment losses reduce the gross carrying amount and are recognised in profit or loss.

According to the criteria introduced by IFRS 9, the classification of the loan portfolio is based on the classification of exposures into three stages (Stage 1, Stage 2 and Stage 3), in the following order:

- Performing exposures which, since their inception, do not show a significant increase in credit risk, are placed in Stage 1;
- Performing exposures which, since their inception, show a significant increase in credit risk, are placed in Stage 2;
- non-performing exposures (NPLs) are classified as Stage 3.

The expected credit loss for Stage 1 financial assets is measured at an amount equal to the portion of the expected credit losses resulting from possible default events over the next 12 months.

Stage 2 or Stage 3 instruments have expected credit losses measured on the basis of expected credit losses over the entire life of the instrument.The Bank recognises impairment adjustments at an amount equal to the expected credit losses (ECL) over the life of the instrument, except in the following cases, for which the amount recognised is the 12-month ECL:

- Securities of debt instrument type for which credit risk has been determined to be low at the reporting date. The Bank considers a debt security to have low credit risk when its credit risk assessment is equivalent to the globally understood definition of investment-grade;
- Other financial instruments for which credit risk has not increased significantly since initial recognition.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The assessment of impairment requires management judgements, estimates and assumptions, particularly in the following areas, which are discussed in more detail below:

- Estimation of expected future cash flows from loans and advances classified in Stage 3 and the likelihood of reasonable scenarios;
- Assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
- Inclusion of prospective information in the ECL assessment.

Measurement of expected credit losses

Anticipated credit losses represent the difference between the total contractual cash flows due to the Bank and the total cash flows the Bank expects to receive, discounted at the effective interest rate at the time of calculation. For undrawn credit commitments, credit losses represent the present value of the difference between the contractual cash flows due to the Bank if the borrower draws on the credit and the cash flows the Bank expects to receive if the credit is drawn.

To assess the expected credit loss, the Bank estimates future cash flows taking into account all terms and conditions of the financial instrument (e.g. early maturity and similar options) over its estimated life, including cash flows arising from guarantees.

Expected credit losses are an estimate of losses equivalent to the present value of the total cash shortfall over the estimated life of a financial instrument, based on probability-weighted values.

ECL is determined separately for individually analysed exposures and collectively analysed exposures.

The individual analysis of credit exposures in the ECL calculation process applies to defaulted balance sheet and off-balance sheet exposures that have exceeded the materiality threshold established at the bank level.

Non-performing loans are assessed individually on a case-by-case basis or on a portfolio approach, as follows:
- all classes with an exposure of less than 100,000 Euro equivalent are valued using the collective approach.
- all classes exceeding the defined threshold of 100.000 Euro equivalent are valued individually.

Portfolio-based assessment for exposures below the materiality threshold is performed monthly by the Risk Management Department, based on a model developed from historically available internal information.

Non-performing exposures

Non-performing exposures are classified as follows:
- ***Doubtful*** - Balance sheet and off-balance sheet exposures (loans, bank guarantees, etc.) belonging to debtors who are in a state of insolvency (even if insolvency proceedings have not been opened under a court order) or in a comparable situation, regardless of the Bank's loss forecasts.
- ***Unlikelihood of repayment*** - Classification in this category is based on the Bank's assessment that the borrower is unlikely to fully meet its obligation to repay the loan (through repayment of principal and/or interest) without recourse to actions such as enforcement of collateral/personal guarantees. Such an assessment must be made irrespective of debt service or outstanding and/or unpaid amounts (instalments).
- ***Outstanding exposures*** - Balance sheet exposures (loans, bank guarantees, derivatives, etc.), other than those classified as Doubtful, or Unlikely to Pay, belonging to debtors who at the reporting date have a debt service of more than 90 days and for which the outstanding amounts simultaneously exceed the two materiality thresholds representing 1% outstanding amounts of the debtor's total exposure and RON 150/1000 (Retail/Non-Retail).

POCI exposures (impaired on acquisition or grant)

Credit exposures classified as impaired at acquisition or at origination (POCI) are those exposures that show evidence of impairment either at the time of acquisition or at origination, if the exposure resulted from a derecognition process of another non-performing exposure.

Significant increase in credit risk

When determining whether the credit risk (i.e., the risk of default) of a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort, including quantitative and qualitative information and based on analyses derived from the Bank's historical experience, credit expert assessments and anticipated forward-looking information.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Bank has established a framework that includes both quantitative and qualitative information to determine whether the credit risk of a particular financial instrument has increased significantly since initial recognition. The framework is aligned with the Bank's internal credit risk management process.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk through periodic reviews to confirm that:

- The criteria are able to identify significant increases in credit risk before the exposure is in default;
- The average time between the identification of a significant increase in credit risk and default seems reasonable;
- Exposures are generally not transferred directly from 12-month ECL valuation to impaired;
- There is no undue volatility in the transfer loss provisions between 12-month ECL assessments and lifetime ECL assessments.

(viii) Change in financial assets

Restructured loans

Restructuring measures consist of concessions granted to a debtor that is experiencing or is about to experience difficulties in meeting its financial commitments ("financial difficulties").
A concession refers to one of the following actions:

a) modification of the previous terms and conditions of a contract that the debtor is deemed unable to fulfil due to financial difficulties, to allow sufficient debt service capacity that would not have been granted had the debtor not been in financial difficulty;
b) refinancing of all or part of a contract relating to a problem asset, which would not have been granted if the debtor had not been in financial difficulty.

For an exposure to be identified as a restructured exposure, the following two conditions must be cumulatively met:

- The bank must identify the financial difficulties a customer is facing/about to face;
- Exposure must be subject to concession.

Financial difficulty does not refer to events of a cyclical nature, but is identified on the basis of an analysis of the client's activity.
Within the restructured exposures the following two categories are identified:
1. performing exposures with restructuring measures: include restructured exposures that cumulatively meet the following conditions:

a) the exposure was performing at the date of the restructuring measures;
b) the application of these measures did not result in the exposure being classified as non-performing;

2. non-performing exposures with restructuring measures comprise restructured exposures that meet one of the following conditions:

a) the exposure was non-performing at the date of the restructuring measures;
b) the exposure will be classified as non-performing (the borrower's financial difficulties are considered significant).

The exit from the category of performing restructured exposures is achieved when the following conditions are cumulatively met:

a) the restructured exposure shall be considered as performing, even if it has been reclassified out of the non-performing category following a review of the borrower's financial situation showing that the conditions for classification as non-performing are no longer met;
b) a probationary period of at least 2 years has elapsed from the date on which the restructured exposure was deemed to be performing;
c) during at least half of the sample period, there were regular payments (principal and interest, cumulated) which cannot be considered as insignificant (<5% of the principal at the date of restructuring);
d) at the end of the trial period, no exposure to the debtor is outstanding for more than 30 days.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In the case of non-performing exposures that have been subject to restructuring measures, applied as a result of the debtor's financial difficulties, they are considered to have exited the category of non-performing exposures when the following conditions are cumulatively met:

a) exposures are not considered to be impaired or in default;
b) one year has passed since the implementation of the restructuring measures;
c) as a result of the implementation of the restructuring measures, there are no outstanding amounts or concerns related to the full repayment of the exposure under the post-restructuring terms.
d) during the trial period, there were regular payments (principal and interest, cumulated) which cannot be considered as insignificant (<5% of the principal at the date of restructuring);
e) at the end of the trial period, no exposure to the debtor is outstanding for more than 30 days.

If the terms of a financial asset are modified, the Bank assesses whether the cash flows of the modified asset are materially different. If the cash flows are materially different, then the contractual rights to the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- Fees that are taken into account in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial value of the asset;
- Other charges are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified as a result of financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to generate an asset with substantially different terms. In this situation, the Bank does not derecognise the financial asset. If the Bank intends to modify an asset in a way that would result in the reversal of cash flows, it first considers whether part of the asset should be derecognised before the modification is made. In these cases, the derecognition criteria are not met, but the valuation is taken into account when measuring expected credit losses.

j) Cash and cash equivalents

Cash and cash equivalents include: cash in hand, current accounts with the National Bank of Romania and other highly liquid financial assets with original maturities of less than three months, which do not involve a significant risk of change in fair value and which are used by the Bank to manage its short-term commitments.

k) Derivative financial instruments held for risk management purposes

Derivative financial instruments held for risk management purposes include derivative assets and liabilities that have not been classified as held-for-trading or hedging instruments.

Derivative financial instruments held for risk management purposes are initially recognised at fair value. After initial recognition, derivative financial instruments are subsequently measured at fair value, without deducting transaction costs incurred on sale or derecognition. All changes in fair value are recognised immediately in the income statement as a component of net foreign exchange gains.

l) Loans and advances to customers

The recording of loans and advances in the statement of financial position includes loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at amortised cost using the effective interest method;

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Financial investments

The recording of securities in the statement of financial position includes:

- Debt securities (government securities) measured at fair value through other comprehensive income: these are initially measured at fair value plus incremental direct transaction costs and then measured at fair value through other comprehensive income;
- Equity securities measured at fair value through other comprehensive income these are measured at fair value with changes recognised in other comprehensive income.
- Shares valued through the income statement, changes are recognised through the income statement.

For debt securities measured at fair value through other comprehensive income, gains and losses are recognised in other comprehensive income, except for the following, which are recognised in the income statement as financial assets measured at amortised cost:

- Interest income used effective interest rate
- Recognition of expected credit losses
- Foreign exchange gains and losses.

When debt securities measured at fair value through other comprehensive income are derecognised, the fair value reserve is reclassified to the income statement.

The Bank chooses to present gains and losses on equity securities at fair value in other comprehensive income. These are never reclassified to the profit and loss account but to retained earnings. These instruments mostly comprise government bonds issued by the Romanian Ministry of Public Finance.

After initial recognition, FVOCI assets are measured at fair value with gains or losses recognised in other comprehensive income until the investment is derecognised. The fair value of investments actively traded on organised financial markets is determined by reference to quoted market bid prices at the close of business on the statement of financial position date. Interest income and foreign exchange gains/losses are recognised in the income statement.

The expected credit loss on debt instruments measured at fair value through other comprehensive income does not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the impairment that would arise if the assets were measured at amortised cost is recognised in other comprehensive income as accumulated impairment, with a corresponding charge to profit or loss. The accumulated loss recognised in comprehensive income is recycled to the income statement when the assets are derecognised.

n) Tangible fixed assets

(i) Recognition and evaluation

After recognition, property, plant and equipment other than buildings are stated at cost less accumulated depreciation and accumulated impairment losses.

As far as the "Buildings" class is concerned, they are valued according to the revaluation model. After recognition as an asset, property, plant and equipment in the 'Buildings' class are carried at revalued amount, which is the fair value at the revaluation date less any subsequent accumulated depreciation and any accumulated impairment losses.

Revaluation should be performed with sufficient regularity to ensure that the carrying amount is not materially different from what would have been determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the revaluation date is removed from the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Subsequent costs

The Bank recognises in the carrying amount of an item of property, plant and equipment the cost of replacing a component when that cost is incurred, it is probable that economic benefits will flow to the Bank and the cost of that item of property, plant and equipment can be measured reliably. All other costs are recognised as an expense in the income statement when incurred.

(iii) Depreciation

Depreciation is calculated using the straight-line method over the estimated useful life of each item of property, plant and equipment. Land is not depreciated.

The estimated lifetimes for the current and comparative periods are as follows:

	Useful life in years	**Average useful life in years**
Buildings	25-50	28
Office equipment, lighting fixtures and accessories	3-15	8
Other assets	5	5

For own buildings, once the revaluation method is applied, assets must be depreciated on the basis of the new revalued amount over the remaining depreciation period starting from the following financial year.

Leased building improvements are depreciated over the period of the leases.

The carrying amount of property, plant and equipment is reviewed at each statement of financial position date or when events or circumstances indicate that the value of the assets may not be recoverable. In this case the carrying amount is reduced to the recoverable amount. Impairment is recognised in the income statement.

Property, plant and equipment are derecognised on disposal or when no future economic benefits are expected from their use or disposal. The gain or loss arising on derecognition of a tangible asset (determined as the difference between the net disposal proceeds and the carrying amount of the item) is included in the Statement of Profit or Loss in the year in which the asset is derecognised.

o) Intangible assets

Intangible assets are initially measured at cost. After initial recognition, intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses.

The costs of developing or maintaining an IT application are recognised as an expense when incurred. Costs that are directly attributable to the production of identifiable and unique IT applications under the Bank's control and for which it is probable that they will generate economic benefits in excess of production costs over a period of more than one year are recognised as intangible assets. Direct costs include personnel costs and a percentage of the relevant overheads.

Costs related to the development of IT applications that are recognised as intangible assets are amortised on a straight-line basis over their estimated useful lives (not exceeding 5 years).

At the statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount may no longer be recoverable, intangible assets are reviewed for impairment. When the carrying amount of an asset is greater than the estimated recoverable amount, it is written down to recoverable amount by recognising impairment in the income statement.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets are derecognised on disposal or when no future economic benefits are expected from their use or disposal. The gain or loss arising on derecognition of an intangible asset (determined as the difference between the net disposal proceeds and the carrying amount of the item) is included in the Statement of Profit or Loss in the year in which the asset is derecognised.

p) Real estate investments

An investment property is a property held for rental income or capital appreciation and not for sale in the ordinary course of business or for use in the production or supply of goods or services or for administrative purposes.

Investment properties are initially recognised at cost, including transaction costs. Subsequent to initial recognition, investment property is carried at fair value and changes in value are recognised in the income statement.

Real estate investments are derecognised either when they are disposed of or when the real estate investment in question is permanently withdrawn from use and no future economic benefits are expected from its disposal. Gains or losses arising on the disposal of investment property are recognised in the Statement of Profit or Loss in the year of disposal.

Transfers to investment property will be made when, and only when, there is a change of use, evidenced by the cessation of use by the owner, the commencement of an operating lease with another party, or the completion of construction or development. Transfers from investment property are made when, and only when, there is a change of use, evidenced by the commencement of use by the owner or the commencement of development with a view to sale.

q) Impairment of assets other than financial assets

The carrying amount of non-financial assets, other than investment property and deferred tax assets, is reviewed at the date of each statement of financial position to determine whether there is any objective evidence of impairment. If such an indication exists, then the recoverable amount of the asset is estimated.

An impairment loss is recognised when the carrying amount of the asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash flows independently of other assets and groups. Impairment losses are recognised in the income statement.

Impairment losses recognised for cash-generating units are allocated initially to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to reduce the carrying amount of any other assets of the unit (group of units) based on the weight of their value.

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

In respect of other assets, impairment losses recognised in prior periods are reviewed at each reporting date to see whether they have decreased or whether they still exist. An impairment loss is reversed if there has been a change in the estimates used to determine recoverable amount. An impairment loss is reversed only if the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

r) Deposits from clients

Customer deposits are initially recognised at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest method.

s) Loans

Borrowings such as those from banks and other financial institutions and other debt evidenced by securities such as subordinated debt or bonds issued are recognised initially at fair value as the proceeds from the issue of these instruments (fair value of consideration received) net of transaction costs. Borrowings and other liabilities are subsequently measured at amortised cost.

t) Provisions

A provision is recognised in the statement of financial position when the Bank has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation. If the effect is material, in determining the provision, future cash flows are discounted using a pre-tax discount rate that reflects current market conditions and risks specific to the liability, where appropriate. A provision for restructuring is recognised when the Bank has approved a formal and detailed restructuring plan and the restructuring has either commenced or has been publicly announced. Future operating losses are not provided for.

u) Financial guarantees and credit commitments

Financial guarantees are contracts that oblige the Bank to make specific payments to reimburse the holder for a loss it suffers because a specific debtor fails to make a payment when due under the terms of a debt security. Credit commitments are firm undertakings to provide credit on predetermined terms and conditions.

Financial guarantees issued or commitments to extend credit at a below-market interest rate are initially measured at fair value and the initial fair value is amortized over the life of the guarantee or commitment. Subsequently, they are valued at the higher of the amortised value and the amount of the impairment adjustment.

The bank has not issued any loan commitments that are rated at FVTPL. Also, the Bank has no commitments to extend credit at an interest rate lower than the market rate.
For other loan commitments, the Bank recognises the impairment provision in accordance with IFRS 9 - accounting policy 4 (i) (vii).

Obligations arising from financial guarantees and loan commitments are included for provisioning purposes.

v) Employee benefits

(i) Short-term benefits

Short-term employee benefits include salaries, allowances, bonuses and social security contributions. Short-term benefits are recognised as expenses as services are rendered.

(ii) Defined contribution plans

In the normal course of business, the Bank makes payments on behalf of its employees to the Romanian state pension system, health insurance and unemployment fund. All employees of the Bank are members and are also legally obliged to contribute (through social contributions) to the Romanian state pension system (a state defined contribution plan). All related contributions are recognised in the profit and loss account of the period when they are made. The bank has no other additional obligations.

The Bank is not engaged in any independent pension scheme and therefore has no further obligations in this regard. The Bank is not engaged in any other post-retirement benefit scheme. The Bank has no obligation to provide after-service benefits to current or former employees.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(iii) Benefits for the ending of the employment contract

Benefits for the ending of the employment contract are recognized as an expense when it is demonstrated that the Bank is committed, without a realistic possibility of retirement, to a detailed formal plan to either terminate employment before the retirement date, or to provide termination benefits for employment as a result of offers to encourage voluntary redundancy. Benefits for the ending of the employment contract for voluntary redundancy are recognised as an expense if the Bank has made an offer of voluntary redundancy, it is probable that the offer will be accepted and the number of acceptances can be reliably estimated. If benefits are due over a period longer than 12 months, then they are discounted to their present value.

(iv) Share-based payments

The parent company has set up a share-based bonus mechanism called the Lecoip (Leveraged Employee Co-Investment Plan), which will run for several years. The beneficiaries are certain employees of the Bank. The main features of the plan are:

- free shares are granted to employees who are part of the plan. These shares are purchased on the Italian stock market by the parent company;
- the shares cannot be sold immediately, but after a minimum period of 2 years;
- employees sign a forward contract on these shares when they want to sell them, cashing in the cash immediately;
- with the price received, employees can subscribe for shares in the context of capital increases (discounted shares).

The Bank records shares in financial assets at fair value through other comprehensive income.

