KPMG

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

Independent Auditors' Report

(free translation[1])

To the Shareholders of ProCredit Bank SA

62 – 64 Buzesti Street, Bucharest, Sector 1, Romania
Unique Registration Code: RO14622194

Report on the Audit of the Financial Statements

Opinion

1. We have audited the financial statements of ProCredit Bank SA ("the Bank"), which comprise the statement of financial position as at 31 December 2021, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

2. The financial statements as at and for the year ended 31 December 2021 are identified as follows:

• Total equity:	Lei 206,718,478
• Net profit for the year:	Lei 8,362,966

3. In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

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

[1] TRANSLATOR'S EXPLANATORY NOTE: The above translation of the auditors' report is provided as a free translation from Romanian which is the official and binding version.

Fiscal registration code
RO12997279
Trade Registry
no J40/4439/2000
Share Capital 2.000 RON

IR

KPMG

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

Key Audit Matters

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

Impairment of loans and advances to customers

As at 31 December 2021, the financial statements include gross loans and advances to customers: RON 1,772,408,568, related expected credit losses: RON 35,663,995 and net impairment charge recognized in the statement of profit or loss for the year then ended: RON 3,970,304 (31 December 2020: gross loans and advances to customers: RON 1,676,807,736 expected credit losses: RON 32,721,076, net impairment release recognized in the statement of profit or loss: RON 6,133,546).

See Notes 9 Loss Allowances, 21 Allowance for impairment losses on financial assets, 30 Loans and advances to customers (explanatory notes) and 47 Credit risk to the financial statements.

The key audit matter	**How the matter was addressed in our audit**
Impairment allowances represent management's best estimate of the expected credit losses within loans and advances to customers portfolio (collectively, "loans", "exposures") at amortized cost at the reporting date. As described in the Note 9 to the financial statements, the Expected Credit Losses ("ECL") have been determined have been determined pursuant to the relevant requirements of IFRS 9 *Financial Instruments* ("IFRS 9" or "the Standard"). Among other things, IFRS 9 requires an assessment of whether there is a significant increase in credit risk since initial recognition or any objective evidence of impairment (default), based on the assessment of the borrowers' rating, debt service, their financial position and future cash flows expected from the borrowers. Pursuant to the Standard, individual loans and advances (collectively, "loans") are allocated into one of three stages for the purposes of estimating the loss allowances. Impairment allowances for the performing exposures (stage 1 and stage 2 in the IFRS 9 hierarchy), as well as non-performing exposures (stage 3) with amounts not exceeding certain pre-determined thresholds individually, are determined by modelling techniques relying on	Our audit procedures in this area, performed, where applicable, with the assistance from our financial risk management, IT and valuation specialists, included, among others: ➲ Evaluating the appropriateness of the credit loss-related accounting policies, credit risk modelling techniques and methodology against the requirements of the relevant financial reporting standards, our business understanding and industry practice; ➲ Testing of the design, implementation and effectiveness of the selected controls in the Bank's expected credit loss estimation process. This included testing the controls over: — The accuracy of data input (mainly for loan exposures, collateral value and interest rates); — Approval of loans; — System configuration of debt service and allocation of payments; and — Valuation of collateral ➲ Assessing whether the definition of default, assessment of SICR and the staging criteria were consistently applied and are appropriate by reference to the standard. As part of this procedure,

iR

key parameters such as the risk rating, the probability of default (PD), exposure at default (EAD) and loss given default (LGD), taking into account historical experience, identification of exposures with a significant increase in credit risk ("SICR") and forward-looking information (together "collectively assessed expected credit losses"). Impairment allowances for exposures in excess of the above-mentioned thresholds, classified in stage 3, are determined on an individual basis by means of a discounted cash flows analysis. The process relies on a number of complex assumptions, in particular those in respect of the recovery scenarios and the expected proceeds from the sale of the related collateral. In the wake of the COVID-19 pandemic and the downward macroeconomic effects of the increase in energy and other commodity prices and resulting inflationary pressures and disruptions in the global supply chains, measurement of ECLs was associated with additional complexities and an increased estimation uncertainty. In addition, application of post-model adjustments was required from management in arriving at the year-end estimate of impairment losses. We consider estimating expected credit losses to be a key audit matter due the magnitude of the related balances as well as the complex relevant requirements of the financial reporting framework, in respect of the related management assumptions and judgments, such as those for macro-economic inputs, and risk modelling.	for a sample of loans classified as stage 1 and stage 2, we critically assessed, by reference to the underlying loan files and through inquiries of responsible loan officers and credit risk management personnel, the existence of any triggers for classification to stage 2 or stage 3. ➲ In respect of the collectively assessed expected credit losses: – Challenging the macroeconomic forecasts used in the ECL model in terms of their relevance and source accuracy by comparing them to publicly available data. As part of this procedure, we assessed the appropriateness of the Bank's treatment of the impact of the inflationary pressure and the supply-chain shortages have on customers from a SICR perspective by means of corroborating inquiries of the management board members and inspection of publicly available information; — Testing, on a sample basis, the relevance and reliability of the data used in the Bank's process of calculating the EAD, risk rating, PD and LGD, by reference to the supporting documentation, such as credit risk memoranda, debt service status, repayment schedules, restructuring operations, etc., and underlying data for collections occurring after default; — Challenging post-model adjustments, by evaluating key underlying assumptions and inspecting the calculation method; — Based on the outcome of the preceding procedures, recomputing the collective ECL as at reporting date. ➲ In respect of the individually assessed expected credit losses: — For a sample of Stage 3 individually assessed exposures, challenging the key assumptions applied in the estimate of the future cash flows, such as collateral values, by reference to the underlying valuation reports and the Bank's historical experience; — Recomputing the individual ECL as at reporting date. ➲ Assessing the accuracy, completeness and relevance of the ECL-related financial statement disclosures against the requirements of the relevant financial reporting standards.

IR

KPMG

Other information – Administrator's Report ("Board of Directors' Report")

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

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

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

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

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

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

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

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

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

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

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

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

Auditors' Responsibility for the Audit of the Financial Statements

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

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

IR

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

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

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

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

Report on Other Legal and Regulatory Requirements

15. We were appointed by the General Shareholders' Meeting on 3 August 2021 to audit the financial statements of ProCredit Bank SA for the year ended 31 December 2021. Our total period of engagement is 17 years, covering periods ended 31 December 2002 to 31 December 2004, 31 December 2006 to 31 December 2016 and 31 December 2019 to 31 December 2021.

IR

16. We confirm that:

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

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

Refer to the original signed Romanian version	**Refer to the original signed Romanian version**
RUBELI IRINA	**KPMG Audit SRL**
registered in the electronic public register of financial auditors and audit firms under no AF4092	registered in the electronic public register of financial auditors and audit firms under no FA9

Bucharest, 9 May 2022

IR

ProCredit Bank

Part of the ProCredit Group

Financial Statements
31 December 2021

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

- Free translation* -

ProCredit Bank
Part of the ProCredit Group

TRANSLATOR'S EXPLANATORY NOTE: The above translation of the financial statements is provided as a free translation from Romanian which is the official and binding version.

Statement of Profit or Loss and other Comprehensive Income

in LEI	Note	1.1-31.12. 2021	1.1-31.12. 2020
Interest income		87,871,329	84,049,686
Interest expenses		-26,357,620	-28,963,813
Net interest income	(20)	**61,513,709**	**55,085,873**
Fee and commission income		11,427,559	11,884,528
Fee and commission expenses		-5,720,993	-5,450,009
Net fee and commission income	(22)	**5,706,567**	**6,434,519**
Net result from foreign exchange transactions	(23)	4,648,029	4,614,520
Net result from FA at FVTOCI		16,936	19,596
Other operating income	(24)	3,268,607	1,563,214
Operating income		**75,153,849**	**67,717,722**
Allowance for impairment losses on financial assets	(21)	-3,605,593	-5,873,814
Personnel expenses	(25)	-22,779,951	-28,208,558
Administrative expenses	(25)	-31,683,275	-38,479,374
Depreciation and amortisation	(31, 32)	-7,655,275	-11,795,355
Other operating expense	(24)	-1,162,275	-6,693,400
Operating expenses		**-66,886,368**	**-91,050,501**
Income/Loss before tax		**8,267,481**	**-23,332,778**
Income tax (income)	(26,35)	95,485	-
Income/Loss for the year		**8,362,966**	**-23,332,778**
Items that may be reclassified subsequently to profit or loss			
Change in financial assets at fair value through other comprehensive income		-322,601	190,610
Change in deferred tax on revaluation reserve from financial assets at FVOCI		49,568	-27,317
Other comprehensive income for the year, net of tax		**-273,032**	**163,293**
Total comprehensive income for the year		**8,089,934**	**-23,169,485**

The Statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 8 to 67.
The financial statements were reviewed and authorized for issue by the Board of Administration on 03 May 2022 and were signed on its behalf by:

Andreea Ichim
Deputy General Manager

Alexandra Andronache
Head of Finance Department

ProCredit Bank

Part of the ProCredit Group

Statement of Financial Position

in LEI		As at 31 December	
Assets	**Note**	**2021**	**2020**
Cash and balances with central bank	(27)	384,432,384	244,413,857
Loans and advances to banks	(28)	132,885,038	79,138,064
Financial assets at fair value through other comprehensive income	(29)	131,899,647	112,173,742
Loans and advances to customers	(30)	1,736,744,573	1,644,086,660
Property, plant and equipment	(32)	19,409,485	25,130,762
Intangible assets	(31)	7,041,729	7,593,107
Deferred tax assets	(34)	48,271	-
Other financial assets	(36)	2,587,919	2,771,399
Other non-financial assets	(36)	3,939,102	4,655,460
Current tax assets	(36)	1,521,372	0
Total assets		**2,420,509,519**	**2,119,963,050**
Liabilities			
Liabilities to banks	(37)	240,546,143	257,479,973
Liabilities to customers	(38)	1,521,458,445	1,295,962,010
Liabilities to international financial institutions	(39)	429,527,714	339,596,606
Other financial liabilities	(42)	17,221,235	21,357,034
Other non-financial liabilities	(43)	2,650,524	3,358,123
Provisions	(41)	2,321,608	3,418,608
Deferred tax liabilities	(34)	65,371	162,153
Total liabilities		**2,213,791,041**	**1,921,334,506**
Equity			
Share capital	(44)	251,635,371	251,635,371
Share premium	(44)	1,273,775	1,273,775
Legal reserve	(44)	3,785,383	3,372,009
Accumulated loss		-49,752,901	-57,702,492
Fair value reserve		-223,151	49,881
Total equity		**206,718,478**	**198,628,544**
Total equity and liabilities		**2,420,509,518**	**2,119,963,050**

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 8 to 67.

The financial statements were reviewed and authorized for issue by the Board of Administration on 03 May 2022 and were signed on its behalf by:

Andreea Ichim
Deputy General Manager

Alexandra Andronache
Head of Finance Department

Statement of Changes in Equity

in LEI	Attributable to equity holders of the Bank					
	Share capital	Share premium	Legal reserve	Accumulated loss	Fair value reserve	Total
Balance at January 1, 2021	**251,635,371**	**1,273,775**	**3,372,009**	**-57,702,493**	**49,881**	**198,628,545**
Profit of the year 2021	-	-	-	8,362,966	-	8,362,966
Change in fair value of financial assets at FVOCI, net of tax	-	-	-	-	-273,032	-273,032
Transfer to legal reserve	-	-	413,374	-413,374	-	-
Total comprehensive income of the year 2021	-	-	**413,374**	**7,949,592**	-273,032	**8,089,933**
Balance at December 31, 2021	**251,635,371**	**1,273,775**	**3,785,383**	**-49,752,901**	**-223,152**	**206,718,477**
Balance at January 1, 2020	**251,635,371**	**1,273,775**	**3,372,009**	**-34,369,715**	**-113,411**	**221,798,030**
Loss of the year 2020	-	-	-	-23,332,779	-	-23,332,779
Revaluation of financial assets at FVOCI	-	-	-	-	163,293	163,293
Other comprehensive income	-	-	-	-	-	-
Transfer to legal reserve	-	-	-	-	-	-
Total comprehensive income of the year 2020	-	-	-	**-23,332,779**	163,293	**-23,169,486**
Balance at December 31, 2020	**251,635,371**	**1,273,775**	**3,372,009**	**-57,702,492**	**49,881**	**198,628,544**

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 8 to 67.

The financial statements were reviewed and authorized for issue by the Board of Administration on 03 May 2022 and were signed on its behalf by:

Andreea Ichim
Deputy General Manager

Alexandra Andronache
Head of Finance Department

PROCREDIT BANK S.A.

ProCredit Bank

Part of the ProCredit Group

Cash Flow Statement

in LEI	Note	1.1.-31.12.2021	1.1.-31.12.2020
Net profit/ (loss) after tax		**8,362,966**	**-23,332,778**
Cash flows from operating activities			
Adjustments for:			
Allowance for impairment losses on loans and advances		3,863,294	6,133,415
Depreciation and amortisation		7,655,275	11,795,355
Net interest income		-61,513,709	-55,085,873
Other provisions		-1,097,000	2,566,739
Net result from fixed assets		111,161	3,497,389
Dividends Income		-16,936	-19,596
Loss write-off loans		100,785	13,765
Other (including FX)		178,824	189,350
Income tax expense/revenue		-95,485	-
Operating profit before changes in operating assets and liabilities		**-42,450,826**	**-54,242,234**
Change in minimum compulsory reserve		-18,067,225	-6,134,447
Change in loans and advances to customers		-96,621,992	-275,675,449
Change in other assets		-621,534	2,388,064
Change in deposits from banks		14,184,800	43,487,700
Change in deposits from customers		225,839,263	248,586,078
Change in other liabilities		-4,844,695	-866,703
Change in fair value of financial assets at FVTOCI		-309,229	154,511
Interest paid		-23,930,026	-27,241,099
Interest received		84,889,678	85,579,620
Net cash used in operating activities		**138,068,213**	**16,036,042**
Cash flows from investing activities			
Dividends received		16,936	19,596
Purchase of property, plant and equipment / intangible assets		-1,491,133	-8,384,426
Proceeds from sale of property, plant and equipment		73,113	269,500
Purchase of financial assets at FVTOCI		-106,000,000	-153,305,800
Proceeds from sale of financial assets at FVTOCI		87,000,000	95,220,000
Net cash used in investing activities		**-20,401,084**	**-66,181,130**
Proceeds from issues of share capital		0	0
Proceeds from borrowings		147,329,000	139,094,898
Repayment of borrowing		-89,297,855	-95,193,509
Cash flow from financing activities		**58,031,145**	**43,901,389**
Net increase in cash and cash equivalents			
Cash and cash equivalents at 31 December previous year		206,459,576	212,703,277
Net increase/(decrease) in cash and cash equivalents		175,698,275	-6,243,701
Cash and cash equivalents at 31 December	(27)	**382,157,851**	**206,459,576**

Andreea Ichim
Deputy General Manager

PROCREDIT BANK S.A.

Alexandra Andronache
Head of Finance Department

ProCredit Bank
Part of the ProCredit Group

Notes to the Financial Statements

Notes to the Financial Statements

A. Basis of Preparation

1) Compliance with International Financial Reporting Standards as endorsed by the European Union

These financial statements have been prepared in accordance with International Financial Reporting Standards as endorsed by EU ("IFRS") under the historical cost convention, except for the investments at fair value through other comprehensive income. The main accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

These financial statements of the Bank for the fiscal year 2021 are subject to be approved by General Shareholders Assembly on 9th May 2022, reviewed and authorized for issue by the Board of Administration on 3rd May 2022 and were signed on its behalf by Andreea Ichim as Deputy General Manager and by Alexandra Andronache as Head of Finance Department.

These financial statements were prepared on the going concern assumption.

During the last quarter of 2020, the Bank went through a process of reorganizing and restructuring (decision strengthened by the Bank's digitalization strategy), in order to improve the overall profitability and overcome the structural loss recorded in the previous years, alongside reaching the business strategic goals. Within the restructuring process, the Bank closed 3 outlets, located in Cluj, Brasov and Craiova. The event entailed additional losses booked in accordance with the International Financial Reporting Standards, in amount of approximately RON 5.49 mio.

The restructuring decision had a positive impact on the results recorded in 2021, given that the Bank registered a profit driven both by reduction of administrative and personnel expenses and continued development of the Bank's loan portfolio.

Romanian market was affected by the Covid-19 outbreak during the period March'2020 - December 2021. Even though the pandemic negatively affected some of the SME sectors that the Bank is lending to, by having a relatively diversified loan portfolio in terms of sectors credited and a prudent approach regarding underwriting from a credit risk perspective, the Bank managed to maintain a non-performing loan rate of 1.66% at 31 December 2021. Having in mind the evolution of the business post restructuring and the ability of the Bank to execute its business plan, management considers the use of the going concern assumption appropriate.

2) Use of estimates and judgements

The Bank's financial reporting and its financial result are influenced by judgements made in applying the accounting policies, assumptions, estimates, and management judgement which necessarily have to be made in the course of preparation of the financial statements.
All estimates and assumptions are in conformity with IFRS and are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events and are considered appropriate under the given circumstances. Revisions to estimates are recognized prospectively.

Accounting policies and management's judgments for certain items are especially critical for the Bank's results and financial situation due to their materiality in amount. This applies to the following positions:

(a) Expected credit losses under IFRS 9

Loss allowances are established based on the IFRS 9 impairment model. The forward-looking expected credit loss (ECL) model is the central element of the approach to quantifying credit loss allowances for on- and off-balance sheet financial instruments. The model calculates loss allowances considering the credit losses expected over various default scenarios in the future. The calculated loss allowances represent the sum of probability-weighted outcomes; ECL estimates are unbiased and include supportable information about past events, current conditions, and forecasts of future economic conditions.

Covid-19 pandemic remained as one of the most significant factor influencing credit risk in 2021. However, macroeconomic conditions have improved, with financial and economic developments better than expected, due to the ability of companies to adapt to the conditions imposed by the pandemic context and the support measures implemented by the authorities. The recovery of the economy from the shock of the pandemic has also been encouraged by increased investment.
In the second part of the year, the global energy crisis, oil price rises and disruptions in production and supply chains put further pressure on the economy already affected by the medical crisis, leading to a sharp rise in inflation. The Bank's activities continued to focus on assessing the effects on the credit portfolio and on a corresponding risk mitigation strategy and proper ECLs recognition.

Considering the uncertainty due to the COVID-19 pandemic, also in the longer term, and taking into account the global energy crisis, supply-chain pressures and raising inflation, appropriate adjustments have been made to the macroeconomic factors used to determine the ECL model parameters. These adjustments were made based on the newest IMF World Economic Outlook Database macroeconomic forecast, taking account for the longer-term outlook as stated in Note 9 Loss allowance.

(b) SPPI assessment

The assessment of whether the contractual cash flows of financial assets give rise to cash flows that are solely payments of principal and interest (SPPI) is subject to the application of significant judgements. These judgements are crucial in the IFRS 9 classification and measurement process as they determine whether the asset must be measured at FVPL or, depending on the business model assessment, at amortised cost or at FVOCI.
As part of the SPPI testing, any clause or covenant that can influence the contractual cash flow should be assessed. In that sense, following aspects are analysed: general terms and conditions of the Bank; template facility contracts (the main focus being on clauses and covenants that can change the contractual cash flow i.e. with monetary elements (fees, commission, penalties) and the expression of the interest rate); contracts that differ from the standard template.

(c) Provisions

A provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated (including litigations from the ordinary course of business), and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Please see Note 17) Provisions for a description of the accounting treatment and Note 24) Other net operating income/expense.

(d) Taxation risk

The Bank is committed to ensure sustainable performance of tax risk management by building and maintaining an efficient, effective and transparent tax function within the organization.

Effective from 1 January 2012, IFRS implementation has been consideration for the revision of tax legislation in order to introduce particular rules for the treatment of adjustments resulted at the implementation stage and afterwards. The Authority regulated in time the tax implications on both, tax neutrality of IFRS implementation and on budgetary sources, by often amending related legislation.

In this context, careful analysis was performed in identification of differences in accounting treatment, having tax impact, both in terms of current tax and deferred tax.

It is expected that also in the future the tax framework will be subject to frequent amendments as a consequence of the state budgetary needs or as a result of the Romania's obligations as an EU Member State. Given the precedents, they may have retroactive application.

Tax liabilities of the Bank are open to a general tax inspection for a period of seven years.

(e) Determination of fair values

Determination of fair value for both financial instruments carried at fair value in the financial statements and financial instruments carried at amortized cost and for which the fair value is disclosed encompasses significant judgements and uncertainties related to the current market conditions. For more information on determination of fair values, please refer to notes 8 and 54.

3) Accounting developments

(a) Standards, amendments and interpretations that are already effective

The following amendments to existing standards published by the IASB are mandatorily applicable for the first time to financial periods beginning on or after 1 January 2021 and they are therefore applicable to the Bank's financial statements for the year ended 31 December 2021.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 "Interest Rate Benchmark Reform" – Phase 2 In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to IBOR reform:

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). In particular, the amendments provide for a practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, to require the effective interest rate to be adjusted, equivalent to a movement in a market interest rate.

In addition, the amendments introduce reliefs from discontinuing hedge relationships including a temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. Furthermore, the amendments to IFRS 4 are designed to allow insurers who are still applying IAS 39 to obtain the same reliefs as those provided by the amendments made to IFRS 9. There are also amendments to IFRS 7 Financial Instruments: Disclosures to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 with earlier application permitted. While application is retrospective, an entity is not required to restate prior periods.

Amendments to IFRS 16 "Leases" – Covid-19-Related Rent Concessions beyond 30 June 2021 (effective for annual reporting periods beginning on or after 1 April 2021). This amendment extends, for one year, the May 2020 amendment - Covid-19-Related Rent Concessions (effective for annual periods beginning on or after 1 June 2020), which provides for an exemption from the assessment whether the lease concession under the influence of the COVID-19 epidemic is a modification of the lease contract.

The adoption of the aforementioned amendments to existing standards did not result in a significant change in the Bank's accounting policies, nor did it have an effect on the Bank's accompanying financial statements.

(b) Standards, amendments and interpretations issued but not yet effective

The following standards, amendments and interpretations are issued by the IASB and will have an impact on the Bank's financial statements. These were not applied in preparing these Financial Statements:

Annual improvements to IFRSs (2018-2020 cycle) with amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 have a minor impact on the financial statements with regard to the amendment to IFRS 9. The amendment clarifies which fees are to be included when assessing whether the contractual terms of a modified financial liability differ significantly from the original financial liability. The amendments are effective for annual periods beginning on or after 1 January 2022.

