

**Report on Transparency and Disclosure  
2022**

<b>1</b>	<b><i>Corporate governance</i></b> .....	<b>3</b>
1.1	The shareholders structure .....	4
1.2	The Management body .....	4
1.3	Committees set-up to support the Executive Committee .....	6
<b>2</b>	<b><i>Internal control framework</i></b> .....	<b>6</b>
2.1	Risk management function .....	7
2.2	Compliance function .....	9
2.3	Internal Audit Function .....	10
<b>3</b>	<b><i>Business Continuity Framework</i></b> .....	<b>11</b>
<b>4</b>	<b><i>Selection and remuneration practices</i></b> .....	<b>12</b>
<b>5</b>	<b><i>Risk management objectives and policies</i></b> .....	<b>19</b>
5.1	Risk management strategy and processes .....	19
5.2	Risk Strategy parameters .....	22
<b>6</b>	<b><i>Credit risk and related risks</i></b> .....	<b>24</b>
6.1	Credit risk .....	24
6.2	Concentration risk .....	25
6.3	Counterparty risk .....	26
6.4	Other risks related to credit risk .....	26
6.5	Monitoring .....	28
6.6	Mitigation and control .....	28
6.7	Reporting .....	28
<b>7</b>	<b><i>Market risk</i></b> .....	<b>28</b>
<b>8</b>	<b><i>Liquidity risk</i></b> .....	<b>29</b>
<b>9</b>	<b><i>Operational risk</i></b> .....	<b>31</b>
<b>10</b>	<b><i>Reputational risk</i></b> .....	<b>33</b>
<b>11</b>	<b><i>Other risks</i></b> .....	<b>33</b>
11.1	Compliance risk .....	33
11.2	Interest rate risk in the banking book .....	34
11.3	Strategic risk .....	35
11.4	Regulatory risk .....	35
11.5	Excessive leverage risk .....	35
<b>12</b>	<b><i>Own funds and capital requirements</i></b> .....	<b>36</b>
<b>13</b>	<b><i>Quantitative and qualitative information concerning credit risk and concentration risk</i></b> ..	<b>45</b>
<b>14</b>	<b><i>The Internal Capital Adequacy Assessment Process (ICAAP)</i></b> .....	<b>64</b>

## Introduction

This report has been prepared to meet the transparency and disclosure requirements of the Romanian National Bank Regulation no. 5/2013 on prudential requirements for credit institutions, as subsequently amended and supplemented, of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012, as well as of all other applicable regulations and guidelines issued by the Romanian National Bank (“NBR”) and the European Banking Authority (“EBA”), and in particular:

- EBA Guidelines EBA/GL/2014/14 Guideline on materiality, proprietary and confidentiality and on disclosure frequency under Articles 432(1), 432(2) and 433 of Regulation (EU) No 575/2013;
- Commission Implementing Regulation (EU) 2021/637 of 15 March 2021 laying down implementing technical standards with regard to public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council and repealing Commission Implementing Regulation (EU) No 1423/2013, Commission Delegated Regulation (EU) 2015/1555, Commission Implementing Regulation (EU) 2016/200 and Commission Delegated Regulation (EU) 2017/2295;
- EBA Guidelines EBA/GL/2020/07 on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis.

The institution subject to disclosure is First Bank SA (“First Bank” or “the Bank”), for the reference date 31 December 2022 and reference period 1 January – 31 December 2022.

During the reference period the Bank did not have subsidiaries within its area of prudential consolidation, hence all financial and regulatory figures published in this report are at an individual level. They are expressed in RON equivalent, except for those expressly flagged as shown in other currencies.

The figures presented in the report are compiled in accordance with the International Financial Reporting Standards (IFRS9) and are considered after the General Shareholders Meeting, and as such the information presented includes the incorporation of audited year-end profits.

A number of CRR disclosure requirements are also covered by the Bank's Financial Statements for 31 December 2022, available on the Bank's official website by accessing <https://www.firstbank.ro/en/firstbank/banca/informatii-generale/rapoarte-financiare.html>

This report is published on an annual basis, after approval by the Board of Directors of the Bank. It is available in electronic format in both Romanian and English on the Bank's official website ([www.firstbank.ro](http://www.firstbank.ro)), under section “General info”, subsection “Financial reports”, or directly by accessing <https://www.firstbank.ro/en/firstbank/banca/informatii-generale/rapoarte-financiare.html>.

## 1 Corporate governance

First Bank SA is a private legal entity having a unitary system, with registered office in Bucharest, District 1, 29-31 Nicolae Titulescu Ave., registered with the Trade Register under no. J40/1441/1995, with the unique

registration number: 7025592, LEI code 549300UH7FDPRNBABQ46, registered in the Register of Banks under No. RB-PJR-40-026/18.02.1999, with a share capital of 1,196,088,695.00 RON.

The Bank operates through its head office located in Bucharest and a network of 40 branches and offices (31 December 2021: 52) located in Romania. The Bank had 993 employees as at 31 December 2022 (31 December 2021: 1,039).

### 1.1 The shareholders structure

On 31.12.2022 the shareholders structure of First Bank SA was the following:

<b>Name</b>	<b>Participation to the shared capital</b>
- JCF IV Tiger Holdings S.à r.l.	99.980513%
- Natural persons and legal entities	0.019487%
<b>Total</b>	<b>100%</b>

### 1.2 The Management body

First Bank SA has a Board of Directors as management body in its supervisory function and an Executive Committee as Senior Management.

The responsibilities and competences of the management bodies are regulated by the Article of Association, by the internal procedures, and also by the Corporate Governance Regulation.

The Board of Directors members shall be independent to make the best decisions for the interest of the Bank, upon the information received and any other relevant elements.

The Board of Directors members shall clearly understand their role and exercise their own professional judgment to make and document their decisions.

The independence criteria for the members of the Board of Directors are provided by the Policy regarding the selection, suitability assessment and planning of the succession of the members of the management body and the key functions.