Initially, these instruments are recorded at fair value. Subsequently, until their allocation to the participants, the Bank values the shares at fair value, the change being recognised in the profit and loss account. The liability to employees is recognised at the time of allocation, equivalent to the fair value of the shares.

w) Assets held for sale

Assets for which a sale process has been initiated and it is highly probable that the sale will be completed are classified as Assets held for sale. They are measured at the lower of carrying amount and fair value.

x) Changes in accounting policies and disclosures

The accounting policies adopted are in line with those of the previous financial year, except for the following IFRS standards and IFRS amendments which have been adopted by the Bank from 1 January 2023:

A) Amendments to accounting policy and disclosures in the explanatory notes Standards/amendments that are in force and have been approved by the European Union:

- IFRS 17 Insurance Contracts
- IAS 1 Presentation of Financial Statements and International Financial Reporting Practice Statement 2: Presentation of Accounting Policies (Amendments)
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Error Corrections: Definition of Accounting Estimates (Amendments)
- IAS 12 Income Taxes: Deferred tax relating to assets and liabilities arising from a single transaction (Amendments),
- IAS 12* Income Tax: International Tax Reform - Pillar II Model Rules (Amendments)

The newly adopted IFRS and the IFRS amendments did not have a material impact on the Bank's accounting policies.

***IAS 12 Corporate Income Tax: International Tax Reform - Pillar II Model Rules (Amendments)**

Amendments come into force immediately after issuance, but certain disclosure requirements in the explanatory notes come into force later. The Organisation for Economic Co-operation and Development (OECD) published its model Pillar II rules in December 2021 to ensure that large multinational companies will be subject to a minimum rate of

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

15% taxation. On 23 May 2023, the IASB issued the International Tax Reform - Pillar II Model Rules - Amendments to IAS 12.
The amendments introduce a mandatory temporary exception to the accounting for deferred taxes resulting from the jurisdictional implementation of the Pillar II model rules and disclosure requirements in the notes for affected entities on potential tax exposure under Pillar II. The amendments require for periods when Pillar II legislation is (substantially) enacted but not yet effective, disclosure of known or reasonably estimable information that helps users of financial statements understand the entity's exposure to Pillar II tax. To comply with these requirements, an entity is required to disclose in the notes to the financial statements qualitative and quantitative information about its Pillar II tax exposure at the end of the reporting period. Disclosure in the notes of current Pillar II tax expense and disclosures relating to periods before the legislation comes into force are required for annual reporting periods beginning on or after 1 January 2023, but are not required for any interim period ending on or before 31 December 2023. The Bank estimates from its analyses that the amendments will not have a material impact on the financial statements.

B) Standards issued but not yet in force and not adopted in advance:

B.1) Standards/Amendments that are not yet in force but have been approved by the European Union:

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Long-Term (Amendments)**.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024, with earlier application permitted and will need to be applied retrospectively in accordance with IAS 8. The Bank has estimated that the amendments, when first applied, are unlikely to have a material impact on the financial statements.

- **IFRS 16 Leases: Lease liabilities arising from sale and leaseback transactions (amendments)**.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. The Bank has estimated that the amendments, when first applied, are not likely to have a material impact on the financial statements.

B.2) Standards/Amendments not yet in force and not yet approved by the European Union:

- **IAS 7 Statement of Cash Flows and IFRS 7 Presentation of Financial Instruments - Vendor Financing Arrangements (Amendments)**.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024, with the possibility of earlier application. The Bank has estimated that the amendments, when first applied, are unlikely to have a material impact on the financial statements.

- **IAS 21 The Effects of Changes in Foreign Exchange Rates: Non-Convertibility (Amendments)**.

The amendments are effective for annual reporting periods beginning on or after 1 January 2025, with the possibility of earlier application. The Bank has estimated that the amendments, when first applied, are not likely to have a material impact on the financial statements.

- **Amendment to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and Associate or Joint Venture.** In December 2015, the IASB postponed the effective date of this amendment indefinitely.

5. RISK MANAGEMENT

(a) Introduction

This note provides details of the Bank's risk exposure and describes the methods used by management to control risk. The most important types of risk to which the Bank is exposed are credit risk, liquidity risk, market risk (interest rate risk, currency risk and counterparty risk). The Bank is also exposed to reputational risk, strategic risk, operational risk and residual risk.

Risk is inherent in the Bank's activities but is managed through a continuous process of identification, assessment and monitoring, which is subject to risk limits and other controls. This risk management process is critical to the ongoing profitability of the Bank and each person within the Bank is responsible for the risk exposures associated with their responsibilities.

The independent risk control process does not include commercial risks such as environmental, technological and industry changes. The Bank's policy is to monitor these commercial risks through the Bank's strategic planning process.

Risk management framework
The Board of Directors is ultimately responsible for identifying and controlling risks, however there are separate and independent bodies responsible for managing and monitoring risks. The Bank conducts its entire business on the basis of corporate governance principles. The Board of Directors and the Management Committee are independent and separate structures.

Board of Directors
The Board of Directors is responsible for the overall approach to risk management and for approving risk management strategies and policies.

Management Committee
The Management Committee is responsible for monitoring the overall risk process within the Bank.

Credit Committee
The Credit Committee (CC) is the highest deliberative body with respect to performing counterparties, whose primary responsibility is to make credit decisions in accordance with the strategic guidelines and credit policies issued, acting within the Bank's lending powers and in compliance with applicable legislation, internal and Parent Company regulations.

Problem Assets Committee
The Problem Asset Committee is the Bank's highest standing decision-making committee for risky and non-performing counterparties, whose primary responsibility is to take the necessary steps to prevent and mitigate losses on risky and impaired assets, acting within the Bank's authority and in accordance with applicable laws, internal regulations and those of the Parent Company.

Credit Risk Management Committee
The Credit Risk Management Committee (CRGC) is a permanent decision-making and advisory committee whose mission is to ensure a qualified and coordinated management of credit risk in the exercise of the Bank's lending powers and in accordance with applicable laws, internal regulations, Parent Company regulations and strategic decisions of the Lead Parent Company. The main responsibility of the Committee is to define and update strategic credit risk guidelines and credit management policies based on the constant monitoring of the credit portfolio.

Asset and Liability Management Committee
The Asset and Liability Management Committee (ALCO) is a permanent decision-making and advisory committee focused on financial risk, active asset management issues, strategic asset and liability management and financial product governance, in accordance with the Parent Company's guidelines, the Bank's internal rules and regulations, legislation, rules and regulations established by the competent authorities.

5. RISK MANAGEMENT (continued)

Operational Risk Committee
The Operational Risk Committee (ORC) is a permanent decision-making and advisory committee whose mission is to ensure qualified and competent management of operational risk issues (including ICT/cyber risk) in accordance with applicable legislation, internal and Parent Company regulations.

Audit, Risk and Compliance Committee
The Audit, Risk and Compliance Committee is organised and functions according to its own Rules, approved by the Board of Directors.

The Committee annually assesses the adequacy of the Bank's internal control framework. The Committee is a reference point on an ongoing basis for all local control and governance functions (Risk Management, Internal Audit, Compliance and AML), as well as for the local administrative area (CFO). The Committee should receive regular information from these structures on business trends and specific situations. The Committee reports and informs the Bank's Board of Directors at each meeting and at least every six months on the activities carried out suggesting and/or recommending actions necessary to strengthen the internal control framework.

Change Management Committee
The Change Management Committee (CMC) is responsible for strategic change management within the Bank's overall operations by defining and monitoring the project portfolio, prioritizing those projects and investments in line with the Bank's strategy, monitoring related activities and expenditures, and resolving escalated issues.

Internal Control Coordination Committee
The Internal Control Coordination Committee (ICCC) is a standing advisory committee, acting within the delegations and competencies established by the Board of Directors, with the aim of enhancing coordination and collaboration between the various control functions of the Bank, facilitating the integration of risk management processes.

(b) Credit risk

Credit risk is defined as the current or future risk of negative impact on profits and capital as a result of the debtor's failure to meet contractual obligations or its failure to meet those obligations.

Credit risk identification system
The identification, monitoring, control and management of credit risk are activities that are carried out both at the level of the Bank's territorial units and at the level of the head office.The main purpose of the monitoring process of the credit portfolio is to supervise its quality by early identification (either manual or automatic) of those risk factors, negative symptoms or compromising events that may affect the creditworthiness of the counterparty, its repayment capacity and, if applicable, the value of the collateral/possibility of its recovery in legal proceedings.

The frequency of monitoring activities will be determined according to the risk profile of the counterparty, the availability of information and its accuracy, but at least once a year for performing legal entities.

During the validity period of the credit facility, the business units managing the relationship with the client are mainly responsible for carrying out monitoring activities, with the support of the Credit Bureaus and/or Proactive Credit Management (PCM) or other structures in the same line within the Bank.

The designated persons within the territorial units and/or the specialized staff within the structure in charge of the loans administration are obliged to analyze and monitor the use of the drawings from the granted loans, the fulfillment of the conditions envisaged when approving them, during the crediting period, monitoring the repayment method, as well as the situation of the sources of their repayment, etc. and urgently reporting any anomaly observed to the relevant structures within the Bank's Head Office, in accordance with the specific provisions implemented by the Bank.

5. RISK MANAGEMENT (continued)

The monitoring process consists of three stages:

- Daily monitoring (identification of exposures at risk);
- Regular monitoring activities (at least monthly);
- General portfolio monitoring.

The day-to-day relationship with the counterparty and the support provided on a continuous basis by the Early Warning System implemented by the Bank are the basis for the identification of risk exposures in the Bank's portfolio. The business units managing the lending relationship with counterparties are responsible for the detection of adverse events (negative symptoms/compromising events).

When negative symptoms or compromising events are observed, exposures are accordingly identified as problem or non-performing assets and appropriate management actions are taken in accordance with the provisions of the risk and non-performing exposure management process in place.

The performance portfolio assessment is carried out on a daily basis, automatically performed by the EWS application on all the bank's exposures. The EWS engine defines the risk level of each exposure using a statistical combination of the most predictive indicators for the bank. This engine was recalibrated in 2023 by developing two separate models, splitting the exposures by turnover and thus improving the detection rate. In terms of the end result, the EWS model classifies each client into six risk classes, expressed as colours.

A customer detected by EWS based on the automatic algorithm or manual detection based on negative symptoms/compromising events identified by the commercial/analytical/monitoring structures, is managed through the CMC application by defining an action plan, which includes the strategy for that customer.

Based on the results of the monitoring and control activities carried out on the customer's creditworthiness, payment behaviour, etc., recorded in specific documents implemented by the Bank's competent structures, the business units shall make proposals for measures, which shall be submitted for approval to the hierarchical superior and/or other competent bodies. After their approval, the established measures shall be communicated in writing to the counterparty for their implementation.

Monitoring activities take the form of specific reports to both the Credit Risk Management Committee / Problem Asset Committee and the business units.The Credit Portfolio Management and Analysis Department is responsible for performing Level 1 controls on exposures / clients and performs controls on: annual reviews, past due amounts, draw period expiry, proactive portfolio monitoring, restructured exposures and presents the results in specific analysis reports to the Bank's management.

Portfolio monitoring activities are also carried out through Level 2 controls by the risk management structure through specific reports prepared and presented to the Bank's management and/or specific internal committees and will be considered at least:

- quality of the asset portfolio
- the evolution of the asset portfolio compared to the approved budget and business plan;
- the structure of the loan portfolio;
- concentration risk (depending on liquidity, product type, industry, market, currency of credit facility, group of connected customers, etc.)
- second level controls, carried out on first level control reports and analyses.

The Bank's portfolio monitoring activities will at least consider:

1. the quality of the Bank's asset portfolio (special attention being paid to the non-performing loan portfolio);
2. the evolution of the quality of the asset portfolio compared to the approved budget and business plan;
3. concentration risk (depending on liquidity, product type, business sector, market, currency of credit facilities, group of related customers, etc.).

5. RISK MANAGEMENT (continued)

Collection and recovery process (workout)

In the process of credit collection and recovery, the following main steps have been identified:

- Soft collection activities;
- Action Plan;
- Recovery activities ("hard collection").

The main methods of recovering debts resulting from lending activity are:

1. Out-of-court recovery
2. Judicial recovery.

Both methods are usually activated when the creditworthiness of the debtor is seriously and irreversibly impaired, the aim being to identify the best strategy to recover the exposure in question.

The process may involve:

- restructuring of counterparty credit exposure (exposure replacement operations);
- amicable recovery by identifying potential sources of repayment (generally other than those supported by the debtor's economic and financial performance), which may involve both the debtor and co-debtors, guarantors, third parties;
- recovery by enforcement in all its forms, including on the guarantees made in favour of the Bank and the assets of the guarantors (guarantors/guarantors);
- recovery by including the claims in a portfolio of claims offered for sale to third parties;
- the taking over of assets on account of receivables followed by the sale of those assets or their transfer to other entities;
- recovery in insolvency proceedings.

The bank has defined the following methods for carrying out replacement operations:

- ***Credit rescheduling:*** method by which the Bank modifies the intermediate maturity and/or the payment amount of one/more instalments of the outstanding credit, without exceeding the initial credit period.
- ***Credit rescheduling:*** method by which the Bank modifies the maturity and/or the payment amount of one or more instalments of the outstanding credit, exceeding the initial credit term and/or classifying the credit in another category, as appropriate (medium term, long term).
- ***Credit refinancing*** : operation whereby the Bank grants a new cash credit facility for the partial/full repayment of one/more loans held by the counterparty.
- ***Conversion of revolving loans into non-revolving loans*** , a method characterised by the elimination of the revolving nature of the loan and the change to a medium or long-term loan product.

When any amicable means of recovering the exposure is ineffective, the Loan Recovery Department shall analyse and submit to the competent authority the request to initiate legal proceedings against the debtor/third party guarantor, which is the last solution by which the Bank can recover its claims.

A counterparty creditworthiness analysis will be performed, which may result in the classification of the counterparty exposure as "problem" or "non-performing", thus allowing the best strategy to be adopted to minimise the risk of loss on credit facilities that are still performing and maximise the recovery of exposure on non-performing loans.

5. RISK MANAGEMENT (continued)

Depreciation methodology

The portfolio classification is the basis for the introduction of the 3-category approach as follows:

- performing exposures without a significant increase in credit risk since the date of origination are classified as **Stage 1**: their expected loss is equal to the 12-month expected credit loss; at the date of origination of each non-impaired financial instrument, the 12-month expected credit loss must be recognised;
- Performing exposures with a significant increase in credit risk from the date of origination are classified as **Stage 2**: their expected losses are equal to their expected lifetime credit losses;
- Impaired credit exposures (NPLs) are classified as **Stage 3**;
- Financial assets of the **Purchased or Originated Credit Impaired** (**POCI**) type are classified in accordance with the Bank's accounting policies.

Significant exposures are subject to individual assessment. Recovery forecasts are made at classification, and at least every twelve (12) months thereafter, and where appropriate, for any significant events occurring during the management period.

Individual exposure assessments are based on a careful and in-depth qualitative and quantitative analysis of the borrower's situation, including but not limited to a critical review of the following sources of information:

i. the latest available financial information (including consolidated financial information, if any) accompanied by the operations report and audit report, if any, and the financial statements for prior years;
ii. information on specific corporate events (e.g. extraordinary transactions);
iii. current and forecast financial positions and results, analysis of differences between forecasts and actual;
iv. for debtors belonging to economic groups, information on their internal and external relationships (to assess the risk of contamination or deterioration);
v. list of bank relationships (credit lines/usage/transaction status);
vi. Client's short and medium term plans and strategies complemented by financial projections (at least three years), estimated cash flow statement, product analysis, sector and market studies, etc;
vii. any documentation from third party experts as to the reasons for the debtor's deterioration and potential actions to reorganise the company and exit the crisis;
viii. Updated business profiles from the Chamber of Commerce/ Register of Commerce or equivalent, cadastral surveys on all debtors and guarantors;
ix. nature and validity of collateral, valuation for each asset, presence of mortgages/pledge, other ersonae2727 bank;
x. recent and historical credit bureau reports.

An analytical assessment is made for each individual loan, based on the risk involved given the technical form of the exposure, the degree of dependence on any mitigating factors, and if significant, the financial effects of the realistic time estimated to be required for recovery.

A recovery forecast is made, based on an assessment of the significance of the collateral/collateral assigned, the type of use (commercial real estate or rental collateral), any agreed repayment plans, the existence or not of legal proceedings and their type, the creditworthiness of the counterparty and current and prospective profitability, in order to determine the recovery amount which represents the net present value of all recoverable amounts that the bank can obtain.

Collective evaluation

According to IFRS 9 principles, three scenarios are considered for the estimation of the PD parameter (probability of default) in order to cover all future macroeconomic trends. In order to implement the scenarios, the Bank uses both the results of the stress coefficients published by the European Banking Authority and the PD satellite model, which establishes a link between default rates and macroeconomic variables. In estimating the PD parameter the Bank uses historical data from 2015 to 2022 - historically updated in line with the EBA guidelines (EBA / GL / 2016/07) regarding the definition of default status.

5. RISK MANAGEMENT (continued)

For the estimation of the LGD (loss given default) parameter, the Bank uses the same principles defined in the PD estimation methodology, using three scenarios to cover all future macroeconomic trends. The Bank applies the simplified approach to the whole framework, an approach that requires the application of a proxy to calculate the LGD value.The LGD proxy for performing exposures is estimated using a database that has been constructed with the following transaction types:

- closed NPL facilities;
- Cancelled transactions, still on the books, with no debt write-off;
- Cured facilities - NPL facilities that have migrated back into performing exposures;
- transactions for which the NPL period is greater than or equal to 6 years (only for individuals).

For non-performing exposures, based on age samples, depending on the default period and the indications of guaranteed/unguaranteed exposures, different LGD NPL values are applied in line with the coverages required for Calendar Provisioning (Pillar 1 requirements of Regulation (EU) No 630/2019] on minimum loss coverage levels for non-performing exposures)

In estimating the LGD parameter, the Bank uses historical data from 2014 to 2022 in accordance with the EBA guidelines (EBA / GL / 2016/07) regarding the population in default.

In its ECL models, the bank relies on a wide range of forward-looking information as economic indicators, such as:

- EBA coefficients
- GDP growth
- unemployment rates
- internal indicators (DR)

For the PD of the Unrated segment, the Bank uses the EBA coefficients. Currently, the Banking Authority provides, for each country in the perimeter, the EBA multipliers calculated on the country's systemic PD, which are then recalibrated using the normal distribution on the PD starting points of each bank. The recalibrated ABE multipliers are influenced only by GDP.

For the segments TOV>=1M EUR and TOV<1M EUR for legal entities, which are subject to the internal rating model, the Bank uses the Satellite PD model, where the explanatory variables for the selected model are the lending rate applied by credit institutions and GDP, i.e. the average wage per economy and EU_GDP. For individuals the Satellite model uses the lending rate applied by credit institutions and EU_GDP.