Amendments to IFRS 3: “Reference to the Conceptual Framework”, to IAS 16: “Proceeds before Intended Use” and to IAS 37: “Onerous Contracts: Cost of Fulfilling a Contract” will not have an impact on the financial statements. The amendments are effective for annual periods beginning on or after 1 January 2022.

Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets Onerous Contracts – Cost of Fulfilling a Contract. In determining costs of fulfilling a contract, the amendments require an entity to include all costs that relate directly to a contract. Paragraph 68A clarifies that the cost of fulfilling a contract comprises both: the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. The amendments are effective for annual periods beginning on or after 1 January 2022.

Amendments to IAS 1: "Classification of Liabilities as Current or Non-Current" have a minor impact on the financial statements. The amendments are effective for annual periods beginning on or after 1 January 2023.

IFRS 17 “Insurance Contracts” will not have an impact on the financial statements. The standard is effective for annual periods beginning on or after 1 January 2023.

There was no early adoption of any standards, amendments and interpretations not yet effective.

B. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies were consistently applied to all the years presented, unless otherwise stated.

1) Foreign currency translation

(a) *Functional and presentation currency*

Items included in these financial statements presented in LEI, which is the functional currency of the Bank, rounded to the nearest “LEU”.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Monetary items denominated in foreign currency are translated with the closing rate as of the reporting date. In the case of changes in the fair value of monetary assets denominated in foreign currency classified as hold to collect and sale, a distinction is made between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. Foreign exchange differences related to changes in the amortised cost are recognised in profit or loss, while other changes in the carrying amount are recognised in other comprehensive income.

Non-monetary items measured at historical cost denominated in foreign currency are translated with the exchange rate as at the date of initial recognition.

The reporting exchange rates and average rates for the period used in the balance sheet and the income statement are listed in section (60) of these notes.

2) Interest income and expense

Interest income and expenses for all interest-bearing financial instruments, are recognised within “interest income” and “interest expense” in the income statement using the effective interest rate method. Interest income and expense are recognised in the income statement in the period in which they arise.

The calculation of the effective interest rate includes all fees and points paid or received transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense presented in the income statement include interest on financial assets and liabilities at amortised cost on an effective interest rate basis and interest on financial assets at fair value through other comprehensive income. For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3) Fee and commission income and expenses

Fee and commission income and expenses other than those related to the origination of a financial instrument are recognised as the service has been provided.

Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate of the loan.

Other fees and commission income, including account servicing fees, foreign currency transactions fees, fees for guarantees given and opening of letter of credit fees are recognised as the related services are performed on an accrual basis.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

4) Dividends

Dividend income is recognised when the right to receive income is established. Dividends are reflected as a component of other operating income.

Dividends are treated as an appropriation of profit in the period they are declared and approved by the General Assembly of Shareholders.

5) Leases

At inception of a contract, the Bank assesses whether the agreement constitutes or contains a lease. This is the case when the agreement grants the right to control the use of an identified asset for a specified period of time in return for a consideration.

The Bank recognises an asset for the right of use received, as well as a lease liability on the commencement date.

The right of use is recognised at acquisition costs. These include the amount of the lease liability, plus all lease payments made at or before provision, initial direct costs and estimated dismantling and removal costs, less any incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is recognised at the present value of the lease payments not yet made at that time. The lease payments are discounted at the lessee's incremental borrowing rate of interest. They are subsequently measured at amortised cost using the effective interest method.
The Bank determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; and
- lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability does not include VAT.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if the Bank changes its assessment of whether it will exercise an extension or termination option or if there is a revised in-substance fixed lease payment.
When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

Short-term leases or leases based on assets of minor value are not recognised in the balance sheet; instead, the lease payments are recognised under administrative expenses in the statement of profit or loss over the term of the lease.

6) Income tax

Current income tax

Income tax payable on profits is calculated on the basis of the applicable tax law and is recognised as an expense in the period in which profits arise.
The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred income tax

Deferred income tax is recognised, using the balance sheet method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements prepared in accordance with IFRS, as adopted by EU. Deferred tax assets and liabilities are determined using the tax rate (and law) that has been enacted as of the balance sheet date and is expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The main temporary differences arise from revaluation of certain financial assets and liabilities. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit (before tax) for the period according to IFRS, nor the taxable profit or loss.

The tax effects of income tax losses available for carry forward are recognised as a deferred tax asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Changes of deferred taxes related to fair value re-measurement of the financial instruments "held to sale and collect" are charged to the Statement of Other Comprehensive Income. The presentation in the Statement of Other Comprehensive Income is made on a gross basis. At the time of sale, the respective deferred taxes are recognised in the Statement of Profit or Loss together with the deferred gain or loss.

The tax rate used to calculate the current and deferred tax position as at 31 December 2021 16% (31 December 2020: 16%).

7) Financial instruments

A financial instrument is any contract giving rise to a financial asset of one party and a financial liability or equity instrument of another party. In accordance with IFRS 9, all financial assets and liabilities – which also include derivative financial instruments – have to be recognised on the balance sheet and measured in accordance with their assigned categories.

(a) Initial recognition and measurement

Initial recognition
Financial instruments are initially recognised when the Bank becomes a party to the contractual provisions of the instrument. Regular way (spot) purchases and sales of financial assets are recognised at the settlement date, which is the date that an asset is delivered, while the financial assets at fair value through other comprehensive income, are recognized at trade date.

Initial measurement
Financial instruments are measured initially at their fair value including transaction costs (except for financial instruments at fair value through profit or loss, for which transaction costs are recognised directly in profit or loss). In most cases, the fair value at initial recognition equals the transaction price, i.e. the price transferred to originate or acquire a financial asset or the price received to issue or incur a financial liability.

(b) Classification and subsequent measurement of financial assets

In accordance with IFRS 9, the classification and subsequent measurement of financial assets depend on the following two criteria:

- The business model for managing the financial assets – the assessment is focused on whether the financial asset is part of a portfolio in which the assets are held in order to collect contractual cash flows, to both collect the contractual cash flows and sell the assets or they are held in other business models.
- The cash flow characteristics of the financial assets – the assessment is focused on whether the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ('SPPI') on the principal amount outstanding.

Our business models for financial assets are assessed on the basis of groups of financial assets (portfolios). The allocation to a business model is based on the actual circumstances at the time of the assessment. The following criteria, among others, are taken into account:

- the business and risk strategy of the Bank and
- the way in which the development of the business model is evaluated and reported;
- if there were sales in previous periods, the frequency, volume, timing and reasons for those sales as well as expectations regarding future sales activities.

For the purposes of measurement, IFRS 9 "Financial Instruments" classifies financial assets into the following categories: (a) financial assets at FVTPL; (b) debt instruments at FVOCI, (c) equity instruments at FVOCI and (d) financial assets at amortised cost ("AC"). Financial assets at FVTPL have two sub-categories: (i) assets mandatorily measured at FVTPL, and (ii) assets designated as such upon initial recognition or subsequently.

The Bank's business model for loans and advances to customers follows the hold-to-collect approach:

- Simple traditional banking approach;
- Clear specific target group (SMEs);
- Small range of simple credit facilities, such as instalment loans, overdrafts, credit lines, credit cards and documentary business facilities;
- No performance-related bonus compensation system on any level;
- Conservative risk strategy and management.

Financial assets at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

Loans and advances to customers are recognised when the principal is advanced to the borrowers. These assets are initially recognised at fair value plus transaction costs; subsequently they are measured at amortised cost using the effective interest method. At each balance sheet date and whenever there is evidence of potential impairment, the Bank assesses the value of its financial assets. As a consequence, their carrying amount may be reduced through the use of an allowance account. If the amount of the impairment loss decreases, the impairment allowance is reduced accordingly, and the amount of the reduction is recognised in the Statement of Profit or Loss. The upper limit on the reduction of the impairment is equal to the amortised costs which would have been incurred as of the valuation date if there had not been any impairment.

When financial assets are contractually modified, the Bank assesses whether the modification is substantial and should result in derecognition of the original asset and recognition of a new asset at fair value. This assessment is based primarily on qualitative factors and it requires significant judgment (whether credit impaired renegotiated loans should be derecognised and whether the new recognised loans should be considered as credit impaired on initial recognition). The derecognition assessment depends on whether the risks and rewards, that is, the variability of expected cash flows, change as a result of such modifications.

If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset (please see note 46 a)) .

If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Financial assets are written-off, when the Bank exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery, applying the following criteria:

- outstanding credit exposures i.e. amortized cost (principal + interest + penalties- unamortized disbursement fees) will be placed under forced execution, as a rule, after 180 days in arrears, at most;
- After the initiation of the forced execution procedures, in a time horizon of 6 months, starting from the moment of the forced execution approval, The bank needs to perform an assessment of the possible future recoveries
- In case there are outstanding loan exposures, that register over 360 days in arrears and for which recovery through forced execution has not been initiated, the Bank will proceed to the writing-off these exposures.

However, the decision to write off an exposure does not automatically imply the termination of recovery efforts. The bank can decide to continue with measures for recovery that are appropriate for the case In addition, when loans and receivables are restructured with substantially different terms and conditions, the original financial asset is derecognised and replaced with the new financial asset.

Financial assets at fair value with changes in fair value recognised in Other Comprehensive Income
A financial asset is classified and recognised as "at fair value with changes in fair value recognised in Other Comprehensive Income" ("FVOCI financial instrument"), if the financial asset is allocated to a "hold to collect or sell" business model and passes SPPI test.

The "investment securities" allocated to this business model are those financial assets that passes SPPI test, in order to collect contractual cash flows but can be sold as needed.

At initial recognition, the FVOCI financial instruments are recorded at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Subsequently they are carried at fair value. Gains and losses arising from changes in fair value are recognised in the Other Comprehensive Income under "Fair value reserve". If the financial asset is derecognised or impaired, the cumulative gain or loss previously recognised in the "Fair value reserve" is recognised in the Statement of Profit or Loss in the position "Net result from financial assets at fair value through other comprehensive income". Interest calculated using the effective interest rate method and foreign currency gains and losses on monetary assets classified as FVOCI financial instruments are recognised in the Statement of Profit or Loss. For the FVOCI equity instruments, any dividend payments are recognised in the Statement of Profit or Loss, but not the accumulated value change on derecognition (no recycling).

Purchases and sales of FVOCI financial instruments are recorded as of the trade date. They are derecognised when the rights to receive cash flows from the financial assets have expired or when the Bank has transferred substantially all risks and rewards of ownership.

Other financial liabilities at amortised cost
Other financial liabilities at amortised cost are recognised initially at fair value net of transaction costs incurred. They are subsequently measured at amortised cost using the effective interest method. Financial liabilities at amortised cost are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expired.

(c) Financial guarantees and credit related commitments

Financial guarantees
Financial guarantees require the Bank to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantee liabilities are initially recognized at their fair value, and the initial fair value is amortized over the lifespan of the financial guarantee. The guarantee liability is subsequently carried at the higher of the amortized amount and the value of the expected credit loss determined in accordance with IFRS 9. The amounts of the fees charged for the financial guarantees are amortised on a straight line basis over the life of the guarantee.

Credit related commitments
Financial guarantees and commitments for providing a loan are initially recognised at contractual value. The total client loan exposure value is composed by the on-balance carrying amount and the off-balance amount.

8) Fair value measurement

Upon acquisition, financial instruments are measured at fair value, which corresponds with the transaction price at the time they are acquired. Depending on their respective category, financial instruments are subsequently recognised either at fair value or at (amortised) cost.
If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market between market participants at the measurement date.

The Bank applies the IFRS hierarchy to measure fair value. The hierarchy categorises the inputs used in the valuation techniques to measure fair value into three levels:

(a) Level 1 Inputs
Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active if market transactions with the asset or liability occur there sufficiently frequently and in sufficient volumes to ensure the ongoing availability of pricing information.

(b) Level 2 Inputs
Other than quoted market prices included within Level 1 that are observable in active markets for the asset or liability, either directly or indirectly. The valuation techniques applied are approximations of the current fair value of similar instruments and discounted cash flow analysis using observable market parameters. The Bank applies individual observable interest and exchange rates, made available predominantly by local central banks.

(c) Level 3 Inputs
Unobservable inputs for the asset or liability. If observable market interest rates are not available, internal rates are used as an input for a discounted cash flow model. These internal rates reflect the cost of funds, taking into account foreign currency effects and maturities as well as a risk margin, e.g. Bank interest rates. Internal rates are regularly compared to those applied for third-party transactions and are consistent with the parameters of an orderly transaction between market participants under market conditions at the measurement date.

9) Loss Allowances

The Bank's loan loss impairment method is based on a forward-looking ECL approach.

The forward-looking expected credit loss (ECL) model is the central element of the approach to quantifying credit loss allowances for on- and off-balance sheet financial instruments. The model calculates loss allowances considering the credit losses expected over various default scenarios in the future. The calculated loss allowances represent the sum of probability-weighted outcomes; ECL estimates are unbiased and include supportable information about past events, current conditions, and forecasts of future economic conditions.

The macroeconomic time series used to calculate the point-in-time forecasts of several of the parameters are obtained from the IMF World. The significant changes of macroeconomic factors forecasted for 2020 and 2021 caused by COVID-19 pandemic and followed by fast economic recovery would have generated considerable fluctuations of the loan loss provisions. In addition, the correlations between macroeconomic factors and risk characteristics as quantified by the default history may be too pessimistic in the presence of governmental support programs that were uncommon in past crises. However, as the period considered in the LLP calculation changed from 2020 to 2021, the adaption of the macroeconomic factors was necessary. The general considerations in defining the adaption procedure for macroeconomic factors were the following:

- The strong decrease in 2020 and the equally strong increase expected for 2021 should be smoothened as to avoid implausible risk parameter forecasts that would result in a high volatility of the LLPs. This is in line with supervisory recommendations.
- The adapted GDP values should reflect the crisis in 2020 as well as the rebound movement expected for 2021, albeit to a lower extent as the original values. This would enable a smooth transition to the expected post-crisis situation and the related levels of the macroeconomic factors.

The use of additional assumptions or modelling steps shall be avoided or at least minimized. The following adaption procedure took into account all of the abovementioned considerations:
- The value of 2020 is the average of the original IMF forecasts of 2019 and 2020.
- The value of 2021 is the average of the original IMF forecasts of 2019 to 2021.
- The value of 2022 is the average of the original IMF forecasts of 2019 to 2022.
  The value of 2023 is the average of the original IMF forecasts of 2019 to 2023.

The Bank sets aside loss allowances for the balance sheet items "Cash and cash equivalents" (for Central Bank balances), "Loans and advances to banks", "Loans and advances to customers", "Financial assets at fair value through other comprehensive income" and for the financial assets under "Other assets". These are generally recognised at net value within the corresponding balance sheet positions, except for the item "Financial assets at fair value through other comprehensive income", which are reported at fair value. The respective loss allowances are recognised under "Fair value reserve".

The expected credit loss model requires the recognition of expected credit losses in a timely manner to ensure that the amount of expected credit losses recognised at each reporting date reflects the changes in the credit risk of the financial instruments.

Specifically, the model addresses the IFRS 9 requirements on measurement of expected credit losses based on reasonable and supportable information that is available without undue cost or effort, including historical, current and forecasted information.

Expected credit losses are calculated using the following main parameters:

- Exposure at default (EAD):

EAD is the exposure expected to be outstanding in the case of a credit default. It is derived from the current exposure to the client and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For exposures with regular repayment plans, the modelled EAD is adjusted considering the expectation of prepayments based on historical observations, scenarios with respect to the economic environment, and forward-looking forecasts. Using historical observations, an estimate is made of the potential future amounts which can be drawn under the contract for lending commitments such as credit lines and overdrafts. For financial guarantees, the EAD represents the amount of the guaranteed exposure, adjusted by a conversion factor based on an analysis of past performance and expert judgement.

- Probability of default (PD):

PD represents the probability of a credit default within a specified period of time. It is derived from historical data on default events, such as date, type and amount of default, and from information about the risk characteristics of clients as used in the internal risk classification system. The parameters take into account country specifics and also differing risk levels of certain client segments. The statistical models analyse the data histories and generate forward-looking forecasts of the default probabilities based on scenarios with respect to the economic environment. In addition, PDs related to the remaining lifetime of exposures are derived that quantify how these are expected to change as a result of the passage of time.

- Loss given default (LGD):

LGD represents the expected credit loss in the event of default, as based on historical data about recoveries from defaulted clients. LGDs are calculated on a discounted cash flow basis, include the recovery costs such as: court fees, execution fees, collateral valuation fees, civil registry costs, cost of property seizure, cost of maintenance of repossessed properties, advertisement costs, external legal advisory costs and/ or other costs (every other cost related to recovery of defaulted exposures and attributable to a single client, which cannot be categorized in the previous types incurred after the default date, irrespective of type, aggregated taking into account client type, client size category, collateral type and uncollateralized exposures. The LGD estimates are adapted to be forward-looking forecasts based on scenarios with respect to the economic environment.

Input data for the assessment of credit risk parameters are based on multi-year data histories for all borrowers in the banks within the group. Regression analysis is used to estimate the impact of client risk characteristics as well as macroeconomic factors for the considered parameters. Selection of relevant macroeconomic factors (GDP growth, inflation rate, unemployment rate) is based on their statistical significance and economic plausibility. Where deemed appropriate, a probability-weighted average is determined based on different scenarios of the macroeconomic factors for the year of the forecast. To this end, a mean, an optimistic and a pessimistic scenario is generated for each macroeconomic factor, having weights of 0.5, 0.25 and 0.25, respectively. The scenario weightings are determined by a combination of statistical analysis and expert credit risk judgement, taking account of the range of possible outcomes each chosen scenario is representative of.

For 2021, the most significant assumptions affecting the expected credit loss allowance are as follows:

- GDP Growth – adapted as described above

Mean Scenario	**2021**	**2022**	**2023**
GDP Growth (%, yoy)	2.42	3.02	3.19
Optimistic Scenario	**2021**	**2022**	**2023**
GDP Growth (%, yoy)	5.63	6.23	6.39
Pessimistic Scenario	**2021**	**2022**	**2023**
GDP Growth (%, yoy)	-0.42	0.18	0.34

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes and cover any potential non-linearities and asymmetries within the Bank's different portfolios.

Changes in these assumptions may lead to changes in loss allowances over time. The Bank recognises that considerable management judgement is exercised and estimation uncertainty exists in determining the amount of loss allowances for financial assets assessed collectively and on an individual basis. This judgement is based on the applicable definitions of default, the approach to determining a SICR, and the structure of forward-looking macroeconomic variables used.
The Bank's methodology for determining a significant increase in credit risk (SICR) is based on comprehensible forward-looking information and past due information.

A significant increase in credit risk is detected typically during the client's financial analysis/ monitoring or by detecting any ad-hoc events that indicate increase in risk. Both trigger an update of client's Risk Classification. On the other hand, past due information is considered since exposures are moved to Stage 2 and Stage 3 based on the number of days in arrears as criterion.
This approach implies the comprehensive analysis of various information sources including comprehensive analysis of borrowers' financial stance, past due information, data on the restructuring events and future macroeconomic prospects (through the Risk Classification assessment).

The Bank's forbearance policy has been updated to consider customers affected by the COVID-19 pandemic. This included additional guidance to ensure that COVID-19 concessions are fully complied with NBR/EBA decision on moratoria, respectively it is considered that the operations will not automatically generate a stricter classification of exposures.
Considering the unprecedented support measures implemented with the aim of mitigating the negative effects of the COVID crisis, the COVID measures might have postponed the deterioration of the loan portfolio. Hence, an increase of the default rate might be observed in the subsequent years. In order to avoid counterintuitive decreases in PDs, and volatile LLP amounts, a correction in the PDs was introduced.
A PD adaption factor is necessary to counteract the effect of the COVID measures on the default rates. This adaption factor adjusts the number of the default events for 2020 using a default factor based on the default rates of clients in moratoria or with expired moratoria relative to the default rates of the entire portfolio. This default factor is used as a proxy for the number of default events that might occur once the unprecedented COVID measures are expired.

First, a default ratio is constructed from the ratio of the default rates of clients in moratoria or with expired moratoria and the default rates of the entire portfolio. This default factor is applied to the observed number of defaults for 2020. Afterwards, the recalculation of the long-term average default rate using the adjusted number of default events is performed. The PD adaption factor is calculated by dividing the adjusted long-term default rate by the observed long-term default rate. Details of the calculation of the PD adaption factor are shown in the following table:

Time Breaks	Default factor	Observed number of defaults 2020	Adjusted numbers of defaults 2020	Long-term Default Rate	Long-term Default Rate Adjusted	PD adaption factor
2017	2.88	51	147	5.3%	5.9%	1.12

The moratoria program did not have an impact on staging (is not considered a trigger for a significant increase in credit risk). The definition of forborne credit modification was not changed and continues to identify restructuring operation request by clients in financial difficulties who did not access the moratoria program.

Due to the COVID-19 pandemic, management applied supplementary judgement when determining the need for post-model adjustments. With the purpose of better reflecting the risks associated with certain very small exposures, the Bank assigned the PD allocated to standard restructured exposures for very small clients downgraded in Stage 2 and assigned Stage 2 for all clients with risk rating 6.

The cumulative effect of the two aforementioned overlays on the allowance for impairment losses is RON 3.98 million, containing an impact of RON 2.02 million from applying the adaption factor on the PD and an impact of RON 1.96 million from downgrading to Stage 2 all clients with risk rating 6 and applying the relevant ECL parameters.

Management applied post-model adjustments to address the uncertainties triggered by the inflationary pressures, oil and gas prices evolution and the supply-chain shortages.

Stage I

Stage 1 comprises financial assets for which credit risk has not significantly increased since initial recognition as well as those showing low credit risk as of the reporting date or for which no triggers for Stage 2 or 3 allocation apply. Assets are allocated in Stage 1 upon initial recognition except for purchased or originated credit impaired (POCI) assets which are treated and reported separately within Stage 3. For assets in Stage 1, the expected credit losses arising from possible default events within the 12 months following the reporting date (12 month ECL) are recognised as expenses. For exposures with a remaining maturity of less than 12 months, the used probability of default (PD) reflects the remaining maturity.

Stage II

Stage 2 comprises financial assets for which credit risk has significantly increased since initial recognition, but for which there is no objective indication of impairment. This assessment takes account for appropriate and plausible information. Loss allowances are established in an amount equivalent to the expected credit losses over the entire remaining maturity, i.e. lifetime expected losses (lifetime ECL not credit impaired).