### Disclosures as per article 16 of NBR Regulation no. 5/2013 on prudential requirements for credit institutions

<b>Members of the Board of Directors as of 31.12.2022</b>	<b>Position</b>	<b>Number of meetings held during their mandate in 2022</b>	<b>Number of meetings held during their mandate in 2022 at which they participated</b>	<b>Started to exercise their responsibilities in 2022</b>	<b>End of mandate in 2022</b>
Ilinca Rosetti	Chairperson	21	21	-	-
Richard Carrion	Vice-Chairperson	21	21	-	-
Hendricus Charles Hubertus Paardekooper	President and Member	21	21	-	-
Andrea Secci	Member	21	20	-	-
Bogdan Ciobotaru	Member	21	21	-	-

Members of the Board of Directors as of 31.12.2022	Position	Number of meetings held during their mandate in 2022	Number of meetings held during their mandate in 2022 at which they participated	Started to exercise their responsibilities in 2022	End of mandate in 2022
Paul Nabavi	Member	21	21	-	-
Oana Petrescu	Independent member	17	13	-	30.09.2022
Razvan Munteanu	Independent member	4	4	30.09.2022	
Richard Simon Wilson	Independent member	21	20	-	-
Nicholas John Tesseyman	Independent member	21	21	-	-

Under the Board of Directors, First Bank SA has a **Board Audit Committee, a Board Risk Management Committee, a Board Remuneration and Nomination Committee, a Board Credit Committee and a Board Transformation Committee.**

#### **The Executive Committee members**

As of 31.12.2022, the management of the Bank is undertaken by six Executive Managers who are organized as the Executive Committee (ExCo), according to the responsibilities set by the law, the empowerments set by the Article of Association and the decisions and the delegation of authority set forth by the GMS and the Board of Directors. Namely, the Executive Managers are: The President and five Vice-Presidents.

The responsibilities of the ExCo are reflected in the ExCo Charter.

The Executive Managers are granted with management powers, to make the best decisions for the interest of the Bank, upon the information received and any relevant element. The Executive Managers shall clearly understand their role and exercise their own professional judgment to make and document their decisions.

The Executive Managers shall exercise their duties in accordance with the applicable legislation, regulatory framework and the Corporate Governance System of the Bank.

#### **The Executive Committee members as of 31.12.2022**

- Hendricus Charles Hubertus Paardekooper      President
- Madalina Otilia Teodorescu                      Vice-president
- Anca Mihaela Petcu                                      Vice-president
- Nikolaos Chaniotis                                      Vice-president
- Răzvan Ovidiu Filcescu                                Vice-president
- Cosmin Liviu Ciobanu                                 Vice-president

During 2022, the management bodies of First Bank SA had the following meetings:

- Board of Directors:      21 meetings
- Executive Committee:    65 meetings.

### **1.3 Committees set-up to support the Executive Committee**

The committees set-up to support the Executive Committee assist ExCo in performing its attributions on various business lines and on the operational activity of the Bank.

These committees meet in operational meetings in accordance to their Charters mandates or whenever is necessary.

The members of these committees are the Executive Managers and the management of the impacted structures.

As of 31.12.2022, these committees are:

- **Assets and Liabilities Committee (ALCO)**

The mission of the ALCO Committee is to manage and decide on the Bank's assets and liabilities, in order to maintain the Bank's competitiveness and productivity, depending on the economic environment, by assuming risks within limits defined in the risk strategy.

- **Credit Committees, Recovery Committees and Workout Committees**

- The Credit Committees has as main purpose analysing and approving or rejecting the loans or other engagements. At the Bank level are established the following Credit Committees: Corporate Credit Committee, SME Credit Committee, Micro & PFA Credit Committee, Retail Credit Committee.
- The mission of the Recovery Committees and the Workout Committees is to overview and coordinate the activities related to Early Warning, Recovery, Workout and Real Estate Owned assets as they are executed by the related structures and recovery and workout committees.

- **Internal Control Framework Committee (ICF)**

The mission of the ICF Committee is to fulfil requirements regarding the establishment and amendments of the internal regulations, assessing the adequacy and efficiency of the internal control framework.

- **Other committees:**

- Project Management Committee, Client Acceptance Committee, Work Security and Health Committee.

## **2 Internal control framework**

The aim of the Internal control framework (ICF) is to continuously ensure the achievement of the performance objectives (efficiency and effectiveness of the performed activities), information (credibility, integrity and in due time providing of information to the management) and of compliance (with laws and regulatory framework and with the internal policies and procedures). The following structures are an integral part of the ICF and act as

**independent control functions:**

1. Risk Management
2. Compliance
3. Internal Audit

The ICF refers also to organizing the accounting, management of information, risks assessment and the systems in place to measure them.

The control environment sets the tone of the Bank in order to influence the control consciousness of its people. It is the foundation for providing discipline and structure.

In order to meet the objectives of the internal control, the Bank set up an ICF, applicable to all structures and all levels, composed of:

- Roles and responsibilities of the management structures regarding the internal control;
- Risks identification and assessment;
- Controls and segregation of duties;
- Information and communication;
- Monitoring and remediation of deficiencies.

## **2.1 Risk management function**

In order to manage the significant risks at a centralized level, First Bank's internal control system includes a risk management function. This function is organized at the level of the distinct division - the Risk Management Division. At the same time, the Bank recognizes that responsibility for risk management rests entirely on its own, from risk-taking to control and supervision.

The following structures are primarily and directly involved in the risk planning, monitoring and management process as well as in assessing capital adequacy in relation to the level and types of risks assumed:

- The Board Risk Management Committee, which has been assigned by the Board of Directors with risk management responsibilities, resulting in the effective coverage of all types of risk for the entire range of the bank's activities, the successful control of the risks as a whole, the assumption specialized risk management, and the necessary coordination at the Bank level.
- The Risk Management Division, which is responsible for the planning, development and implementation of the Bank's risk management and capital adequacy policy, in accordance with the provisions of the Board of Directors, covering all types of risk for the entire range of activities of the bank.
- The Credit Division, which performs an in-depth assessment of credit risk tolerance in accordance with the approval procedure and are responsible for creating and maintaining credit policy.
- The Asset and Liability Management Committee (ALCO), which is responsible for implementing the bank's assets and liabilities consolidation strategy in relation to the related qualitative and quantitative information and changes in the business environment in order to ensure high competitiveness and efficiency, while maintaining the risks assumed within the predefined limits.
- The Operational Risk Assessment Team (ORAT), made up of members of Human Resources, Risk Management, Internal Audit, Compliance, IT and Organization, Project & Process Management Division. This team evaluates and validates the results of the process of self-assessment and operational risk control.

The general objectives of the risk management function in First Bank Romania are as follows:

- Adopt best practices, which will correspond to the size, risk profile and business strategy of the Bank.
- Ensure compliance of supervisory authorities with risk management and capital adequacy in order to avoid any sanctions.
- Ensure efficiency and reduce operational costs by minimizing operational overlap and avoiding inappropriate or obsolete policies, methodologies, processes, models, controls and systems.
- Enhance Banking decision-making by incorporating the required guidance on risk management and relevant methodologies in areas such as product and service price development and pricing, performance appraisal, budgeting and business planning.
- Support optimal capital distribution and risk-adjusted performance for each business / client structure.
- To support the achievement of business objectives and the functioning of business structures.
- Establish risk limits that keep exposure to risk at acceptable levels, according to the Bank's risk appetite
- Contribute to the improvement of the corporate governance standards of the Bank.
- Develop risk awareness and promote risk-oriented attitudes at each hierarchical level of the Bank.