The satellite models used by the EBA for the LGD parameter are divided into guaranteed and non-guaranteed. Based on available data, only the unsecured component affected by the macroeconomic variables GDP and unemployment rate has been updated.

Based on the scenario provided by the ECB, these variables were discounted in both the baseline and the negative scenario and the updated coefficients were obtained.

Exposure at default (EAD) is the expected exposure in the event of an event of default. It will result from the current exposure to the counterparty as well as the potential changes allowed by the contract:

- for financial assets the default exposure is the gross default exposure;
- for loan commitments and financial guarantees, the exposure will be considered as the drawn amount as well as the potential future amounts that can be drawn (converted into drawn amount by applying the credit conversion factor - CCF) or repaid according to the contract.

Since 2019, the Bank has implemented the definition of default status in accordance with art.178 of Reg. 575/2013, EBA guidelines (EBA / GL / 2016/07), which is also aligned with the definition of default of the Parent Bank.

(all amounts are expressed in thousands of RON, unless otherwise specified)

5. RISK MANAGEMENT (continued)

The table below shows the methodology used by the Bank to establish the classification of exposures by stage:

Stage 1	Stage 2	Stage 3
• *High-performance exhibitions without days of backlog* • *Performing exhibitions with less than 30 days overdue.*	• *Performing exposures with > 30 days past due and exceeding the materiality threshold (both the absolute component - ≥ 150 lei in the case of retail exposures, respectively 1,000 lei in the case of non-retail exposures, and the relative component - ≥ 1%)* • *Restructured performing exposures (Forborne)* • *Significant increase in credit risk due to the change in the probability of default for natural and legal persons*	• *Exposures that are more than 90 days past due and exceed both materiality thresholds (absolute and relative) or exposures that are in the default trial period* • *Improbability of payment* • *Indoielnic* • *Non-performing Forborne exposures whose net present value loss after restructuring >1%, for financial distress restructurings.*

The Bank has developed a new SICR threshold model for individuals, moving to apply a set of differentiated thresholds that take into account both the rating assigned to each exposure and the residual maturity at the reporting date to measure the significant increase in credit risk, which has been applied from the close of September 2023.

Starting 2019, the Bank adopted early, in line with the Parent Bank, the new methodology for calculating the number of days in arrears according to the EBA guidelines (EBA / GL / 2016/07), in conjunction with the NBR Regulation No 5/2018.

In this context, the Bank analyses the form of incorporation of legal entities in the relevant jurisdictions, as well as the level of liability of owners, partners, shareholders or directors for the obligations of a company depending on the legal form of the entity.

If:

- a person is fully liable for the obligations of a company, the default of that company will also result in that individual being deemed to be in default;
- there is no full liability for a company's obligations, owners, partners or significant shareholders of a defaulted company will be assessed by ISPRO for any indications of the unlikelihood of payment in respect of their individual obligations.

Additionally, in the case of an individual entrepreneur, where an individual is fully liable for both private and commercial obligations, both with commercial and private property, the default of any one of the private or commercial obligations will also result in all private and commercial obligations of such person being deemed to be in default. Therefore, when calculating the contractor's days outstanding, in addition to the contracts already assigned to the contractor, the contracts assigned to the enterprise will also be taken into account. Conversely, when calculating the contractor's days outstanding, contracts already allocated to the contractor will also be taken into account in addition to the contracts already allocated to the contractor. Therefore, the count of alternative days in arrears is the same for both customers, which means that, if the conditions are met, they will be classified as being in default at the same time, but two different counterparties remain**.**

The new legislation also provides for a new and specific approach to the default classification of counterparties related to a joint liability exposure. Joint credit obligation means credit extended to two or more persons based on specific criteria, including combined annual income, credit history and assets. Individual income and credit history (materialized at the score level) affect the joint scoring result for the borrower (will be adversely affected by the proportion of individual income to total eligible income). Once the credit is granted, the borrower and the coborrower assume equal responsibility for repayment of the exposure.

(all amounts are expressed in thousands of RON, unless otherwise specified)

5. RISK MANAGEMENT (continued)

Specifically, two main situations can be distinguished:

1. Default status generated by a counterparty, identified as a counterparty with common exposure;
2. Default generated by different counterparties identified as parties to a common bexposure.

International conflict:

The Bank is currently not exposed to Russia/Belarus through the commercial activities of the Bank's lending clients and has limited exposure to Ukraine through the commercial activities of a small number of lending clients. The Bank is not exposed to significant risk towards Palestine/Israel through the commercial activities of the Bank's lending clients.

Management is closely monitoring any developments and is prepared to take appropriate action that may be required in the areas of accounting estimates and methods of calculating loss provisions and credit risk provisions in accordance with IFRS principles.

The SME Invest National Credit Guarantee Fund for Small and Medium-sized Enterprises (FNGCIMM) programme was created to provide a state guarantee for lending to small and medium-sized enterprises and continued in 2023. This programme allows SMEs significantly affected by the current economic crisis to secure liquidity for their current activity or for investments, by accessing one or more investment loans and/or one or more loans/investment lines, working capital loan, guaranteed by FNGCIMM, on behalf and account of the Romanian State, through the Ministry of Public Finance.

As at 31.12.2023, loans granted under the SME Invest programme during 2023 had a gross exposure of RON 228 million:

*equiv RON

Credit type	**Gross exposure loans granted 2023**
PJ-Cr Investment In Agricultural Equipment IMM INVEST PLUS	660.938
PJ-Business loan ST IMM INVEST PLUS	148.973
PJ-Business loan TML IMM INVEST PLUS	39.778.728
PJ-investments loan SME INVEST PLUS	17.161.638
PJ-real estate investment loan IMM INVEST PLUS	5.661.443
PJ-Credit line IMM INVEST PLUS	165.429.264
Total	**228.840.983**

In order to ensure provisioning coverage in line with expectations for credit risk losses, the Bank has applied the following changes in the provisioning methodology:

- In June 2023, the Risk Management Department proposed and implemented a minimum LGD threshold of 75% for all collectively rated loans at stage 3 to trigger additional provisioning and higher provision coverage;
- the introduction from July 2023 of a Satellite PD model, a statistical model that links the probability of default of a portfolio over time to a set of macroeconomic indicators and aims to predict the impact of future economic shocks on portfolio PDs. For the Legal Entities segment (with a turnover greater than or equal to EUR 1 million and with a turnover less than EUR 1 million), the bank's internal default rate is calculated and used as the target variable. In the case of loans to individuals, consumer loans and mortgage loans, the NBR default rate is used as the target variable;
- also starting in July 2023, the model maturity used in the calculation of expected losses was 6 years until that date, and the updated maturity is set statistically at 7 years and applies to those credit lines with an average maturity of less than 7 years as original maturity plus the difference up to 7 years;
- to measure the significant increase in credit risk (SICR), criteria for individuals (PI) for stage 2 classification have been developed and applied from September 2023, which have been developed by the Risk Management Department and validated by the Intesa Group Validation Structures (GIV). The SICR model is a complex algorithm, using mathematical formulas and various statistical methods and tools, which takes into account the evolution of the Bank's portfolio in previous years to calculate the thresholds that trigger a deterioration in credit quality.

5. RISK MANAGEMENT (continued)

- as part of the month-end process, additional criteria for identifying situations of significant increase in credit risk have been applied as of October 2023. The procedure for determining impairment adjustments under IFRS 9 has been updated to appropriately reflect the measures taken by the bank by introducing additional criteria for identifying situations of significant increase in credit risk subsequent to the initial recognition of a credit exposure, in order to comply with the provisions of IFRS 9, Nos. 5.5.11 and B5.5.17, in conjunction with the provisions of Article 97 of IFRS 9.^89 and art.97^95 paragraph (1) of the Regulation of the National Bank of Romania no.5/2013 on prudential requirements for credit institutions, as amended:
  - ✓ Stage 2 classification for existing Stage 1 loans with contractual DPD >30, distinct from EBA DPD classifications.
  - ✓ classification in Step 2 for existing Step 1 loans in CHF with an actual LTV >100%.
- the Procedure for Determining Impairment Adjustments under IFRS 9 has been updated, regarding the process of periodic review and validation of the coefficients and the minimum periods of adjustment of the collateral value, based on the bank's history, coefficients used in the case of individually assessed NPL exposures, in order to comply with the provisions of Article 344 of the Regulation of the National Bank of Romania No 5/2013 on prudential requirements for credit institutions, as amended.
- As regards the periodic calibration of risk parameters, this took place in November 2023, and consisted of:
  - ✓ update the historical series of the PD TTC migration matrix as well as those for the LGD proxy;
  - ✓ update the macroeconomic scenario (LGD EBA generator for LGD & PD Satellite model);
  - ✓ Improving the SICR model by applying a cap on lifetime PD thresholds (3fold increase) as a safety measure;
  - ✓ The bank has updated the current IFRS9 policy by introducing statistically determined haircuts on collateral values, under which commercial and industrial buildings should have a higher haircut, now proposed at 45% instead of 30%.

(all amounts are expressed in thousands of RON, unless otherwise specified)

5. RISK MANAGEMENT (continued)

Credit risk analysis

The following tables present information on credit risk associated with financial assets measured at amortised cost and at fair value through other comprehensive income for the financial years ending 31.12.2023 and 31.12.2022. Unless expressly stated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed.

2023

Thousand RON		Stage 1	Stage 2	Stage 3	Total
Loans and advances to banks					
Performing		717.883	-	-	717.883
Impairment adjustments		**-27**	**-**	**-**	**-27**
Book value		**717.856**	**-**	**-**	**717.856**
Financial investments - Securities					
Performing		1.321.923	-	-	1.321.923
Impairment adjustments		-1.502	-	-	-1.502
Book value		**1.320.422**	**-**	**-**	**1.320.422**
Loans and advances to customers					
Performing loans		3.337.556	566.752	-	3.904.353
	Current	3.303.883	426.942	-	3.730.825
	<30 days	33.542	50.198	-	83.740
	>30 days	131	89.612	-	89.744
Past due		-	-	13.695	13.695
Unlikely to pay		-	-	54.102	54.102
Doubtful		-	-	84.945	84.945
Impairment adjustments		-16.016	-77.198	-118.072	**-211.285**
Book value		**3.321.540**	**489.555**	**34.670**	**3.845.809**
Credit commitments and financial guarantees					
Performing		1.633.296	6.534	-	1.639.830
Past due		-	-	1	1
Unlikely to pay		-	-	5	5
Doubtful		-	-	19.673	19.673
Impairment adjustments		-7.014	-32.728	-20.184	-59.926
Book value		**1.626.282**	**-26.194**	**-505**	**1.599.583**

(all amounts are expressed in thousands of RON, unless otherwise specified)

5. RISK MANAGEMENT (continued)

			2022		
Thousand RON		**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Creditor to banks					
Performing		1.035.236	-	-	1.035.236
Impairment adjustments		**-235**	**-**	**-**	**-235**
Book value		**1.035.001**	**-**	**-**	**1.035.001**
Financial investments - Securities					
Performing (Note 19)		1.156.551	-	-	1.156.551
Impairment adjustments		**-1.283**	**-**	**-**	**-1.283**
Book value		**1.155.268**	**-**	**-**	**1.155.268**
Loans and advances to customers					
Performance		3.790.834	364.103	-	4.154.931
	Current	3.677.911	321.214	-	3.999.126
	<30 days	96.840	27.784	-	124.623
	>30 days	16.077	15.105	-	31.182
Past due		-	-	11.803	11.803
Unlikely to pay		-	-	134.523	134.523
Doubtful		-	-	99.088	99.088
Impairment adjustments		**-32.638**	**-34.494**	**-145.490**	**-212.621**
Book value		**3.758.196**	**329.610**	**99.924**	**4.187.730**
Credit commitments and financial guarantees					
Performing		2.024.817	4.202	-	2.029.019
Past due		-	-	2	2
Unlikely to pay		-	-	1.205	1.205
Doubtful		-	-	27.609	27.609
Impairment adjustments		**-2.528**	**-74**	**-27.607**	**-30.209**
Book value		**2.022.289**	**4.127**	**1.208**	**2.027.625**

(all amounts are expressed in thousands of RON, unless otherwise specified)

5. RISK MANAGEMENT (continued)

Collateral held and other credit risk mitigation techniques - market values

	31 December 2023	31 December 2022
Performing loans		
Assumptions	3.536.369	3.408.427
Guarantee received MFP IMM INVEST	557.218	640.749
Bank guarantee letters	773.368	625.509
Mortgages on goods, stocks, etc.	417.093	258.904
Chattel mortgage on machinery	231.281	235.306
Guarantees received from central government institutions of the Romanian state - 0% risk grade loans - first home	100.805	121.288
Intrinsic leasing guarantees	71.819	81.209
Movable mortgage on means of transport	81.669	59.961
EXIMBANK GUARANTEE	32.444	37.431
Chattel mortgage - collateral deposits	19.814	16.203
Financial guarantee received FGCR IMM Invest	44.176	3.713
State guarantee	1.202	2.108
GUARANTEE FNGCIMM OPRIMM CGP_119683	3.322	1.379
Other express, irrevocable and unconditional personal guarantees issued by FGC Romania	472	640
Other express, irrevocable and unconditional personal guarantees issued by FNGCIMM S.A.	466	527
EIF InnovFin Guarantee	22	424
Total	**5.871.540**	**5.493.777**

Collateral held and other credit risk mitigation techniques - market values

	31 December 2023	31 December 2022
Non-performing loans		
Assumptions	270.745	281.867
Guarantee received MFP IMM INVEST	20.714	20.828
Mortgages on goods, stocks, etc.	478	19.600
Chattel mortgage on machinery	10.578	17.780
Guarantees received from central government institutions of the Romanian state - 0% risk grade loans - first home	3.532	3.697
Movable mortgage on means of transport	1.286	2.386
State guarantee	152	237
Bank guarantee letters	-	148
Intrinsic leasing guarantees	-	127
Chattel mortgage - collateral deposits	113	110
Total	**307.598**	**346.780**

Loans secured by mortgages

The table below stratifies gross credit exposures and advances to retail and corporate customers by loan-to-value (LTV) ranges. LTV is calculated as the ratio of the gross loan amount - or the amount committed for loan commitments - to the value of the related mortgage collateral. The gross amounts shown below exclude any adjustments for impairment.

(all amounts are expressed in thousands of RON, unless otherwise specified)

5. RISK MANAGEMENT (continued)

The valuation of guarantees excludes any adjustments for obtaining and selling. The collateral value shown in the table below for mortgage loans is based on the market value of the collateral revalued based on the latest valuation report performed by ANEVAR certified appraiser.

	Amount of credit in relation to collateral value (LTV)	31 December 2023	31 December 2022
Corporate (legal entities)	Less than 50% of the total	2.492.392	2.678.722
	51% -70%	199.499	207.052
	71% - 90%	84.732	52.743
	91% - 100%	23.136	32.289
	>100%	367.714	526.303
	Total	**3.167.473**	**3.497.109**

	Amount of credit in relation to collateral value (LTV)	31 December 2023	31 December 2022
Retail (individuals)	Less than 50% of the total	258.066	260.322
	51% -70%	213.450	231.862
	71% - 90%	105.837	112.218
	91% - 100%	5.273	10.904
	>100%	20.178	36.844
	Total	**602.804**	**652.160**

2023

Amount of credit in relation to collateral value (LTV)	Gross Exposure			Provizion			Cover with provision		
Corporate	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
1. 50%	2.156.237	278.409	57.746	10.265	25.365	33.573	0,48%	9,11%	58,14%
2. 51%-70%	114.643	81.603	3.253	856	12.665	1.584	0,75%	15,52%	48,71%
3. 71%-90%	78.408	972	5.352	884	59	4.933	1,13%	6,10%	92,18%
4. 91%-100%	15.042	-	8.094	77	-	7.462	0,51%	0,00%	92,20%
5. >100%	246.198	96.578	24.938	1.581	30.990	20.342	0,64%	32,09%	81,57%
Total	**2.610.528**	**457.562**	**99.383**	**13.663**	**69.079**	**67.894**	**0,52%**	**15,10%**	**68,32%**

2023

Amount of credit in relation to collateral value (LTV)	Gross Exposure			Provizion			Cover with provision		
Retail	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
1. 50%	218.769	21.819	17.479	942	2.211	15.850	0,43%	10,13%	90,68%
2. 51%-70%	159.613	41.113	12.724	550	2.691	11.359	0,34%	6,55%	89,28%
3. 71%-90%	78.222	19.820	7.795	300	1.496	7.759	0,38%	7,55%	99,54%
4. 91%-100%	3.269	968	1.036	8	78	1.033	0,23%	8,06%	99,62%
5. >100%	12.736	2.231	5.212	23	197	5.084	0,18%	8,85%	97,55%
Total	**472.608**	**85.951**	**44.245**	**1.822**	**6.673**	**41.085**	**0,39%**	**7,76%**	**92,86%**

(all amounts are expressed in thousands of RON, unless otherwise specified)

5. RISK MANAGEMENT (continued)

2022 Amount of credit in relation to collateral value (LTV)	Gross Exposure			Provizion			Cover with provision		
Corporate	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
1. 50%	2.434.907	181.098	62.717	20.590	15.778	36.691	0,85%	8,71%	58,50%
2. 51%-70%	76.779	117.583	12.689	745	12.627	7.292	0,97%	10,74%	57,47%
3. 71%-90%	29.095	10.329	13.319	246	299	10.258	0,84%	2,89%	77,01%
4. 91%-100%	23.930	224	8.134	173	7	7.313	0,72%	2,99%	89,90%
5. >100%	389.042	43.510	93.751	4.104	4.223	59.226	1,05%	9,71%	63,17%
Total	**2.953.754**	**352.745**	**190.610**	**25.858**	**32.933**	**120.780**	**0,88%**	**9,34%**	**63,36%**

Amount of credit in relation to collateral value (LTV)	Gross Exposure			Provizion			Cover with provision		
Retail	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
1. 50%	241.222	2.110	16.990	2.537	422	8.707	1,05%	20,00%	51,25%
2. 51%-70%	213.795	3.695	14.372	1.881	507	5.268	0,88%	13,72%	36,66%
3. 71%-90%	101.372	1.889	8.957	1.128	213	3.915	1,11%	11,26%	43,71%
4. 91%-100%	9.660	77	1.166	124	13	641	1,28%	17,32%	54,96%
5. >100%	30.365	930	5.550	303	128	3.303	1,00%	13,74%	59,52%
Total	**596.414**	**8.701**	**47.035**	**5.973**	**1.283**	**21.835**	**1,00%**	**14,74%**	**46,42%**

In the above presentation, referring to the Retail category, the "First home" product has been excluded, because for this type of product, the mortgage value of the property is 50% in favour of the Bank and 50% in favour of the State through FNGCIMM. As at 31 December 2023, the exposures related to the "First home" product totalled 210.35 million lei (31 December 2022: 251.01 million lei).