The significant increase in credit risk is established based on both quantitative and qualitative information:

- Based on the comparison of the remaining lifetime PD of an exposure at each reporting date against its remaining lifetime PD at the date of origination. The loss parameters are based on the internal risk classification system for the rated exposures. A SICR occurs if the difference in PDs exceeds a pre-defined threshold and the respective asset will be transferred from Stage 1 to Stage 2. Inversely, a transfer from Stage 2 to 1 is possible when the associated credit risk is reduced significantly.
- When at least one of the following events is detected:
    - customer is in arrears more than 30 days past due but less than 90 days past due;
    - standard or watch restructuring event(s);
    - the client has risk classification 6 or 7 (for the credit exposures which have a risk class assigned)

Stage III

Stage 3 includes all exposures that are credit impaired as of the reporting date. The respective calculation of loss allowances is performed based on the lifetime expected credit losses considering a 100% probability of default (lifetime ECL credit impaired).

An exposure is considered as credit impaired and transferred to Stage 3 when the following or similar characteristics apply at the reporting date:

- the client is past due more than 90 days
- bankruptcy procedure is initiated
- the bank has started legal proceedings against the client
- credit fraud event
- qualitative criteria based on which the bank considers the client unlikely to pay in full without realising collateral

- the client is assigned to a risk class view as defaulted
- impaired forbearance event occurs;
- other signs of impairment indicating that full repayment from the client cannot be expected.

Purchased or Originated Credit Impaired (POCI) exposures include financial instruments which were credit-impaired at initial recognition, irrespective of whether they are still credit-impaired at the reporting date. Expected credit losses against POCI exposures are calculated on a lifetime basis. As a result, no loss allowance is recognised at inception. Subsequently, only adverse changes in lifetime expected credit losses after the initial recognition are recognised as loss allowance, whilst favourable changes are recognised as impairment gains increasing the gross carrying amount of the POCI financial assets.
Within the Bank's business model, the acquisition of such default-threatened assets is not permitted. Accordingly, POCI exposures can only arise in the course of a new negotiation or significant modification of the contractually agreed cash-flows.

For "Financial assets at fair value through other comprehensive income" position, loss allowances model is based on external ratings. For financial institutions and sovereigns, the Issuer Default Rating (IDR) is used, which is a forward-looking assessment of the capacity and willingness to honour debt obligations to private sector creditors in full and on time and thereby captures default risk.
The Bank's portfolio of "investment securities" consists in treasury bills, with rating BBB-, classified as credit exposures-Stage 1 and provisioned in accordance with one-year expected losses. The respective expected losses are calculated as the product of the exposure at default (EAD), one-year default probability (PD) downscaled according to the contractual maturity (M) if it is less than one year from the reporting date, and the loss given default (LGD).

For the "Other assets" position, loss allowances are established using the simplified approach. As a rule, loss allowances are recognized at initial recognition and on each subsequent reporting date in an amount equivalent to the expected credit loss during the total maturity period. For these generally short assets, the total maturity period has been set at 12 months.

Release of loss allowances
In the event of decrease of credit risk, the already recognised loss allowance is reduced accordingly.

Financial guarantees and credit related commitments
The provisions for off-balance sheet credit risks relates primarily to undrawn lending commitments, letters of credit and letters of guarantee. Credit conversions factors based on the facilities' characteristics and if applicable, based on empirical data, are applied in determining the provisions for the off-balance exposures. The loss allowances related to financial guarantees and credit related commitments are recognised under Provisions in the Balance Sheet.
The Bank considers revocable credit commitments for loans in tranches to bear credit conversion factors of 0%.

Write-offs, recoveries and direct write-offs
When a loan is uncollectible, it is written off against the related loss allowance set aside. Such write-offs occur after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised in the Statement of Profit or Loss under "Loss allowances". Uncollectible loans for which no loss allowances have been set aside in full are recognised as direct write-offs.

Assets acquired in exchange for loans (repossessed property)
Non-financial assets repossessed in exchange for loans as part of an orderly realisation are reported under "other assets". The asset acquired is recorded at fair value. No depreciation is charged for assets held for sale. Any subsequent write-down of the acquired asset to fair value less costs to sell is recognised in the income statement in "net other operating income". Any subsequent increase in the fair value less costs to sell, to the extent this does not exceed the cumulative write-down, is also recognised in "net other operating income", together with any realised gains or losses on disposal.

10) Cash and balances with central bank

For the purposes of the balance sheet, cash and balances with central bank equivalents includes cash, cash balances in ATM, balances with less than three months' maturity from the placement date, other money market instruments that are highly liquid and readily convertible to known amounts of cash with insignificant risk of changes in value, and bills of exchange and other bills eligible for discounting with central banks.

Generally, all cash and cash equivalent items are recognised at their nominal value.

For the purposes of the statement of cash flows, cash and cash equivalents include cash balances on hand, unrestricted balances held at central bank, and cash balances in ATM, and current accounts with banks and placements with other banks with less than 90 days original maturity and are used by the Bank in the management of its short-term commitments.

11) Loans and advances to banks

The amounts reported under receivables from banks consist of loans and advances issued.

In addition to overnight and term deposits, the amounts reported under receivables from banks include current account balances.

All loans and receivables from banks as well as loans and receivables from customers fall under the category "loans and receivables" and are carried at amortised cost, using the effective interest method. Amortised premiums and discounts are accounted for, over the respective terms in the income statement under net interest income.

For the purposes of the cash flow statement, claims to banks with a remaining maturity of less than three months from the date of acquisition are recognised under Cash and cash equivalents (see note (28).

12) Loans and advances to customers

Loans and receivables to customers are initially recognised at fair value plus transactions costs; subsequently they are measured at amortised cost using the effective interest method. Their carrying amount is reduced with the amount of expected credit losses.

If the amount of the impairment loss decreases, the impairment allowance is reduced accordingly, and the amount of the reduction is recognised in profit and loss. The upper limit on the release of the impairment is equal to the amortised costs which would have been incurred as of the valuation date if there had not been any impairment.

Loans are recognised when the principal is advanced to the borrowers. Loans are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

13) Intangible assets

Software acquired by the Bank is stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight-line on the basis of the expected useful lives. Software has a maximum expected useful life of 5 years.

14) Property, plant and equipment

All property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses (see Note 32). Historical cost includes expenditure that is directly attributable to the acquisition of the items. Component parts of an asset are recognised separately if they have different useful lives or provide benefits to the bank in a different pattern.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

– Buildings	40 years
– Leasehold improvements	minimum between contract life and useful life
– Furniture and equipment	4 – 16 years
– Motor vehicles	6 years

The assets' residual carrying values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

15) Impairment of non-financial assets

Non-financial assets are reviewed for indications of impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount. Impairment losses are recognised in profit or loss. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

16) Liabilities to banks and customers

Liabilities to banks and customers are recognised initially at fair value net of transaction costs incurred. They are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the liability using the effective interest rate method.

All financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

17) Provisions

Provisions are recognised when:

- there is a present legal or constructive obligation resulting from past events;
- it is more likely than not that an outflow of resources will be required to settle the obligation;
- the amount can be reliably estimated.

Provisions for which the timing of the outflow of resources is known are measured at the present value of the expenditures, if the outflow will not be earlier than in one year's time. The increase in the present value of the obligation due to the passage of time is recognised as an interest expense.

A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

18) Post-employment benefits and other employee benefits

(a) Short-term benefits
Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.
Short-term employee benefits include wages, salaries, meal tickets and social security contributions. Short-term employee benefits are recognized as expense when services are rendered.

(b) Defined contribution plans
Obligations for contributions to defined contribution pension plans are recognized as an expense in the statement of comprehensive income as incurred.

The Bank, in the normal course of business makes payments to the Romanian State funds on behalf of its employees for pension, health care and unemployment benefit. All employees of the Bank are members and are also legally obliged to make defined contributions (included in the social security contributions) to the Romanian State pension plan (a State defined contribution plan). All relevant contributions to the Romanian State pension plan are recognized as an expense in the statement of profit or loss as incurred. The Bank does not have any further obligations.

The Bank does not operate any independent pension scheme and, consequently, has no obligation in respect of pensions. The Bank does not operate any other defined benefit plan or postretirement benefit plan. The Bank has no obligation to provide further services to current or former employees.

19) Share capital

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax. Dividends on ordinary shares are treated as an appropriation of profit in the period in which they are approved by the Bank's shareholders.

C. Notes to the Statement of profit or loss and other comprehensive income

20) Net interest income

in LEI

Interest income	**1.1.-31.12.2021**	**1.1.-31.12.2020**
Interest income from		
Cash and cash equivalents and loans and advances to banks	1,224,158	767,469
Interest income from financial assets at FVOCI	1,975,846	2,426,504
Interest income from loans and advances to customers	84,671,325	80,855,713
Total interest income	**87,871,329**	**84,049,686**

Interest expenses	**1.1.-31.12.2021**	**1.1.-31.12.2020**
Interest expenses on		
Liabilities to banks	12,246,790	14,141,927
Liabilities to customers	10,903,592	11,877,688
Liabilities to international financial institutions	3,207,238	2,944,198
Total interest expenses	**26,357,620**	**28,963,813**
Net interest income	**61,513,709**	**55,085,873**

21) Allowance for impairment losses on financial assets

in LEI

Allowance for impairment	1.1.-31.12.2021	1.1.-31.12.2020
Net impairment allowance for loans and advances to banks	6,226	130
Net (charge)/ release for the impairment allowance of loans and advances to customers	-3,970,304	-6,133,546
Recoveries from loans written off	358,485	259,601
Net allowance for impairment on financial assets	**-3,605,593**	**-5,873,815**

Risk provisions on loans and advances to customers are reflected in the income statement as follows:

For year ended December 31, 2021	Business	Agriculture	Housing	Consumer	Other	Total
Increase of impairment charge	11,477,081	2;749,353	7,043	49,372	-	14,282,850
Increase of impairment charge off balance sheet items	431,738	100,223	-	2,054	10,378	544,393
Release of impairment charge	-8,512,165	-1,975,933	-26,164	-21,367	-512	-10,536,141
Release of impairment charge off balance sheet items	-312,633	-6,150	-	- 1,719	-295	-320,797
Net recoveries of sold and written-off loans	-321,039	-25,057	-11,519	-875	-	-358,485
Total	**2,762,982**	**842,436**	**-30,640**	**27,465**	**9,571**	**3,611,818**

For year ended December 31, 2020	Business	Agriculture	Housing	Consumer	Other	Total
Increase of impairment charge	9,546,014	3,029,501	18,235	142,485	60,199	12,796,434
Increase of impairment charge off balance sheet items	314,701	962	-	1,052	2,052	318,768
Release of impairment charge	-5,777,667	-977,957	-14,588	-2,261	-78	-6,772,551
Release of impairment charge off balance sheet items	-159,446	-6,235	-	-1,555	-41,868	-209,103
Net recoveries of sold and written-off loans	-244,645	-11,792	-3,164	-	-	-259,601
Total	**3,678,957**	**2,034,479**	**483**	**139,721**	**20,306**	**5,873,945**

22) Net fee and commission income

In the following table, fee and commission income from contracts with customers in the scope of both IFRS 9 and IFRS 15 is disaggregated by major type of services.

in LEI

Fee and commission income	1.1.-31.12.2021	1.1.-31.12.2020
Payment transfers and transactions	2,342,135	2,157,375
Account maintenance fee	4,430,692	5,307,714
Letters of credit and guarantees (IFRS 9)	289,229	229,725
Debit cards	2,924,617	2,846,591
Other fee and commission income	1,440,885	1,343,122
Total fee and commission income	**11,427,559**	**11,884,528**

out of which Fee income booked in accordance with IFRS 15	**11,138,330**	**11,654,803**

Fee and commission expenses	**1.1.-31.12.2021**	**1.1.-31.12.2020**
Payment transfers and transactions	883,868	880,903
Fee expenses paid for guarantees	1,627,545	1,499,436
Letters of credit and guarantees (IFRS 9)	8,773	8,373
Debit cards	1,142,779	1,007,314
Other fee and commission expenses	2,058,028	2,053,983
Total fee and commission expenses	**5,720,993**	**5,450,009**
out of which Fee expenses booked in accordance with IFRS 15	**5,712,220**	**5,441,636**
Net fee and commission income	**5,706,567**	**6,434,519**

23) Net result from foreign exchange transactions

"Result from foreign exchange transactions" refers to the results of foreign exchange dealings with and for customers. The Bank does not engage in any foreign currency trading on its own account. In addition, this position includes unrealised foreign currency revaluation effects. The Bank does not apply hedge accounting.

in LEI	**1.1.-31.12.2021**	**1.1.-31.12.2020**
Currency transactions	4,520,146	4,818,932
Net gains and losses from FX revaluation	127,883	-204,412
Total	**4,648,029**	**4,614,520**

24) Other net operating income/expense

in LEI	**1.1.-31.12.2021**	**1.1.-31.12.2020**
Proceeds from disposal of property, plant and equipment	73,113	269,500
Other income	3,195,494	1,293,714
Other operating income	**3,268,607**	**1,563,214**
Expenses for disposal of property, plant and equipment	111,161	3,497,389
Expenses for other provisions not related to lending	551,616	2,746,937
Other expenses	119,685	43,345
Administrative expenses	2,500	13,319
Expenses for deposit insurance fund	377,313	392,411
Other operating expenses	**1,162,275**	**6,693,400**
Total	**2,106,333**	**-5,130,186**

During the last quarter of 2020, the Bank went through a process of reorganizing and restructuring, in order to improve the overall profitability and overcome the structural loss recorded in the previous years, alongside reaching the business strategic goals. Within the restructuring process, the Bank closed 3 outlets, located in Cluj, Brasov and Craiova which entailed additional expenses from disposal of assets, other administrative costs for the closed locations and compensations for restructured employees

This item includes expenses from the disposal of tangible assets (LEI 3.497 mio), majority being represented by 24/7 zone machines, income from sale of plant and equipment - vehicles (LEI 0.269 mio), following the closing of the Bank's locations during the last quarter of 2020. The Bank also built additional provisions for untaken vacation of LEI 0,4 mio and LEI 2 mio as provisions for restructuring, out of which LEI 1.1 mil - compensations for restructured employees and LEI 0,9 mil for different administrative costs for the closed locations.

In 2021, the full benefits of the restructuring event can be observable, by less operating costs, personnel expenses and administrative expenses.

25) Personnel and administrative expenses

Personnel expenses can be broken down as follows:

in LEI	1.1.-31.12.2021	1.1.-31.12.2020
Salary expenses	20,980,614	26,082,198
Social security expenses	472,064	586,850
Other personnel expenses	413,412	571,752
Training and recruiting expenses	913,861	967,758
Total	**22,779,951**	**28,208,558**

In 2021, the Bank has reduced its personnel expenses as it operates with an average number of employees lower than in 2020, as presented in the note (58).

"Administrative expenses" include the following items:

in LEI	1.1.-31.12.2021	1.1.-31.12.2020
Communication and IT expenses	14,629,179	17,029,902
Transport	714,308	1,327,472
Office supplies	378,913	779,420
Security service	125,989	250,299
Marketing, advertising and entertainment	951,151	1,049,354
Construction, repairs and maintenance	1,091,313	1,226,082
Other tax expenses	4,989,027	5,739,501
Consultancy, Legal and Audit fees	3,340,021	4,752,941
Insurance	714,387	757,134
Utilities	308,552	402,462
Rent	448,152	274,927
Other administrative expenses	3,992,282	4,889,881
Total	**31,683,275**	**38,479,374**

The total expense booked in relation with the bank's external auditor in 2021, was LEI 643,567 (2020: LEI 536,851), out of which LEI 295,754(2020: 251,849) for audit of IFRS Financial Statements of the Bank. The fees paid for non-audit services provided by the independent financial auditor as defined by Regulation (EU) 537/2014 of the European Parliament and of the Council are represented by: auditing of the Group reporting package as at and for the period ended

31 December 2021, audit of the FinRep package as at 31 December 2021 and audit of FINREP schedule 18 at the request of the National Bank of Romania as at 31 June 2021.

The full benefits of the restructuring process are visible in 2021 comparing to 2020, by reducing significantly the costs base as the Bank is operating more efficient with a lower number of outlets (and lower number of staff) in 2021: 3 branches and a 24/7 zone, while in 2020 was operating its business through 6 branches and 2 24/7 zones.

26) Income tax expenses/income

This item includes all taxes on income. Income tax expenses were as follows:

in LEI	1.1.-31.12.2021	1.1.-31.12.2020
Current tax expense	-	-
Deferred tax (expense)/income	95,485	-
Total	**95,485**	**-**

D. Notes to the Statement of Financial Position

27) Cash and balances with central bank

Cash and cash equivalents comprise the following items:

in LEI	As at 31 December 2021	2020
Cash in hand	29,135,394	32,790,340
Balances at central banks excluding mandatory reserves	220,137,420	94,531,172
Mandatory reserve deposits	135,159,570	117,092,345
Total cash and cash equivalents	**384,432,384**	**244,413,857**

The following cash equivalents have been considered for the cash flow statements:

in LEI	As at 31 December 2021	2020
Cash equivalents recognized in the balance sheet statement	384,432,384	244,413,857
Loans and advances to banks with a maturity up to 3 months, which qualify as cash for the cash flow	132,885,038	79,138,064
Minimum reserve with central bank	-135,159,570	-117,092,345
Total cash equivalents for cash flow statement	**382,157,851**	**206,459,576**

The cash held with the Central Bank ensures compliance with the minimum reserve requirements. These funds are not available for the Bank's daily business. At 31 December 2021 the minimum mandatory reserves rates established by the National Bank of Romania for raised funds with residual maturity lower than 2 years and for funds raised with residual maturity greater than 2 years, which foresee contractual clauses regarding reimbursements, withdrawals, anticipated transfers, are as follows: 8% for funds raised denominated in LEI and 5% for funds raised denominated in foreign currency (31 December 2020: 8% for funds raised denominated in LEI and 5% for funds raised denominated in foreign currency).

The balances in central bank balances and the movement of the respective loss allowances are presented in the following tables.

Central bank balances					As at 31 December 2021
in LEI	Stage 1	Stage 2	Stage 3	POCI	Total
Gross outstanding amount	355,373,169	-	-	-	355,373,169
Loss allowances	-76,179	-	-	-	-76,179
Carrying amount	**355,296,990**	-	-	-	**355,296,990**

Loss allowances for central bank balances					
in LEI	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2021	69,004	-	-	-	69,004
New financial assets originated	13,551	-	-	-	3,551
Release due to derecognition	-	-	-	-	-
Increase/Decrease in credit risk	-6,375	-	-	-	-6,375
Foreign exchange and other movements	-	-	-	-	-
As at 31 December 2021	**76,179**	-	-	-	**76,179**

Central bank balances					As at 31 December 2020
in LEI	Stage 1	Stage 2	Stage 3	POCI	Total
Gross outstanding amount	211,692,520	-	-	-	211,692,520
Loss allowances	-69,004	-	-	-	-69,004
Carrying amount	**211,623,517**	-	-	-	**211,623,517**

Loss allowances for central bank balances					
in LEI	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2020	68,884	-	-	-	68,884
New financial assets originated	19,756	-	-	-	19,756
Release due to derecognition	-19,637	-	-	-	-19,637
Increase/Decrease in credit risk	-	-	-	-	-
Foreign exchange and other movements	-	-	-	-	-
As at 31 December 2020	**69,004**	-	-	-	**69,004**

28) Loans and advances to banks

Loans and advances to banks are as follows:

in LEI	As at 31 December 2021	2020
Loans and advances to banks in non-OECD countries	22,022	21,397
Loans and advances to banks in Group Banks	132,863,015	79,116,667
Total	**132,885,038**	**79,138,064**

The balances in loans and advances to banks and the movements of the respective loss allowances are presented in the following tables.

Loans and advances to banks							
in LEI	Gross amount			Loss Allowances			Carrying amount
As at December 2021	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Loans and advances to banks in non-OECD countries	22,022	-	-	-	-	-	22,022
Loans and advances to banks in Group Banks	132,863,238	-	-	-222	-	-	132,863,015
Total	**132,885,260**	-	-	**-222**	-	-	**132,885,038**

Loss allowances for loans and advances to banks					
in LEI	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2021	**-139**	-	-	-	**-139**
New financial assets originated	-3,298	-	-	-	-3,298
Release due to derecognition	3,298	-	-	-	3,298
Increase/Decrease in credit risk	-83	-	-	-	-83
Foreign exchange and other movements	-	-	-	-	-
As at 31 December 2021	**-222**	-	-	-	**-222**

Loans and advances to banks							
in LEI	Gross amount			Loss Allowances			Carrying amount
As at December 2020	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Loans and advances to banks in non-OECD countries	21,397	-	-	-	-	-	21,397
Loans and advances to banks in Group Banks	79,116,807	-	-	-139	-	-	79,116,667
Total	**79,138,203**	-	-	**-139**	-	-	**79,138,064**

Loss allowances for loans and advances to banks					
in LEI	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2020	**-10**	-	-	-	**-10**
New financial assets originated	-161	-	-	-	-161
Release due to derecognition	161	-	-	-	161
Increase/Decrease in credit risk	129	-	-	-	129
Foreign exchange and other movements	-	-	-	-	-
As at 31 December 2020	**-139**	-	-	-	**-139**

29) Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income are as follows:

Financial assets at fair value through other comprehensive income							
in LEI	Gross amount			Loss Allowances			Carrying amount
As at 31 December 2021	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
T-bills	131,929,917	-	-	-30,270	-	-	131,899,647
Total	**131,929,917**	**-**	**-**	**-30,270**	**-**	**-**	**131,899,647**

Financial assets at fair value through other comprehensive income							
in LEI	Gross amount			Loss Allowances			Carrying amount
As at 31 December 2020	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
T-bills	112,216,812	-	-	-43,070	-	-	112,173,742
Total	**112,216,812**	**-**	**-**	**-43,070**	**-**	**-**	**112,173,742**

This balance sheet item includes securities with fixed interest rates issued by the Romanian Government, most of which are treasury bills, which bear a country Fitch Rating of BBB-.