The Board of Directors of the Bank bears full responsibility for the development and supervision of the risk management framework. Taking steps to cover all types of risk, their specialized and timely assumption, and the necessary coordination, the Board of Directors has designated the Board Risk Management Committee to be responsible for implementing and overseeing both the principles and policies of the risk management function.

Risk Management Division of First Bank is responsible for developing, specializing and implementing the risk management framework according to the Board Risk Management Committee's guidelines and the Board of Directors. The division's activities are independently supervised by the Internal Audit Division, which assesses the adequacy and effectiveness of risk management procedures.

The Risk Management Division is headed by a Manager that is subordinated to the Chief Risk Officer. The Risk Management Coordinator is a person with relevant experience in the field, whose responsibility is to lead the activity of identification, evaluation, monitoring, control and reporting of risks, as well as the activity of the risk management function.

Responsibility for risk management is allocated to staff from all business lines and is not limited only to the Risk Management Division. The risk management function ensures that all employees of the Bank are aware of their responsibilities for risk identification and reporting, as well as other responsibilities that may arise for risk management purposes.

The Risk Management Division is independent of the business lines it monitors and controls, as well as other internal control structures, and reports directly to the Chief Risk Officer, the Executive Committee, the Board Risk Management Committee and the Board of Directors.

The Risk Management Division prepares reports to provide appropriate information to the Board of Directors, the Board Risk Management Committee, the Executive Committee and the Chief Risk Officer.



## **2.2 Compliance function**

The Compliance Function advises the management body on the provisions of the legal and regulatory framework and the standards that the Bank has to meet in order to comply with the provisions of the applicable legislative and regulatory framework.

Compliance Division establishes the policies and procedures framework referring to the Compliance risk management and ensures the supervision and checking of the efficiency with which the Business Lines manage their risks.

The Principles of First Bank's Compliance Policy are:

- Integrity and Reputation - First Bank, by its management, is profoundly engaged to ensure that the services, products and business relationships are professional, ethical and comply with the regulations in force.
- Management Commitment (Tone at the Top) - The Management of First Bank engages to give a good example and to take the necessary measures so that all the employees of the Bank behave, in their professional activity, in an ethical and consistent manner with the laws and regulations in force.
- Compliance is everybody's obligation - Compliance is every employee obligation, regardless of the function they hold.
- Compliance Function is independent - The Compliance Function is a distinct structure, independent of the business lines that it is supervising.
- The Compliance Division works with the supervisory authorities and external auditors to ensure that the compliance requirements are adequately covered.

### **Conflicts of Interest Policy**

The Conflict of Interest Policy was issued at the level of the Compliance Division, having the objective of establishing the standards and principles that lay at the base of identifying, evaluating, managing, mitigating or remedying potential or real cases of conflict of interests.

Also, the Conflict of Interest Policy includes obligations that must be upheld by both the members of the management body of the Bank, that is, members of the Board of Directors and of the Executive Committee, and the employees of each structure.

Moreover, within this Policy there are described the procedures, measures, requirements related to documentation and responsibilities for identifying, preventing and evaluating the significance of conflicts of interests and taking action for mitigating said conflicts.

Thus, taking into consideration the current legislative framework applicable, international practices, current internal policies and procedures, through the Conflict of Interests Policy there are stipulated the guidelines, regarding the responsibilities of the Bank's personnel to actively participate in ensuring that the Bank is protected against any breaches that might affect its reputation or that might bring about damages as a result of the materialization of such risks.

**Anticorruption Policy**

The employees of the Bank, regardless their position within the Bank understand the fact that the Bank has a zero-tolerance regarding corrupted practices, including, but not limited to bribery and corruption. Bank staff are not allowed to offer, promise or accept anything of value (including gifts, hospitality or meals) to any person for the purpose of obtaining an improper advantage. Similarly, Bank staff may not claim or accept such improper payments or benefits. Preventing, detecting and reporting bribery and any other corrupted practices are the responsibilities of the Bank's personnel.

**Policy for the Management and Mitigation of the Risk of Money Laundering and Terrorism Financing**

The Bank adopts policies and procedures regarding the prevention of money laundering and terrorism financing and the management of the risk related to money laundering and terrorism financing. The employees have the obligation to notify Compliance Division about any suspicion regarding money laundering and terrorism financing.

The employees of the Bank make all the efforts to ensure that the products and the services of the Bank are not used for money laundering and terrorism financing.

**International Sanctions Compliance Policy**

The Bank adopts policies and procedures regarding international sanctions management and application. The employees of the Bank have the obligation to know their customer in order to establish if they have or they control assets which are the object of international sanctions or if the assets are owned by designated persons.

Also, the employees of the Bank will ensure that any product or service will not be offered to any designated individual or entity, or, to persons which are under designated persons' control.

**2.3 Internal Audit Function**

The Internal Audit function is ensured by the Internal Audit Division who reports directly to Board of Directors and for administrative purpose to a Vice-President according to Bank Organisational Chart. Internal Audit has unlimited access to management body, Audit Committee and all relevant information and documentation. Audit findings and recommendations are presented to the management body, the Audit Committee and the Risk Management Committee. Internal Audit assesses the effectiveness and efficiency of the internal control framework and compliance with internal policies and procedures (including compliance and risk management functions). Also, assess if the policies and procedures are suitable and according to the legislation in force. The Head of the Internal Audit Division is responsible for the appropriate coordination of the Internal Audit function according to regulatory requirements, industry and best practices. The Internal Audit Structure is organized and functioning according to the Corporate Governance Regulation and the Internal Audit Structure Charter.

**Whistleblowing**

A basic and inviolable attribute of the Whistleblowing Policy is the protection of the anonymity and the confidentiality principle, the data of individuals submitting such reports, as well as, the assurance that their

current position and their future professional development shall not be affected because of the related audit report issued.

Bank employees may send legitimate issues/concerns regarding bank governance framework, any aspects identified/ not complying with internal and/or national regulations, including potential conflicts of interest. In this respect, all bank employees can send their referrals/concerns to an anonymous e-mail address [whistleblowing@firstbank.ro](mailto:whistleblowing@firstbank.ro), managed by Internal Audit. The reported issues together with the investigation reports are presented to the Management Body.

### **3 Business Continuity Framework**

First Bank S.A. acknowledges the existence of threats to its ability to continue operational activities following an unexpected and serious disruptive incident as a result of a natural disaster, human actions, or cyber-attacks. The organization has a high level of dependence on automated systems and processes, and therefore, the bank undertakes continuous measures to mitigate these specific risks.