In the 100% - 110% LTV segment, the Bank has identified a number of 36 loans with an exposure of 54.12 million lei, and for the LTV>110% segment, in the portfolio as of 31.12.2023 there are 179 loans with an exposure of 333.77 million lei (31 December 2022: 494.08 million lei).

We mention that the exposure of clients with loans with an exposure of less than 250,000 euro and secured by real estate (excluding the Prima casa product) totals 1.21 billion lei (31.12.2022: 1.32 billion lei), of which with LTV>100% an exposure amounting to 47.30 million lei (31 December 2022: 79.82 million lei).

In the case of the category of Corporate clients with LTV > 100%, for the amount of RON 367.71 million exposure (31.12.2022: RON 526.25 million), in addition to mortgage guarantees, the Bank has obtained other types of guarantees that are not taken into account in the above LTV calculation, with a total value of RON 137.52 million (31 December 2022: RON 220.70 million).

In addition to assessing the quality of corporate clients, the Bank re-evaluates commercial mortgage guarantees once a year at a pre-determined frequency and residential mortgage guarantees every 3 years. In the event of significant changes in real estate market conditions, the revaluation is carried out more frequently.

Assets obtained by taking possession of guarantees

Situation of the assets taken over, in net value:

	Note	31 December 2023	31 December 2022
Repossessed assets	24	19.090	13.492
Investment property	22	-	8.089

(all amounts are expressed in thousands of RON, unless otherwise specified)

5. RISK MANAGEMENT (continued)

Sector of activities	Loans and advances to customers		Loans and advances to banks		Financial investments	Financial investments
	31 December 2023	31 December 2022	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Agriculture	177.950	197.800	-	-	-	-
Other activities	48.237	9.265	-	-	-	-
Trade	711.941	697.695	-	-	-	-
Construction	289.360	253.556	-	-	-	-
Industry- Processing and preservation	24.974	23.676	-	-	-	-
Industry- Production (gas, electricity, etc.)	173.863	269.504	-	-	-	-
Industry-Extraction (oil, gravel, etc.)	2.600	1.815	-	-	-	-
Industry-Manufacturing (furniture, footwear, machinery, etc.)	356.526	337.992	-	-	-	-
Other industrial activities	208.207	391.017	-	-	-	-
Transport services	60.956	53.722	-	-	-	-
Hotel services	105.657	122.701	-	-	-	-
Real estate services (buying, renting etc)	32.591	40.073	-	-	-	-
Leasing services	517.300	282.278	-	-	-	-
Services-Repair of machines, ships, etc.	2.672	4.175	-	-	-	-
Other services	378.725	632.306	-	-	-	-
Individuals	754.250	870.155	-	-	-	-
Banking institutions	-	-	717.856	1.035.001	-	-
Sovereign exposures	-	-	1.131.867	933.680	1.324.052	1.158.442
Total net exposure	**3.845.809**	**4.187.730**	**1.849.723**	**1.968.681**	**1.324.052**	**1.158.442**

(all amounts are expressed in thousands of RON, unless otherwise specified)

5. RISK MANAGEMENT (continued)

2023

Sector focus	Gross Exposure			Provisions			Coating with Provisions		
	S1	S2	S3	S1	S2	S3	S1	S2	S3
Agriculture	167.150	10.234	14.868	1.227	776	12.298	0.73%	7.59%	82.72%
Other activities	48.188	106	390	78	5	363	0.16%	4.94%	93.23%
Trade	679.538	37.388	9.925	4.342	4.855	5.713	0.64%	12.98%	57.56%
Construction	270.513	17.664	9.195	2.016	2.045	3.951	0.75%	11.58%	42.97%
Industry- Processing and preservation	16.870	8.762	1.837	179	1.382	934	1.06%	15.77%	50.84%
Industry- Production (gas, electricity, etc.)	51.959	136.262	397	244	14.142	371	0.47%	10.38%	93.28%
Industry-Extraction (oil, gravel, etc.)	2.614	-	-	15	-	-	0.56%	0.00%	0.00%
Industry-Manufacturing (furniture, footwear, machinery, etc.)	311.385	65.538	27.005	2.199	26.035	19.168	0.71%	39.72%	70.98%
Other industrial activities	134.000	74.251	12.085	689	6.061	5.378	0.51%	8.16%	44.50%
Transport services	55.806	5.875	1.729	412	336	1.707	0.74%	5.72%	98.71%
Hotel services	43.333	73.905	369	225	11.376	348	0.52%	15.39%	94.37%
Real estate services (buying, renting etc)	19.519	10.516	18.222	204	746	14.716	1.04%	7.10%	80.76%
Leasing services	517.668	106	-	470	4	-	0.09%	3.94%	0.00%
Services-Repair of cars, ships, etc.	2.688	-	-	15	-	-	0.57%	0.00%	100.00%
Other services	362.529	19.167	4.090	1.691	1.703	3.666	0.47%	8.88%	89.64%
Physical Persons	653.842	106.978	52.629	2.010	7.732	49.459	0.31%	7.23%	93.97%
Grand Total	**3.337.602**	**566.752**	**152.741**	**16.016**	**77.198**	**118.072**	**0.48%**	**13.62%**	**77.30%**

2022

Sector focus	Gross Exposure			Provision			Coating with Provision		
	S1	S2	S3	S1	S2	S3	S1	S2	S3
Agriculture	189.699	8.442	22.656	2.078	981	19.938	1,10%	11,62%	88,00%
Other activities	9.020	66	585	81	2	323	0,90%	2,36%	55,18%
Trade	689.111	15.382	11.250	8.729	1.638	7.681	1,27%	10,65%	68,27%
Construction	237.788	9.110	14.788	2.242	1.288	4.601	0,94%	14,14%	31,11%
Industry- Processing and preservation	21.076	2.946	811	180	224	753	0,85%	7,60%	92,91%
Industry- Production (gas, electricity, etc.)	270.277	1.096	-	1.862	6	-	0,69%	0,57%	100,00 %
Industry-Extraction (oil, gravel, etc.)	1.828	-	-	13	-	-	0,74%	0,00%	0,00%
Industry-Manufacturing (furniture, footwear, machinery, etc.)	288.132	14.313	101.352	3.560	1.446	60.800	1,24%	10,11%	59,99%
Other industrial activities	244.998	155.633	10.857	1.668	13.198	5.605	0,68%	8,48%	51,63%
Transport services	52.729	1.455	2.406	552	176	2.138	1,05%	12,11%	88,88%
Hotel services	13.995	120.328	1.439	132	12.508	421	0,94%	10,39%	29,26%
Real estate services (buying, renting etc)	19.930	17.779	18.536	302	945	14.924	1,52%	5,32%	80,52%
Leasing services	282.583	-	-	305	-	-	0,11%	0,00%	0,00%
Services-Repair of cars, ships, etc.	4.203	-	-	27	-	-	0,64%	0,00%	100,00 %
Other services	628.425	6.193	5.967	4.128	521	3.631	0,66%	8,41%	60,85%
Physical Persons	837.034	11.358	54.769	6.778	1.560	24.675	0,81%	13,74%	45,05%
Grand Total	**3.790.828**	**364.103**	**245.414**	**32.638**	**34.494**	**145.490**	**0,86%**	**9,47%**	**59,28%**

(all amounts are expressed in thousands of RON, unless otherwise specified)

5. RISK MANAGEMENT (continued)

The government securities portfolio, representing instruments at fair value through other comprehensive income, is described below.

	31 December 2023	31 December 2022
Government securities and treasury certificates:		
Category BBB- (Fitch) (Note 19)	1.321.924	1.156.551

The table below describes the exposures arising from exchange rate swaps (held for risk management purposes). In general, derivative transactions are fully cash collateralised.

	31 December 2023		31 December 2022	
	Assets	Liabilities	Assets	Liabilities
Currency swaps	791	-	3.872	13.092
Notional value	400.057	397.968	247.370	317.851

Modified financial assets

When the terms of a financial asset are changed and the change does not result in derecognition, the determination of whether the credit risk of the asset has increased is made by comparing the changed terms at the reporting date with those at initial recognition and with the original contractual terms.

When the change results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not impaired due to credit risk at that time).

The Bank renegotiates loans to customers in financial difficulty (hereinafter referred to as "hardship restructurings") to maximize collection opportunities and minimize the risk of default. In accordance with the Bank's restructuring policy, restructurings are granted on a selective basis if the borrower is currently in default on its debts or if there is a high risk of default, if there is evidence that the borrower has made all reasonable efforts to pay under the terms of the original contract and the borrower is expected to be able to meet the revised terms.

Revised terms typically include maturity extensions, changes in the timing of interest payments and changes in the terms of loan commitments. Both retail and corporate loans may be subject to restructuring due to financial difficulties.

For financial assets modified as part of the Bank's financial distress restructuring policy, the borrower's payment performance is assessed against the modified contractual terms and takes into account various behavioural indicators. In general, financial distress restructuring is a qualitative indicator of a significant increase in credit risk and an expectation of financial distress restructuring may be evidence that an exposure is impaired as a result of Stage 1 or Stage 2 credit risk.

The gross carrying amount of loans with renegotiated terms (and related impairment adjustment) is as follows:

	31 December 2023	31 December 2022
Gross exposure value	**137.792**	**250.641**
Impairment adjustments	-49.919	-70.598
Net book value	**87.873**	**180.043**

(all amounts are expressed in thousands of RON, unless otherwise specified)

5. RISK MANAGEMENT (continued)

(c) Liquidity risk

Liquidity risk is defined as the risk that the Bank will encounter difficulties in meeting obligations associated with financial liabilities that are settled through the delivery of cash or another financial asset.

Liquidity risk management

Liquidity risk arises from the possibility that the Bank may become unable to meet its payment obligations when they become due under both normal and stressed conditions. In order to limit this risk management has organised diversified funding sources in addition to the main deposit base and has adopted an asset management policy with a view to monitoring future cash flows and liquidity on a regular basis. The bank has developed internal control processes and contingency plans to manage liquidity risk. These include an assessment of expected cash flows and the availability of highly liquid assets that could be used to secure additional funding if required. The Bank maintains a portfolio of eligible assets that are assumed to be readily liquid in the event of an unforeseen cash flow disruption.

At 31 December 2023 the Bank also has a money market limit of EUR 108,000,000 (31 December 2022: EUR 108,000,000) with Intesa Sanpaolo S.p.A. Milan.

In accordance with the Bank's policy, the liquidity position is assessed and managed through a series of scenarios, focusing on stress factors relating to both the market in general and the Bank in particular.

Exposure to liquidity risk

The key indicator used by the Bank to manage liquidity risk is the ratio of liquid net assets to customer deposits. For this purpose, net liquid assets are considered to be cash and cash equivalents, securities for which there is an active and liquid market, less any deposits from banks, debt securities issued, loans and other commitments falling due in the next month. The ratio of net liquid assets to customer deposits at the reporting date and during the reporting period were as follows:

	2023	**2022**
At 31 December	118.62%	140.24%
Average period	105.78%	141.70%
Maximum period	118.62%	161.09%
Minimum period	92.45%	118.10%

Liquidity Requirements Coverage (LCR) and Net Stable Funding Ratio (NSFR)

The Bank also uses the LCR and NSFR to monitor liquidity as required by the Basel Committee on Banking Supervision to monitor and promote a sound liquidity profile. The Bank calculates daily LCR, which measures the adequacy of high quality liquidity assets to survive an acute stress scenario over a 30-day period. The bank calculates monthly NSFR which measures the amount of available stable funding in excess of the required amount of stable funding needed for a 12-month period of prolonged market stress condition. The LCR and NSFR ratios at the end of 2023 are 412.4% (2022: 276.2%) and 185.0% (2022: 151.3%), respectively

Counterbalancing capacity (CBC)

In accordance with point 1 of the NBR Order No 110/25.07.2022, the Bank must maintain at all times a level of the cumulative "Counterbalancing Capacity" indicator greater than 140% of net liquidity outflows, according to the LCR rules. Consequently, the CBC requirements are covered by both the HQLA and the contingency line.

The CBC indicator at the end of 2023 is 412.4% in line with the LCR indicator (2022: 360.2%)

As a result of the excessive liquidity held, the Bank through the Treasury & ALM Department, decided at the end of 2023 to change its contingency funding strategy, namely: the committed (contingent) reserve credit line with the Leading Group (amounting to EUR 80,000,000) not to be extended. However, if the LCR and CBC indicators decrease significantly, for a period of 1 week, i.e. <200%, the Bank will consider signing a contingency line.

(all amounts are expressed in thousands of RON, unless otherwise specified)

5. RISK MANAGEMENT (continued)

Residual maturity analysis of financial assets and liabilities, based on internal management reporting

Based on historical customer behaviour, the Bank estimates that a large proportion of maturing deposits will be rolled over. In addition, in order to cover liquidity needs in the event of a crisis, the Bank no longer has a committed reserve credit line (31 December 2022: EUR 80,000,000) from Intesa Sanpaolo S.p.A. Milan. Within Financial Investments, the Bank mainly holds government securities which are eligible and can be used for liquidity purposes at any time, regardless of maturity, therefore they are presented in the first band.

31 December 2023	Book value	Entries	<1 month	1-3 months	3 months - 1 year	1-5 years	> 5 years
Cash and cash account at the central bank	1.318.043	1.318.043	1.318.043	-	-	-	-
Loans and advances to banks	717.856	709.344	571.116	10.558	127.670	-	-
Derivative financial assets held for risk management	791	791	159	348	284	-	-
Financial investments	1.325.208	1.325.208	1.324.052	-	-	1.156	-
Loans and advances to customers	3.845.809	4.843.687	181.093	226.827	1.767.488	1.698.268	970.011
Assets held for sale	17.368	17.368	-	-	17.368	0	-
Total assets	**7.225.075**	**8.214.441**	**3.394.463**	**237.733**	**1.912.810**	**1.699.424**	**970.011**

31 December 2023	Book value	Outputs	<1 month	1-3 months	3 months - 1 year	1-5 years	> 5 years
Deposits from banks	69.021	43.025	32.871	10.155	-	-	-
Derivative financial liabilities for risk management	-	-	-	-	-	-	-
Loans from banks	563.059	695.647	2.794	6.040	32.711	654.101	-
Customer deposits	5.627.416	5.692.794	3.331.193	662.054	1.648.825	46.519	4.204
Total liabilities	**6.259.495**	**6.431.466**	**3.366.857**	**678.249**	**1.681.537**	**700.620**	**4.204**
Net position	**965.580**	**1.782.975**	**27.606**	**-440.516**	**231.273**	**998.804**	**965.807**

(all amounts are expressed in thousands of RON, unless otherwise specified)

5. RISK MANAGEMENT (continued)

31 December 2022	Book value	Entries	<1 month	1-3 months	3 months - 1 year	1-5 years	> 5 years
Cash and cash account at the central bank	1.081.309	1.081.309	1.081.309	-	-	-	-
Loans and advances to banks	1.035.001	1.035.001	1.035.001	-	-	-	-
Derivative financial assets held for risk management	3.872	3.872	2.638	1.234	-	-	-
Financial investments	1.159.201	1.159.201	1.158.442	-	-	759	-
Loans and advances to customers	4.187.730	5.185.515	172.199	314.900	1.621.642	2.025.840	1.050.934
Assets held for sale	20.172	20.172	20.172				
Total assets	**7.487.285**	**8.485.070**	**3.469.761**	**316.134**	**1.621.642**	**2.026.599**	**1.050.934**

31 December 2022	Book value	Outputs	<1 month	1-3 months	3 months - 1 year	1-5 years	> 5 years
Deposits from banks	214.491	214.491	113.312	101.179	-	-	-
Derivative financial liabilities for risk management	13.092	13.092	5.725	7.367	-	-	-
Loans from banks	667.889	861.541	20.393	4.028	74.348	556.556	206.216
Customer deposits	5.707.919	5.777.118	3.566.642	690.597	1.468.640	46.436	4.804
Total debts	**6.603.391**	**6.866.242**	**3.706.072**	**803.170**	**1.542.988**	**602.992**	**211.021**
Net position	**883.894**	**1.618.828**	**-236.311**	**-487.036**	**78.654**	**1.423.607**	**839.913**

(all amounts are expressed in thousands of RON, unless otherwise specified)

5. RISK MANAGEMENT (continued)

Residual maturity analysis of off-balance sheet commitments

31 December 2023	Book value	<1 month	1-3 months	3 months - 1 year	1-5 years	> 5 years
Commitments, Letters of guarantee (note 33)	2.299.316	1.267.991	83.593	140.950	476.109	330.673

31 December 2022	Book value	<1 month	1-3 months	3 months - 1 year	1-5 years	> 5 years
Commitments, Letters of guarantee (note 33)	2.057.817	1.284.159	76.155	208.335	238.205	250.963

(all amounts are expressed in thousands of RON, unless otherwise specified)

5. RISK MANAGEMENT (continued)

(d) Market risk

Market risk is the risk that the fair value or future cash flows generated by financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Bank does not hold trading portfolios. The market risk for the banking book is monitored based on the Value at Risk (VaR) methodology for foreign exchange risk and sensitivity analysis for interest rate risk.

Year	VaR 2023	FX VaR eq EUR
2023	31 December	4.840
2023	Daily average	2.906
2023	Maxim	5.690
2023	Minim	1.611

Year	VaR 2022	FX VaR eq EUR
2022	31 December	2.178
2022	Daily average	2.212
2022	Maxim	17.743
2022	Minim	455

Exposure to interest rate risk related to activities outside the trading book

Interest rate risk arises from the possibility that changes in interest rates may affect future cash flows or fair values of financial instruments. The Bank has established limits for interest rate spreads in the banking book. In accordance with the Bank's policy, positions are monitored on a regular basis and daily gaps monitored.

The limit for the interest income margin indicator (NII), which records the balance sheet income and effects at a parallel and instantaneous movement with a shock of +/- 50 basis points of interest rates over a 12-month time period, is -4 million Eq. Eur having only a negative sign: the use of the boundary being represented by the highest negative sensitivity between the two scenarios of rising and falling interest rates.

For the reference date 31.12.2023 the level of the NII -50 basis points interest rate indicator over a 12-month time period was -2.35 mil. eq. EUR.