The changes in the loss allowances for Financial Assets at fair value through other comprehensive income are presented in the following table:

Loss allowances for financial assets at FVOCI					
in LEI	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2021	-43,070	-	-	-	-43,070
New financial assets originated	-35,366	-	-	-	-35,366
Release due to derecognition	2,434	-	-	-	2,434
Increase/Decrease in credit risk	45,732	-	-	-	45,732
Foreign exchange and other movements	-	-	-	-	-
As at 31 December 2021	**-30,270**	**-**	**-**	**-**	**-30,270**

Loss allowances for financial assets at FVOCI					
in LEI	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2020	-23,189	-	-	-	-23,189
New financial assets originated	-67,392	-	-	-	-67,392
Release due to derecognition	3,026	-	-	-	3,026
Increase/Decrease in credit risk	44,486	-	-	-	44,486
Foreign exchange and other movements	-	-	-	-	-
As at 31 December 2020	**-43,070**	-	-	-	**-43,070**

30) Loans and advances to customers

Loans and advances to customers at the end of 2021 are as follows:

in LEI As at December 31, 2021	Business loans	Agricultural loans	Housing improvement loans	Consumer loans *	Other loans	Total
STAGE1						
Gross amount	1,244,388,747	373,621,343	2,460,461	405,467	22,485	1,620,898,503
Allowance for impairment	-6,093,752	-2,284,254	-27,700	-13,471	-506	-8,419,682
STAGE2						
Gross amount	89,787,285	32,450,943	134,843	-	-	122,373,070
Allowance for impairment	-6,523,455	-3,651,045	-5,166	-	-	-10,179,666
STAGE3						
Gross amount	23,442,987	5,364,161	3,378	326,469	-	29,136,995
Allowance for impairment	-14,080,796	-2,820,265	-954	-162,633	-	-17,064,648
TOTAL						
Gross amount	1,357,619,019	411,436,446	2,598,682	731,936	22,485	1,772,408,568
Allowance for impairment	-26,698,003	-8,755,563	-33,820	-176,104	-506	-35,663,995
Net amount	1,330,921,016	402,680,883	2,564,862	555,833	21,979	1,736,744,573
Share of total portfolio	76.6%	23.2%	0.1%	0.0%	0.0%	100.0%
Nr. of outstanding loans	2,026	890	14	27	3	2,960
Share of total number	68.4%	30.1%	0.5%	0.9%	0.1%	**100.0%**

* consumer loans also include overdrafts to private individuals

The changes in loans and advances to customers and the respective loss allowances are presented in the following tables:

Loans and advances to customers				As at 31 December 2021	
in LEI	Stage 1	Stage 2	Stage 3	POCI	Total
Gross outstanding amount as at 1 January 2021	1,475,306,396	172,342,956	29,158,379	-	**1,676,807,731**
New financial assets originated	567,919,907	2,745,755	133,033	-	**570,798,696**
Derecognitions	-197,848,760	-16,888,053	-2,526,653	-	**-217,263,466**
Write-offs			-1,006,309		**-1,006,309**
Repayments outstanding loans	-219,204,780	-41,818,779	-4,064,868	-	**-265,088,427**
Transfer from Stage 1 to Stage 2	-170,265,133	170,265,133	-	-	-

ProCredit Bank

Part of the ProCredit Group

Transfer from Stage 1 to Stage 3	-1,466,366	-	1,466,366	-	-
Transfer from Stage 2 to Stage 1	159,265,816	-159,265,816	-	-	-
Transfer from Stage 2 to Stage 3	-	-8,200,924	8,200,924	-	-
Transfer from Stage 3 to Stage 2	-	2,007,810	-2,007,810	-	-
Transfer from Stage 3 to Stage 1	411,236	-	-411,236	-	-
Foreign exchange and other movements	6,780,187	1,184,988	195,169	-	**8,160,343**
Gross outstanding amount as at December 31 2021	**1,620,898,503**	**122,373,070**	**29,136,995**	-	**1,772,408,568**

Allowance for losses on loans and advances to customers				**As at 31 December 2021**	
in LEI	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance as of 1 January 2021	-8,306,618	-7,264,273	-17,150,186	-	**-32,721,076**
New financial assets originated	-2,835,646	-122,366	-53,519	-	**-3,011,532**
Release due to derecognition	995,813	325,067	1,499,580	-	**2,820,460**
Transfer from stage 1 to Stage 2	898,859	-898,859	0	-	-
Transfer from stage 1 to Stage 3	9,290	-	-9,290	-	-
Transfer from stage 2 to Stage 1	-1,454,321	1,454,321	0	-	-
Transfer from stage 2 to Stage 3	0	522,199	-522,199	-	-
Transfer from stage 3 to Stage 2	0	-217,189	217,189	-	-
Transfer from stage 3 to Stage 1	-14,444	0	14,444	-	-
Increase/decrease due to credit risk (net)	2,328,134	-3,916,146	-1,866,623	-	**-3,454,635**
Usage of allowance (write-offs)	-	-	905,678	-	**905,678**
Foreign exchange and other movements	-40,747	-62,419	-99,723	-	**-202,890**
Balance of 31 December 2021	**-8,419,682**	**-10,179,666**	**-17,064,648**	-	**-35,663,995**

Loans and advances to customers at the end of 2020 are as follows:

in LEI						
As at December 31, 2020	**Business loans**	**Agricultural loans**	**Housing improvement loans**	**Consumer loans ***	**Other loans**	**Total**
STAGE1						
Gross amount	1,097,860,061	374,703,419	2,369,168	345,006	28,747	**1,475,306,401**
Allowance for impairment	-5,910,505	-2,351,364	-33,348	-10,384	-1,017	**-8,306,618**
STAGE2						
Gross amount	143,335,084	28,778,882	228,989	-	-	**172,342,956**
Allowance for impairment	-5,263,899	-1,992,988	-7,386	-	-	**-7,264,273**
STAGE3						
Gross amount	22,397,634	6,374,106	22,361	364,278	-	**29,158,379**
Allowance for impairment	-13,647,327	-3,352,937	-12,207	-137,714	-	**-17,150,186**
TOTAL						

Gross amount	1,263,592,779	409,856,407	2,620,518	709,284	28,747	**1,676,807,736**
Allowance for impairment	-24,821,731	-7,697,289	-52,940	-148,098	-1,017	**-32,721,076**
Net amount	1,238,771,048	402,159,118	2,567,577	561,186	27,730	**1,644,086,660**
Share of total portfolio	75.4%	24.4%	0.2%	0.0%	0.0%	**100.0%**
Nr. of outstanding loans	2,115	902	20	23	5	**3,065**
Share of total number	69.0%	29.4%	0.7%	0.8%	0.2%	**100.0%**

* consumer loans also include overdrafts to private individuals

The changes in loans arid advances to customers and the respective loss allowances are presented in the following tables:

Loans and advances to customers					**As at 31 December 2020**
in LEI	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Gross outstanding amount as at 1 January 2020	**1,326,401,140**	**43,458,594**	**31,133,588**	-	**1,400,993,322**
New financial assets originated	604,812,582	1,392,305	1,962,592	-	608,167,480
Derecognitions)	-109,213,558	-17,302,771	-4,940,387	-	-131,456,715
Write-offs			-138,749		-138,749
Repayments outstanding loans	-182,466,978	-21,930,819	-4,088,265	-	-208,486,062
Transfer from Stage 1 to Stage 2	-209,302,078	209,302,078	-	-	-
Transfer from Stage 1 to Stage 3	-2,558,753	-	2,558,753	-	-
Transfer from Stage 2 to Stage 1	39,564,655	-39,564,655	-	-	-
Transfer from Stage 2 to Stage 3	-	-3,624,902	3,624,902	-	-
Transfer from Stage 3 to Stage 2	-	380,735	-380,735	-	-
Transfer from Stage 3 to Stage 1	697,587	-	-697,587	-	-
Foreign exchange and other movements	7,371,804	232,389	124,266	-	7,728,459
Gross outstanding amount as at December 31 2020	**1,475,306,401**	**172,342,956**	**29,158,379**	-	**1,676,807,736**

Allowance for losses on loans and advances to customers					**As at 31 December 2020**
in LEI	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance as of 1 January 2020	**-6,903,424**	**-1,490,630**	**-18,040,883**	-	**-26,434,938**
New financial assets originated	-3,785,945	-127,238	-553,959	-	-4,467,142
Release due to derecognition	436,202	409,548	2,245,834	-	3,091,584
Transfer from stage 1 to Stage 2	1,848,625	-1,848,625	-	-	-
Transfer from stage 1 to Stage 3	35,358	-	-35,358	-	-
Transfer from stage 2 to Stage 1	-334,914	334,914	-	-	-
Transfer from stage 2 to Stage 3	-	175,389	-175,389	-	-
Transfer from stage 3 to Stage 2	-	-13,394	13,394	-	-
Transfer from stage 3 to Stage 1	-22,006	-	22,006	-	-
Increase/decrease due to credit risk (net)	484,730	-4,696,319	-627,096	-	-4,838,684
Usage of allowance (write-offs)	-	-	124,974	-	124,974
Foreign exchange and other movements	-65,244	-7,918	-123,708	-	-196,869
Balance of 31 December 2020	**-8,306,618**	**-7,264,273**	**-17,150,186**	-	**-32,721,076**

31) Intangible assets

The development of intangible assets is shown in the following tables:

in LEI As at December 31, 2021	Software	Intangible assets in progress	Total
Net book value at January 1, 2021	5,101,953	2,491,153	7,593,107
Total acquisition costs at January 1, 2021	22,841,775	2,491,153	25,332,928
Additions	115,418	1,064,941	1,180,360
Transfers from intangible assets in progress	2,094,202	-2,094,202	-
Disposals	0	-	-
Total acquisition costs at December 31, 2021	**25,051,395**	**1,461,893**	**26,513,287**
Accumulated amortisation January 1, 2021	17,739,822	-	17,739,822
Amortisation	1,731,737	-	1,731,737
Accumulated amortisation for disposal	0	-	0
Accumulated amortization at December 31, 2021	**19,471,559**	-	**19,471,559**
Net book value at December 31, 2021	**5,579,836**	**1,461,893**	**7,041,729**

in LEI As at December 31, 2020	Software	Intangible assets in progress	Total
Net book value at January 1, 2020	2,882,565	2,037,044	4,919,610
Total acquisition costs at January 1, 2020	24,126,867	2,037,044	26,163,910
Additions	221,440	3,928,838	4,150,278
Transfers from intangible assets in progress	3,474,728	-3,474,728	-
Disposals	4,981,261	-	4,981,261
Total acquisition costs at December 31, 2020	**22,841,775**	**2,491,153**	**25,332,928**
Accumulated amortisation January 1, 2020	21,244,301	-	21,244,301
Amortisation	1,476,781	-	1,476,781
Accumulated amortisation for disposal	4,981,261	-	4,981,261
Accumulated amortization at December 31, 2020	**17,739,822**	-	**17,739,822**
Net book value at December 31, 2020	**5,101,953**	**2,491,153**	**7,593,107**

During the years 2021 and 2020, there was no internally developed software.

32) Property, plant and equipment

The movement of property, plant and equipment was as follows:

in LEI As at December 31, 2021	Buildings& improvements	Furniture and fixtures	IT and other equipment	Assets under construction	Right of use assets	Total
Net book value at January 1, 2021	3,825,324	1,386,346	3,622,585	803,355	15,493,154	9,637,610
Total acquisition costs at January 1, 2021	7,657,265	1,709,219	11,863,857	803,355	25,304,511	47,338,207
Additions	-	-	44,140	79,397	187,237	310,773

Transfers from assets under construction	-	-	768,566	-768,566	-	-
Disposals	606,033	144,489	720,659	-	530,175	2,001,355
Total acquisition costs at December 31, 2021	**7,051,232**	**1,564,731**	**11,955,904**	**114,186**	**24,961,574**	**45,647,625**
Accumulated depreciation January 1, 2021	3,831,940	322,874	8,241,272	-	8,042,918	20,439,004
Depreciation	936,790	331,248	1,167,679	-	3,743,209	6,178,925
Accumulated depreciation for disposal	594,726	108,414	656,881	-	530,175	1,890,195
Accumulated depreciation at December 31, 2021	**4,174,005**	**545,708**	**8,752,070**	**-**	**11,255,952**	**24,727,734**
Accumulated impairment January 1, 2021	-	-	-	-	1,768,440	1,768,440
Impairment	-	-	102,294	-	-360,330	-258,036
Accumulated impairment for disposal	-	-	-	-		-
Accumulated impairment December 31, 2021	**-**	**-**	**102,294**	**-**	**1,408,110**	**1,510,405**
Net book value at December 31, 2021	**2,877,226**	**1,019,023**	**3,101,540**	**114,186**	**12,297,512**	**19,409,485**

in LEI As at December 31, 2020	**Buildings& improvements**	**Furniture and fixtures**	**IT and other equipment**	**Assets under construction**	**Right of use assets**	**Total**
Net book value at January 1, 2020	5,850,393	2,719,623	6,449,816	1,029,918	20,802,524	16,049,749
Total acquisition costs at January 1, 2020	13,981,774	3,726,149	19,090,581	1,029,918	25,198,054	63,026,476
Additions	68,712	162,504	-	1,041,470	2,961,461	4,234,149
Transfers from assets under construction	-	-	430,050	-430,050	-	-
Disposals	6,393,222	2,179,434	7,656,774	837,983	2,855,004	19,922,416
Total acquisition costs at December 31, 2020	**7,657,265**	**1,709,219**	**11,863,857**	**803,355**	**25,304,511**	**47,338,208**
Accumulated depreciation January 1, 2020	8,131,381	1,006,526	11,562,333	-	4,395,530	25,095,769
Depreciation	1,738,356	453,995	1,455,099	-	4,364,901	8,012,350
Accumulated depreciation for disposal	6,037,796	1,137,647	4,776,159	-	717,513	12,669,116
Accumulated depreciation at December 31, 2020	**3,831,940**	**322,874**	**8,241,272**	**-**	**8,760,431**	**20,439,004**
Accumulated impairment January 1, 2020	-	-	1,078,433	-	-	1,078,433
Impairment	-	-	1,636,321	-	1,768,440	3,404,761
Accumulated impairment for disposal	-	-	2,714,754	-	-	2,714,754
Accumulated impairment December 31, 2020	**-**	**-**	**-**	**-**	**1,768,440**	**1,050,927**
Net book value at December 31, 2020	**3,825,324**	**1,386,346**	**3,622,585**	**803,355**	**15,493,154**	**25,130,762**

33) Leases

Operating lease commitments result from non-cancellable rental agreements for properties in which the Bank operates; the amounts in the above table are calculated based on current rental agreements.

in LEI	As at 31 December 2021	As at 31 December 2020
Right-of-use assets		
Balance at 1 January	15,493,153	20,802,524
Depreciation charge for the year	-3,743,209	-4,364,901
Additions	187,237	2,961,461
Disposal	-530,175	-2,855,004
Impairment	360,330	-1,768,440
Accumulated depreciation for disposal	530,175	717,513
Balance at 31 December	**12,297,512**	**15,493,153**

The impairment for the right-of-use assets in amount of LEI 1,768,440 represents impairment for the lease contract related to one of the Bank branches which was closed as a consequence of the restructuring process in Q4 2020, which in 2021 was released/used partially.

34) Income taxes

Deferred income taxes are recognised in full, under the balance sheet method, on temporary differences arising between the tax base of assets and liabilities and their carrying amounts, using the applicable tax rate.
The table below shows the changes in deferred income taxes and the underlying business transactions:

in LEI **Deferred tax asset**	**2021**	**As at 31 December 2020**
At January 1	0	26,019
Financial assets at fair value through other comprehensive income	48,271	-26,019
Charges to income statement		
Total	**48,271**	**0**

in LEI **Deferred tax liability**	**2021**	**As at 31 December 2020**
At January 1	-162,153	-160,856
Financial assets at fair value through other comprehensive income	1,297	-1,297
Charges to income statement	95,485	-
Total	**-65,371**	**-162,153**

At the end of 2021, the Bank registered cumulated fiscal loss in amount of RON -8,744,745 (year 2020: RON -20,903,927). Fiscal loss was significantly diminished by the fiscal profit booked in 2021 in amount of RON 12,159,181. Following the execution of the business plan for 2022, the bank should be able to cover the fiscal loss carried forward in the upcoming recent years. The calculated deferred tax assets related to the cumulated fiscal loss was not considered material as to be recognised in the financial statements.

35) Effective tax reconciliation

in LEI	1.1.-31.12.2021	1.1.-31.12.2020
Profit/(Loss) before tax	8,267,481	-23,332,778
Tax expected (16%)	1,322,797	-3,733,245
Tax effects of items which are not deductible:		
- non-tax deductible expenses (+)	1,817,570	3,147,450
- non-taxable income (-)	-1,194,898	-757,447
Current-year losses for which no deferred tax asset is recognized	-	1,343,241
Utilization of previously unrecognized tax loss carried forward	-1,945,469	-
Deferred tax income	-95,485	-
Total income tax expenses (income)	**-95,485**	-

36) Other assets

Other assets are as follows:

		As at 31 December
in LEI	**2021**	**2020**
Other inventory items	83,098	158,300
Prepaid expenses	1,585,386	2,496,707
Advance payments	977,814	570,049
Claims from taxes	1,292,805	1,430,405
Total	**3,939,102**	**4,655,460**

Other financial assets are as follows:

		As at 31 December
in LEI	**2021**	**2020**
Guarantees	523,388	735,478
Others	2,064,531	2,035,921
Total	**2,587,919**	**2,771,399**

Current tax assets are as follows:

		As at 31 December
in LEI	**2021**	**2020**
Current tax asset	1,521,372	-
Total	**1,521,372**	-

ProCredit Bank
Part of the ProCredit Group

37) Liabilities to banks

As of December 2021

in LEI	Due in 2022	Due in 2023	Due in 2024	Due in 2025	Due after 2025	without maturity	Total
Liabilities to banks with fixed interest rates	-	-	-	-	-	-	-
Liabilities to banks with variable interest rates	147,146,143	-	93,400,000	-	-	-	240,546,143
Total	**147,146,143**	-	**93,400,000**	-	-	-	**240,546,143**

As of December 2020

in LEI	Due in 2021	Due in 2022	Due in 2023	Due in 2024	Due after 2024	without maturity	Total
Liabilities to banks with fixed interest rates	-	-	-	-	-	-	-
Liabilities to banks with variable interest rates	257,479,971	-	-	-	-	-	257,479,971
Total	**257,479,971**	-	-	-	-	-	**257,479,971**

At the end of 2021, the Bank registered liabilities to banks in amount of RON 240,546,143 (year 2020: RON 257,479,971), 61% maturing in 2022, due to Group entities and third parties.
A share of 70% of the liabilities to banks (RON 168,5 mio) are denominated in RON with interest rates between 3.9% and 5.2%. Labilities denominated in EUR bear interest rates between 0.2% and 0.4%.

38) Liabilities to customers

Liabilities to customers consist of deposits due on demand, savings deposits and term deposits. The following table shows a breakdown by customer groups:

in LEI	As at 31 December 2021	Share of total portfolio	As at 31 December 2020	Share of total portfolio
Current accounts	**555,431,839**	**37%**	**412,858,984**	**32%**
-private individuals	75,621,358	5%	69,848,891	5%
-legal entities	479,810,481	32%	343,010,093	26%
Savings accounts*	**446,531,095**	**29%**	**326,853,847**	**25%**
-private individuals	114,234,745	8%	118,366,289	9%
-legal entities	332,296,350	22%	208,487,557	16%
Term deposit accounts	**515,401,666**	**34%**	**552,244,698**	**43%**
-private individuals	198,946,026	13%	246,220,175	19%
-legal entities	316,455,640	21%	306,024,523	24%
Other liabilities to customers	**4,093,846**	**0%**	**4,004,481**	**0%**
Total	**1,521,458,445**	**100%**	**1,295,962,010**	**100%**

The category “legal entities” includes liabilities to non-governmental organisations (NGOs) and public-sector institutions.

39) Liabilities to international financial institutions

Liabilities to international financial institutions are an important source of financing for the Bank. Medium to long-term loans from international financial institutions are reported under this item. Liabilities to International Financial Institutions (IFIs) are interest-bearing borrowings from specified Financial Institutions. They are initially recognized at the fair value of the consideration received and directly attributable transaction costs. After initial recognition liabilities to IFIs are subsequently measured at amortized cost using the effective interest method.

The following table gives a detailed breakdown for this item:

As of December 2021

in LEI	Due in 2022	Due in 2023	Due in 2024	Due in 2025	Due after 2025	without maturity	Total
Liabilities IFI with fixed interest rates	231,197	-	-	-	140,343,173	-	140,574,370
Liabilities IFI with variable interest rates	36,692,464	55,782,687	56,939,667	52,300,823	87,830,914	-593,213	288,953,343
Total	**36,923,662**	**55,782,687**	**56,939,667**	**52,300,823**	**228,174,087**	**-593,213**	**429,527,713**

As of December 2020

in LEI	Due in 2021	Due in 2022	Due in 2023	Due in 2024	Due after 2024	without maturity	Total
Liabilities IFI with fixed interest rates	173,683	-	-	-	135,735,375	-	135,909,058
Liabilities IFI with variable interest rates	14,281,377	35,620,543	38,247,654	33,682,592	82,173,502	-318,121	203,687,547
Total	**14,455,061**	**35,620,543**	**38,247,654**	**33,682,592**	**217,908,877**	**-318,121**	**339,596,606**

40) Reconciliation of movements of liabilities to cash flows arising from financing activities

	2021		2020	
in LEI	Liabilities to banks	Liabilities to IFIs	Liabilities to banks	Liabilities to IFIs
Balance as at January 1	**257,479,973**	**339,596,606**	**287,298,391**	**220,271,673**
Changes from financing cash flows:				
Proceeds from borrowings (+)	35,000,000	112,329,000		139,018,099
Repayment of borrowing (-)	-65,600,000	-23,648,851	-74,520,000	-20,646,361
Changes in deposits from banks	13,312,747		44,059,930	

Liability-related				
Interest expenses (including disbursement fees)	4,481,355	7,477,424	8,307,667	5,593,876
Interest paid (including disbursement fees)	-4,116,710	-7,095,999	-9,131,272	-5,413,317
Other (including fx)	-11,221	869,533	1,465,256	772,635
Balance as at December 31	**240,546,143**	**429,527,714**	**257,479,973**	**339,596,606**

41) Provisions

in LEI	2021	As at 31 December 2020
As at January 1	3,418,608	851,869
Additions	2,320,034	3,417,152
Used	-2,939,930	-482,855
Released	-478,678	-369,014
Exchange rate adjustments	1,575	1,455
As at December 31	**2,321,608**	**3,418,608**

in LEI	2021	As at 31 December 2020
Provisions for off-balance sheet items	679,141	478,678
Provisions for restructuring	567,582	2,037,287
Provisions for legal cases	97,776	
Provisions for untaken vacation	977,110	902,643
Total	**2,321,608**	**3,418,608**

Both for the provisions for untaken vacation and the other off-balance sheet items, the outflows are expected during the three months following the balance sheet date.