The organization admits the need to recover critical processes and services as quickly as possible following disruptive incidents through which it offers products to its customers. This recovery process requires a significant level of advance planning and preparation to ensure a rapid restoration of critical services.

To ensure adequate management of business continuity issues caused by a disaster and to maintain the risk profile at a minimum level for business continuity, First Bank S.A. has developed a "Business Continuity Plan." The measures are developed based on a risk and impact analysis to address the majority of threats that may arise (generated by human activities, third parties, or natural disasters).

Each employee has an obligation to respect, according to their position within the bank, the preventive, mitigation, and emergency measures mentioned in the Business Continuity Plan. In this sense, First Bank employees are trained to identify emergency situations and apply preventive and mitigation measures to achieve the following objectives:

- Protection of human life;
- Minimization of losses caused by potential disasters or other unforeseen events;
- Ensuring the continuous provision of services to customers;
- Resuming business activities in an organized and structured manner, regardless of the disaster or event.

First Bank S.A. employees are required to know the business continuity procedures that must be applied in an emergency situation:

- Mitigation procedures - the purpose of mitigation procedures is to train employees on the measures that must be taken to limit the damage of a disaster and on how and when such an incident occurs.
- Alternative activities - are developed by each business unit to formulate the mode of operation in emergency situations when critical resources are not available to carry out business activities.
- Backup and recovery actions - are developed to protect all critical assets and restore them as soon as possible if these assets are affected by a disaster.

The plan is maintained, adapted, and updated in accordance with any changes to the organization's operating processes, at least once a year or whenever necessary. Business Continuity Plan testing is performed at least once a year or whenever necessary, by simulating test scenarios that may contain situations of unavailability of critical resources/services following disaster events, human errors, or cyber-attacks.

The responsibility for maintaining and updating the Business Continuity Plan, as well as conducting Plan testing exercises, falls to the IT Security Department under the coordination of the Chief Operations Officer.

#### **4 Selection and remuneration practices**

The Bank has a remuneration policy as an integral part of its internal governance framework to ensure the alignment of the Bank's individual staff objectives with the Bank's long-term objectives and risk appetite and the interests of its shareholders. It is consistent with the business strategy, objectives, values and long-term interests of the Bank, and aims to create a framework for the remuneration and supports performance-driven culture, which brings the Bank's objectives in line with the stakeholder's objectives (employees, management and shareholders) and also motivates employees to continue acting on the Bank's best interest.

The remuneration process is administered by the Human Resources Division and is based on the following principles: performance maximization, attracting and retaining talents, sustain gender neutrality for the Bank's employees in terms of remuneration practices, aligning remuneration to profitability, risk, capital adequacy, liquidity and sustainable growth, compliance with the regulatory framework in force, transparency and internal equity and incorporates measures to avoid conflicts of interest.

Regarding the remuneration of the personnel responsible with the assessment of the clients' reimbursement capacity, the following principles are also applicable:

- a. they are not encouraged to take risks that exceed the Bank's risk tolerance level, thus pursuing a healthy and effective risk management;
- b. the remuneration of this staff category does not depend on the number or ratio of accepted credit applications or on the weight of the credit applications accepted out of the total number of credit applications, in order to avoid conflicts of interest.

Regarding the remuneration of the personnel responsible with the promotion and selling of banking products and services to consumers, the following principles are applied:

- a. the remuneration of this category of staff is not solely link to a quantitative target for the offering or provision of banking products and services;
- b. this category of staff does not promote the offering or provision of a specific product or category of products instead of other products, such as products that are more profitable for the Bank to the detriment of the consumer.

The Remuneration Policy covers all types of remuneration. General structure of remuneration includes fixed and variable (if the case) parts, thus ensuring that remuneration is linked to short and long-term business efficiency.

**Information regarding remuneration of the personnel of the Bank**

	Members of the management body in its Supervisory function	Members of the Management Board	Investment banking	Retail banking	Asset management	Support functions	Independent control functions	All others
Number of members of personnel	8	6	0	715	0	199	43	-
Number of members of personnel, in full time equivalent	8	6	0	715	0	197	43	-
<b>Total NET profit – RON thousand</b>	<b>58,054</b>							
Total Remuneration – RON thousand	3,237	10,931	0	79,621	0	41,734	6,845	-
Of which total Variable Remuneration – RON thousand	-	1,292	0	11,561	0	4,451	653	-

**The fixed component of the remuneration** consists of the employment salary and other types of salary income (e.g. overtime pay, night work pay, unused leave days' allowance, temporary takeover allowance) and represents the guaranteed income of the employee. It aims to reward employees based on their level of responsibility, education, professional experience and skills needed to perform their duties.

**The variable component of remuneration** it is correlated with recognizing performance and rewarding for achieving and exceeding goals (e.g. bonuses / incentives paid based on bonus schemes or upon completion of specific projects, annual performance bonuses). It aims to recognize and reward the performance of employees who produce sustainable results for the company in order to encourage them to maintain the achievement and exceeding the performance objectives. Also in the category of variable payments, the Bank may grant compensatory payments and retention bonuses.

Total variable remuneration must not limit the ability of the Bank to consolidate its capital base. The variable remuneration, including the deferred part, is paid or vests only if it is sustainable according to the financial situation of the Bank as a whole, and justified by the performance of the Bank, the business unit and the individual concerned.

*Amounts in RON thousand*

Remuneration		Members of the management body	Identified Staff
Fixed remuneration	Number of employees	14	27
	<b>Total fixed remuneration</b>	<b>12,875</b>	<b>12,569</b>
	Of which: cash-based	12,875	12,569
	Of which: deferred	-	-
	Of which: shares or other share-linked instruments	-	-
	Of which: deferred	-	-
	Of which: other forms	-	-
Variable remuneration	Number of employees	6	26
	<b>Total variable remuneration</b>	<b>1,292</b>	<b>1,641</b>
	Of which: cash-based	646	821
	Of which: deferred	388	35
	Of which: shares or other share-linked instruments	646	821
	Of which: deferred	646	87
	Of which: other forms	-	-
<b>Total remuneration</b>	<b>14,167</b>	<b>14,210</b>	

*Amounts in RON thousand*

Remuneration	Members of the management body	Identified Staff
Number of Identified Staff, in full time equivalent	14	27
Total fixed remuneration (RON thousand), of which:	12,875	12,569
- cash	12,875	12,569
- shares and other share-linked instruments	0	0
- alte tipuri de instrumente	0	0
Total variable remuneration (RON thousand), of which:	1,292	1,641
- cash	646	821
- shares and other share-linked instruments	646	821
- alte tipuri de instrumente	0	0
Total variable remuneration (RON thousand) awarded in year N and postponed, of which:	1,034	122
- cash	388	35
- shares and other share-linked instruments	646	87
Total variable remuneration (RON thousand) postponed, due and unpaid, awarding in previous years - art.450 (1) h) from EU Reg.no.575/2013	1,055	403
- cash	376	162
- shares and other share-linked instruments	679	241

Without prejudice to the general principles of national contract and labour law, the total variable remuneration may be vested or not paid where subdued or negative financial performance of the Bank occurs, taking into account both current remuneration and reductions in payouts of amounts previously awarded, including through „malus” or „clawback” arrangements.