The following table shows the Bank's interest rate risk based on the interest rate sensitivity indicator, using a shock of +/- 50 and +/-100 basis points, respectively, for both 2022 and 2023:

	+100 pct. basis	-100 pct. Base	+50 pct. basis	-50 pct. basis
Net income sensitivity to projected interest rates				
2023				
At 31 December	18.938	-23.351	8.992	-11.676
Average period	18.964	-26.056	7.447	-13.040
Maximum period	22.540	-23.351	10.830	-11.676
Minimum period	16.054	-29.409	5.286	-14.722
2022				
At 31 December	19.668	-29.769	6.699	-14.897
Average period	17.586	-23.302	7.223	-12.042
Maximum period	24.106	-19.834	11.736	-10.386
Minimum period	14.727	-29.769	5.089	-14.897

(all amounts are expressed in thousands of RON, unless otherwise specified)

5. RISK MANAGEMENT (continued)

The following table shows the Bank's interest rate risk based on the interest rate sensitivity indicator, using a shock of +/- 50 and +/-100 basis points, respectively, for both 2022 and 2023:

	+100 pct. basis	**-100 pct. Base**	**+50 pct. basis**	**-50 pct. basis**
Net income sensitivity to projected interest rates				
2023				
Total	18.938	-23.351	8.992	-11.676
EUR	8.659	-9.713	4.383	-4.857
USD	-58	58	-29	29
RON	10.337	-13.696	4.638	-6.848
2022				
Total	19.668	-29.769	6.699	-14.897
EUR	6.899	-10.249	1.866	-5.137
USD	130	-130	65	-65
RON	12.639	-19.391	4.768	-9.695

(all amounts are expressed in thousands of RON, unless otherwise specified)

5. RISK MANAGEMENT (continued)

The table below shows the cash flows (notional and interest) of interest-bearing assets and liabilities by time bands according to the repricing period. In the case of variable interest-bearing assets/liabilities the notional amount is allocated to the time band corresponding to the repricing period and the cash flows resulting from the application of the spread are allocated to the time bands until the maturity of the product according to the maturity. In the case of fixed interest bearing assets/liabilities the notional and interest flows are allocated to time bands according to maturity.

31 December 2023	Book value	Non interest bearing	<3 months	3-6 months	6 - 12 months	1-5 years	> 5 years
Cash and cash account at the central bank	1.318.043	186.564	1.131.479	-	-	-	-
Loans and advances to banks	717.856	14.077	703.779	-	-	-	-
Financial investments	1.325.208	3.284	-	-	-	1.321.924	-
Loans and advances to customers	3.845.809	10.464	3.332.659	309.478	82.548	110.556	104
Total assets	**7.206.916**	**214.389**	**5.167.917**	**309.478**	**82.548**	**1.432.480**	**104**

31 December 2023	Book value		<3 months	3-6 months	6 - 12 months	1-5 years	> 5 years
Deposits from banks	69.021	26.067	32.871	10.082	-	-	-
Loans from banks	563.059	-	563.059	-	-	-	-
Customer deposits	5.627.415	648	3.361.878	1.344.575	869.940	46.318	4.056
Total liabilities	**6.259.495**	**26.715**	**3.957.808**	**1.354.657**	**869.940**	**46.318**	**4.056**
Net position	**947.421**	**187.674**	**1.210.109**	**-1.045.179**	**-787.392**	**1.386.162**	**-3.952**

(all amounts are expressed in thousands of RON, unless otherwise specified)

5. RISK MANAGEMENT (continued)

31 December 2022	Book value	Non interest bearing	<3 months	3-6 months	6 - 12 months	1-5 years	> 5 years
Cash and cash account at the central bank	1.081.309	147.629	933.680	-	-	-	
Loans and advances to banks	1.035.001	4.267	1.030.734	-	-	-	
Financial investments	1.159.201	2.65	-	203.653	682.918	269.980	
Loans and advances to customers	4.187.730	3.744	3.049.992	944.239	70.356	118.495	904
Total assets	**7.463.241**	**158.290**	**5.014.406**	**1.147.892**	**753.274**	**388.475**	**904**

31 December 2022	Book value		<3 months	3-6 months	6 - 12 months	1-5 years	> 5 years
Deposits from banks	214.491	18.640	195.851	-	-	-	
Loans from banks	667.889	-	667.889	-	-	-	
Customer deposits	5.707.919	6.815	3.545.361	1.095.929	986.605	44.015	29.194
Total liabilities	**6.590.299**	**25.455**	**4.409.101**	**1.095.929**	**986.605**	**44.015**	**29.194**
Net position	**872.942**	**132.835**	**605.305**	**51.963**	**-233.331**	**344.460**	**-28.290**

(all amounts are expressed in thousands of RON, unless otherwise specified)

5. RISK MANAGEMENT (continued)

(d) Market risk (continued)

The Bank's policy is to maintain a balanced foreign exchange position covering the operational needs resulting from the ordinary activity of the Bank's clients. The Bank monitors on a daily basis the Bank's total currency position and VaR. At the reporting date the currency exposures are as follows:

31 December 2023

	RON	EUR	USD	CHF	GBP	Other	Total
Assets							
Cash and cash account at the central bank	1.103.642	196.537	17.727	132	1	4	**1.318.043**
Loans and advances to banks	54.402	590.790	64.425	466	1.957	5.815	**717.856**
Derivative financial assets held for risk management	791	-	-	-	-	-	**791**
Financial investments	1.025.495	299.712	-	-	-	-	**1.325.208**
Loans and advances to customers	2.017.838	1.824.589	789	2.593	-	-	**3.845.809**
Assets held for sale	17.368	-	-	-	-	-	**17.368**
Total assets	**4.219.537**	**2.911.629**	**82.941**	**3.191**	**1.958**	**5.819**	**7.225.075**
Derivative financial instruments							
Purchase	349.648	-	50.409	-	-	-	**400.057**
Sale	-	-	-	-	-	-	-
	RON	**EUR**	**USD**	**CHF**	**GBP**	**Other**	**Total**
Liabilities							
Deposits from banks	52.825	13.995	571	1.610	-	19	**69.021**
Derivative financial liabilities held for risk management purposes	-	-	-	-	-	-	**-**
Loans from banks	-	563.059	-	-	-	-	**563.059**
Customer deposits	3.547.683	1.935.119	136.929	1.215	1.733	4.736	**5.627.416**
Total liabilies	**3.600.508**	**2.512.174**	**137.500**	**2.825**	**1.733**	**4.755**	**6.259.495**
Derivative financial instruments							
Purchase	-	-	-	-	-	-	-
Sale	-	397.968	-	-	-	-	**397.968**
Net foreign currency position	**968.676**	**1.488**	**-4.150**	**366**	**225**	**1.064**	**967.668**

(all amounts are expressed in thousands of RON, unless otherwise specified)

5. RISK MANAGEMENT (continued)

31 December 2022

	RON	EUR	USD	CHF	GBP	Other	Total
Active							
Cash and cash account at the central bank	912.338	151.664	15.113	185	1.921	88	**1.081.309**
Loans and advances to banks	690.694	292.259	42.742	392	2.661	6.253	**1.035.001**
Derivative financial assets held for risk management	3.872	-	-	-	-	-	**3.872**
Financial investments	874.972	284.229	-	-	-	-	**1.159.201**
Loans and advances to customers	2.363.558	1.795.625	25.273	3.274	-	-	**4.187.730**
Assets held for sale	20.172	-	-	-	-	-	**20.172**
Total assets	**4.865.606**	**2.523.777**	**83.128**	**3.851**	**4.582**	**6.341**	**7.487.285**
Derivative financial instruments							
Purchase	-	247.370	-	-	-	-	**247.370**
Sale	-	-	-	-	-	-	**-**
	RON	**EUR**	**USD**	**CHF**	**GBP**	**Other**	**Total**
Liabilities							
Deposits from banks	152.867	58.756	181	1.509	559	619	**214.491**
Derivative financial liabilities held for risk management purposes	13.092	-	-	-	-	-	**13.092**
Loans from banks	102.840	565.049	-	-	-	-	**667.889**
Deposits attracted from clients	3.720.657	1.824.805	152.175	1.467	4.034	4.781	**5.707.919**
Total liabilities	**3.989.456**	**2.448.610**	**152.356**	**2.976**	**4.593**	**5.400**	**6.603.391**
Derivative financial instruments							
Purchase	-	-	-	-	-	-	**-**
Sale	-	247.370	70.481	-	-	-	**317.851**
Net foreign currency position	**876.150**	**75.167**	**-139.709**	**875**	**-11**	**941**	**813.413**

5. RISK MANAGEMENT (continued)

(e) Operational risk

Operational risk is the risk of direct or indirect losses resulting from inadequate or dysfunctional internal processes, human resources and systems, or external events. Operational risk also includes legal risk, compliance risk, information technology risk, conduct risk, but excludes reputational and strategic risk. When control does not work, operational risks can lead to reputational damage, legal implications or financial loss. The Bank manages operational risks through a framework of control systems and monitoring. Control systems include effective segregation of duties, access, authorisation and reconciliation procedures, staff training and evaluation processes, including the use of internal audit.

The Board of Directors has delegated responsibility for operational risk to the Operational Risk Committee which is responsible for developing and implementing controls to address operational risk. This responsibility is underpinned by the development of the Intesa Sanpaolo Group's general standards for operational risk management in the following areas:

Requirements for proper segregation of duties, including independent authorisation of transactions;

- requirements for reconciliation and transaction monitoring;
- compliance with legal regulations;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced by the bank and the adequacy of controls and procedures to address identified risks;
- operational loss reporting requirements and remedial proposals;
- drawing up emergency plans;
- training and professional development;
- ethics and business standards. as well as risk mitigation, including insurance where this is effective.

Compliance with Intesa Sanpaolo Group standards is supported by a programme of regular reviews undertaken by the Human Resources and Organisation Department.

In order to assess the bank's risk profile for operational risk, a number of indicators have been defined and are monitored on a quarterly basis:

- number of annualised events /number of employees at the requested date;
- effective (annualised) net loss / annualised net operating margin;
- annualised provisions/net operating margin;
- staff fluctuation;
- number of internal/external frauds and fraud attempts reported quarterly
- operational risk capital/equity requirements;
- the amount of provisions made during the year (annualised) for litigation;
- complaints from customers/authorities;
- indicators on outsourced activities: (i) the number of outsourced activities classified as high risk; (ii) the number of operational risk events generated by outsourced activity providers that have recorded losses;
- ICT Risk: (i) unauthorised access events; (ii) monthly number of incidents; (iii) monthly losses due to incidents.

In 2023 the aggregate level of operational risk is low, as most of its components register satisfactory levels. The number of operational risk events reported is high, but losses are low. On the one hand, a high number of reported events may reveal more weaknesses within the bank, but at the same time it also reveals the positive commitment of operational risk managers in reporting operational risk events.

5. RISK MANAGEMENT (continued)

ICT risk is a new category introduced following the request of the NBR and is assessed as low risk due to the low number of incidents and the lack of associated losses.

Reputational risk is also low, with most indicators registering good levels, except for the share of high-risk clients, which during 2023 were in the Medium-Risk range, showing a slight increase in the first 3 quarters and then decreasing in the fourth quarter of 2023.

The Cybersecurity & Business Continuity Management Department, with the support of the Retail, SME & Corporate (E-Payments) Back Office and the PR & Marketing Communications Department, sends regular awareness messages to bank customers about phishing and malware campaigns as well as relevant security measures recommended by the bank to ensure authentication security and avoid fraud.

(f) Fiscal risk

Romania's tax system has undergone many changes in recent years and is in a continuous process of updating and modernisation. As a result, there are still different interpretations of tax legislation. In certain situations, the tax authorities may treat certain issues differently, calculating additional taxes and duties, and the related interest and late payment penalties (currently totalling 0.03% per day of delay).

In Romania, the tax year remains open for tax audit for 5 years. The Bank's management believes that the tax liabilities included in these financial statements are appropriate.

Transfer prices
Romanian tax legislation includes the "market value" principle, according to which transactions between related parties must be carried out at market value.

Taxpayers who carry out transactions with related parties must prepare and make available to the Romanian tax authorities, at their written request, the transfer pricing file.

Failure to submit the transfer pricing file or submission of an incomplete file may result in penalties for non-compliance; in addition to the contents of the transfer pricing file, tax authorities may interpret transactions and circumstances differently from management's interpretation and, as a result, may impose additional tax liabilities resulting from the transfer pricing adjustment.

The Bank's management believes that it will not suffer any losses in the event of a tax audit to verify transfer pricing. However, the impact of different interpretations by tax authorities cannot be reliably estimated.

(g) Climate risk (ESG)

ESG risk assessments have been introduced in the Bank's lending processes since December 2022.

Thus, the sectors of activity have been divided according to the environmental impacts as well as according to the possibilities of transition towards a sustainable business model. These strategies are represented in clusters (so-called "colour coding"). Based on this classification, the following categories have been identified:

- White strategy: credit neutrality;
- Blue Strategy: incentives for lending;
- Yellow Strategy: credit incentives with reference to energy transition;
- The "Orange" strategy: discouraging lending;
- Strategy "Red": operation prohibited or restricted.

ESG risk assessment takes place for Companies belonging to ESG sensitive sectors whenever exposure exceeds a threshold considered significant. The assessment is carried out by ISP CRO ERM in order to identify environmental impacts (physical and transition risk) as well as social and governance risks. If ISP CRO ERM identifies a significant risk in the proposed transaction, it will be subject to a consolidated approval process at the level of dedicated Intesa Sanpaolo Group structures.

5. RISK MANAGEMENT (continued)

This ensures an efficient analysis of loans in terms of their destination so that the Bank can support those activities that have an added value on the environment, avoiding the support of harmful sectors.

During 2023 there were no significant developments in the sense that:

- The bank has no exposure in the "Red" category
- The bank has 4 clients in the "Orange" category, the most relevant of which has a sustainability report according to which the company mitigates this risk.

The Bank's management believes that it has no reason to highlight expected (or unexpected) losses on climate risk.

(h) Capital management

The primary objectives of the bank's capital management are to ensure that the bank meets the capital requirements imposed by the NBR in order to sustain the business and maximize shareholder value.

Own funds

Own funds consist mainly of: share capital, share premium, reserves, current and retained earnings.

The Bank meets the capital requirements imposed by the legal regulations in force on 31 December 2023 and 31 December 2022. Adequacy is measured under normal conditions in line with the Bank's valuation objective and under stress conditions to ensure that available financial resources are sufficient to cover all risks, including when economic conditions are adverse.

The Bank has applied some transitional measures related to the adoption of IFRS 9, reflecting the impact on equity over a 5-year period.

For 2023, the Bank had to maintain on an individual basis a total capital adequacy ratio of 16.93%, a Tier 1 capital ratio of 15.50% and a core Tier 1 capital ratio of 10.25% as defined in Regulation (EU) No 575/2013.

The minimum core Tier I own funds ratio of 10.25% includes:

i. Minimum Tier I own funds ratio to be maintained at all times under Article 92(1)(a) of Regulation 575/2013

ii. Tier I own funds ratio to exceed the maximum limit under Article 16(2)(a) of Regulation 1024/2013

iii. The capital conservation buffer required under Article 129 of Directive 2013/36/EU as transposed into national law;

iv. The counter-cyclical buffer provided for in Article 130 Dir. 2013/36/EU as transposed into national law and

v. The systemic risk buffer provided for in Article 131 Dir. 2013/36/EU, as transposed into Romanian national law.

The Bank meets the minimum requirements on eligible liabilities at 31 December 2023 for which it had to maintain a level of 22.10% at 31.12.2023 (25.79% at 31.12.2022).

The Bank also has an undrawn EUR 110 million senior non-preferred loan facility to cover possible future needs for minimum eligible liability requirements.

6. ACCOUNTING ESTIMATES AND MATERIAL JUDGEMENTS

The Bank uses estimates and assumptions that affect the amount of assets and liabilities reported during the next financial year. Estimates and judgments are evaluated on an ongoing basis and are based on past experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances.
The use of assessments and estimates is of the utmost importance in:

a) Evaluation of expected credit losses

The bank assesses and measures credit risk for all credit exposures. The valuation of provisions is based on IFRS 9 requirements and results in the appropriate and timely recognition of ECL in accordance with the applicable accounting framework. ECL assessment takes place at the level of each credit exposure and also at the collective portfolio level by grouping exposures based on common credit risk characteristics.

The estimation of impairment adjustments takes into account relevant factors and expectations at the reporting date that may affect the collectability of the remaining cash flows for a group of credit exposures or on an individual basis. The Bank considers information that goes beyond historical and current data and takes into account reasonable forward-looking information, including macroeconomic factors, that are relevant to the exposures measured in accordance with the applicable accounting framework.

Under the general approach, loss provisions are recognised either on a 12-month ECL basis or on a lifetime ECL basis, depending on whether there has been a significant increase in the credit risk of the financial instrument since initial recognition. Under the simplified approach, changes in credit risk are not required to be tracked, but instead an impairment adjustment is recognised on a lifetime ECL basis from inception.

The bank uses the general approach for the loan portfolio and for banks and sovereigns (for which it uses the low credit risk simplification) and the simplified approach for assets other than loans.

Depending on the quality of the assets, they are classified into 3 stages. In Stage 1 are included performing loans, in Stage 2 the performing portfolio with a significant increase in credit risk and in Stage 3 financial assets in default. The Bank considers exposures to banks and sovereign entities as having low credit risk (Stage 1) if the external ratings of these exposures at the reporting date are in the investment grade range.

Collective evaluation

Stage 1 and Stage 2 presentations are subject to collective assessment. For the purpose of determining an impairment adjustment on a collective basis, financial instruments are grouped based on similar credit risk characteristics in order to facilitate an analysis that is designed to allow timely identification of significant increases in credit risk.

The Bank shall monitor that exposures within groups remain homogeneous in terms of their response to credit risk determinants and credit risk characteristics. Exposure groups are reviewed and exposures re-segmented when there is a significant change in the credit portfolio or changes in the Bank's risk profile.

ECLs in Stages 1 and 2 are differentiated by the maximum residual maturity taken into account: in the case of exposures classified in Stage 1, the 12-month horizon is considered as the ceiling, while in the case of transactions classified in Stage 2 the lifetime horizon is taken into account.

Key inputs to the ECL assessment include the following variables: probability of default (PD), LGD (loss given default), determination of significant increase in credit risk, use of scenarios for forward-looking information and exposure in default (EAD).