42) Other financial liabilities

in LEI	As at 31 December 2021	As at 31 December 2020
Accrued payables	2,238,623	3,064,773
Subsidies from state budget	188,750	263,750
Leases	14,793,862	18,028,510
Total	**17,221,235**	**21,357,033**

In accrued payables, the Bank included the accruals for the trade payable balances, while the trade payable balances are disclosed under Liabilities for goods and services. The subsidies from state budget in amount of 188,750 LEI (31 December 2020: 263,750 LEI) represent a one-time discount received from the state in relation with the acquisition of electric cars during 2018.

43) Other non-financial liabilities

in LEI	As at 31 December 2021	As at 31 December 2020
Liabilities for goods and services	1,580,872	1,460,557
Deferred income	81,431	69,172
Liabilities from social insurance contributions	591,545	849,796
Liabilities to state budget	396,677	978,599
Total	**2,650,524**	**3,358,123**

44) Share capital

As at 31 December 2021 (compared to 2020), the shareholder structure was as follows:

în LEI	2021		
Shareholder	Size of stake in %	Number of shares	Amount
ProCredit Holding AG & Co. KGaA, Frankfurt am Main, Germany	99.9996	25,372,409	251,634,371
ZEITINGER INVEST GMBH ("ZI"), Frankfurt am Main, Germany	0.0004	100	1,000
Total Capital	**100.0%**		**251,635,371**

în LEI	2020		
Shareholder	Size of stake in %	Number of shares	Amount
ProCredit Holding AG & Co. KGaA, Frankfurt am Main, Germany	99.9996	25,372,409	251,634,371
ZEITINGER INVEST GMBH ("ZI"), Frankfurt am Main, Germany	0.0004	100	1,000
Total Capital	**100.0%**		**251,635,371**

The par value per share is LEI 10.00.

At the end of December 2021, the level of IFRS share capital was LEI 251,635,371, while the registered share capital was in amount of LEI 253,725,090; the difference in value of LEI 2,089,719 represents IFRS adjustment in accordance with IAS 21 –The effects in changes in Foreign Exchange Rates.

Share premium:

	Date	LEI
Premium paid by ProCredit Holding AG & Co. KGaA	April 2008	1,273,775
As at December 31, 2020		**1,273,775**

Reserves:

As at 31 December

in LEI	2021	2020
Legal reserve	3,785,383	3,372,009
General banking risks reserve	6,166,252	6,166,252
Total	**9,951,635**	**9,538,261**

Legal reserves represent accumulated transfers from retained earnings in accordance with local banking regulations that require 5% of the Bank's statutory gross profit to be transferred to a non-distributable statutory reserve until such time this reserve represents 20% of the Bank's share capital.

The general banking risks reserve include amounts set aside in accordance with local banking regulations for future losses and other unforeseen risks or contingencies, which are separately disclosed as appropriations of profit. The general banking risks reserve was appropriated from the statutory gross profit at the rate of 1% of the balance of the assets carrying specific banking risks until the end of 2006 as required by local legislation. In the Statement of the Financial position is presented under Accumulated loss.

E. Risk Management

45) Management of the overall Bank risk profile

1. The risk profile and the risk appetite

The main principle behind the risk management framework of ProCredit Bank SA is that the Bank does not take more risk than it is capable of bearing. Therefore, the Board of Administration establishes an overall risk profile and a risk profile for each of the significant risks identified by the Bank. The main purpose of these risk profiles is that of defining the risk appetite as the acceptable limits within which the Bank's activity should be pursued in order to reach the business goals.

The significant risks acknowledged by the Bank are: credit risk, counterparty risk (including issuer risk), liquidity risk, interest rate risk, foreign currency risk, strategic risk, operational risk, compliance risk and reputational risk. The Bank evaluates the risk exposure to each significant risk through the risk profile indicators on a regular basis, and compares the results with the defined risk appetite. The outcome of this analysis is reported regularly to the Board of Administration.

Currently, the Bank's overall risk appetite is established as the medium-low to medium interval, while the overall risk tolerance is established as the low to medium-high interval. The risk profile targets for each significant risk are medium-high for credit risk, medium for liquidity risk, interest rate risk, operational risk and strategic risk, and medium-low for counterparty risk, foreign currency risk, reputational risk and compliance risk.

2. Capital management

The capital management of the Bank has the following objectives:

- Ensuring that the Bank's capital is permanently adequate, both as to volume and quality in order to cover the (potential) losses arising from different risks even under extreme circumstances.
- Full compliance with external capital requirements set by the regulator.
- Meeting the internally defined minimum capital adequacy requirements.
- Enabling the Bank to implement its plans for continuing growth while following its business strategy.

The internal capital adequacy assessment process of ProCredit Bank SA is governed by the Bank's Internal Capital Adequacy Assessment Process (ICAAP) Policy. The main tools used to assess and monitor the capital adequacy of the Bank are the Regulatory capital ratios, the Internal Capital Requirement, the leverage ratio and the risk bearing capacity. These tools are monitored on a regular basis by the Bank's Managers, the Audit and Risk Management Committee and ultimately by the Board of Administration.

External minimum capital requirements are imposed and monitored by the local banking system supervisory authority, namely National Bank of Romania. Capital adequacy is calculated based on the International Financial Reporting Standards figures and are reported to the Bank's Managers and Audit and Risk Management Committee on a regular basis. These reports include rolling forecasts to ensure not only current but also future compliance.

The following table shows the Bank's capital adequacy ratios, calculated according to the provisions of Regulation (EU) no. 575/2013 on prudential requirements for credit institutions and investments firms ("CRR") corroborated with Regulation (National Bank of Romania) no. 5/2013 on prudential requirements for credit institutions.

		As at 31 December
in LEI	**12/31/2021**	**12/31/2020**
Ordinary share capital	251,635,371	251,635,371
Share premium	1,273,775	1,273,775
Legal reserves	3,785,383	3,372,009
Accumulated losses	-49,752,901	-57,702,493
Less other intangibles	-7,041,728	-7,593,106
Less other regulatory adjustment	-385,321	-105,362
Common Equity Tier I	**199,514,579**	**190,880,195**
Tier I capital	**199,514,579**	**190,880,195**
Tier II capital	**-**	**-**
Regulatory adjustment		
Total regulatory capital	**199,514,579**	**190,880,195**

The regulatory capital ratios are complemented by internal capital requirements. Under Basel III Pillar I framework, the Bank calculates capital charges for credit and market risks using Standardized Approach and for operational risk using the Basic Indicator Approach. Under Basel III Pillar II framework, the Bank calculates additional capital charges for risks not covered by Pillar I or not fully covered by Pillar I.

During 2021, the Bank has updated its internal capital adequacy assessment process in the course of regular ongoing review of its risk management methodologies.

As of 31st, December 2021 the solvency ratio expressed as a ratio of regulatory capital over risk weighted assets was above the minimum regulatory limit.

Between 1st of January 2020 and 31st of December 2021, the Bank complied with the NBR imposed capital requirements.

46) Management of individual risks

In 2021, neither the management practices nor the reporting process of individual risks have been materially modified, although several methodologies have been updated in course of the regular review process.

The Bank places special emphasis on the general understanding of the factors driving risk and on the ongoing analysis and company-wide discussion of possible risk developments/scenarios and their potential adverse impacts. The objectives of risk management include ensuring that all material risks are recognised in a timely manner, fully understood and properly addressed.

The risk management processes include a reporting component to ProCredit Holding AG & Co. KGaA, in line with the provisions included in the Procredit Group's risk management policies.

47) Credit risk

Credit risk is defined as the potential that a counterparty to a credit transaction will fail to meet its obligations towards the Bank in accordance with agreed terms. Credit risk arises from customer credit exposures (classic credit risk), credit exposure from interbank placements and issuer risk (counterparty risk). It is further divided into credit default risk and credit portfolio risk in order to facilitate focused risk management.

(a) Credit default risk from customer credit exposures

Credit default risk from customer credit exposures is defined as the risk of losses due to a potential non-fulfilment of the contractual payment obligations associated with a customer credit exposure.

The management of credit default risk from customer credit exposures is based on an extensive implementation of the bank's lending principles:

- intensive analysis of the debt capacity of the Banks' clients;
- careful documentation of the credit risk assessments, assuring that the analysis performed can be understood by knowledgeable third parties;
- rigorous avoidance of over indebting the Bank's clients;
- building a personal and long-term relationship with the client and maintaining regular contact;
- strict monitoring of loan repayment;
- practising tight arrears management;
- exercising strict collateral collection in the event of default;
- investing in well-trained and highly motivated staff;
- implementing carefully designed and well-documented processes;
- rigorous application of the "four-eyes principle".

The decision-making process ensures that all credit decisions are taken by a Credit Committee. As a general principle, the Bank considers it very important to ensure that its lending business is conducted on the basis of organisational guidelines that provide for appropriate rules governing organisational structures and operating procedures; job descriptions that define the respective tasks; a clear allocation of decision-making authority; and a clear definition of responsibilities.

Credit exposures in arrears are defined as credit exposures for which contractual interest and/or principal payments are overdue. The high quality of the loan portfolio compared with the overall banking sector reflects the application of the above lending principles and the results of the application of early warning indicators and appropriate monitoring, in particular of the individually significant credit exposures. This is a crucial element of the Bank's strategy for managing arrears. Once arrears occur, the Bank follows up on the non-repayment of the credit exposures, and by so doing typically identifies the potential for default on a credit exposure. Strict rules are applied regarding credit exposures for which, in the Bank's view, there is no realistic prospect that the credit exposure will be repaid and where typically the realisation of collateral has either been completed or the outcome of the realisation process is uncertain. The Bank's recovery and collection efforts are performed by specialised employees, typically with either a lending or legal background.

The effectiveness of this tight credit risk management is reflected in the comparably low arrears rate exhibited by the loan portfolio.

The risk classification system for small and medium clients comprises an important part of the process for determining an increase in credit risk and, consequently, the classification of the loan portfolio. Prior to initial disbursement, each credit exposure is assigned one of the risk classes - 1 to 8 (1 being the best and 8 being worst) . Assigning a risk class implies an extensive analysis of multiple qualitative and quantitative criteria at client level, which are assessed in regular basis to identify the increase in credit risk through the classes.

Analysis by risk classification of gross loans and advances to customers with a risk rating outstanding at 31 December 2021 is as follows:

Gross exposure in LEI	Agricultural	Business	Consumer	Housing	Other	Grand Total
STAGE1	**359,534,205**	**1,213,921,148**	**14,886**	**-**	**-**	**1,573,470,238**
RC 1-3	98,658,500	476,926,657	-	-	-	575,585,157
RC 4-5	260,875,705	736,994,491	14,886	-	-	997,885,081
STAGE2	**31,540,802**	**85,692,265**	**-**	**-**	**-**	**117,233,067**
RC 1-3	14,175	116,598	-	-	-	130,773
RC 4-5	-	1,087,133	-	-	-	1,087,133
RC 6-7	31,526,628	84,488,534	-	-	-	116,015,161
STAGE3	**4,277,971**	**20,033,213**	**-**	**-**	**-**	**24,311,184**
RC 8	4,277,971	20,033,213	-	-	-	24,311,184
Grand Total	**395,352,978**	**1,319,646,626**	**14,886**	**-**	**-**	**1,715,014,489**

At the end of 2021, 3.2% of the total loan portfolio, amounting RON 57,394,078 consists of exposures belonging to very small clients without risk rating. Classification by days in arrears is presented below:

Gross exposure in LEI	Agricultural	Business	Consumer	Housing	Other	Grand Total
STAGE1	**14,304,682**	**30,250,055**	**390,581**	**2,460,461**	**22,484**	**47,428,264**
no arrears	14,150,479	29,994,718	390,581	2,460,461	22,484	47,018,724
1 - 30 days	154,203	255,338	-	-	-	409,541
STAGE2	**910,141**	**4,095,020**	**-**	**134,843**	**-**	**5,140,003**
no arrears	854,312	3,783,683	-	134,843	-	4,772,838
1 - 30 days	-	311,337	-	-	-	311,337
31 - 90 days	55,829	-	-	-	-	55,829
STAGE3	**1,086,190**	**3,409,774**	**326,469**	**3,378**	**-**	**4,825,811**
no arrears	-	613,807	280,934	3,378	-	898,119
1 - 30 days	44,280	-	-	-	-	44,280
31 - 90 days	40,060	122,228	-	-	-	162,288
more than 90 days	1,001,849	2,673,739	45,535	-	-	3,721,123
Grand Total	**16,301,012**	**37,754,849**	**717,051**	**2,598,682**	**22,484**	**57,394,078**

Total loan Portfolio amounts RON 1,772,408,567 at 31 December 2021.

Analysis by risk classification of gross loans and advances to customers with a risk rating outstanding at 31 December 2020 is as follows:

Gross exposure in LEI	Agricultural	Business	Consumer	Housing	Other	Grand Total
STAGE1	**360,147,482**	**1,072,350,546**	**26,522**	**-**	**-**	**1,432,524,550**
RC 1-3	138,447,373	496,402,292	12,060	-	-	634,861,725
RC 4-5	221,700,108	574,413,223	14,463	-	-	796,127,794
RC 6-7	-	1,535,030	-	-	-	1,535,030
STAGE2	**23,219,234**	**127,814,496**	**-**	**-**	**-**	**151,033,729**
RC 1-3	235,934	729,875	-	-	-	965,809
RC 4-5	4,756,858	22,160,882	-	-	-	26,917,740
RC 6-7	18,226,441	104,923,739	-	-	-	123,150,180
STAGE3	**4,920,085**	**17,900,748**	**-**	**-**	**-**	**22,820,833**
RC 8	4,920,085	17,900,748	-	-	-	22,820,833
Grand Total	**388,286,801**	**1,218,065,790**	**26,522**	**-**	**-**	**1,606,379,113**

At the end of 2020, 4.2% of the total loan portfolio, amounting RON 70,428,621 consists of exposures belonging to very small clients without risk rating. Classification by days in arrears is presented below:

Gross exposure in LEI	Agricultural	Business	Consumer	Housing	Other	Grand Total
STAGE1	**14,555,937**	**25,509,513**	**318,483**	**2,369,168**	**28,747**	**42,781,849**
no arrears	14,519,071	25,379,791	318,483	2,369,168	28,747	42,615,260
1 - 30 days	36,728	129,722	-	-	-	166,450
31 - 90 days	139	-	-	-	-	139
STAGE2	**5,559,649**	**15,520,588**	**-**	**228,989**	**-**	**21,309,226**
no arrears	5,559,649	15,470,641	-	228,989	-	21,259,279
1 - 30 days	-	49,948	-	-	-	49,948
STAGE3	**1,454,021**	**4,496,886**	**364,278**	**22,361**	**-**	**6,337,546**
no arrears	458,312	1,715,154	364,278	-	-	2,537,744
1 - 30 days	26,135	65,771	-	5,693	-	97,600
31 - 90 days	14,681	166,494	-	16,667	-	197,842
more than 90 days	954,893	2,549,466	-	-	-	3,504,359
Grand Total	**21,569,607**	**45,526,987**	**682,762**	**2,620,518**	**28,747**	**70,428,621**

Total loan Portfolio amounts RON 1,676,807,734 at 31 December 2020.

Restructuring of a credit exposure is generally driven by economic problems encountered by the client that adversely affect the payment capacity, mostly caused by the significantly changed macro-economic environment in which the bank's clients currently operate. Restructurings follow a thorough, careful and individual analysis of the client's changed payment capacity. The decision to restructure a credit exposure is always taken by a credit committee and aims at full recovery of the credit exposure. If a credit exposure is restructured, amendments are made to the parameters of the loan.

Forborne loans are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider.

As at 31 December 2021, the Bank applied EBA definition in force at this date in regards to forborne loans and in consequence classifies as impaired the forborne nonperforming exposures. The loan portfolio contained forborne loans with a gross outstanding of LEI 52,238,840 (ECL of LEI 11,637,099) representing 3%% of total outstanding portfolio (31 December 2020: gross outstanding LEI 30,295,072 with a related ECL of LEI 8,715,813).

The level of credit exposure defaults to be expected within a given year is analysed regularly, based on past experience in this area. Incurred losses are fully covered with loan loss provisions.

As a response to the negative impact that the COVID-19 pandemic may have on the banking sector, in Romania, the government introduced a legislative moratoria, while also other similar initiatives were offered by the Bank, namely private moratoria. By issuing OUG 37/2020, the government granted to certain categories of debtors, individuals or companies, the possibility to request the suspension of the payment of the due instalments related to the loans representing instalments of capital, interest and commissions, for up to 9 months, but not more than December 31, 2020. The facility could only be granted for loans that did not have overdue or the debtors had paid these arrears until the date of requesting the suspension of the payment obligation and was granted before March 2020.

During 2020, a number of approximately 200 clients benefited from the deferral of instalments, with a total exposure of 16% of the total loan portfolio of the Bank, out of which 66% loans under public moratoria and 34% loans under private moratoria. The carrying amount of the loan portfolio under moratoria, as of December 31, 2020 was LEI 1.55 mio (0.09% out of total loan portfolio). In line with EBA's interpretations, applying these moratoria did not automatically lead to forbearance measures. At December 31, 2021 the Bank didn't have any loan under moratoria.

Credit exposures with a higher risk profile are usually covered with strong collateral, typically through mortgages. Mortgages are revaluated regularly by professional and independent appraisals.

The Bank holds collateral against loans and advances to customers in the form of pledge over cash deposits, mortgage interests over property, guarantees and other pledge over equipment's and/or receivables. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired, except for mortgage interests over property which are reassessed regularly.

The collateral presented as the lower of loan exposure and collateral value, can be classified into the following categories:

In LEI	31 December 2021	31 December 2020
Mortgage	955,216,081	979,718,066
Cash collateral	22,171,380	25,240,058
Financial Guarantees	387,264,943	259,329,915
Others	172,032,144	180,461,371
Total	**1,536,684,548**	**1,444,749,410**

The Bank holds collateral and other credit enhancements against certain of its credit exposures.
The table below sets out the collateral amount at market value held against different types of loan products.

	2021		2020	
In LEI	Loan exposure	Collateral Value	Loan exposure	Collateral Value
Business	1,357,401,475	1,232,128,012	1,263,592,777	1,142,995,674
Agricultural	411,653,990	301,832,391	409,856,407	298,959,595
Housing	2,598,682	2,564,862	2,620,518	2,567,577
Consumer	731,936	159,283	709,284	226,564
Other	22,484	-	28,747	-
Total	**1,772,408,567**	**1,536,684,548**	**1,676,807,736**	**1,444,749,410**

As of 31 December 2021, the Bank's portfolio consisted of 65.76% over-collateralized loans (68.62% at 31 December 2020). The table below sets out the effect of collateral.

As at December 31, 2021	Over-collateralised assets		Under-collateralised assets	
In LEI	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
STAGE1	**1,043,968,250**	**2,584,159,092**	**568,510,572**	**116,500,623**
Agricultural	324,909,044	693,041,433	46,643,998	30,765,997
Business	716,626,444	1,885,916,459	521,452,598	85,734,627
Consumer	-	-	391,996	-
Housing	2,432,762	5,201,201	-	-
Other	-	-	21,979	-
STAGE2	**90,671,159**	**295,683,772**	**21,522,246**	**3,027,321**
Agricultural	27,458,526	61,890,566	1,341,372	992,430
Business	63,082,956	233,793,206	20,180,874	2,034,891
Consumer	-	-	-	-
Housing	129,677	1,494,078	-	-
STAGE3	**10,068,369**	**72,644,840**	**2,003,978**	**234,098**
Agricultural	1,705,834	9,444,696	838,063	14,892

Business	8,200,829	61,997,981	1,161,362	219,206
Consumer	159,283	1,093,304	4,554	-
Housing	2,423	108,859	-	-
Grand Total	**1,144,707,778**	**2,952,487,705**	**592,036,795**	**119,762,042**

As at December 31, 2020 In LEI	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
STAGE1	**983,877,808**	**2,567,051,125**	**483,121,975**	**120,983,902**
Agricultural	321,069,931	809,080,689	51,282,125	30,551,850
Business	660,472,057	1,752,439,759	431,477,499	90,432,052
Consumer	-	-	334,622	-
Housing	2,335,820	5,530,678	-	-
Other	-	-	27,730	-
STAGE2	**133,682,730**	**454,755,604**	**31,395,953**	**7,876,667**
Agricultural	25,654,418	72,758,155	1,131,476	330,784
Business	107,806,708	381,997,450	30,264,477	7,545,884
Consumer	-	-	-	-
Housing	221,604	1,742,515	-	-
STAGE3	**10,571,461**	**79,534,816**	**1,436,732**	**28,728**
Agricultural	2,121,309	12,332,716	899,860	27,654.85
Business	8,213,435	65,650,002	536,872	1,072.90
Consumer	226,564	1,251,170	-	-
Housing	10,154	300,929	-	-
Grand Total	**1,128,131,999**	**3,101,341,545**	**515,954,661**	**128,889,297**

(b) Credit portfolio risk from customer lending

Lending to medium-sized enterprises, i.e. larger credit exposures exceeding the threshold of EUR 500,000, constitutes a supplementary area of the Bank's business in terms of its overall strategic focus. Most of these clients are dynamically growing enterprises that have been working with the Bank for many years. Nevertheless, the higher complexity of these businesses requires an appropriate analysis of the business, the project that is to be financed and any connected entities. A strict division of front and back office functions is applied and requirements for both documentation and collateral are typically more stringent.

Gross Exposure
in LEI

As at December 31, 2021	**Business**	**Agricultural**	**Housing**	**Consumer**	**Other**	**Total**
0-50,000 EUR	100,168,264	56,511,526	754,365	451,002	22,485	157,907,642
50,000-250,000 EUR	487,235,073	119,030,494	1,844,317	280,934	-	608,390,818
250,000-500,000 EUR	233,288,194	102,349,681	-	-	-	335,637,875
Over 500,000 EUR	536,709,944	133,762,290	-	-	-	670,472,234
Total	**1,357,401,475**	**411,653,990**	**2,598,682**	**731,936**	**22,485**	**1,772,408,568**

Gross Exposure in LEI As at December 31, 2020	Business	Agricultural	Housing	Consumer	Other	Total
0-50,000 EUR	109,859,684	57,671,742	799,797	368,176	28,747	168,728,145
50,000-250,000 EUR	472,105,772	127,045,072	1,820,721	341,109	-	601,312,673
250,000-500,000 EUR	234,172,530	99,781,586	-	-	-	333,954,116
Over 500,000 EUR	447,454,794	125,358,007	-	-	-	572,812,801
Total	**1,263,592,779**	**409,856,407**	**2,620,518**	**709,284**	**28,747**	**1,676,807,736**

The structure of the loan portfolio is regularly reviewed by Credit Risk Management Committee in order to identify potential events which could have an impact on large areas of the loan portfolio (common risk factors) and, if necessary, limit the exposure towards certain sectors of the economy.