*Amounts in RON thousand*

Deferred and retained remuneration	Total amount of outstanding deferred remuneration	<i>out of which:</i>	Total amount of amendments during the year due to ex post explicit adjustments	Total amount of amendments during the year due to ex post implicit adjustments	Total amount of deferred remuneration paid out in the financial year
		Total amount of outstanding deferred remuneration exposed to ex post implicit or explicit adjustments			
<b>Senior management</b>	<b>2,089</b>	<b>2,089</b>	-	-	-
Cash	764	764	-	-	-
Shares	1,325	1,325	-	-	-
Cash-linked instruments	0	0	-	-	-
Other	0	0	-	-	-
<b>Other material risk-takers</b>	<b>525</b>	<b>525</b>	-	-	-
Cash	197	197	-	-	-
Shares	328	328	-	-	-
Cash-linked instruments	0	0	-	-	-
Other	0	0	-	-	-
<b>Total</b>	<b>2,614</b>	<b>2,614</b>	-	-	-

When assessing if variable remuneration (awarded/ paid out or vesting) could impair the capital basis soundness, at least the impact over the following should be taken into account:

- Liquidity Coverage Ratio (LCR), Total Capital Ratio (CAD) and TIER 1 Ratio, subject of non-breaching the triggers stipulated in the Recovery Plan of the Bank and by reference to regulatory (including capital buffers) and SREP ratios ;
- Cost to Income Ratio (CIR);
- Any limitation arising from applicable capital buffers and/ or restrictions on distributions;
- The result of the internal capital adequacy assessment process.

The impact of variable remuneration – both upfront and deferred amounts – is considered in capital and liquidity planning and in the overall internal capital adequacy assessment process.

Upon defining the rate of variable remuneration the Bank considers any limitations on the maximum amount that may be used for performance-based remuneration by reference to the Bank's capital position and the expected financial performance.

The Bank sets its variable remuneration budget (maximum bonus portfolio) during the business planning process, analyzing its impact on the Bank's capital base and liquidity position and may propose to reduce or defer it.

If the results of the assessment indicate that the soundness of the capital base is at risk, the following measures with regard to variable remuneration will be considered:

- Reduction of the bonus portfolio (variable remuneration), including the possibility to reduce it to zero;
- Applying the necessary performance adjustment measures (i.e., malus or clawback type agreements); and
- Usage of the Bank's net profit for that year and potentially for subsequent years to strengthen the capital base with a direct impact on the ability to pay variable remuneration.

The Bank will not compensate staff members for any reduction of the variable compensation made in order to ensure a sound capital basis in later years or by other methods.

The results of the process of assessing the bonus portfolio against the capital base and liquidity position of the Bank are documented together with the decision process.

Subsequent to the approval of the overall bonus pool, the allocation per business units and individuals is performed based on specific unit and individual performance results.

The variable component should not exceed 100% of the fixed component of the total remuneration for each individual.

Non-executive members of the Board of Directors are not entitled to variable remuneration, only to fixed remuneration, as approved by the General Shareholder Meeting, the payments made by the Bank being assimilated to salary incomes.

The Bank rewards performance based on quantitative and qualitative targets/ objectives. Variable remuneration is linked to the individual performance and the Bank's performance. Achieving the objectives both at the individual level and at the Bank level is a key constituent of the Bank's culture, which is efficiency and performance oriented.

The amount of variable remuneration paid depends on the performance achieved by reference to a series of quantitative and qualitative criteria. Such criteria incorporate Bank's medium-term and long-term strategy, are conducive to the alignment of the employees' interests to those of the organization and the shareholders and ensure that no excessive risks will be assumed, or no priority will be given to short-term profits.

When establishing performance indicators for variable remuneration, the Bank considers the application of risk alignment mechanisms through the use of an appropriate combination of quantitative and qualitative performance indicators as follows:

- Absolute performance indicators - set by the Bank based on its own strategy, including its risk profile and risk appetite.
- Relative performance indicators - set for the comparative evaluation of performance either by "internal" (i.e. within the organization) or "external" (i.e. with similar institutions) reporting.
- Multi-annual performance indicators - are used to assess performance in a multi-annual framework when the assessment process is based on longer-term performance and the actual payment of performance-based components is spread over a period that considers the cycle of performance business of the Bank and its inherent business risks.

Performance measurement indicators used to allocate the variable remuneration components or components of variable remuneration portfolio include adjustments for all types of current and future risks and take into account the cost of capital and liquidity required (e.g. capital and liquidity indicators).

The individual criteria are divided into quantitative criteria and qualitative criteria.

The quantitative criteria depend on the role and should: cover a period that is long enough to properly capture the risks assumed by staff members, business units, and the Bank and be risk-adjusted by including indicators to measure economic efficiency.

Operating efficiency indicators (e.g. profits, revenues, productivity, costs, and volume metrics) which may not incorporate explicit risk adjustment and provide a short term perspective and thus may not be sufficient to capture information on all risks inherent in the activities of the staff members, shall be supplemented within balance scorecards by risk adjustments/ risk indicators.

The qualitative criteria take into account the behaviors associated with the Bank's values, respectively: customer focus, passion for sustainable results, teamwork, innovation, etc.

Quantitative and qualitative criteria and the processes related to their application should be transparent and, as much as possible, pre-defined. Both quantitative and qualitative criteria may be based in part on judgment, but these should be clearly explained to staff members.

The risk adjustment process in the context of measuring performance is transparent to employees, including in terms of judgment. For judgmental approaches, the key consideration on which judgment will be based are documented and communicated to the staff member both when setting objectives and subsequently at performance assessment.

The Nomination & Remuneration Committee has the mission to support the Board of Directors in fulfilling the obligations regarding the nomination and remuneration policies within the Bank. The members are appointed by the BoD for a mandate not exceeding the mandate of the BoD. Nomination and Remuneration Committee must consist of members with sufficient competence, knowledge and experience in application of the nomination and remuneration policies.



The Committee is composed by minimum three (3) members, all of them non-executive members of the BoD and at least one of them should qualify as an Independent non-executive member.