Individual assessment of impairment losses on loans and advances to customers

The purpose of estimating expected credit losses is neither to estimate the worst-case scenario nor to estimate the best-case scenario. Instead, an estimate of expected credit losses reflects the possibility that a credit loss will occur and the possibility that no credit loss will occur, even if the most likely outcome is not a credit loss. It is necessary for the estimate of expected credit losses to reflect an unbiased, probability-weighted amount that is determined by evaluating a range of possible outcomes without the need for a large number of detailed scenario simulations. Expected credit losses reflect at least three scenarios. The scenarios and their probability of occurrence for each of the scenarios are properly supported and documented and reflect the recovery stage and recovery strategy at the client level. Scenarios are updated whenever significant developments occur to maintain their relevance.

6. ACCOUNTING ESTIMATES AND MATERIAL JUDGMENTS (continued)

b) Fair value

The Bank's accounting policy on fair value measurement is disclosed in note 4(i)(vi).
The bank measures fair value using the following hierarchy, which reflects the significance of the inputs used in making the measurements:

- **Level 1**: the quoted (unadjusted) market price in an active market for an identical instrument;
- **Level 2:** valuation techniques based on observable data, either directly - for example, as prices - or indirectly, i.e. derived from prices. This category includes instruments valued using: market prices in the markets
assets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less active; or other valuation techniques where all significant inputs used as input parameters in the model are directly or indirectly observable in the market.
- **Level 3**: techniques that use inputs that have a significant effect on recorded fair value that are not based on observable market data; this category includes instruments that are valued using quotes for similar instruments, adjusted using less observable inputs to reflect differences between instruments.

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer quotes. For all other financial instruments the Bank establishes fair values using valuation techniques. The valuation techniques used relate to net present value and discounted cash flows. Assumptions and input parameters used in the valuation techniques include: risk-free rates and reference interest rates and foreign exchange rates.

The Bank uses widely recognised valuation models for determining the fair value of simple financial instruments (interest rate derivatives and foreign exchange derivatives), which use only observable market data, and require a small amount of estimation judgment. The observable prices and input parameters to the model are provided by the dedicated structure within the Bank.

All financial instruments carried at fair value are classified into three categories as follows:
Level 1 - Quoted market prices
Level 2 - Valuation techniques (observed market data)
Level 3 - Valuation techniques (unobserved market data)

The bank held the following financial instruments at fair value:

At 31 December 2023

Fair value assets	**Total**	**Level 1**	**Level 2**	**Level 3**
Derivative financial assets held for risk management	**791**		791	
Financial investments	**1.325.208**	1.323.080		2.128

Debts valued at fair value	**Total**	**Level 1**	**Level 2**	**Level 3**
Derivative financial liabilities held for risk management purposes	**-**			-

(all amounts are expressed in thousands of RON, unless otherwise specified)

6. ACCOUNTING ESTIMATES AND MATERIAL JUDGMENTS (continued)

On 31 December 2022

Fair value assets	**Total**	**Level 1**	**Level 2**	**Level 3**
Derivative financial assets held for risk management	**3.872**		3.872	
Financial investments	**1.159.201**	1.157.310		1.891

Debts valued at fair value	**Total**	**Level 1**	**Level 2**	**Level 3**
Derivative financial liabilities held for risk management purposes	**13.092**		13.092	

The following table summarises the carrying amounts and fair values of those financial assets and liabilities that are not presented in the Bank's balance sheet at fair value.

31 December 2023

	Level 1	**Level 2**	**Level 3**	**Fair value**	**Book value**
Financial assets					
Cash and cash account at the central bank	1.318.043			1.318.043	1.318.043
Loans and advances to banks	617.732		100.124	717.856	717.856
Loans and advances to customers	-	-	4.340.030	4.340.030	3.845.809
Total	**1.935.775**	**-**	**4.440.154**	**6.375.929**	**5.881.708**
Financial debts					
Deposits from banks		69.021	-	69.021	69.021
Customer deposits	-	-	5.627.416	5.627.416	5.627.416
Loans from banks	-	-	609.481	609.481	563.059
Total	**-**	**69.021**	**6.236.897**	**6.305.918**	**6.259.496**

31 December 2022

	Level 1	**Level 2**	**Level 3**	**Fair value**	**Book value**
Financial assets					
Cash and cash account at the central bank	1.081.309			1.081.309	1.081.309
Loans and advances to banks	1.035.001			1.035.001	1.035.001
Loans and advances to customers	-	-	5.048.779	5.048.779	4.187.730
Total	**2.116.310**	**-**	**5.048.779**	**7.165.089**	**6.304.040**
Financial debts					
Deposits from banks		214.491	-	214.491	214.491
Customer deposits	-	-	5.707.919	5.707.919	5.707.919
Loans from banks	-	-	693.273	693.273	667.889
Total	**-**	**214.491**	**6.401.192**	**6.615.683**	**6.590.299**

(all amounts are expressed in thousands of RON, unless otherwise specified)

6. ACCOUNTING ESTIMATES AND MATERIAL JUDGMENTS (continued)

Cash and cash equivalents at the central bank and investments with banks have a fair value equal to their book value due to their cash and cash equivalent nature.

Financial investments:

Management has estimated the fair value of the Bank's financial investment in shares in Credit Bureau SA, Transfond SA. The entities in which the Bank has invested by purchasing shares based on the information reported by the Bank in its balance sheet as at 31.12.2023, the shares are not listed and recent values in terms of their trading prices are not publicly available. Management does not intend to sell these shares in the near future.

Loans and advances to clients:

For loans and advances to customers (not in the doubtful category) the fair value was determined by discounting the estimated future cash flows using the market interest rates for 31.12.2023, published on the website of the National Bank of Romania. In the case of loans with variable interest rates for each credit category, the discounting of the recorded spread level, calculated at the level of each client and currency category, was taken into account.

Deposits and loans from banks:

The estimated fair values of deposits that do not have a stated maturity, which include non-interest bearing deposits, are represented by the amount repaid on demand. The estimated fair value of fixed interest deposits and other loans without quoted market price is based on discounted cash flows using the interest rate for new debt with similar remaining maturities.

In the case of bank deposits there is no difference between fair value and book value.

There are no significant differences between the fair value of customer deposits and the carrying amount, amortised cost is considered to approximate their fair values, as a significant portion of these items have short-term maturities and bear interest rates that reflect current market conditions.

For loans from banks, fair value was determined by discounting future cash flows using contractual interest rates

7. NET INTEREST INCOME

	2023	2022
Related interest income:		
Loans and advances to customers calculated using the effective interest method (EIR)	299.930	268.762
Impaired loans and advances to customers calculated using the effective interest method (EIR)	8.447	7.983
Current accounts and deposits with banks	68.634	25.135
Financial investments - Government securities calculated using the effective interest method (EIR)	49.712	29.030
Income from interest on loans	441	648
Total interest income	**427.164**	**331.559**
Interest expenses:		
Customer deposits	-185.709	-97.118
Deposits from banks	-1.684	-6.803
Loans from banks	-34.682	-17.697
Operational leasing	-336	-378
Total interest expenses	**-222.411**	**-121.996**
Net interest income	**204.753**	**209.563**

(all amounts are expressed in thousands of RON, unless otherwise specified)

8. NET COMMISSION INCOME

	2023	2022
Commission income		
Commission income from transactions	22.719	23.761
Commission income on loans (i)	9.114	7.793
Other commission income	74	90
Total commission income	**31.907**	**31.644**
Commission expenses		
Commission expenses on transactions (i)	-3.396	-2.910
Fees paid to Credit Guarantee Funds	-669	-766
Fees for cash purchases	-145	-233
Transactions with banks	-1.213	-477
Total commission expenses	**-5.423**	**-4.386**
Net commission income	**26.484**	**27.258**

(i) In year 2023 this item includes RON 7.07 million commissions related to loan commitments and financial guarantee contracts (in year 2022: RON 5.87 million).

Commission income is divided according to IFRS 15 into two categories;

a) if the obligation to provide the service is fulfilled at a specific point in time ("point in time"), the related revenue is recognised in the income statement when the service is provided: RON 25,685 thousand (2023) and RON 24,993 thousand (2022);
b) if the obligation to provide the service is met in time, the related revenue is recognised in the income statement to reflect the progress in meeting such obligation RON 6,222 thousand (2023) and RON 6,651 thousand (2022).

9. NET INCOME FROM FOREIGN EXCHANGE TRANSACTIONS

	2023	2022
Reassessment of the exchange position	5.455	-2.042
SPOT exchange operations	9.716	10.976
Gain/loss on derivatives	3.806	-22.845
Other	-2.520	-26
	16.457	**-13.937**

10. OTHER INCOME

	2023	2022
Income from recoveries	8	18
Dividend income	1.150	949
Income from insurance intermediation	745	496
Rental income	317	297
Loss on derecognition of tangible fixed assets	-3.746	-6
Other income	7.076	175
	5.550	**1.929**

(all amounts are expressed in thousands of RON, unless otherwise specified)

11. STAFF COSTS

	2023	2022
Salaries	94.716	83.180
Expenditure on insurance and social protection	4.332	3.407
Other staff expenditure (i)	3.864	3.146
	102.912	**89.733**

(i) Other personnel expenses mainly include in 2023 expenses for meal vouchers and expenses for other benefits granted by the bank to its employees.

Share-based payment

As at 31 December 2023 it held 87,886 shares (as at 31 December 2022: 73,781 shares) in Intesa Sanpaolo SPA. Until the definitive assignment of the shares to its managers, the Bank will be the owner of these shares. The shares are worth RON 1,156 thousand as at 31 December 2023 (31 December 2022: RON 759 thousand). The shares are classified in *Financial investments* (Note 19b: Financial investments at fair value through profit and loss).

12. OTHER OPERATIONAL EXPENDITURE

	2023	2022
Administrative expenditure	24.922	23.473
Expenditure on local taxes and charges	2.255	2.229
Expenditure on IT services	25.719	20.215
Advertising and marketing expenditure	1.720	1.017
Expenses with the Deposit Guarantee Fund in the Banking System (i)	1103	2.183
Expenditure on the Bank Restructuring and Resolution Fund (ii)	6.840	7.911
Expenditure on professional services	5.357	3.836
Gain/loss on derecognition of tangible fixed assets	1.840	40
Other	3.550	2.233
	73.306	**63.137**

(i) In accordance with local regulations (Law no. 311/ 2015 on Deposit Guarantee Schemes and the Bank Deposit Guarantee Fund) the deposits of individuals and certain entities, including small and medium-sized enterprises as well as large companies, are guaranteed up to EUR 100,000 by the Bank Deposit Guarantee Fund ("the Fund"). Each credit institution participating in the Deposit Guarantee Scheme pays to the Fund an annual contribution, the amount of which is determined and communicated by the Fund. The amount of the contribution to be paid is calculated on the basis of the total deposits covered at the end of the previous year and reflects the degree of risk associated with each credit institution in the scheme. The degree of risk is determined on the basis of financial and prudential indicators reported to the National Bank of Romania. For this purpose, the Bank Deposit Guarantee Fund uses the calculation models approved by the National Bank of Romania, taking into account the Guidelines issued by the European Banking Authority.

(ii) The National Bank of Romania as local resolution authority sets the level of annual contributions of credit institutions to the Bank Resolution Fund, in compliance with the provisions of the EU Delegated Regulation 2015/63 supplementing Directive 2014/59/EU of the European Parliament and of the Council as regards ex-ante contributions to resolution funding mechanisms.
Both the contribution to the Guarantee Fund and the annual fee to the Resolution Fund meet the criteria for fee recognition and are accounted for in accordance with the requirements of IFRIC 21 - Taxes.

(all amounts are expressed in thousands of RON, unless otherwise specified)

12. OTHER OPERATING EXPENDITURE (continued)

Administrative costs are detailed below:

	2023	2022
Rent expenses	459	345
Expenditure on maintenance and repairs	3.144	2.801
Expenditure on consumables	583	595
Electricity, heat and other expenses	3.561	3.256
IT and communications expenditure	1.340	1.500
Postage, telephone and other expenses	846	788
Travel expenses	892	605
Security services expenses	711	602
Expenditure on staff training	188	143
Insurance services expenses	393	67
Cleaning services expenses	1.340	1.273
Card services expenses	6.664	6.709
Protocol expenses	473	343
Legal services expenses	652	707
Expenditure on forms, stationery and other printed matter	46	57
Transport costs	810	733
Other	2.820	2.949
	24.922	**23.473**

The audit fees for the Bank's statutory financial statements to 2023 are EUR 86,550 (amount does not include VAT) and for the Bank's statutory financial statements to 2022 are EUR 78,000 (amount does not include VAT). Total audit fees for services for the financial year 2023 are EUR 223,700 and for the financial year 2022 are EUR 210,150. During both 2023 and 2022, no non-audit services were provided.

13. INCOME TAX EXPENSES

	2023	2022
Current tax expenditure	-8.483	-1.386
Tax deferred expenditure	-	-1.268
Income tax expense	**-8.483**	**-2.654**

Reconciliation of the effective tax rate:

		2023		2022
Profit before tax		**49.619**		**33.484**
Theoretical tax at the applicable statutory rate	16%	-7.939	16%	-5.357
Fiscal impact of tax deductions		2.339		770
Tax impact of non-taxable income		5.305		7.486
Tax impact of non-deductible expenses		-7.962		-6.821
Tax impact of income-like items		-226		-
Impact of the tax loss used		-		1.268
Income tax expense		**-8.483**		**-2.654**

(all amounts are expressed in thousands of RON, unless otherwise specified)

14. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

RON	Note	Mandatory at fair value through profit and loss	Designated at fair value through profit and loss	At fair value through other comprehensive income - debt instruments	At fair value through other comprehensive income - equity instruments	At amortised cost	TOTAL
31 December 2023							
ACTIVE							
Cash and cash account at the central bank	15	-		-	-	1.318.043	1.318.043
Loans and advances to banks	16	-	-	-	-	717.856	717.856
Derivative financial assets held for risk management		791	-	-	-	-	791
Financial investments at fair value through other comprehensive income		-		1.321.924	2.128		1.324.052
Financial investments - at fair value through profit and loss		1.156	-	-	-	-	1.156
Loans and advances to customers	18	-	-	-	-	3.845.809	3.845.809
Other financial assets	24	-	-	-	-	2.362	2.362
TOTAL ASSETS		**1.947**		**1.321.924**	**2.128**	**5.884.070**	**7.210.069**
DEBTS							
Derivative financial liabilities held for risk management purposes		-	-	-	-	-	-
Deposits from banks	26	-	-	-		69.021	69.021
Loans from banks	28	-	-	-	-	563.059	563.059
Customer deposits	27	-	-	-	-	5.627.416	5.627.416
Other financial liabilities	30					61.650	61.650
TOTAL LIABILITIES		**-**	**-**	**-**	**-**	**6.321.146**	**6.321.146**

(all amounts are expressed in thousands of RON, unless otherwise specified)

14. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES (continued)

RON	Note	Mandatory at fair value through profit and loss	Designated at fair value through profit and loss	At fair value through other comprehensive income - debt instruments	At fair value through other comprehensive income - equity instruments	At amortised cost	TOTAL
31 December 2022							
ACTIVE							
Cash and cash account at the central bank	15	-		-	-	1.081.309	1.081.309
Loans and advances to banks	16	-	-	-	-	1.035.001	1.035.001
Derivative financial assets held for risk management		3.872	-	-	-	-	3.872
Financial investments at fair value through other comprehensive income		-		1.156.551	1.891		1.158.442
Financial investments - at fair value through profit and loss		759	-	-	-	-	759
Loans and advances to customers	18	-	-	-	-	4.187.730	4.187.730
Other financial assets	24	-	-	-	-	2.889	2.889
TOTAL ASSETS		**4.631**		**1.156.551**	**1.891**	**6.306.929**	**7.470.002**
DEBTS							
Derivative financial liabilities held for risk management purposes			13.092		-	-	13.092
Deposits from banks	26	-	-	-		214.491	214.491
Loans from banks	28	-	-	-	-	667.889	667.889
Customer deposits	27	-	-	-	-	5.707.919	5.707.919
Other financial liabilities	30					47.301	47.301
TOTAL LIABILITIES		**-**	**13.092**	**-**	**-**	**6.637.600**	**6.650.692**

(all amounts are expressed in thousands of RON, unless otherwise specified)

15. CASH AND CASH ACCOUNT AT THE CENTRAL BANK

Current accounts include required reserves at the National Bank of Romania. The level of the minimum reserve requirement (RMO) set by the National Bank of Romania for sources attracted with a maturity of less than 2 years and for sources attracted with a residual maturity of more than 2 years, which provide for contractual clauses on repayments, withdrawals, early transfers had a level of 8% for sources attracted in lei and 5% for sources attracted in foreign currency as at 31 December 2023, the levels being identical to those in 2022. The Bank may use the minimum reserve requirement in its daily operational activity, subject to compliance with the levels provided for average monthly balances. In 2023, the interest rate varied between 0.69% and 0.82% (2022: between 0.13% and 0.69%) for reserves held in RON and the interest rate for reserves held in EUR varied between 0.02% and 010%, while in 2022 it varied between 0% and 0.01%.

The minimum reserve requirement is not included in cash and cash equivalents.

	31 December 2023	31 December 2022
Number	186.176	147.629
Current account with the National Bank of Romania	1.131.867	933.680
	1.318.043	**1.081.309**

16. LOANS AND ADVANCES TO BANKS

	31 December 2023	31 December 2022
Current accounts	32.715	76.997
Overnight deposits and term deposits	585.044	958.239
Term loans granted to banks	100.124	-
Impairment adjustments	-27	-235
Total placements in banks	**717.856**	**1.035.001**

Bank placements are not pledged to third parties.
Bank placements are classified as Stage 1. The Bank has recorded as at 31 December 2023 impairment adjustments of RON 27 thousand (31 December 2022: RON 235 thousand).

As at 31 December 2023, the Bank has in balance a loan granted to a credit institution in the amount of RON 100,124 thousand (as at 31 December 2022: 0).