According to the Credit Risk Management Policy and Strategy, no single large credit exposure may exceed 25% of the Bank's regulatory capital.

Larger credit exposures are particularly analysed and monitored by the responsible employees through regular monitoring activities enabling early detection of risks. Full information about any related parties is typically collected prior to lending.

Individually significant credit exposures are closely monitored by the Credit Risk Management Committee which is responsible for the approval of the allowances for loan losses built against these exposures. The realisable net value of collateral held is taken into account when deciding on the allowance for impairment.

Under IFRS9, The Bank determines impairment allowances using different approaches, either collectively for a group of credit exposures or individually, depending on the classification of credit exposures into different categories:

Stage 1:
Stage 1 comprises financial assets for which credit risk has not significantly increased since initial recognition as well as those showing low credit risk as of the reporting date or for which no triggers for Stage 2 or 3 allocation apply. Assets are allocated in Stage 1 upon initial recognition except for purchased or originated credit impaired (POCI) assets which are treated and reported separately. For assets in Stage 1, the expected credit losses arising from possible default events within the 12 months following the reporting date (12 month ECL) are recognised as expenses. For exposures with a remaining maturity of less than 12 months, the used probability of default (PD) reflects the remaining maturity.

Stage 2:
Stage 2 comprises financial assets for which credit risk has significantly increased since initial recognition, but for which there is no objective indication of impairment. This assessment takes account for appropriate and plausible information. Loss allowances are established in an amount equivalent to the expected credit losses over the entire remaining maturity, i.e. lifetime expected losses (lifetime ECL not credit impaired).

Stage 3:
Stage 3 includes all exposures that are credit impaired as of the reporting date. The respective calculation of loss allowances is performed based on the lifetime expected credit losses considering a 100% probability of default (lifetime ECL credit impaired). Further, the loan loss provisions can be determined on a collective basis via the ECL model or based on an individual assessment. The recognition of impairment relies on the internally applied definition of default.

Individually assessed credit exposures

Individual credit exposures for which an impairment test is performed and where an impairment loss has been confirmed are provisioned according to the impairment loss that is determined by an assessment for specific individual impairment. The levels of the specific - individual impairment are based on the difference of the net present value of future cash-flows on a credit exposure and the current book value of that credit exposure (amortized cost).

If repayments are made which change the categorisation of a credit exposure from individually significant to individually insignificant, the bank may decide whether to maintain provisioning at the level prescribed by the results of the impairment test or to provision the credit exposure based on the collectively assessed approach.

The gross book value fluctuates over time due to repayments / write-offs or the accrual of interest and penalties, etc. Regardless of the type of provisioning, if the currently booked impairment allowances exceeds the gross book value of the credit exposure or falls below the minimum Stage 1 rates, the provisioned amount needs to be adjusted accordingly. This will be done monthly by the booking on expenses, or the reversal on incomes of the amount representing the difference.

in LEI As at December 31, 2021	Gross outstanding amount		Allowance for specific impairment	Net outstanding amount
Collective	**1,758,450,295**	-	**28,995,682**	**1,729,454,614**
STAGE1	**1,620,898,503**	-	**8,419,682**	**1,612,478,822**
Business	1,244,388,747	-	6,093,752	1,238,294,995
Agricultural	373,621,343	-	2,284,254	371,337,089
Housing	2,460,461	-	27,700	2,432,762
Consumer	405,467	-	13,471	391,996
Other	22,485	-	506	21,979
STAGE2	**122,373,070**	-	**10,179,666**	**112,193,405**
Business	89,787,285	-	6,523,455	96,310,740
Agricultural	32,450,943	-	3,651,045	36,101,988
Housing	134,843	-	5,166	140,008
STAGE3	**15,178,722**	-	**10,396,334**	**4,782,387**
Business	11,969,199	-	8,734,707	3,234,492
Agricultural	2,879,676	-	1,498,040	1,381,636
Housing	3,378	-	954	2,423
Consumer	326,469	-	162,633	163,836
Individually	**13,958,273**	-	**6,668,314**	**7,289,959**
STAGE3	**13,958,273**	-	**6,668,314**	**7,289,959**
Business	11,473,788	-	5,346,089	6,127,699
Agricultural	2,484,485	-	1,322,225	1,162,260
Housing	-		-	-
Grand Total	**1,772,408,568**	-	**35,663,995**	**1,736,744,573**

in LEI As at December 31, 2020	Gross outstanding amount		Allowance for specific impairment	Net outstanding amount
Collective	**1,663,693,488**	-	**26,513,283**	**1,637,180,205**
STAGE1	**1,475,306,401**	-	**8,306,618**	**1,466,999,783**
Business	1,097,860,061	-	6,491,303	1,091,368,758
Agricultural	374,703,419	-	1,770,566	372,932,853
Housing	2,369,168	-	33,348	2,335,820
Consumer	345,006	-	10,384	334,622
Other	28,747	-	1,017	27,730
STAGE2	**172,342,956**	-	**7,264,273**	**165,078,683**
Business	143,335,084	-	5,630,570	148,965,654

Agricultural	28,778,882	-	1,626,317	30,405,199
Housing	228,989	-	7,386	236,375
STAGE3	**16,044,132**	**-**	**10,942,393**	**5,101,739**
Business	13,079,551	-	9,418,366	3,661,184
Agricultural	2,583,636	-	1,379,737	1,203,899
Housing	16,667	-	6,575	10,092
Consumer	364,278	-	137,714	226,564
Individually	**13,114,247**	**-**	**6,207,793**	**6,906,454**
STAGE3	**13,114,247**	**-**	**6,207,793**	**6,906,454**
Business	9,318,083	-	4,351,864	4,966,219
Agricultural	3,790,471	-	1,850,297	1,940,174
Housing	5,693	-	5,632	62
Grand Total	**1,676,807,736**	**-**	**32,721,076**	**1,644,086,660**

48) Financial risk

(a) Foreign currency risk

Conceptual risk management framework

The assets and liabilities of the Bank are denominated in more than one currency. If the assets and liabilities in one currency do not match, the Bank has an open currency position ("OCP") and is exposed to potentially unfavourable changes in exchange rates.

Due to the close economic links between Romania and the Euro zone countries, a significant part of the customer funds and of the customer loan portfolio is denominated in Euro. The Bank's operations in other foreign currencies are at a low level and therefore do not pose a significant risk exposure.

Currency risk management is guided by the Foreign Currency Risk Management Policy and Strategy, which is approved by the Board of Administration.

The Treasury Department is responsible for continuously monitoring the developments of exchange rates and foreign currency markets. The Treasury Department also manages the currency positions of the Bank on a daily basis. As a general principle, all currency positions should be closed at end-of-day; long or short positions for speculative purposes are not permitted. The Bank did not engage in any foreign currency derivative transactions in 2021 nor in 2020. The Bank's foreign currency exposure is monitored and controlled on a daily basis by the Operations Suport Department and is reported to ALCO by the Risk Management Department.

Developments in the foreign exchange markets and the currency positions are regularly reported to the Bank's ALCO, which is authorised to take strategic decisions with regard to treasury activities. The Bank's exposure to foreign currency risk is reported to the Audit and Risk Management Committee and quarterly to the Board of Administration.

The Bank aims to keep a closed currency positions and ensures that an open currency position remains within the limits at all times. The currency in which the Bank obtains financing determines the currency in which loans are given to customers and vice versa. The Bank is required to balance assets and liabilities per currency in both amounts and maturities as far as possible in order to protect the Bank against currency fluctuations. If this is not possible, financial instruments shall be used to the extent available to close the gaps.

For the purpose of currency risk management the Bank has established two levels of control: early warning indicators and limits. In cases where the positions cannot be brought back above 5% of the regulatory capital for a single currency, or 7.5% for the aggregate of all currencies, the bank's ALCO have to be informed and appropriate measures taken. This mechanism helps to ensure that the bank's total OCP does not exceed 10% of regulatory capital. Exemptions from the limit or strategic positions are subject to approval by the Board of Administration.

Facts and figures concerning foreign currency risk

The following table shows the distribution of the Bank's balance sheet items across its operating currencies, i.e. RON, USD, GBP and EUR.

in LEI As at December 31, 2021	Total	RON	EUR	USD	GBP
Assets					
Cash and cash equivalents	384,432,384	282,874,169	100,191,200	1,367,015	-
Loans and advances to banks	132,885,038	22,020	108,772,284	22,812,999	1,277,735
Financial assets at fair value through other comprehensive income	132,198,070	97,527,107	34,670,963	-	-
Loans and advances to customers	1,736,744,573	1,214,627,046	522,117,527	-	-
Other financiar assets	2,587,919	2,200,219	218,689	165,642	3,369
Total assets	**2,388,847,984**	**1,597,250,560**	**765,970,664**	**24,345,656**	**1,281,103**
Liabilities					
Liabilities to banks	240,546,143	168,707,348	71,838,795	-	-
Liabilities to customers	1,521,458,445	869,785,475	625,021,623	25,442,696	1,208,652
Liabilities to IFI	429,527,714	373,084,869	56,442,845	-	-
Provisions	2,321,608	2,161,525	160,083	-	-
Other financial liabilities	18,802,107	2,687,534	16,114,573	-	-
Total liabilities	**2,212,656,017**	**1,416,426,750**	**769,577,920**	**25,442,696**	**1,208,652**
Net position	**175,799,468**	**180,431,311**	**-3,607,256**	**-1,097,039**	**72,452**
Amounts in course of settlement	**-2,186**	**-4,107,428**	**2,968,860**	**1,136,382**	**-**
Credit commitments	**236,236,053**	**207,852,720**	**28,383,332**	**-**	**-**

in LEI As at December 31, 2020	Total	RON	EUR	USD	GBP
Assets					
Cash and cash equivalents	244,413,857	192,603,920	50,807,369	1,002,567	-
Loans and advances to banks	79,138,064	21,395	66,714,774	11,884,775	517,120
Financial assets at FVOCI	112,149,565	77,992,036	34,157,529	-	-
Loans and advances to customers	1,644,086,660	1,152,645,280	491,441,380	-	-
Other financial assets	2,765,594	2,436,259	180,403	147,196	1,735
Total assets	**2,082,553,740**	**1,425,698,890**	**643,301,455**	**13,034,540**	**518,855**
Liabilities					
Liabilities to banks	257,326,703	225,564,443	31,762,260	-	-
Liabilities to customers	1,295,962,010	756,124,973	525,691,255	13,624,814	520,967

Liabilities to IFI	339,749,875	269,227,433	70,522,442	-	-
Provisions	3,418,608	3,353,009	65,599	-	-
Other financial liabilities	22,817,590	3,993,564	18,824,026	-	-
Total liabilities	**1,919,274,786**	**1,258,263,422**	**646,865,583**	**13,624,814**	**520,967**
Net position	**163,278,954**	**167,435,469**	**-3,564,128**	**-590,276**	**-2,112**
Amounts in course of settlement	**-3,476**	**-2,183,672**	**1,606,902**	**573,293**	-
Credit commitments	**293,053,518**	**259,484,609**	**33,568,909**	-	-

The following table presents sensitivities of profit or loss to reasonably possible changes in exchange rates applied at the end of the reporting period:

	At 31 December 2021	At 31 December 2020
In LEI	Impact on profit or loss	Impact on profit or loss
EUR strengthening by 20%	3,453	11,340
EUR weakening by 20%	2,302	7,560
USD strengthening by 20%	3,987	2,122
USD weakening by 20%	2,658	1,415
GBP strengthening by 20%	2,550	717
GBP weakening by 20%	1,700	478

(b) Interest rate risk

Conceptual risk management framework

The Bank's approach to measuring and managing interest rate risk is guided by the Interest Rate Risk Management Policy and Strategy which is approved by the Board of Administration.

Interest rate risk arises from structural differences between the maturities of assets and those of liabilities, e.g. if a four-year fixed interest rate loan is funded with a six-month term deposit, as well as from incongruence between the interest type of the assets and liabilities, e.g. a fixed interest rate loan is financed through a variable interest rate financing facility. This would expose the Bank to the risk that the funding costs will increase before the maturity date of the loan, thus reducing the Bank's margin on the loan.

The main indicators for managing interest rate risk measures are the potential impact on the economic value of all assets and liabilities and the interest earnings impact. The indicator economic value impact analyses the potential loss that the Bank would incur in the event of very unfavourable movements (shocks) of the interest rates on assets and liabilities. For EUR or USD, a parallel shift of the interest rate curve by +/- 200 bps is assumed. During 2021 for the local currency, the definition of a shock is derived from historic interest rate volatilities over the last seven years. The shocks for local currency also differentiate between internally driven interest rates and market interest rates, in order to capture the basis risk. The total economic value impact on the Bank's balance sheet in the standard scenario (the interest rate shocks are applied in each currency in the direction that negatively affects the Bank) must not exceed 15% of its regulatory capital for all interest rate risk relevant currencies. A reporting trigger for the indicator is set at 10% providing an early warning signal.

The Bank also reports to the National Bank of Romania the change in economic value as a result of sudden and unexpected changes in interest rates according to six standardized shock scenarios for detecting extreme values, namely a parallel upward shock, a parallel downward shock, a shock with sudden variation (short rates down and long rates up), a shock with constant evolution (short rates up and long rates down), a shock with short rates up, a shock with short rates down. The calculation of the change in economic value is performed at least quarterly. If in at least one of the 6 scenarios the decrease in the economic value resulting from the calculation is greater than 15% of the level 1 own funds, the Bank must immediately inform the National Bank of Romania.

The total potential impact of interest rate risk on the Bank's expected earnings over the next twelve months in the standard scenarios is also regularly analysed. This measure indicates how the income statement may be influenced by interest rate risk under a short-term perspective.
The total impact of net interest income over a 12-month period in standard scenarios based on parallel changes in the yield curve should not exceed 25% of the Bank's estimated net interest income for the current year under the Business Plan for all relevant currencies. for interest rate risk.

A reporting trigger for the indicator is set at 20% providing an early warning signal.
Interest rate risk is regularly discussed by the Bank's Assets and Liabilities Management Committee. The indicators are also reported to the Audit and Risk Management Committee and to the Board of Administration.

In order to limit its interest rate risk, the Bank aims to match as much as possible the repricing maturities of its interest bearing assets and liabilities (natural hedge).

in LEI As at December 31, 2021	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years	Non-Interest bearing	Total
Assets								
Cash and cash equivalents	135,159,570	-	-	-	-	-	249,272,813	384,432,383
Loans and advances to banks	132,865,682	-	-	-	-	-	19,356	132,885,038
Financial assets at FVOCI	-	61,756,730	35,431,430	34,711,487	-	-	-	131,899,647
Loans and advances to customers	649,832,665	945,003,693	77,860,673	2,453,632	1,365,778	-	60,228,132	1,736,744,573
Total financial assets	**917,857,917**	**1,006,760,423**	**113,292,103**	**37,165,118**	**1,365,778**	**-**	**309,520,301**	**2,385,961,641**
Liabilities								
Liabilities to banks	-	158,234,491	82,245,098	-	-	-	66,555	240,546,143
Liabilities to customers	164,949,261	187,323,635	220,808,795	482,994,554	21,241,752	1,567,844	442,572,604	1,521,458,445
Liabilities to IFI	192,238,048	211,002,884	26,286,781	-	-	-	-	429,527,713
Total financial liabilities	**357,187,309**	**556,561,009**	**329,340,674**	**482,994,554**	**21,241,752**	**1,567,844**	**442,639,158**	**2,191,532,301**
Total interest sensitivity gap	**560,670,608**	**450,199,414**	**-216,048,570**	**-445,829,436**	**-19,875,974**	**-1,567,844**	**-133,118,857**	**194,429,339**

in LEI As at December 31, 2020	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years	Non-Interest bearing	Total
Assets								
Cash and cash equivalents	117,092,345	-	-	-	-	-	127,321,512	244,413,856
Loans and advances to banks	79,116,667	-	-	-	-	-	19,320	79,135,988

Financial assets at FVOCI	-	19,938,085	-	58,049,952	34,185,706	-	-	112,173,742
Loans and advances to customers	186,398,931	914,001,207	430,300,088	29,585,866	5,503,281	59,852	78,237,435	1,644,086,660
Total financial assets	**382,607,943**	**933,939,292**	**430,300,089**	**87,635,818**	**39,688,987**	**59,852**	**205,578,267**	**2,079,810,246**
Liabilities								
Liabilities to banks	92,538,163	163,056,515	-	-	-	-	1,732,025	257,326,704
Liabilities to customers	130,679,099	135,657,143	159,218,708	424,709,336	28,834,258	-	416,863,465	1,295,962,009
Liabilities to IFI	52,249,612	113,598,419	38,144,057	22,413	-	-	135,735,375	339,749,875
Total financial liabilities	**275,466,873**	**412,312,078**	**197,362,765**	**424,731,749**	**28,834,258**	**-**	**554,330,865**	**1,893,038,588**
Total interest sensitivity gap	**107,141,070**	**521,627,214**	**232,937,323**	**-337,095,931**	**10,854,729**	**59,852**	**-348,752,598**	**186,771,658**

Facts and figures concerning interest rate risk

As specified above, the main interest rate risk indicators are the economic value impact indicator and the interest earnings impact. The economic value impact indicator measures the impact of interest rate changes on all interest rate-sensitive on- and off-balance sheet items and quantifies the loss in value of the bank given certain changes of interest rates. As described above, the calculation of the economic value impact indicator is based on different parallel shifts of the interest rate curves. For EUR and USD a shift of +/- 200 bps is applied; for the local currency the shift is defined in terms of a historical worst case (+/- 350 bps for internal rates and +/- 200 bps for market rates, as of December 2021).

The following table presents the economic value impact and interest earnings indicator under the parallel scenarios, as of December 2021 and December 2020.

in '000 RON	**2021**		
Currency	Interest rate sock	Economic value impact	Interest earnings Impact
Local	+/- 350 bps	6,787	15,168
EUR	+/-200 bps	1,420	-
USD	+/-200 bps	-	-
Total		**8,207**	**15,168**

in '000 RON	**2020**		
Currency	Interest rate shock	Economic value impact	Interest earnings Impact
Local	-580 bps/ -200 bps	2,921	10,969
EUR	-200 bps	2,314	4,888
USD	-200 bps	10	52
Total		**5,245**	**15,908**

(c) Liquidity risk

Conceptual risk management framework

The Bank's liquidity risk management ("LRM") system is tailored to the specific characteristics of the Bank. On the assets side the loan portfolio is the largest single component, and is primarily funded by clients' deposits, on liabilities side. The loan portfolio is characterised by a large number of exposures to small and medium businesses and is therefore highly diversified. The majority of the loans are disbursed as instalment term loans, and the default rate is low. Therefore, cash flows are highly predictable. All of these factors justify the use of a relatively simple and straightforward LRM system.

Liquidity risk in the narrowest sense (risk of insolvency) is the possibility that the Bank will no longer be able to meet its current and future payment obligations in full, or in a timely manner. Liquidity risk in a broader sense (funding risk) is the danger that additional funding can no longer be obtained, or can only be obtained at increased market interest rates.

The Bank's Assets and Liabilities Committee ("ALCO") determines the liquidity strategy of the Bank and sets the liquidity risk limits. The Treasury Department manages the Bank's liquidity on a daily basis and is responsible for the execution of the ALCO's decisions. Compliance with strategies, policies and limits is constantly monitored by the Operations Support Department and by the Risk Management Department.

The standards that the Bank applies in this area are established through the Liquidity Risk Management Policy and Strategy and the Treasury Policy. Limit breaches and exceptions to these policies are subject to decisions of the Board of Administration. The local requirements are complemented by the tools used at the ProCredit group level, thus enhancing local liquidity risk management.

Treasury manages liquidity on a daily basis using a cash flow analysis. This tool is designed to provide a realistic picture of the future liquidity situation. It includes assumptions about deposit and loan developments and helps forecasting liquidity risk indicators.

The key tool for measuring liquidity risk is a forward-looking liquidity gap analysis, which shows the contractual maturity structure of the assets and liabilities and estimates future funding needs based on certain assumptions. Starting with the estimation of the future liquidity in a normal financial environment, the assumptions are increasingly tightened in order to analyse the Bank's liquidity situation in a worst-case scenario (stress test).

The main indicator of short-term liquidity is the sufficient liquidity indicator ("SLI"), which compares the amounts of assets available and liabilities assumed to be due within the next 30 days. It must not fall below 1. This implies that the Bank always has sufficient funds to be able to repay the liabilities simulated to be due within the next 30 days. Other regulatory liquidity indicators are: Liquidity Coverage Ratio ("LCR") that came in force in 2015, with the following limits: starting October 1st, 2015 of at least 60%; 70% starting January 1st, 2016; 80% starting January 1st, 2017 and at least 100% starting January 1st, 2018, Net Stable Funding Ratio ("NSFR") that came in force in 2021, with a limit of minimum 100%

The Bank also analyses its liquidity situation from a more structural perspective, taking into account the liquidity gaps in later time buckets and additional sources of potential liquidity. The liquidity position also takes into account credit lines that can be drawn by the Bank with some time delay, and other assets which take some time to liquidate.

In addition to prescribing the close monitoring of these early warning indicators, the Liquidity Risk Management Policy and Strategy also defines reporting triggers. If the reporting limits (early warning) are reached, ALCO takes decisions on appropriate measures.

In order to safeguard the liquidity of the Bank even in stress situations, the potential liquidity needs in different scenarios are determined. The Bank has a liquidity contingency plan that establishes the measures that should be taken if a crisis situation appears at the level of the Bank or the banking system. The liquidity contingency plan is supported by a stand-by line from ProCredit Holding, amounting to EUR 10 million at the end of December 2021.

The internal liquidity management framework complements the regulatory framework, composed of the Quick Liquidity Indicator, Liquidity Indicator, Liquidity Coverage Ratio, and Net Stable Funding Ratio, they being maintaining above the regulatory levels at the end of December 2021.

The Bank also aims to diversify its funding sources. Depositor concentrations are monitored in order to avoid dependencies on a few large depositors. This serves as an early warning signal and requires the reasons and mitigating measures to be reported to the ALCO and to the Audit and Risk Management Committee.