The members of the Nomination and Remuneration Committee as of 31.12.2022 are:

- |                           |                                  |
|---------------------------|----------------------------------|
| - Richard Carrion         | Chairman                         |
| - Ilinca Rosetti          | Member                           |
| - Nicholas John Tesseyman | Non-executive independent member |

### **Recruitment policy for management body**

The purpose of the Policy is to establish within the Bank the principles and rules underlying:

- a) The recruitment and selection principles for members of the management body and the key functions holders;
- b) The suitability assessment and re-assessment, nomination and succession planning processes the management body and the key function holders;
- c) The policy for diversity in the management body;
- d) The principles of succession planning;
- e) The policy related to induction and training of the members of the management body.

It aims to promote diversity within the management body from the perspective of gender, competencies and professional experience and to facilitate independent opinions and a solid decision-making process within the management body and is guided by the following rules:

- In the selection process of Management Body members, no discrimination will be applied based on gender, sexual orientation, genetic characteristics, age, nationality, race, color, ethnicity, religion, political opinion, social origin, disability, marital status or responsibilities; specifically, the Bank will ensure that selection procedures do not involve discrimination that may hinder the selection of female directors;
- Each member of the Board of Directors and Executive Committee shall obtain prior approval from NBR before commencement of mandate.
- Each member of the Board of Directors and Executive Committee shall always fulfil the individual suitability criteria established by the Bank and within the applicable regulatory framework.
- Each member has the obligation to report to the Bank any changes in circumstances which could lead impair the fulfilment of the suitability criteria (including changes in mandates held, conflicts of interest, sanctions, etc.).
- Each member is responsible for maintaining and enhancing the knowledge and skills required for fulfilling his/ her role.
- Each member shall be aware of the culture, values, behaviours and strategy associated with the Bank and its management body, where possible, before taking up the position.
- The Bank monitors on a continuous basis the suitability of the management body both in terms of collective suitability (separately for Board of Directors and Executive Committee) and the suitability of each individual member.

- The Bank shall not recruit a member only for the purpose of improving diversity to the detriment of the functioning and suitability of the BoD/ ExCo at collective and individual level.
- The Board of Directors/ the Executive Committee should not be dominated by one person or a small group of people.
- The Board of Directors and Executive Committee should interact effectively and provide each other with sufficient information to ensure fulfilment of roles.
- All members of the Board of Directors and Executive Committee should be informed about the overall activity, financial and risk situation of the institution, taking into account the economic environment, and about decisions taken that have a major impact on the institution's business.
- The Bank will not nominate candidates or maintain on the BoD/ ExCo members who are assessed as not being suitable for the role.
- General Shareholders Meeting is informed with regards to the need of on-going individual and collective suitability for members of the BoD.
- According to the Articles of Association, the Bank's management is entrusted to the Board of Directors elected by the General Assembly of the Shareholders
- In accordance with the provisions of the regulatory framework applicable, the appointment of Members of the Board of Directors is the exclusive prerogative of the General Ordinary Assembly of the Shareholders, the candidates for the administrative functions are nominated by current members of the Board of Directors or by the major shareholder of the Bank;
- General Ordinary Assembly of the Shareholders appoints the Members of the Board of Directors based on the recommendation of the Nomination and Remuneration Committee which identified and evaluate the adequacy in accordance with the present policy.
- In accordance with the provisions of the Articles of Association and the regulations in force, the members of Executive Committee are appointed by the Board of Directors;
- The Board of Directors appoints the Executive Committee members based on the recommendation of the Nomination and Remuneration Committee which assesses the adequacy of the candidates in accordance with the present policy.
- When drawing up proposals for the appointment of the members of the management body, the Nomination and Remuneration Committee shall take into account the following aspects, including without limitations, the suitability assessment criteria regulated by the Policy.

The evaluation criteria detailed in the Policy are:

- Reputation, honesty and integrity;
- Knowledge, skills and experience;
- Independence of mind;
- Time commitment;
- Independence.

The BoD/ ExCo and its members are subject to a suitability re-assessment both at individual and collective level. These evaluations are conducted by the Nomination and Remuneration Committee, with the support of the Human Resources Division. The Bank's policy is to promote diversity within the management body in terms

of educational and professional background, gender and age. The Bank's target for the underrepresented gender is to maintain a minimum of 20% representation.

Regular re-assessments will focus on the relevant changes in the Bank's business activities, strategies and risk profile including from a forward looking perspective (e.g. changes to the business strategy, roles distribution within BoD/ ExCo or expiration of mandates). Performance of the assessment will be based on the self-assessment questionnaire and relevant internal information (e.g. attendance on meetings, conflicts of interest and input from other functions within the Bank).

In performing the re-assessment following lapse of time the at least the following steps and aspects are considered:

- Relevant changes or circumstances at the individual level that may have an impact on adequacy: Reputation, honesty and integrity, Independence of mind, Time Commitment, Independence, Performance measurement.
- Changes impacting collective suitability: Size and Knowledge, skills and experience, Diversity, Independence
- Effectiveness of the BoD/ ExCo.

## **5 Risk management objectives and policies**

### **5.1 Risk management strategy and processes**

First Bank recognizes its exposures to banking risks arising from day-to-day operations, as well as from achieving its strategic objectives. Effective bank risk management is considered vital by the Bank in order to achieve strategic objectives and to ensure the quality of shareholders' benefits on a continuing basis. In this context, the Bank's strategy on significant risk management provides the framework for identifying, evaluating, monitoring and controlling these risks in order to maintain them at acceptable levels based on the Bank's risk appetite and its ability to cover (absorb) those risks.

The general objective of the Risk Management Strategy is that risk taking is consistent with the expectations of the shareholders, with the Bank's strategic plan and with the applicable regulatory framework in force, and also that at the level of the Bank, a clear and comprehensive risk culture is promoted.

The general objectives of the Risk Strategy of the Bank are the following:

In the medium term the Bank gives priority to:

- o the maintenance of a solid capital base,
- o the maintenance of adequate liquidity and diversification of financing sources,
- o the strengthening of the balance sheet
- o the safeguarding of the quality of assets and loan portfolio diversification and
- o the cost-effective management of operating expenses.

The Bank aims at enhancing its risk management framework by undertaking a series of key initiatives/ actions that further strengthen its risk management capabilities, leverage risk measurement, monitoring and control effectiveness while following best practices.

Key areas/enablers for these efforts include:

- Policies and procedures: Enriching and amending risk management policies and processes to better reflect the Bank's strategic priorities while ensuring alignment with the Bank's risk appetite;
- Methodologies and models: Sustained focus on the development and expansion of risk management methodologies and models and their reach, to ensure risk measurement improvements in line with best practice;
- Analytics and reporting: Improving and enriching available risk management metrics - including risk-adjusted performance measures - to better support operational and strategic decision-making.