17. DERIVATIVES

	31 December 2023		31 December 2022	
	Active	Debts	Active	Debts
Currency swaps	791	-	3.872	13.092
Notional value	400.057	397.968	247.370	317.851

(all amounts are expressed in thousands of RON, unless otherwise specified)

18. LOANS AND ADVANCES TO CUSTOMERS

	Gross Value	Adjustments for expected losses	Net value	Gross Value	Impairment adjustments	Net value
	31 December 2023			31 December 2022		
Retail loans						
Consumer loans	143.511	-19.939	123.573	178.741	-14.133	164.608
Loans for real estate investments	668.933	-39.069	629.863	723.522	-18.742	704.780
Treasury loans	774	-20	754	671	-16	655
Other amounts due	233	-171	61	234	-123	111
Total Retail loans	**813.451**	**-59.199**	**754.251**	**903.168**	**-33.014**	**870.154**
Corporate Loans						
Loans granted to financial institutions	630.816	-14.268	616.549	583.603	-13.887	569.716
Credits for equipment	184.508	-19.206	165.301	238.979	-19.699	219.280
Loans for real estate investments	154.152	-7.595	146.557	206.789	-9.844	196.945
Treasury loans	1.706.224	-79.656	1.626.568	1.901.876	-93.008	1.808.868
Other loans granted to clients	491.772	-29.909	461.863	481.202	-41.796	439.406
Financial leasing contracts	65.526	-730	64.796	81.015	-817	80.198
Other amounts due	10.592	-665	9.925	3.721	-556	3.165
Total Corporate loans	**3.243.590**	**-152.029**	**3.091.559**	**3.497.184**	**-179.607**	**3.317.576**
Total	**4.057.041**	**-211.228**	**3.845.809**	**4.400.352**	**-212.621**	**4.187.730**

(all amounts are expressed in thousands of RON, unless otherwise specified)

18. LOANS AND ADVANCES TO CUSTOMERS (continued)

	2023	**2022**
Gross investment in financial leasing:		
Less than one year	30.713	25.016
Between one and five years	37.825	58.018
Older than 5 years	-	275
Unrealised financial income	-3012	-2.294
Gross investment in leasing before provisioning	**65.526**	**81.015**
Less: Expected credit losses on lease receivables	*-730*	*-817*
Net investment in leasing	**64.796**	**80.198**

The net investment in leasing can be analysed as follows:

	2023	**2022**
Less than one year	29.331	24.500
Between one and five years	35.465	55.434
Older than 5 years	-	264
Net investment in leasing	**64.796**	**80.198**

(all amounts are expressed in thousands of RON, unless otherwise specified)

18. LOANS AND ADVANCES TO CUSTOMERS (continued)

A reconciliation of the changes in gross carrying amount and the corresponding provision by stage across the bank's portfolio is as follows:

	Stage 1 Provision	Stage 2 Provision	Stage 3 Provision	POCI Provision	Total Provision
January 2023	**32.638**	**34.490**	**140.215**	**5.278**	**212.621**
New loans (+)	4.089	2.666	229	0	6.984
Loans closed (-)	-8.182	-9.967	-18.068	-701	-36.918
Increase (+)	2.728	28.253	43.605	1.325	75.910
Expires (-)	-14.473	-4.478	-6.978	-2	-25.931
Derecognition (-)	-	-	-	-	-
Migrari stage 1	-5.004	4.239	765	-	-
Migration to stage 2	3.846	-6.185	2.338	-	-
Migration to stage 3	380	28.178	-28.558	-	-
Balance sheet outflows (-)	-	-	-21,376	-	-21,376
December 2023	**16.022**	**77.197**	**112.173**	**5.900**	**211.291**

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance on 1 January 2023	**32.637**	**34.490**	**140.216**	**5.278**	**212.621**
Transfers between placements (net)	-778	26.232	-25.454		-
Net expenditure during the year	-16.962	16.749	16.784	317	16.888
Decrease in the depreciation adjustment account due to off-balance sheet items			-21.376		-21.376
Derecognition			-		-
Exchange rate differences	1.125	-275	2.003	305	3.158
Balance at 31 December 2023	**16.022**	**77.196**	**112.173**	**5.900**	**211.291**

	Stage 1 Provision	Stage 2 Provision	Stage 3 Provision	POCI Provision	Total Provision
January 2022	31.188	21.418	149.160	16.191	217.957
New loans (+)	10.354	8.994	34.274	85	53.707
Loans closed (-)	-7.421	-1.610	-15.585	-11.289	-35.906
Increase (+)	29.434	11.073	26.865	542	67.913
Expires (-)	-31.721	-1.761	-6.988	-252	-40.721
Derecognition (-)			-438		-438
Migration to stage 1	3.152	-2.894	-258		-
Migration to stage 2	-1.592	1.619	-27		-
Migration to stage 3	-758	-2.348	3.106		-
Balance sheet outflows (-)			-49.893		-49.893
December 2022	**32.637**	**34.490**	**140.216**	**5.278**	**212.621**

(all amounts are expressed in thousands of RON, unless otherwise specified)

18. LOANS AND ADVANCES TO CUSTOMERS (continued)

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance on 1 January 2022	**31.188**	**21.423**	**149.155**	**16.191**	**217.957**
Transfers between placements (net)	802	-3.651	2.849		-
Net expenditure during the year	-280	18.172	37.228	-11.226	43.894
Decrease in the depreciation adjustment account due to off-balance sheet items			-49.893		-49.893
Derecognition			-438		-438
Exchange rate differences	928	-1.454	1.314	313	1.101
Balance at 31 December 2022	**32.638**	**34.490**	**140.215**	**5.278**	**212.621**

Movement in profit and loss account

	2023	2022
Net expenditure (income) during the year	16.864	43.852
Income from recovery of unrecognised debts	-3.286	-10.266
Net impairment losses on financial investments	219	-11
Total	**13.797**	**33.575**

During 2023 the gross loan portfolio decreased by 343,296 thousand RON compared to 31 December 2022.
As at 31 December 2023 the gross loan portfolio and its changes were available as follows:

- Stage 1: RON 3,337,556 thousand, RON 453,272 thousand less than on 31 December 2022;
- Stage 2: RON 566,684 thousand with RON 203,177 thousand increase compared to 31 December 2022;
- Stage 3: RON 146,752 thousand with a decrease of RON 91,246 thousand compared to 31 December 2022;
- POCI: RON 6,058 thousand with a decrease of RON 1,954 thousand compared to 31 December 2022.

(all amounts are expressed in thousands of RON, unless otherwise specified)

19. FINANCIAL INVESTMENTS

a) Financial investments at fair value through "Other comprehensive income"

	31 December 2023	31 December 2022
Securities (i)	1.321.924	1.156.551
Investments in equity instruments(ii)	2.128	1.891
Total	**1.324.052**	**1.158.442**

(i) The government bonds comprise public notes, RON and EUR bonds issued by the Romanian Ministry of Public Finance, with a BBB- rating by Stardard&Poors. All securities are free of encumbrances as of 31 December 2023. Financial assets measured at fair value through other comprehensive income are classified in stage 1 and the related ECL impairment provision as at 31.12.2023 is RON 1,502 thousand (31 December 2022: RON 1,283 thousand).

(ii) Investments in equity instruments

Actions	31 December 2023	31 December 2022
Transfond	2.043	1.814
Credit Bureau	85	76
	2.128	**1.891**

b) Financial investments at fair value through profit and loss

	31 December 2023	31 December 2022
Intesa Sanpaolo SPA shares (iii)	1.156	759
Total	**1.156**	**759**

iii) Investment in Intesa San Paolo shares for staff remuneration plan.

In 2015, the Bank purchased 110,000 shares for a bonus plan. At present, these shares have not yet been fully allocated to staff, with a total of 87,886 (as at 31 December 2022 73,781) remaining in the balance with a value of RON 1,156 thousand (as at 31 December 2022: RON 759 thousand).

(all amounts are expressed in thousands of RON, unless otherwise specified)

20. PROPERTY, PLANT AND EQUIPMENT AND RIGHT OF USE ASSETS

Cost:	**Land and buildings**	**Computers and equipment**	**Other real estate**	**Right of use**	**Total**
On 1 January 2022	**86.672**	**21.250**	**22.233**	**38.590**	**168.745**
Entries	1.116	1.325	886	6.577	9.904
Revaluation changes	1.085				1.085
Outputs	-1.506	-325	-2.287	-1.873	-5.991
On 31 December 2022	**87.367**	**22.250**	**20.832**	**43.294**	**173.743**
On 1 January 2023	**87.367**	**22.250**	**20.832**	**43.294**	**173.743**
Entries	4.785	140	1.085	12.894	**18.904**
Revaluation changes	11.638				**11.638**
Outputs	-12.450	-852	-1.257	-2.836	**-17.395**
At 31 December 2023	**91.340**	**21.538**	**20.660**	**53.352**	**186.890**

The last revaluation of buildings and land was carried out in 2023 by expert valuers, members of ANEVAR (National Association of Valuers in Romania). The market value estimation was carried out in accordance with the valuation principles and techniques contained in the International Valuation Standards.

The most recent revaluation for the land and buildings class was carried out by RINA PRIME VALUE SERVICES SRL on 31 December 2023. In accordance with International Valuation Standards, the fair value estimation was performed by the valuer using the income approach.

In December 2023, the Bank recorded an amount of RON 9,776 in revaluation reserves, while the revaluation recorded in 2022 was RON 1,113, an increase in the value of the fixed assets in both cases.

Depreciation and amortisation:	**Land and buildings**	**Computers and equipment**	**Other real estate**	**Right of use**	**Total**
On 1 January 2022	**8.558**	**18.913**	**16.547**	**12.770**	**56.788**
Outputs	-1.495	-325	-2.280		**-4.100**
Contract settlement				1.873	**1.873**
Depreciation charge for the year	4.294	1.464	751	7.832	**14.341**
On 31 December 2022	**11.357**	**20.052**	**15.018**	**22.475**	**68.902**
On 1 January 2023	**11.357**	**20.052**	**15.018**	**22.475**	**68.902**
Outputs	-12.049	-1.231	-656	-2.832	**-16.768**
Depreciation charge for the year	4.638	1.879	543	8.511	**15.571**
At 31 December 2023	**3.946**	**20.700**	**14.905**	**28.154**	**67.705**
Net book value:					
On 31 December 2022	**76.010**	**2.198**	**5.814**	**20.819**	**104.841**
At 31 December 2023	**87.393**	**837**	**5.754**	**25.200**	**119.184**

(all amounts are expressed in thousands of RON, unless otherwise specified)

8. TANGIBLE ASSETS AND RIGHT OF USE ASSETS (continued)

Other fixed assets include motor vehicles, furniture and fittings, air conditioning equipment. All fixed assets are unencumbered. The gross (book) value of fully depreciated tangible fixed assets still in use is RON 34,231 as at 31 December 2023 (31 December 2022: RON 34,040).

The bank has concluded leasing contracts for fixed periods of between 1 and 7 years, with the possibility of extension.

In the year 2023, the right of use of assets by underlying item classes are shown below:

	Buildings	Means of transport	Total
Gross book value at 1 January 2023	**19.829**	**990**	**20.819**
Entries	9.658	3.449	13.107
Outputs	-213		-213
Depreciation expense	-7.294	-1.218	-8.512
Gross book value at 31 December 2023	**21.980**	**3.222**	**25.202**

	Buildings	Means of transport	Total
Gross book value on 1 January 2022	**23.784**	**2.037**	**25.821**
Entries	4.552	150	4.702
Outputs	-1.745	-128	-1.873
Depreciation expense	-6.762	-1.069	-7.831
Gross book value at 31 December 2022	**19.829**	**990**	**20.819**

Maturity analysis of future lease payments is presented in Note 33 „Commitments and contingent liabilities”.
Carrying amounts of lease liabilities (included in „Other liabilities” in Note 30) and movements during the period:

	2023	2022
On 1 January	**22.389**	**27.376**
Entries	12.892	3.848
Interest accrual	317	378
Payments	-8.852	-7.893
Different exchange rate	82	-1.320
At 31 December	**26.828**	**22.389**

(all amounts are expressed in thousands of RON, unless otherwise specified)

21. INTANGIBLE ASSETS

	Programs computer	Other real estate intangible	TOTAL
Cost:			
On 1 January 2022	**114.158**	**3**	**114.161**
Entries	11.763	-	**11.763**
Outputs	-7.249	**-**	**-7.249**
On 31 December 2022	**118.672**	**3**	**118.675**
On 1 January 2023	**118.672**	**3**	**118.675**
Entries	17.592	-	17.592
Outputs	-2.607	**-**	**-2.607**
At 31 December 2023	**133.657**	**3**	**133.660**
Depreciation:			
On 1 January 2022	**84.736**	**3**	**84.739**
		-	
Outputs	-7.220	-	**-7.220**
Depreciation charge for the year	4.966	**-**	**4.966**
On 31 December 2022	**82.482**	**3**	**82.485**
On 1 January 2023	**82.482**	**3**	**82.485**
Outputs	-767	-	**-767**
Depreciation charge for the year	8.921	-	**8.921**
At 31 December 2023	**90.636**	**3**	**90.639**
Net book value:			
On 31 December 2022	**36.190**	-	**36.190**
At 31 December 2023	**43.021**	-	**43.021**

Intangible assets include licences for software used by the Bank. The software in the process of implementation amounts to RON 25,567 thousand as at 31 December 2023 (31 December 2022: RON 18,301 thousand).

22. REAL ESTATE INVESTMENT

On 1 January 2022	**8.866**
Revaluation discounts	99
Revaluation increases	-876
On 31 December 2022	**8.089**
On 1 January 2023	**8.089**
Transfer to available for sale category	-8.089
At 31 December 2023	**-**

(all amounts are expressed in thousands of RON, unless otherwise specified)

22. INVESTMENT PROPERTY (continued)

Investment property arise from the Bank's acquisition of buildings on account of bad debts and held for future benefits or for rental to third parties. The Bank's property investments were valued during 2022 by independent external valuers authorised by the Romanian National Association of Authorised Valuers ("ANEVAR").
During 2023 the Bank reclassified the two properties held as investments to assets held for sale, as it intends to sell them.

Fair value hierarchy
Based on the input data used in the valuation technique, the fair value of the investment properties was classified at level 3 of the fair value hierarchy, the valuation being based on directly observable data in the active commercial property market (rent per square metre), adjusted with unobservable data (occupancy).

Evaluation techniques
Fair value has been determined using the net income capitalisation method, whereby the market rents of all leased premises are valued in relation to realised rents as well as in relation to other rents for similar properties in the vicinity. The capitalization rate used is calculated based on the appraiser's observed rates of return for similar properties in the locality and adjusted based on the appraiser's knowledge of factors specific to those properties. In estimating the fair value of properties, the highest and best use is current use. The investment properties owned are leased generating rental income of RON 317 thousand during 2023 (in 2022: RON 297 thousand ON).

23. DEFERRED TAX

Current income tax is calculated by applying the 16% rate (2022: 16%) based on tax returns. As at 31 December 2023, the Bank recorded a current tax liability of RON 7,904 (31 December 2022: RON 1,386). Deferred income tax is calculated based on all temporary differences using a corporate income tax rate of 16%.
Deferred income tax assets and liabilities are attributable to the following items:

2023				**31 December**		
	Balance on 1 January	**Recognized in the Profit and Loss Account**	**Recognized in the overall result for the year**	**Net**	**Assets**	**Liabilities**
Tax credit for recognised tax losses	-	-	-	-	-	-
Temporary differences deductible from changes in market value of government securities	4.539	-	-4.890	-351	-	-351
Temporary differences arising from changes in the value of equity instruments	-267	-	-38	-305	-	-305
Taxable temporary differences from mark-to-market revaluation of assets classified under IFRS 16	-5.962	-	-1.862	-7.824	-	-7.824
Assets representing deferred tax	**-1.690**	**-**	**-6.790**	**--8.480**	**-**	**-8.480**

(all amounts are expressed in thousands of RON, unless otherwise specified)

23. DEFERRED TAX (continued)

2022				**31 December**		
	Balance on 1 January	**Recognized in the Profit and Loss Account**	**Recognized in the overall result for the year**	**Net**	**Assets**	**Liabilities**
Tax credit for recognised tax losses	1.268	-1.268	-	-	-	-
Temporary differences deductible from changes in market value of government securities	2.603	-	1.936	4.539	4.539	-
Temporary differences arising from changes in the value of equity instruments	-	-	-267	-267	-	-267
Taxable temporary differences from mark-to-market revaluation of assets classified under IFRS 16	-5.750	-	-212	-5.962	-	-5.962
Assets representing deferred tax	**-1.879**	**-1.268**	**1.457**	**-1.690**	**4.539**	**-6.229**

At each reporting date, the Bank reviews the recoverability of the deferred tax asset based on projected future taxable profits. Projections of taxable profits are prepared based on the approved budget for future years adjusted by deductible or non-taxable items.In 2023, the Bank no longer has a deferred income tax receivable recognised.
In 2023, the Bank had no deferred tax receivables related to tax losses (31 December 2022: RON 1.27 million).

24. OTHER ASSETS

	31 December 2023	**31 December 2022**
Debts with the state budget	480	164
Deposits paid for rent, electricity	2.353	2.234
Prepaid expenses	4.699	3.766
Sundry debtors	9.352	10.709
Inventory items	150	107
Other	2.584	3.199
Repossessed assets	19.090	13.493
Outstanding credit line fees	866	891
Outstanding commissions	4.764	4.710
Miscellaneous debtors provision	-452	-452
Provisions for outstanding commissions	-5.325	-3.862
Total	**38.561**	**34.959**
of which financial assets	2.362	2.889

(all amounts are expressed in thousands of RON, unless otherwise specified)

24. OTHER ASSETS (continued)

As at 31.12.2023, of the amount of RON 9,352 thousand (as at 31 December 2022: RON 10,709 thousand), representing sundry debtors, the largest part is represented by receivables to be recovered from the state budget, i.e. RON 6,692 thousand (as at 31 December 2022: RON 10,023 thousand).

25. ASSETS HELD FOR SALE

	31 December 2023	31 December 2022
Assets held for sale	17.368	20.172
TOTAL	**17.368**	**20.172**

26. DEPOSITS FROM BANKS

	31 December 2023	31 December 2022
Sight deposits and current accounts	31.162	94.171
Term deposits	11.693	101.680
Collateral deposits	99	-
Items being collected	26.067	18.640
Total	**69.021**	**214.491**

27. DEPOSITS FROM CUSTOMERS

	31 December 2023	31 December 2022
Current accounts	2.218.537	2.348.664
Open storage	352.852	525.661
Term deposits	3.023.949	2.776.712
Collateral deposits	32.078	56.882
Total	**5.627.416**	**5.707.919**

	31 December 2023	31 December 2022
Individuals	2.005.642	1.583.518
Legal entities	3.621.774	4.124.401
Total	**5.627.416**	**5.707.919**

(all amounts are expressed in thousands of RON, unless otherwise specified)

28. LOANS FROM BANKS

	31 December 2023	31 December 2022
Intesa Sanpaolo Luxembourg (affiliated party)	351.177	348.312
European Investment Bank	12.497	121.444
Intesa Sanpaolo SPA	199.385	198.133
Total	**563.059**	**667.889**

The weighted average interest rate calculated for these loans is 6.22% p.a. (2022: 4.85% p.a.).
In 2023, the Bank repaid the loan from the European Investment Bank maturing in 2027 in the amount of RON 122,232,500.