The Bank also minimises its dependency on the interbank market, as will as the cost of fundings. The policies stipulate the maximum total amount of money market liabilities out of the total liabilities,a maximum level of the local overnight funding the total liabilities, and the net interest margin. Higher limits need to be approved by Board of Administration.

Facts and figures concerning liquidity risk

The following table shows the liquidity gap analysis, i.e. the (undiscounted) cash flows of the financial assets and financial liabilities of the bank according to their remaining contractual maturities. The remaining contractual maturity is defined as the period between the balance sheet date and the contractually agreed due date of the asset or liability, or the due date of a partial payment under the contract for an asset or liability.

in LEI As at December 31, 2021	Carrying Amount	Gross amount*	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years
Assets								
Cash and cash equivalents	384,432,384	384,432,384	384,432,384	-	-	-	-	-
Loans and advances to banks	132,885,038	132,885,038	132,885,038	-	-	-	-	-
Financial assets at FVOCI	131,899,647	131,899,647	-	61,756,730	35,431,430	34,711,487	-	-
Loans and advances to customers	1,736,744,573	1,740,298,516	34,943,026	91,994,519	158,306,262	354,305,206	821,749,611	278,999,893
Other financial assets	2,587,919	2,587,919	2,062,826	-	-	374,402	150,690	-
Financial assets	**2,388,549,560**	**2,392,103,502**	**554,323,273**	**153,751,249**	**193,737,692**	**389,391,095**	**821,900,301**	**278,999,892**
Off Balance sheet commitment (assets)	236,236,053	236,236,053	236,236,053				-	-
Total assets	**2,624,785,613**	**2,628,339,555**	**790,559,326**	**153,751,249**	**193,737,692**	**389,391,095**	**821,900,301**	**278,999,892**
Liabilities								
Liabilities to banks	240,546,143	240,546,143	66,555	29,918,033	75,013,232	42,148,324	93,400,000	-
Liabilities to customers	1,521,458,445	1,521,458,445	1,059,066,612	120,188,937	95,297,957	236,538,997	10,365,943	
Liabilities to IFI	429,527,714	429,527,714	-	2,483,674	7,279,382	26,929,408	214,941,770	177,893,479
Other financial liabilities	18,802,107	18,802,107	4,106,479	551,992	866,867	1,735,338	11,541,430	-
Financial liabilities	**2,210,334,409**	**2,210,334,409**	**1,063,239,646**	**153,142,636**	**178,457,438**	**307,352,067**	**330,249,143**	**177,893,479**

Off Balance sheet commitment	91,232,596	91,232,596	-	49,481,000	-	-	-	41,751,596
Total liabilities	**2,301,567,005**	**2,301,567,005**	**1,063,239,646**	**202,623,636**	**178,457,438**	**307,352,067**	**330,249,143**	**219,645,075**
Open position	**178,215,151**	**181,769,093**	**-508,916,373**	**608,613**	**15,280,254**	**82,039,027**	**491,651,158**	**101,106,413**
OCP including off Balance sheet commitments	**323,218,608**	**326,772,550**	**-272,680,320**	**-48,872,387**	**15,280,254**	**82,039,027**	**491,651,158**	**59,354,818**

in LEI As at December 31, 2020	**Carrying Amount**	**Gross amount***	**Up to 1 month**	**1 - 3 months**	**3 - 6 months**	**6 - 12 months**	**1 - 5 years**	**More than 5 years**
Assets								
Cash and cash equivalents	244,413,857	244,413,857	244,413,857	-	-	-	-	-
Loans and advances to banks	79,138,064	79,138,064	79,138,064	-	-	-	-	-
Financial assets at FVOCI	112,173,742	112,173,742	19,938,085	-	-	58,049,952	34,185,706	-
Loans and advances to customers	1,644,086,660	1,647,682,960	32,345,220	81,656,241	128,771,762	352,924,154	736,411,123	315,574,460
Other financial assets	2,771,399	2,771,399	723,314	1,312,608	-	-	735,477	-
Financial assets	**2,082,583,721**	**2,086,180,024**	**376,558,540**	**82,968,849**	**128,771,763**	**410,974,106**	**771,332,306**	**315,574,460**
Off Balance sheet commitment (assets)	293,053,518	293,053,518	293,053,518					
Total assets	**2,375,637,239**	**2,379,233,541**	**669,612,057**	**82,968,849**	**128,771,763**	**410,974,106**	**771,332,306**	**315,574,460**
Liabilities								
Liabilities to banks	257,479,973	257,479,973	938,608	97,541,365	65,600,000	93,400,000	-	-
Liabilities to customers	1,295,962,010	1,295,962,010	807,267,945	108,273,931	78,689,874	287,767,550	13,962,711	-
Liabilities to IFI	339,596,606	339,937,139	249,854	248,564	-	13,805,372	136,668,318	188,965,031
Other financial liabilities	22,817,590	22,817,590	4,811,149	692,254	971,504	1,913,814	13,107,617	1,321,252
Financial liabilities	**1,915,856,178**	**1,916,196,710**	**813,267,555**	**206,756,114**	**145,261,378**	**396,886,735**	**163,738,647**	**190,286,283**
Off Balance sheet commitment	48,694,000	48,694,000	48,694,000	-	-	-	-	33,152,292
Total liabilities	**1,964,550,178**	**1,964,890,710**	**861,961,555**	**206,756,114**	**145,261,378**	**396,886,735**	**163,738,647**	**223,438,575**

Open position	**166,727,544**	**169,983,311**	**-436,709,015**	**-123,787,265**	**-16,489,616**	**14,087,370**	**607,593,660**	**125,288,177**
Open position including off Balance sheet commitments	**411,087,061**	**414,342,829**	**-192,349,498**	**-123,787,265**	**-16,489,616**	**14,087,370**	**607,593,660**	**92,135,885**

*undiscounted cash flow for financial assets and liabilities

Due to the fact that not all cash flows will occur in the future as specified within the contracts, the Bank applies assumptions, especially regarding deposit withdrawals. Expected customer behavior is calculated based on an empirical analysis of historical outflows over a 10 year period and the Bank does not expect customer liabilities with maturities lower than 1 month to be liquidated at maturity. The resulting outflow rate is used as a baseline for calculating liquidity indicators under normal circumstances and increased under stress scenarios.

The goal is to always have sufficient liquidity in order to serve all expected liabilities within the next month. From a technical point of view this implies that the Bank's available assets should always exceed the expected liabilities, as calculated by applying the above assumptions mentioned above.

The expected liquidity gap quantifies the potential liquidity needs within a certain time period if it has a negative value, and it shows a potential excess liquidity, if it has a positive one. This calculation includes positive excess values from the previous time buckets. The expected liquidity gap is the basis for the sufficient liquidity indicator.

The Bank aims to rely primarily on customer deposits for its funding. This source is supplemented by funding received from international financial institutions (IFIs), which provide earmarked funds under targeted financing programmes (e.g. for lending to SMEs). In order to further diversify its sources of funds, the Bank also maintains relationships with other banks, especially for short-term liquidity lines. In addition, ProCredit Holding and ProCredit Bank Germany provides short- and long-term funding.

49) Operational risk

Operational risk is recognised as an important risk factor for the Bank, given that it relies on decentralised processing and decision-making. In line with Basel definition, the Bank defines operational risks as the risk of loss resulting from inadequate or failed internal processes, associated to outsourcing functions, people, ITC and/or external events. This category includes all "risk events" in the areas of personnel, processes, and information technology. A dedicated Operational Risk Management Policy and Strategy establishes the principles of operational risk management.

The overall framework for managing operational risks is best described as a complementary and balanced system comprising the following key components: Corporate Culture, Governance Framework, Policies and Procedures, Risk Assessments, New Risk Approvals (NRAs), Key Risk Indicators and the Risk Event Database. While the Corporate Culture, the Governance Framework, and Policies and Procedures define the basic cultural and organisational parameters, Risk Assessments, New Risk Approvals (NRAs), Key Risk Indicators and the Risk Event Database form the key instruments with which the risk management process is executed.

The overall objectives of the Bank's approach to the management of operational risks are:

- to understand the drivers of the operational risks
- to be able to identify critical issues as early as possible
- to avoid losses caused by operational risks; and
- to ensure efficient use of the capital.

To deliver on these goals the following tools and processes have been implemented within the framework outlined above. They are presented in the sequence in which they are used within the operational risk management process. This process is subdivided into the following phases: identification, evaluation, monitoring, control, and follow up.

- **Identification**

  - Annual operational and fraud risk assessments
  - New risk approval (NRA) process
  - Risk identification and documentation in the Risk Event Database (RED)
  - Ad hoc identification of potential risks

- **Evaluation / quantification**
  - Agreed standards to quantify risks

- **Monitoring and control**
  - Process owners' responsibility to monitor risks
  - Key risk indicators (KRIs) and operational risk reports, risk bearing capacity calculation and monitoring in the Operational Risk Management Committee and Audit and Risk Management Committee
  - Management summaries for the significant risk events
  - Implementation of measures to avoid, reduce or mitigate the risks depending on priorities, efficiency considerations and regulations
  - Transfer of risk to an insurer, if appropriate

- **Issue tracking / follow-up tables for material action plans**
  - Follow-up of the measures taken by the Operational Risk Management Committee or by the Bank's Managers

Through the measures adopted by the bank, the effects generated by the Covid-19 Pandemic did not have a significant impact in increasing the operational risk. The Bank's digital approach to all routine banking operations has enabled the entity to quickly implement home-office models to protect the health and safety of customers and employees (e.g. staff rotation at a predetermined period, splitting the staff with responsibilities in processing payments in two different premises, enabling the possibility to safely connect to the clearing systems via secure VPN connections). The Bank was able to maintain business continuity and guarantee the availability of IT systems without any loss of performance. Furthermore, the Bank did not identify any increase in fraud or other operational risks.

50) Reputational risk

Reputational risk is recognised as a significant risk to which the Bank is exposed. It is defined as the current or future risk that the profits or capital would be negatively affected due to the unfavourable image of the Bank as perceived by clients, counterparties, shareholders, investors or supervisory authorities.

The Bank monitors all events with potential reputational implications through operational risk events identification, continuous monitoring of the media exposure and regular monitoring of customer complaints. The monitoring results are reported to the Operational Risk Management Committee that may take measures to mitigate the effects of a reputational risk event.

The Bank aims to keep the degree of responsibility and professionalism of its employees at a high level in order to mitigate its exposure to reputational risk. Therefore, the various training programmes have become part of the Bank's organisational culture. Relationships with clients have always been based on the principles of transparency and responsibility, thus fostering a good image for the Bank.

51) Compliance Risk

The Compliance risk is defined as the risk to suffer the sanctions set by the regulatory framework, to register significant losses or reputational impact by not complying with the regulatory framework provisions, internal regulations or other applicable best practices.

The management of compliance risk is performed at the Bank level within three committees. The financial covenants included in the refinancing contracts of the Bank are monitored on a regular basis within the ALCO and reported to the Audit and Risk Management Committee. The risks regarding money laundering and financing of terrorism activities are monitored in the AML&CFT on a quarterly basis. The changes in legislation and their implementation are monitored in the OPRC on a regular basis.

The Bank's organizational structure includes the Compliance & AML Department that has the role of assisting the Bank's Managers in order to properly manage the compliance risk.

52) Strategic Risk

The strategic risk represents the current or future risk of negative impact on earnings and capital arising from changes in the business environment or from adverse business decisions, improper implementation of decisions, or lack of response to changes in the business environment.

The Bank includes the strategic risk in the category of significant risks as, according to the developments of the past years in terms of the changes in the business environment mostly triggered by the financial crisis, we faced significant problems regarding the achievement of the business objectives. In these circumstances, the Bank's Board of Administration defines the business risk target profile in order to control the Bank's exposure to this risk.

The exposure to this risk is monitored regularly in the meetings of the ALCO.

The Covid19 Pandemic did not have a significant impact on the Bank's strategic risk. The digital approach to the routine banking operations, provided the Bank a stable basis for continuing the business operations without major limitations. Moreover, the Bank implemented preventive safety measures in the branches and offices to protect the health of both its employees and customers.

53) Organization of the risk management function

The ultimate responsibility for the risk management of the Bank lies with the Bank's Managers and with the Board of Administration. The risk management function is located at the level of Risk Management Department, which is responsible for the management all significant risks.

The Risk Management Department is subordinated to the Deputy General Manager and to the Board of Administration.

The Risk Management Department is responsible for the identification, evaluation, monitoring and reporting of risk exposures. The personnel of Risk Management Department is independent of the activities monitored and controlled, as is not performing any business related activities. The Risk Management Department reports regularly to the corresponding organisational units at ProCredit Holding.

The Bank's exposure to risks is monitored and controlled by the Audit and Risk Management Committee, a permanent, specialized committee of the Board of Administration. Detailed monitoring of specific risks is performed by various other committees, at Bank level: the Credit Risk Management Committee (credit risk), the Assets and Liabilities Management Committee (counterparty risk, liquidity risk, and market risks), the Operational Risk Management Committee (operational risk and reputational risk) and the AML&CFT Committee (anti-money laundering and combating the financing of terrorism).

The Bank's risk policies address all significant risks and set standards that enable risks to be identified early and to be managed appropriately. The Risk Management Department carries out regular monitoring to ensure that the total volume of all risks incurred does not exceed the limits approved. The results of the monitoring are reported to the specialized committees at Bank level, to the Audit and Risk Management Committee and to the Board of Administration.

F. Additional Notes

54) Fair value of financial instruments

The following tables give an overview of the carrying amounts and fair values of the financial assets and liabilities according to the classes of financial instruments, defined in accordance with the business of the Bank.

ProCredit Bank
Part of the ProCredit Group

in LEI Financial assets	2021 Carrying value	Total fair value
Cash and balances at central bank	384,432,384	384,432,384
Loans and advances to banks	132,885,038	132,885,038
Shares	27,002	27,002
Other financial assets	2,587,919	2,587,919
Loans and advances to customers	1,736,744,573	1,733,716,654
Total	**2,256,676,915**	**2,253,648,996**

Financial Liabilities	Carrying value	Total fair value
Liabilities to banks	240,546,143	241,658,987
Liabilities to customers	1,521,458,445	1,517,446,789
Liabilities to international financial institutions	429,527,714	436,891,843
Other financial liabilities	18,802,107	18,802,107
Total	**2,210,334,409**	**2,214,799,726**

in LEI Financial assets	2020 Carrying value	Total fair value
Cash and balances at central bank	244,413,857	244,413,857
Loans and advances to banks	79,138,064	79,138,064
Shares	27,002	27,002
Other financial assets	2,771,399	2,771,399
Loans and advances to customers	1,644,086,660	1,651,351,330
Total	**1,970,436,981**	**1,977,701,651**

Financial Liabilities	Carrying value	Total fair value
Liabilities to banks	257,326,703	256,331,515
Liabilities to customers	1,295,962,010	1,297,693,324
Liabilities to international financial institutions	339,749,875	343,108,979
Other financial liabilities	22,817,590	22,817,590
Total	**1,915,856,178**	**1,919,951,408**

in LEI		2021		of which		
Financial assets	**Category**	**Carrying value**	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
Treasury bills	FVOCI	131,899,647	131,899,647	-	131,899,647	-
Total		**131,899,647**	**131,899,647**	-	**131,899,647**	-

in LEI Financial assets	Category	2020 Carrying value	Total fair value	of which Level 1	Level 2	Level 3
Treasury bills	FVOCI	112,173,742	112,173,742	-	112,173,742	-
Total		**112,173,742**	**112,173,742**	**-**	**112,173,742**	**-**

The fair value of claims and term deposits at variable rates of interest is identical to their carrying amounts. The fair value of claims and liabilities at fixed rates of interest was determined using the discounted cash flow method, using money market interest rates for financial instruments with similar default risks and similar remaining terms to maturity.

The estimated fair value of the receivables corresponds to the discounted amount of the estimated expected future cash flows, i.e. net of allowance for impairment. The expected cash flows are discounted to fair value at the current market interest rates.

The fair value is calculated based on current observable market data by using a valuation technique. The valuation techniques applied are references to the current fair value of other instruments that are substantially the same and discounted cash flow analysis using observable market parameters, e.g. interest rates and foreign exchange rate. These instruments are classified as Level 2 in the fair value hierarchy.

The fair value of loans and advances to customers was determined using the discounted cash flow method, using the current market rates for end of the year, published by the Bank on its website for loans with similar default risks and similar remaining terms to maturity.

The fair value of liabilities to customers was determined using the discounted cash flow method, using the current market rates for end of the year, published by the Bank on its website for deposits with similar remaining terms to maturity. For deposits with no stated maturity (i.e. Current Accounts and Saving Accounts) the fair value it's equal to carrying value in the balance sheet.

In case observable market rates are not available to determine the fair value of financial liabilities measured at amortized cost, ProCredit Bank Treasury rates are used as an input for a discounted cash flow model. Treasury department rates are determined considering the cost of capital depending on currencies and maturities plus a risk margin that depends on an internal risk rating for each institution. These internal rates are regularly compared to those applied for third party transactions and are therefore in compliance with the arms lengths principle.

There have been no transfers between the input levels of the fair value hierarchy.

55) Contingent liabilities and commitments

in LEI	2021	As at 31 December 2020
Letters of guarantees	18,395,934	16,735,716
Letters of credit	-	-
Credit commitments	217,840,119	276,317,802
Total	**236,236,053**	**293,053,518**

The above table discloses the nominal principal amounts of contingent liabilities, commitments and guarantees, i.e. the amounts at risk, should contracts be fully drawn upon and clients default. It is expected that a significant portion of guarantees and commitments will expire without being drawn upon; therefore the total of the contractual amounts is not representative of future liquidity requirements. An estimate of the amount and timing of outflow is not practicable.

56) Related party transactions

The Bank entered into a number of banking transactions with related parties in the normal course of business.

The list of related parties and description of the nature of relationship is as follows:

Name	Relationship
ProCredit Holding AG & Co. KGaA	Shareholder
ZEITINGER INVEST GMBH ("ZI"), Frankfurt am Main, Germany	Shareholder
ProCredit Bank Germany	Entities under common control
ProCredit Bank Bulgaria	Entities under common control
Procredit Kosovo	Entities under common control
Procredit Macedonia	Entities under common control
ProCredit Bank Serbia	Entities under common control
ProCredit Academy Macedonien	Group company
Shipeke Kosovo - Quipu Ges.	Group company
ProCredit Academy	Group company
Quipu GmBH	Group company

The ultimate parent of the Bank is ProCredit Holding AG & Co. KGaA. The ultimate controlling party of the bank is ProCredit General Partner AG.

During the year ended 31 December 2021 and the year ended 31 December 2020 the Bank carried out transactions with other related parties from the Group, such as: short and long term financing, IT Services, Management Service Agreement support services as presented below

in LEI	1.1.-31.12.2021	1.1.-31.12.2020
Income	7,045	-
Expense	18,498,211	24,935,642
Net expense	**-18,491,166**	**-24,935,642**

Shareholder's current balances with the Bank other parties in special relationship (at year end)

		As at 31 December
in LEI	2021	2020
Assets		
Loans and advances to banks	132,863,238	79,116,807
Other receivable	10,721	214,281
Total Assets	**132,873,958**	**79,331,088**
Liabilities		
Liabilities to banks	146,996,314	146,532,817

Liabilities to customers(including ProCredit Holding)	69,375,792	41,961,047
Other payable	1,661,251	593,431
Total Liabilities	**218,033,357**	**189,087,295**
Off-balance sheet positions		
Credit line	49,481,000	48,694,000
Loan commitment	-	-
Total Off-balance sheet positions	**49,481,000**	**48,694,000**

Loans and advances to banks represent nostro accounts to ProCredit Germany having interest between -0.55% (EUR) and 0.05% (USD).

Liabilities to banks represent intercompany loans and money market deals denominated in both EUR and local currency with interest rates between 0.17% to 5.17%.

57) Management compensation

During the reporting period, total compensation paid to the management of the bank amounted to:

in LEI	**1.1.-31.12.2021**	**1.1.-31.12.2020**
Management board salaries	801,768	1,314,301
Total	**801,768**	**1,314,301**

During 2021, the members of the Board of Administration received compensation from the Bank in value of EUR 8,500.

58) Number of Employees

	2021		**2020**	
	Average	**At year end**	**Average**	**At year end**
General Manager	1	1	1	1
Deputy General Manager	1.5	1	2	2
Head Office Staff	113	112	141	133
Branches/Agencies Staff	35	32	68	59
Total Staff		**146**		**195**

59) Significant post-balance sheet events

The current political and economic outlook in Ukraine may lead to increased global uncertainty, energy supply shortage and a potential decline in the economic growth. The direct exposure of the Bank with respect to entities from Russian Federation or Ukraine is null. Still, the Bank analysed the customers, which had business relations with counterparties from Russia, Belarus and Ukraine and concluded that the exposure is insignificant and does not foreseen an increase in the provision for credit risk.

The management of the Bank closely monitors the developments in order to take appropriate measures which could cover the areas of accounting estimates, methods of calculating provisions for losses and provisions for credit risk in accordance with IFRS principles.

60) Exchange rates

For the balance sheet and the income statement the following exchange rates were applied for convenience translation:

Currency code	2021 At balance sheet date	2021 Average for the year	2020 At balance sheet date	2020 Average for the year
EUR	4.9481	4.9203	4.8694	4.8371
USD	4.3707	4.2440	3.9660	4.2392

61) Address and general information

ProCredit Bank S.A. is domiciled in Romania. The Bank was established in Romania in July 2002 (until November 2004 the Bank was known as Microfinance Bank MIRO S.A.), and is licensed by the National Bank of Romania to conduct banking activities.

The Bank operates through its head office located in Bucharest and through its network consisting of 3 branches (31 December 2020: 3) located in Romania.

The current registered office of the Bank is located at:

62 – 64 Buzesti Street,
Bucharest, Sector 1
Romania

The Bank is managed by a Board of Administration made up of 5 members (31 December 2020:5 members); lead by a Chairperson. The composition of the Board of Administration was as follows:

Position	31 December 2021	31 December 2020
Chairperson	Rainer Peter Ottenstein	Rainer Peter Ottenstein
Member	Gian Marco Felice	Gian Marco Felice
Member	Andrei Georgescu	Andrei Georgescu
Member	Zeinab Lomashvili	Marianne Loner
Member	Wolfgang Bertelsmeier	Wolfgang Bertelsmeier

Andreea Ichim
Deputy General Manager

Alexandra Andronache
Head of Finance Department

PROCREDIT BANK S.A.