General principles for taking and managing risks:

- In order to manage risk on a prudential basis, the Bank will enter into business relationships whose risk profile is fully understood.
- The Bank ensures that processes and systems are in place to ensure the efficiency and effectiveness of operations, adequate risk control, prudent business development, adequate internal and external reporting, and compliance with internal and external rules.
- According to its risk profile, the Bank identified a series of controllable risks that the management body is willing to take. The Bank intends to reduce the level of these risks, using a range of control procedures/instruments, formalized in internal regulations and written procedures specific to each product or activity.

**With regards to the risk management framework:**

- All staff across the Bank shall be aware of the risks arising in the course of their work, understand their responsibilities with respect to the management of those risks, and have the adequate skills for their management. To this effect, the Bank shall provide, maintain, and enhance a robust and pervasive risk culture across the Bank.
- A well-documented risk management framework underpins the consistent definition of strategies, policies and processes adopted by the Bank for all risk-taking activities. The framework is subject to periodic review and adjustment, while capturing all material risks, particularly under stressed conditions, according to the overall risk profile, risk appetite and risk capacity of the Bank.
- The Bank's Corporate Governance principles ensure proper allocation of responsibility and accountability based on risk origination, aiming to align the risk-taking process with the risk appetite.
- Constant improvement and effective implementation of the Bank risk appetite framework ensures that the risks taken by the Bank are aligned with its strategic objectives, meet Regulators' and Government's requirements, and protect the interests of shareholders, depositors, creditors, investors, and employees - hence aim at highest possible profitability, while maintaining adequate solvency and ensuring the long-term viability of the Bank.
- Close monitoring of the Bank's risk exposures in relation to its approved risk appetite, ensuring that the risk profile of the Bank stays within acceptable levels.

- The Bank's planning processes (e.g. strategic, business, funding, capital) are in line with the Risk Appetite Statement and the shareholders' risk return objectives.
- The Bank ensures the evaluation of the potential loss level via stress testing, taking into consideration market conditions. The stress testing results are taken into account during the establishment or the re-evaluation of policies and relevant limits.
- Processes and systems necessary for ensuring effective and efficient operations, adequate control of risks and conduct of business, accurate internal and external disclosures, as well as compliance with internal and external rules, are in place.
- Risk management information technology (IT) applications ensure the availability of required information for the management of all the material risks the Bank undertakes.
- All new products and activities are subject to adequate assessment by all involved Bank units prior to their introduction, allowing for proper and independent identification and control of all possible risks.
- Emphasis on high ethical standards at all levels and full support of the risk management framework by all Bank entities.
- Adequate segregation of duties exists between the functions in charge of underwriting, approval, monitoring, and controlling risks. Roles, responsibilities, and independence between risk management and risk-taking functions are clearly defined.
- The Bank maintains reliable valuation procedures, in compliance with the current financial standards and regulatory framework. An effective governance structure allows independence as far as control and validation of assessments/valuations are concerned.
- For the effective exercise of its responsibilities, the Risk Management Division has access to all activities and structures of the Bank.
- Regular and transparent communication mechanisms established within the Bank, so that the Management Bodies, the Senior Management, the business and control/support units can share information about risk exposures and management.
- Sufficient public disclosures, in order to allow all interested parties to assess the Bank's attitude towards risk and capital management, as well as its risk-return profile across all portfolios and risk categories.
- Establishment and maintenance of remuneration policies to avoid excessive risk-taking.
- A well-defined internal control system, supported by the appropriate resources and framework, is in place, aiming at effective and secure operations and transactions across the Bank.
- Efficient risk modelling and risk management techniques, which contribute to the accomplishment of the mandate of the Risk Management Function.
- Establishment of a risk data governance and data quality framework, in compliance with the regulatory requirements and the industry's best practices.

## Types of significant risks

Identifying significant risks is essential to defining the risk management framework.

At First Bank level, the following risks were considered significant in 2021:

- Credit risk;
- Risks associated with credit risk:
  - Counterparty risk;
  - Country risk;
  - Concentration risk;
  - Residual risk;
  - Risks stemming from FX lending activities;
- Market risk:
  - Exchange rate risk;
  - Credit valuation adjustment risk (CVA);
- Liquidity risk;
- Operational risk;
- Compliance risk;
- Interest rate risk in the banking book;
- Reputational risk;
- Risk of excessive use of leverage;
- Strategic risk.

Although Settlement risk and Regulatory risk are not assessed as significant for the Bank in 2022, the respective risks are covered with a quantitative approach within the Bank's regular Internal Capital Adequacy Assessment Process (ICAAP) process.

## 5.2 Risk Strategy parameters

The Bank's mission is to strengthen its position on the Romanian financial market through high quality services provided to customers, promoting a proper environment for the development of its human resources and protecting the interest of shareholders through superior returns. The fulfilment of these objectives highly depends on the effectiveness of the risk management.

Thus, the Bank places particular emphasis on the effective monitoring and management of risk, with a view to maintaining stability, financial soundness and continuity of its operations. The mission of the risk management function is to create value added for shareholders by utilizing risk management best practices towards the optimization of the Bank's risk-return profile, while ensuring compliance with regulatory requirements.

In this context, the risk management framework includes the sum of all strategies, policies, procedures, governance and systems that the Bank develops and implements in order to adequately identify, measure, monitor, control and mitigate risk deriving from its operations.

The Bank defines its **risk appetite** as the aggregated level and type of risks that the Bank is willing to take within the limit of its risk capacity, in accordance with its business model, in order to achieve its strategic objectives. The Bank's **Risk Management Strategy** is consistent with the Bank's risk appetite as established by the Bank's Board of Directors and is strongly connected to the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP).

The Bank defines its **risk capacity** as the maximum level of risk the Bank can take, considering the applicable capital and liquidity requirements, own ability to manage and control risks, as well as the regulatory constraints. Risk capacity is identified at the aggregated level of the Bank (i.e. profitability targets, own funds, liquidity buffers) and not at an at-risk level, considering that failure or likely-to-fail levels are generally reached by the materialisation of multiple risks, and not through the materialisation of an individual risk factor.

The type of risks and their corresponding levels that the Bank does not deliberately take, but which it can accept/ tolerate, represents the **risk tolerance(s)** of the Bank. Tolerance can be identified both with regards to risk appetite quantitative indicators and by reference to the actual risk profiles identified for each significant risk.

The Bank's risk capacity, appetite, and tolerance are expressed through the **Risk Appetite Statement (RAS)**. This document is intended as a guidance for all relevant staff members, informing them about the vision of the Executive Management and Board of Directors with regards to the Bank's attitude towards risk-taking and risk-taking availability. The RAS is translated into expectations, targets and constraints for the business lines hence acting as a guide both in strategic planning and in day-to-day decisions, thereby avoiding excessive risk taking and encouraging the development of robust controls to protect the key resources of the Bank. The RAS of the Bank is comprised of both quantitative and qualitative components and is reviewed on an annual basis in line with the strategic plans of the Bank and also considered whenever relevant internal policies and processes of the Bank are reviewed.