Society	Date granted	Reimbursement date	Currency of the loan	Initial value in original currency	Sold equiv RON 31.12.2023	Sold equiv RON 31.12.2022
Intesa Sanpaolo SPA	17.12.2021	18.12.2028	EUR	40.000	199.385	198.133
Intesa Sanpaolo Bank Luxemburg	17.10.2008	17.10.2026	EUR	30.000	151.420	149.013
Intesa Sanpaolo Bank Luxemburg	09.09.2022	09.09.2027	EUR	40.000	199.758	199.299
European Investment Bank	30.04.2013	30.04.2025	EUR	1.250	6.274	9.321
European Investment Bank	23.12.2013	23.12.2025	EUR	1.250	6.223	9.284
European Investment Bank	06.04.2021	26.08.2027	RON	122.232,5	-	102.840
TOTAL					**563.059**	**667.889**

In 2021, the Bank received a loan (senior non-preferred loan agreement) from Intesa Sanpaolo SpA maturing in 2028 with a maximum limit of EUR 150 million, MREL eligible, of which Banca Intesa Sanpaolo Romania has drawn EUR 40 million as at 31 December 2023 and 31 December 2022.

29. PROVISIONS

	31 December 2023	31 December 2022
Provisions for litigation	4.989	6.751
Expected credit provisions related to loan commitments and financial guarantee contracts (Note 33)	22.537	31.612
Provisions for staff costs	11.925	9.461
Total	**39.451**	**47.824**

The movement in provisions during 2023 and 2022 is as follows:

	Guarantee letters and commitments	Litigation	Personal	Other	Total
On 1 January 2023	**31.612**	**6.751**	**9.461**	**-**	**47.824**
Constituted during the year	8.148	-	15.699		**23.847**
Resumed during the year	-17.271	-1.764	-13.235	-	**-32.270**
Used during the year	-	-	-		-
Exchange rate difference	48	2	-	-	**50**
At 31 December 2023	**22.537**	**4.989**	**11.925**	**-**	**39.451**

(all amounts are expressed in thousands of RON, unless otherwise specified)

29. PROVISIONS (continued)

The stock of provisions in the amount of RON 22,537 thousand as at 31 December 2023 (RON 31,612 thousand as at 31 December 2022) related to letters of guarantee issued and financing commitments is subject to IFRS 9 and the remainder to IAS 19.

	Guarantee letters and commitments	Litigation	Personal	Other	Total
On 1 January 2022	**51.065**	**6.798**	**5.344**	**-**	**63.207**
Constituted during the year	17.784	-	12.483		30.267
Resumed during the year	-37.234	-	-1.171	-	-38.405
Used during the year	-	-47	-7.387		-7.434
Exchange rate difference	-3	-	192	-	189
On 31 December 2022	**31.612**	**6.751**	**9.461**	**-**	**47.824**

Provisions for loan commitments represent specific adjustments calculated for losses on financial guarantees or loan commitments for customers whose financial situation has deteriorated. The provision for payroll costs mainly comprises liabilities and provisions for unused vacation leave, performance bonuses and payroll taxes.

30. OTHER LIABILITIES

	31 December 2023	31 December 2022
Taxes due to the state budget	3.406	2.473
Wages to pay	7.697	7.268
Expenses to pay	1.124	1.241
Fees for letters of guarantee	4.448	3.399
Open spot foreign exchange transactions - Currency adjustment account	1.883	1.897
Other debts	30.341	20.540
Other integration debts	5.014	5.014
Lease liabilities	26.828	22.389
Total	**80.741**	**64.221**
Of which financial debts:	61.650	47.301

31. CAPITAL AND RESERVES

	31 December 2023	31 December 2022
Subscribed share capital	1.216.639	1.216.639
Capital premium	251.629	251.629
Restatement in accordance with IAS 29	40.175	40.175
Total share capital and share premium	**1.508.443**	**1.508.443**

As of 31 December 2023, the Bank's share capital is represented by 121,663,941 shares with a nominal value of RON 10/share. All issued shares are fully paid and entitle to one vote each.

(all amounts are expressed in thousands of RON, unless otherwise specified)

31. CAPITAL AND RESERVES (continued)

The shareholding structure as at 31 December 2023 is shown in the table below:

Shareholder	Number of shares	%
Intesa Sanpaolo S.p.A Italy	121.333.530	99.73
Intesa Sanpaolo Holding International S.A.	330.411	0.27
Total	**121.663.941**	**100.00**

The shareholding structure as at 31 December 2022 is shown in the table below:

	Number of shares	%
Intesa Sanpaolo S.p.A Italy	121.333.530	99.73
Intesa Sanpaolo Holding International S.A.	330.411	0.27
Total	**121.663.941**	**100.00**

Reserves at 31 December 2023 include the following non-distributable reserves:

- legal reserve of RON 28,452 thousand as at 31 December 2023 (31 December 2022: RON 25,971 thousand)
- general reserve for credit risk of RON 830 thousand at 31 December 2023 (31 December 2022 RON 830 thousand)
- funds for general banking risks of RON 10,163 thousand as at 31 December 2023 (31 December 2022: RON 10,163 thousand)
- other reserves of RON 624 thousand at 31 December 2023 (31 December 2022: RON 624 thousand).

Reserves:
Statutory legal reserves represent accumulated appropriations from retained earnings in accordance with current local legislation. These reserves cannot be distributed. Current legislation requires that 5% of the Bank's statutory gross profit be allocated to a statutory legal reserve which cannot be distributed until this reserve represents 20% of the statutory share capital.
General banking risk reserves include amounts allocated in accordance with banking legislation and are shown separately as allocations from statutory profit. These reserves cannot be distributed. According to the legislation in force in Romania, the general banking risk reserves have been constituted from 2004 until the end of the financial year 2006.
The bank also has recorded at the end of 2023 reserves from the revaluation of buildings in the amount of RON 41,039 thousand (31 December 2022: RON 31,264 thousand) as well as reserves from the positive marking of debt instruments in the amount of RON 4,946 thousand (31 December 2022: RON 21,147 thousand - negative marking).

32. CASH AND CASH EQUIVALENTS

For the purpose of presenting cash flows, cash and cash equivalents comprise cash and cash equivalents, current accounts and short-term placements with other banks. Loans granted to other banks with more than 90 days maturity from the date of granting amounting to RON 100,118 thousand (31 December 2022: 0) are excluded. The bank has not included in cash and cash equivalents for the purpose of calculating cash flows the amounts representing the minimum reserve requirement held in the account with the National Bank of Romania.

	31 December 2023	31 December 2022
Number	186.176	147.629
Current account with the National Bank of Romania	770.852	549.963
Current accounts	32.715	76.997
Overnight deposits and term deposits	585.044	948.047
Impairment adjustments	-22	-234
Total	**1.574.765**	**1.722.402**

(all amounts are expressed in thousands of RON, unless otherwise specified)

33. COMMITMENTS AND CONTINGENT LIABILITIES

The bank issues guarantees and letters of credit to its clients. The market and credit risk of these financial instruments, as well as the operational risk, are similar to those related to the granting of loans. In the event of a claim being made against the Bank as a result of a client's failure to meet its obligations in respect of guarantees, these instruments also present a degree of liquidity risk for the Bank.

The total amount of gross contingent liabilities and payables at the end of the period was:

	31 December 2023	31 December 2022
Financial guarantee letters issued to non-bank customers	1.052.339	1.002.582
Funding commitments given	607.154	589.917
Letters of guarantee issued to other banks, counter-guaranteed	639.823	465.318
Total	**2.299.316**	**2.057.817**

The bank monitors the residual maturity of long-term commitments that have a higher degree of risk than short-term ones. The total contractual amount of funding commitments does not represent a binding liquidity requirement in the future, as many commitments will expire or terminate without being drawn down. The amount of expected credit loss adjustments related to loan commitments and financial guarantee contracts is RON 22,537 thousand as at 31 December 2023 (31 December 2022: RON 31,612 thousand).

Future operating lease payments are shown below:

	31 December 2023	31 December 2022
Not later than 1 year	9.298	6.991
Later than 1 year, but not later than 5 years	18.508	15.398
Later than 5 years	-	-

The minimum future rentals that the bank will collect under irrevocable operating leases as at 31 December 2023 are as follows:

	31 December 2023	31 December 2022
Not later than 1 year	189	339
Later than 1 year, but not later than 5 years	716	954
More than 5 years 254 478		

Transfer prices

Romanian tax legislation includes the "market value" principle, according to which transactions between related parties must be carried out at market value.

Taxpayers who carry out transactions with related parties must prepare and make available to the Romanian tax authorities, at their written request, the transfer pricing file.

33.COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Failure to submit the transfer pricing file or submission of an incomplete file may result in penalties for non-compliance; in addition to the contents of the transfer pricing file, tax authorities may interpret transactions and circumstances differently from management's interpretation and, as a result, may impose additional tax liabilities resulting from the transfer pricing adjustment.

The Bank's management believes that it will not suffer any losses in the event of a tax audit to verify transfer pricing. However, the impact of different interpretations by tax authorities cannot be reliably estimated. The tax risk is however low as the vast majority of transactions are between group entities, which are in Romania, with no cross-border risk.

Litigation

In 2023, the Bank was a defendant/ respondent, plaintiff/ petitioner/ creditor or injured party/ civil party in civil, criminal and insolvency litigation.

In civil matters, the Bank has handled litigation concerning: claims, obligation to act, action in tort, annulment of deed, claim, granulation, rectification of land register, partition, action to ascertain unfair clauses, annulment of payment instrument, validation of distraint, challenge to execution and presidential order, in which the Bank has the quality of defendant/ respondent or plaintiff/ petitioner.

In insolvency matters, the Bank has handled litigation concerning: applications for the opening of insolvency proceedings, appeals against the measures of the judicial liquidators, appeals against the tables of claims, appeals against the distribution of amounts, in which the Bank is a creditor.

In criminal matters, the Bank has handled litigation concerning offences committed in cases in which the Bank is an injured party or civil party.

Following a thematic control, the Bank was sanctioned by ANPC under Article 6(1)(b) of Law 363/2007 with a fine of 50,000 lei for unfair commercial practices. By Order no. 469/09.06.2023, the ANPC asked the Bank to cease the misleading practices and to issue new repayment schedules for loans, with equal instalments for the entire loan period. The Bank challenged the infringement report and the order issued by ANPC by initiating three litigations.
Taking into account the course of legal action, the Bank has assessed that the criteria for recording a provision have not been met as at 31 December 2023.

The Competition Council's investigations include the ROBOR Investigation, which focuses on the national interbank money market for setting ROBOR/ROBID reference rates, and the FICO Investigation, which examines possible concerted practices in setting customer assessment criteria. Both investigations may involve fines, but the amount of fines cannot be determined at this time because the investigations are still ongoing and more information is needed for assessment.
In case of a negative result of the above mentioned investigations, the provisions of the Competition Law 21/1996 become applicable (the related fine could vary between 0.5% and 10% of the turnover of the year preceding the sanction, being subject to individualization, depending on gravity, duration and potential mitigating and aggravating circumstances).

However, given that:
- Based on current information, the Bank has not identified any specific elements of non-compliance with the legislation in question,
- The investigations are at an early stage and no report has been issued by the Competition Council,

The Bank concludes that the risk is low and isolated and therefore no provision should be recognised at 31 December 2023.

As at 31 December 2023, the provision for litigation, in which the Bank is a party, amounts to RON 4,989 thousand (31 December 2022: RON 6,751 thousand). The Bank considers that these will not have material adverse effects on its results and financial position. Provisions for litigation are mainly set up for litigation concerning actions by individual debtors seeking the annulment of clauses considered to be unfair in credit agreements.

(all amounts are expressed in thousands of RON, unless otherwise specified)

34. TRANSACTIONS WITH RELATED PARTIES

The bank is a member of the Intesa Sanpaolo Group. The Bank's parent company is Intesa Sanpaolo SpA, a bank established in Italy, which directly holds 99.73% of the ordinary shares.

Related parties considered for reporting purposes include Intesa Sanpaolo S.p.A., Intesa Sanpaolo Bank Luxembourg S.A., Intesa Leasing D.O.O.Beograd, CIB Bank LTD, Intesa Sanpaolo Banka DD Sarajevo, Privredna Banka Zagreb DD, Intesa Sanpaolo International Value Services LTD, Banka Intesa Sanpaolo D.D., Intesa Sanpaolo Branch Tokyo, VUB Banka Bratislava, Vseobecna Uverova Banka AS Branch Prague, Intesa Sanpaolo Milano Branch, Banca Fideuram S.P.A., Intesa Sanpaolo Spa Fil Impr Roma Centro, Intesa Sanpaolo SPA London, Intesa Sanpaolo Frankfurth Branch, Intesa Sanpaolo SPA New York, Intesa Sanpaolo Spa (Filiale Imprese Bergamo), Intesa Sanpaolo Spa (Filiale Imprese Busto Arsizio), Banca Comerciala Eximbank S.A., which are all entities controlled by the Intesa Sanpaolo Group.

Parties are considered to be related/affiliated if one party has the ability to control or significantly influence the other party in making financial and operational decisions. In the normal course of business certain banking transactions are carried out with related parties. These include loans, deposits and currency transactions, purchases of other services. The volume of transactions with related parties, outstanding balances at year-end and income and expenses for 2023 and 2022 respectively are as follows:

Transactions with the Bank's key management personnel

Key personnel are divided into two categories: management personnel (directors and local management) and key managers (persons having power and responsibility, directly or indirectly, for planning, directing and controlling the activities of the company, including company directors).

	2023			**2022**		
Active	**Mother company**	**Other related parties**	**Key personnel**	**Mother company**	**Other related parties**	**Key personnel**
Nostro Accounts	5.944	1.407	-	16.691	2.096	-
Deposits placed	148.715	1.560	-	177.202	1.608	-
Derivative financial instruments	791	-	-	3.872	-	-
Loans granted	-	39.874	2.675	-	-	1.762
Other assets	46	1.176	-	46	-	-

	2023			**2022**		
Passive	**Mother company**	**Other related parties**	**Key personnel**	**Mother company**	**Other related parties**	**Key personnel**
Loro Accounts	24.041	5.003	-	11.239	1.842	-
Deposits attracted	1.710	1.301	6.889	121.958	5.420	6.157
Loans	199.385	351.178	-	198.133	348.312	-
Derivative financial instruments	-	-	-	13.092	-	-
Other debts	389	81	-	89	13	-

(all amounts are expressed in thousands of RON, unless otherwise specified)

34. TRANSACTIONS WITH AFFILIATED PARTIES (continued)

Transactions with management and key personnel represent transactions related to current accounts and deposits and loans granted to them, excluding any other benefits.

The allowances of senior staff and key managers were:

	2023	2022
Management staff	7.261	6.572
Key managers	8.607	6.987

In addition to transactions with staff or key management, the Bank conducts transactions with entities having significant influence over the Bank. The table below shows the balances and related interest during the year.

	2023			2022		
Profit and loss account	**Mother company**	**Other related parties**	**Key personnel**	**Mother company**	**Other related parties**	**Key personnel**
Interest income	9.502	230	126	1.777	145	85
Interest expenses	9.411	21.619	249	4.602	7.906	102
Commission income	739	210	2	595	133	2
Commission expenses	2.585	26	-	790	16	-
Gain/(Loss) on derivative transactions	2.473	-	-	-6.943	-	-
Other income	86	1.969	-	53	1.523	-
Other expenses	2.745	8.452	-	2.388	6.804	-

	2023		2022	
Commitment	**Mother company**	**Other related parties**	**Mother company**	**Other related parties**
Total commitments granted	231.935	53.148	247.500	44.411
Total commitments received	277.380	8.000	643.292	44.410
Notional value of derivatives at purchase	400.057	-	247.370	-
Notional value of derivatives on sale	397.968	-	317.851	-

Terms and conditions of related party transactions

The aforementioned balances resulted from the normal course of the Bank's business. Interest charged to and by related parties is in normal commercial rates. All amounts are expected to be settled in cash. Balances outstanding at year-end are not guaranteed. For the year ended 31 December 2023, the Bank has recorded an impairment adjustment for letters of guarantee issued in the amount of RON 10 thousand (31 December 2022: RON 17 thousand).

(all amounts are expressed in thousands of RON, unless otherwise specified)

35. EVENTS AFTER THE BALANCE SHEET DATE

Mr. Andrea De Michelis has ceased his activity as First Deputy General Manager of Intesa Sanpaolo Romania, starting from 01.01.2024.

As of 1 January 2024, an additional tax has been introduced for Romanian credit institutions and Romanian branches of foreign credit institutions, in the form of a turnover tax on top of the existing corporate income tax. Turnover tax is calculated by applying a 2% rate on turnover during the period 1 January 2024 - 31 December 2025 and a 1% rate from 1 January 2026 onwards. The Bank will analyse the impact of this decision for the financial year 2024.

The government approved the emergency ordinance OUG 4/2024 at the end of January, which allows farmers and food industry companies to request the suspension of repayments of instalments, interest and fees to banks, NFIs and leasing companies for a period of one month, but no later than 31 December 2024. The 60-day deadline for applications expires at the end of March, but a draft law in the Senate aims to extend it by another two months to give farmers more time to apply. The provisions of the EGO may benefit debtors who have concluded a contract for obtaining a loan used for agricultural and food industry activities, which has not matured and for which the creditor has not declared early maturity, prior to the entry into force of this emergency ordinance. The maturity of the contracts, i.e. the maximum credit period provided for in the creditors' regulations, may be extended by a period equal to the duration of the suspension of the payment obligation. The interest due corresponding to the overdue amounts whose payment is suspended shall be capitalised on the existing credit balance at the end of the suspension period. The capital thus increased shall be paid in instalments over the period remaining to the new loan maturity. The deferred payment fees outstanding at the end of the suspension period shall be paid on the revised schedule after suspension.
In order to benefit from the suspension, farmers must demonstrate that they are unable to meet their payment obligations under the loan as a result of one or more of the following:
- Drastic decrease in income due to reduced crop production,
- of the negative evolution of prices of agricultural crop products on the market in 2023,
- the impossibility of exploiting production stocks against the background of the situation in Ukraine, in particular due to trade flows of similar products from Ukraine as a result of Russia's aggression against Ukraine, carried out at much lower prices than domestic ones,
- Reduced economic profitability or even loss-making production, caused by rising prices for agricultural material resources in 2022 and 2023.

The Bank has analysed the implications of the ordinance and concluded that there is no significant impact given the structure and proportion of the portfolio affected by the decision.

The financial statements were approved by the Board of Directors on 28 March 2024 and signed on its behalf by:

Simone Ieri	Marius Slemco
Deputy General Manager	Head of Accounting Department