ProCredit Bank

Part of the ProCredit Group

Administrators' Report for the year 2021

ProCredit Bank SA

ProCredit Bank

General Information

ProCredit Bank S.A. (the "Bank" or "ProCredit Bank") was established in Romania in May 2002 (up to November 2004 the Bank was known as Microfinance Bank MIRO S.A).

ProCredit Bank SA, the only bank in Romania with 100% German shareholders is a specialized bank for small and medium-sized enterprises, while at the same a full-fledged bank addressing both business and private clients by providing a wide range of modern banking services.

The main business strategic focus remains on small and medium-sized business clients. The strategic objective of being the bank for SMEs is being complemented by a direct banking strategy for private individuals, based on a competitive, reliable and secure offer for electronic channels through which clients can perform all of their financial and non-financial transactions remotely.

The Bank's strategy towards digitalization and automation of the banking operations and clients' transactions and consequently of the channels of interaction with clients implies a limited number of physical banking outlets and staff.

In order to improve the overall profitability and overcome the structural loss recorded for the period 2018-2020, alongside reaching the business strategic goals (loan portfolio growth accompanied by a sound deposit base structure), starting from 2021 the Bank is operating three main cities: Bucharest, Timisoara and Constanta.

The Bank operates through the Head Office located in Bucharest and through its network consisting of three branches.

The current registered office of the Bank is located at 62 – 64 Buzesti Street, Sector 1, Bucharest, Romania.

In 2021, the development of assets and liabilities of the Bank was influenced by the measures undertaken to consolidate the position in the market:

- Attracting new targeted SME clients and consolidating the relationship with the existing ones;
- Continuous cleaning of non-profile and inactive client base.

During 2021, the strategic developments mentioned above led to a growth in the loan portfolio in amount of EUR 14 million while the customer funds, which represent the main source of funding, increased around EUR 36 million.

Our approach on recruitment and training continued to be based on constant long-term investment in our staff. The quality of the staff, especially the quality of our Business Client Advisors proved to be central in understanding the clients' needs and in providing tailor-made financial services to our SME clients.

At the end of 2021, compared to 2020, the main indicators were:

Indicators	31.12.2020 ('000 LEI)	31.12.2021 ('000 LEI)	% change
Total gross loan portfolio	1,676,807	1,772,409	5.70%
Total assets	2,119,963	2,420,510	14.18%
Total customer deposits	1,295,962	1,521,458	17.40%
Liabilities to banks and IFIs	597,077	670,074	12.23%
Share capital	251,635	251,635	0.00%
Total Equity	198,629	206,718	4.07%

ProCredit Bank

Financials results

The total assets increased by 14.18% as compared to 2020, mainly due to the increase of the loan portfolio by 5.7% its value, reaching Lei 1.77 billion, at the end of 2021 (31 December 2020: Lei 1.68 billion).

The Bank's transformation and restructuring started to yield results in 2021, and it was able to generate profits largely from recurring activities and thanks to the substantial cost-cutting implemented until late 2020 (Profit YTD for 2021: 1.7 mil EUR). The Bank has used the opportunity of clients' higher acceptance of remote banking, generated by the pandemic, to successfully accelerate its business model transformation to increase lower cost remote channel usage and limited its physical footprint.

Business Clients

The focus of the Bank with regard to the business clients segment, during the last years, has been the acquisition of SMEs with potential to stabilize and strengthen through the crisis and post-crisis times, run by capable and knowledgeable management. The Bank did not necessarily target certain type of business activities, but rather certain individual client profiles. Thus, the Bank gradually developed expertise and strengthened its positioning towards SMEs, continuously following the business needs of its clients.

The strategic direction mentioned above led to a growth of loan portfolio for the main business lines in amount of approximately Lei 96 mil.

As in previous years, in 2021 the Bank focused on the quality of the loan portfolio and kept it under control by identifying potential problems with the clients in a timely manner, and intensively working out the problematic exposures.

Private Individuals and Banking Services Clients

Business with private clients is of key importance, especially from the perspective of a sound structure of the Bank's liabilities.

During 2021, the focus was on maintaining the current portfolio of active clients, as well as approaching new clients, which will guarantee continuous growth of the client base. The Bank's strategy is to continue focusing on attracting private clients with saving potential that are doing their transactions via digital alternative channels and to offer them complete solutions that best meet their needs.

In parallel, the Bank strategically aims to also attract more funding from business clients by establishing long-term relationships with them and becoming the sole financial partner for small business clients and the main bank for medium business clients.

Branch Network

At the end of December 2021, the Bank's outlet network consisted in 4 outlets in the main cities of Romania – Bucharest, Timisoara and Constanta (three branches and one 24/7 machine only zones). The slim branch network reflects the further push into digitalization of the Bank, including the introduction of newer applications for mobile and electronic banking and the deployment of a remote client identification platform, but also supports the Bank's goal of profitability, by a much more efficient cost base.

All the Bank's outlets have 24/7 zones embedded and offer full range of banking services available to clients round the clock.

Staff and Staff Development

ProCredit Bank's employees has been representing, since the very beginning of its business activity, the most important resource of the institution, which is why in 2021, as it happened in the previous years, the main concern was the staff selection, training and continuous development. In 2021, the Bank continued to invest heavily in the professional training of its new employees that from the very beginning of their activity are entering into ProCredit Onboarding Programme. Due to the sanitary crisis generated by Covid-19, the training sessions were held in the online environment. The programme proves to be a very good opportunity to broaden the general knowledge of our participants, mainly from cultural diversity point of view. As the participants are having different educational backgrounds and different previous experiences, training programme gives them an opportunity for further exchange of views and experiences within the theoretical training organized on the communication platforms. The participants that graduated the programme in 2021, continued their professional development with further local specialized theoretical and practical trainings.
Besides the preparation for the new employees, last year a strong emphasis continued to be put on the quality of all personnel, trainings being provided throughout the whole year. Thus our employees, attended various trainings on different topics. Additionally, a strong focus continued to be placed on English knowledge in order to provide the necessary language skills for further Group level trainings organized for all ProCredit Banks' staff. Besides these above mentioned, colleagues from both Head Office and Branches participated in various seminars aiming to increase the professional standards of our staff and to enhance the understanding of our Group business strategy.

Business Ethics and Environmental Standards

Part of the overall mission of the ProCredit group is to set standards in the financial sectors in which we operate. We strive to make a difference not only in terms of the target groups we serve and the quality of the financial services we provide, but also with regard to business ethics. Our strong corporate values play a key role in this respect. The five ProCredit values represent the backbone of our corporate culture and are discussed and actively applied in our day-to-day operations. Moreover, they are reflected in the ProCredit Code of Conduct, which translates ProCredit group's ethical principles into practical guidelines for all our staff. In order to ensure that staff fully understands all of the principles that have been defined, induction seminars, have a separate section for the study of the Code of Conduct and its importance for all the members of our team. In addition, refreshment seminars are organized for our employees, to ensure that they respect their commitment to the high ethical standards and that they are informed about the new subjects and evolutions of an ethical nature for our institution. These events allow the existing staff to analyse recent case studies and to debate any unclear aspects.
Another manner of ensuring that our institution adheres to the highest ethical standards is our consistent application of international best-practice methods and procedures to protect ourselves from being used as a vehicle for money laundering or other illegal activities such as the financing of terrorist activities. The important focus here is the "know your customer" principle, and, in line with this principle, the performance of a sound reporting activity and the compliance with the applicable regulations. At group level, updated policies are introduced for the prevention of money laundering and fraud, to ensure compliance with both German and Romanian regulatory standards.

ProCredit Bank has implemented an environmental management system based on continuous assessment of the loan portfolio according to environmental criteria, an in-depth analysis of all economic activities which potentially involve environmental risks, and the rejection of loan applications from enterprises engaged in activities which are deemed environmentally hazardous and appear on our institution's exclusion list. By incorporating environmental issues into the loan approval process, ProCredit Bank is also able to raise its clients' overall level of environmental awareness. The Bank only provides financing for environmentally sound projects. Thus, ProCredit Bank's clients must comply with the requirements stipulated by local health, safety and environmental legislation. When conducting credit analyses and making lending decisions, and also when monitoring loans, the Bank invariably gives due consideration to ecological and environmental factors.

ProCredit Bank

Risk Management

During 2021, the Bank continued to monitor all relevant risks and further refined its risk management tools. The core element of an effective risk management system is a well-developed "risk awareness culture" – a corporate culture in which risks are recognized by each employee. The potential impact of these risks is fully understood, and responsibility for controlling individual risks is assumed by the relevant staff members in accordance with their specified duties and tasks.

The Bank's prudent risk management policies are defined on a comprehensive, wide institutional basis by the Bank's Managers and approved by the Board of Administration. The risk management and risk control functions are ensured by the Risk Management Department and the Credit Risk Department, established at the level of Head Office. The decisions regarding the decrease of or the acceptance of exposures to risk are made within the Risk Management Committees.

ProCredit Bank aims at identifying, measuring, assessing, monitoring and controlling the risks it encounters effectively and to permanently maintain the capital at a level which is appropriate to the assumed risks. Central to our risk management strategy is our simple and transparent business model, a thorough understanding of our customers, well-trained staff, and a conservative approach to financial risks. The Code of Conduct complements the risk management strategy.

According to its internal by-laws, the Bank does not engage in speculative operations and maintains its currency position closed.

The principles, the risk profile and the main instruments used in the management of risks are set by the Bank's Board of Administration through the risk management policies and strategies. Thus, the Bank has defined risk management policies and strategies for the following types of risks: credit risk, counterparty risk, foreign currency risk, interest rate risk, liquidity risk, operational risk, fraud risk, reputational risk and the risks related to outsourced activities. Moreover, the Bank has in place an Internal Capital Adequacy Assessment Process (ICAAP), in line with the established risk profile, as well as a general framework for stress testing on the risk profile and capital adequacy. The risk management and control process is carried out both at the level of the Bank as a whole, and at the level of each defined business line.

The Bank's Managers are responsible for implementing the risk management strategy and for the functionality of the Risk Management Committees, according to their statutes. The Audit and Risk Management Committee is a Board level committee responsible for addressing all significant risks from the strategic perspective. The upper management level committees that are: the Assets and Liabilities Management Committee, the Credit Risk Management Committee, the Operational Risk Management Committee and the Committee for Preventing and Combating Money Laundering and Terrorism Activities Funding address the individual risks.

The Risk Management Department develops and implements risk management and operational control. The department monitors all relevant risks and risk positions on a continuous basis through regular quantitative and qualitative reports to ensure that the total amount of all risks incurred does not exceed the risk-bearing potential of the Bank. All processes and areas of operations (including branches) are assessed, on a regular basis, by the Internal Audit Department, being subject to a risk assessment. Among other things, the audit missions are designed to identify fraud risks and alert the Bank's Managers so that they can take preventive measures.

The Bank's exposure to risks and the current capital adequacy situation are presented in the Management Risk Report, which is prepared on a regular basis. The report is reviewed in the Audit and Risk Management Committee meetings. The Audit and Risk Management Committee informs the Board of Administration on a quarterly basis through the Risk Profile and ICAAP Report about the development on the risk profile and capital adequacy topics. The decisions of the upper management committees are executive decisions. The relevant operational areas are represented in each committee, as to ensure that the various business lines and the risk management function are closely connected.

ProCredit Bank

Audit and Risk Management Committee (ARMC)

The Audit and Risk Management Committee is subordinated consultative committee of the Board of Administration and also fulfils the function of informing to the Board of Administration with regard to Bank's exposure to risks. The main duty of the ARMC is to support the Board of Administration in ensuring that the bank maintains a risk profile within the limits defined by the Bank's risk appetite. Accordingly, the ARMC reviews all the topics regarding the implementation of the policies, procedures and methods used in the management of credit risk (including counterparty risk), market risk (interest rate and foreign exchange risk), liquidity risk (including funding risk), operational risk (including legal risk), reputational risk, risk associated with the business (including strategic risk), compliance risk and the management of any other risk categories that could become relevant for the bank's activity. ARMC monitors on a regular basis the capital adequacy ratio, from the perspective of the regulations in force, as well as from the perspective of economic capital calculated for internal purposes. The Committee meets on a quarterly basis.

Credit Risk Management Committee (CRMC)

The CRMC is a monitoring and decision-making committee whose main duty is to monitor developments and trends in the loan portfolio and to analyse them in relation to the risk appetite established for credit risk and, whenever necessary, to approve corrective measures. The committee's meetings are held quarterly, but it may be convened whenever necessary.

Operational Risk Management Committee (OPRC)

The agenda for the ordinary meetings of the OPRC must include the following topics: operational risk exposure (as derived from the operational risk database) and required action plans in order to address operational risk events. The assessment of the operational risk exposure also includes information security elements and the risks related to outsourced activities. The regular meetings of the OPRC are held quarterly, but it may also be convened whenever required.

Asset and Liability Management Committee (ALCO)

The agenda for the ordinary meetings of ALCO committee addresses mainly issues specific to the liquidity risk, interest rate risk, market risk, counterparty risk, FX risk, business risk and, to a certain extent, compliance risk. The committee can be convened in extraordinary meeting whenever necessary.

Committee for Preventing and Combating Money Laundering and Terrorism Activities Funding (AML&CFT)

The main objective of this committee is to monitor activities from the area of "know-your-customer" practices, the prevention and fight against money laundering and terrorism financing. The decisions of the committee are implemented by those departments whose areas of activity include measures decided by the committee. The AML&CFT Committee is convened whenever necessary, but at least on a quarterly basis.

Credit Risk

The management of credit risk is the responsibility of the Credit Risk Management Committee. The Credit Risk Department is responsible for the identification and the evaluation of the credit risk at client level, while the Risk Management Department bears the same responsibilities at loan portfolio level.

The Bank's credit products have a low level of complexity. The Bank does not engage in operations with financial derivative instruments with its clients. Moreover, our transparency strategy with the clients ensures that they have a good understanding of the obligations that appear from a loan contract, thus avoiding future problems at repayment. The lending process as a whole is designed to minimize the risk associated with individual loans: the credit analysis focuses on the customer's cash flow, and only subsidiary on the collateralized assets; each loan is analysed and approved by a credit committee; loans are carefully monitored by business client advisers, who bear responsibility for their clients' adherence to the agreed repayment plans and to the scheduling of repayments in regular instalments. All these measures are applied to the majority of loan products, allowing problems to be identified quickly. Loans in arrears are monitored by specialized staff, at the level of Head Office, thus ensuring an appropriate level of collection of the overdue debts. When a loan becomes irrecoverable on an amiable basis, the bank starts the execution process to ensure the recovery of the respective loan collaterals.

On December 31st, 2021 the average amount of a loan from the outstanding loan portfolio was EUR 110,624 (December 31st, 2020: EUR 101,278). The non-performing loan portfolio was 1.64% (December 31st 2020: 1.74%) while non-performing loans coverage ratio was 58.57% (December 31st, 2020: 58.87%).

Market Risk

ProCredit Bank is exposed to foreign currency risk and interest rate risk. The management of these risks is performed by the Assets and Liabilities Management Committee. The Committee also monitors the limits established by the Board of Administration for the exposure to these risks.

Foreign Currency Risk

The Bank is exposed to foreign currency risk, carrying out operations in foreign currencies, especially in Euro. In order to avoid the losses generated by the fluctuation of the foreign exchange rates, the Bank adopted a strategy of closing the currency positions on a daily basis. ProCredit Bank does not use derivatives for hedging purposes, choosing a strategy for closing positions by minimising the currency mismatch between assets and liabilities. The currency position is monitored on a daily basis at the level of Treasury Department, Operation Support Department and Risk Management Department. The monitoring results are submitted to the Assets and Liabilities Management Committee (ALCO).

Interest Rate Risk

The Bank aims to ensure that balance sheet structure is balanced across all maturities. Interest rate risk is managed mainly using maturity gap analysis and scenarios analysis which measure the impact of the market interest rates' evolution on the economic value of the Bank and on its P&L. The Bank's economic value impact under the assumptions of the Basel II standard scenario does not exceed, at any given moment, 10% of the Bank's capital.

Liquidity Risk (including Funding Risk)

The Bank's position regarding the liquidity risk is carefully monitored and analysed, during the meetings of the Assets and Liabilities Management Committee.

The funding risk is a component of the liquidity risk which expresses the risk that the Bank will not dispose of sufficient funds to finance the development of its own business. Throughout 2021, the Bank used the funding attracted from ProCredit Holding / ProCredit Bank AG (Germany) and also funds raised from European Investment Fund (EIF) under different programmes, such as Competitiveness Operational Programme, EAFRD Fund of Funds ("AGRI"), ESIF Competitiveness ("POC"). In addition, the Bank is using funds attracted from the European Investment Bank and other financial institutions. The Bank maintained a relatively comfortable level of the loan portfolio – deposits coverage ratio (78.7% at the end of 2021).

Operational Risk

For monitoring and controlling the operational risk, ProCredit Bank maintains an operational risk event database ("RED") and it has established an Operational Risk Management Committee. An important component of the management of this risk is represented by the continuous efforts made in order to increase the awareness of the employees regarding this source of risk and to encourage them to report the detected incidents.

The Bank also has an information security policy and a business continuity and recovery plan in case of disaster. The monitoring and the management of the information security incidents are performed by the Information Security Officer from Risk Management Department.

Business Risk (including Strategic Risk)

The Bank considers the business risk (including the strategic risk) as a significant risk because, following the changes in the business environment mainly caused by the financial crisis, we have encountered significant problems in achieving the business goals. In these circumstances, the Bank's Board of Administration defined a target risk profile for this risk, in order to ensure a better control of the risk exposure.

Compliance Risk, Reputational Risk, Legal Risk

The management of the compliance risk is performed in three committees of the Bank. The compliance with the financial covenants included in the refinancing contracts is monitored on a monthly basis in the ALCO meetings. The risks related to money laundering and terrorism activity funding are managed by the Committee for Preventing Money Laundering and Terrorism Activity Funding. The monitoring of the legislative regulations and of their implementation is performed within the Operational Risk Management Committee. The organizational structure of the bank includes the Compliance & AML Department which has the role of supporting the Bank's Managers in the efficient management of compliance risk and AML-CFT risks.

Our reputation in the market remains central to our success in raising deposits and funds via the capital market. Our reputational risk is low given our commitment to transparency and responsibility in every aspect of our company policy and corporate culture. There were no significant negative events affecting our reputation in 2021. Fitch Ratings reconfirmed the long-term individual rating of the bank (BBB-) considering the stable outlook of our business model.

As of December 31, 2021 there was no significant legal action filed against the Bank.

Internal Capital Adequacy Process

During 2021, the Bank continued to develop its approach regarding the internal capital adequacy process. This process is based on the assessment, monitoring and internal control of capital adequacy from two complementary perspectives: determination, based on current and provisioned position, of the economic capital needed for covering each significant risk and the use of economic capital calculation techniques in order to calculate the additional capital needed for the risks that are underestimated or not covered by the regulatory framework.

The Board of Administration establishes through the Internal Capital Adequacy Assessment Process (ICAAP) Policy, both limits regarding the economic capital needed for each significant risk, and for the general limits for capital adequacy, the compliance of these limits being monthly monitored within the Audit and Risk Management Committee.

During 2021, the Bank performed regular stress tests on the risk profile and capital adequacy within the business planning process. The goal of this process is to assess the Bank's exposure to significant risks, under alternative conditions and to ensure that in adverse conditions we will continue to observe the solvency limits and risk appetite.

Information regarding the future strategy of the Bank

In 2022, the Bank will continue to focus on its core client groups, small and medium sized business clients and will serve private clients, including very small clients (those with exposure < EUR 50.000), with a focus on savings and transactional services.

The main objective of the Bank is building sound and long-term relationships with business clients and becoming the "Hausbank" for small clients and the main bank for medium clients. The Bank's positioning, as a reliable partner for both lending and banking services will led to the development of loan and deposit portfolios from business clients and the increase of fees and commissions income from transactions.

Regarding business clients, the Bank will focus on businesses with a stable, largely shock-resilient business model and a sound management structure. The Bank sees the potential of developing structural and long-term business relationships with small clients ("Small" or "Small Segment"), including gradually the clients situated at the lower end of the small segment, on the basis of the experienced staff and a good potential in agro business; this will support for the further diversification and granularity of the loan portfolio and to improve the net interest margin. The business with medium clients ("Medium" or "Medium Segment") will continue to be actively developed.

The private individual clients ("Private Individuals" or "Private Individuals Segment") will continue to be a source of funding with a focus on middle-class savers. In parallel, the Bank strategically aims to continue raising funds from business clients by establishing long-term relationships with them and becoming the only financial partner for small business clients and the main bank for medium business clients.

Together with the introduction of the new comprehensive banking services offer for private clients, which includes both electronic services and transactions and attractive saving facilities, extensively marketed in the online environment, the Bank's expectations for the following year is to strengthen its position on the market, enhance its private clients' portfolio with clients who appreciate a modern and forward-looking approach to banking and that also have the potential to save and to engage into a long-term business partnership with our Bank.

During 2021, the Bank has effectively used its online platforms in relation with its clients who took the benefit of performing both financial and non-financial transaction remotely. Extensive usage of the electronic channels contributed to increase Bank's notoriety and successfully decrease the costs base.

In order to improve its competitiveness in the market, the Bank has developed strong and reliable partnerships with the key players within the SME financing and development support sector: The European Investment Bank and the European Investment Fund (under CIP, Jeremie, InnovFin and SME Initiative programs, Competitiveness and AGRI Portfolio and Risk Sharing Loans) - external institutions who support the local SMEs.

ProCredit Bank will continue, like in the previous years, to invest both in training its staff and in improving internal processes in order to ensure, on the one hand, business efficiency and competitiveness in the Romanian banking market, and on the other hand, high quality customer service. Building long-term relationships and the in-depth knowledge of the clients' needs remain key to achieving these objectives.

Events after reporting date

The current political and economic outlook in Ukraine may lead to increased global uncertainty, energy supply shortage and a potential decline in the economic growth. The direct exposure of the Bank with respect to entities from Russian Federation or Ukraine is null. Still, the Bank analyzed the customers, which had business relations with counterparties from Russia, Belarus and Ukraine and concluded that the exposure is insignificant and does not foreseen an increase in the provision for credit risk.

The management of the Bank closely monitors the developments in order to take appropriate measures, which could cover the areas of accounting estimates, methods of calculating provisions for losses and provisions for credit risk in accordance with IFRS principles.

Rainer Peter Ottenstein
Chairperson of the Board of Administration

ProCredit Bank

Part of the
ProCredit Group

ProCredit Bank Romania
Head Office
62 - 64 Buzesti Street, District 1
Bucharest
Phone: +4021-2016000
Fax: +4021-3055663
headoffice@procreditbank.ro