The **risk profile** is defined as the assessment performed at a certain moment of the risk exposures (inherent and if the case residual i.e. after the consideration of risk mitigants), aggregated within each relevant risk category, as well as between them, based on current and forward-looking assumptions. The risk profile, evaluated according to the risk matrix, is not a static measure, but a dynamic risk assessment with a predetermined frequency. Its role is to determine the size of each significant risk and the overall risk level, based on relevant indicators.

In determining the risk profile, the Bank's strategic objectives and risk appetite have been taken into account.

Internal capital (available) is the source of covering / absorbing the unexpected loss from the materialization of all the risk categories to which the Bank is exposed. At First Bank level, the internal capital is limited to the amount of Tier 1 and Tier 2 own funds. The Bank's objective is to maintain the available internal capital at a level that allows for the coverage of internal capital requirements.

The liquidity buffer represents the available liquidity, which covers the additional liquidity needs that can occur over a short time horizon defined in crisis conditions. The Bank's objective is to cover immediate liquidity withdrawals, in line with the scenarios defined in the Procedure regarding Liquidity Risk Management.

The impact of interest rate fluctuations from banking book activities is quantified through two indicators:

- The duration GAP is intended to determine the potential losses resulting from the exposure to the interest rate risk from non-trading activities
- Earnings-at-Risk for activities outside the trading portfolio, measuring the impact of the change in the term structure of interest rates on net interest income.

## **6 Credit risk and related risks**

### **6.1 Credit risk**

The Bank's activity and profit are closely related to credit risk taking.

Credit risk is considered the primary risk to which the Bank is exposed, and effective monitoring and management is a priority for the Bank's management.

The Bank's credit risk strategy is defined according to: exposure type, economic sector, form of ownership, counterparty category, residence, geographical area, currency, initial duration, and considering estimated profitability and special exposure categories.

In order to diminish / control the credit risk, the Bank undertakes a series of actions:

- Separation of credit analysis and approval activities, credit drawing and tracking and recovery, so that they take place in separate organizational structures;
- Allocation of the bank's activities to business lines and identification of the organizational structures involved in the respective activities;
- Identifying the business lines at which the impact of credit risk can materialize and defining the internal risk control framework;
- Development of detailed policies and procedures for all types of loans granted by the Bank, which refer to and treat all the risks on the flow, resulting from the lending activity;
- Maintaining specialized personnel in credit and risk management activities;
- Specialization of these personnel on distinct areas of lending activities, namely analysis, tracking, recovery of credits, etc;
- Providing training specific to each area of lending activity;
- Approval of large exposures (exceeding 10% of the Bank's own funds) by an appropriate level of competence in accordance with the provisions of the regulatory framework and the Bank's internal governance principles;
- Use of credit limits for managing, controlling and diminishing credit risk.

Moreover, the Bank implemented specific processes for the measurement, assessment and monitoring of credit risk, based on the following:

- The credit risk profile, using key indicators and adequate limits;
- The credit risk indicators to assess the evolution and quality of credit portfolio;
- The dimension and evolution of credit risk minimum capital requirements;
- The dimension and evolution of credit risk internal capital;



- The methodology for stress testing on credit risk.

Credit risk is assessed using the following tools:

- Analysis of the structure and evolution of the loan portfolio.
- Analyzing the indicators defining the credit risk profile and monitoring their evolution in relation to the established limits.
- Qualitative analysis of credit portfolios (retail, corporate and SME):
  - depreciated assets and nonperforming assets
  - coverage rate with provisions (performing and non-performing loans)
  - the degree of concentration of non-performing assets
  - coverage with collaterals.
- Analysis of the credit portfolio concentration.
- Analysis of large exposures and exposures to affiliated parties.
- Calculation of the regulatory capital requirement - according to the Standard approach.
- Calculation of the internal capital requirements.
- Stress tests.

## **6.2 Concentration risk**

The Bank has clear policies and procedures with regard to exposure to concentration risk and an appropriate framework for measuring, managing and mitigating concentration risk in accordance with policies and limits set.

Concentration risk is assessed using the following tools:

- Calculation and monitoring of the indicators defining the concentration risk profile, in relation to the limits established by the Risk Profile.
- Analysis of exposure by economic sectors, by counterparty category, by main currencies and by territorial profile.
- Exposures by type of guarantee. Depending on the type of exposure guarantee - the loan portfolio covered by collateral is segmented according to its type as follows:
  - Real guarantees
  - Personal Guarantees
  - Assignments of contracts
- Analysis of exposures to protection providers. Depending on the protection provider against which there is an indirect credit exposure; the loan portfolio for which the Bank constituted eligible personal or bank guarantees is segmented according to the protection provider.
- Analysis of exposures to affiliated parties and large exposures.
- Calculation of internal capital requirements covering the concentration risk.

**Affiliated parties transactions**

Pursuant to the provisions of Regulation No. 5/2013 on prudential requirements for credit institutions, First Bank has appropriate policies and processes for identifying individual exposures to and / or transactions with affiliated parties to determine the total amount of such exposures, such as and for monitoring and reporting those exposures through an independent process of verifying or auditing credit activity. As at 31 December 2022, the Bank recorded exposures to affiliated parties representing 0.08% of its own funds, within the limits provided for in Art. 399-403 of Reg (UE) 575/2013. The structure of these exposures according to the relationship type is as follows:

Type of relationship	Net exposure (% of Own funds)
Subsidiaries or other entities that the bank has control	-
Entities in which First Bank owns stakes	-
Shareholders of the bank	-
Members of the management structure and persons with key functions within the bank	0.08%
The family of the members of the management structure	-
<b>TOTAL</b>	<b>0.08%</b>

**6.3 Counterparty risk**

In order to control the counterparty risk, the risk-taking activity (lending) is limited to certain counterparties and types of transactions, as it follows:

- FX transactions (forward, swap);
- fixed-income transactions;
- daily settlement limit.

In terms of measurement, assessment and monitoring of counterparty risk, the Bank employs:

- The risk profile, through a relevant indicator and corresponding limits;
- Monthly monitoring of exposures exceeding 10% of First Bank's relevant own funds measure, as part of the process of identifying, monitoring and reporting large exposures (according to the specific procedure).
- Calculation of the capital requirements for exposures subject to counterparty risk.

**6.4 Other risks related to credit risk**
**Residual risk**

Residual risk appears when recognized mitigation techniques used prove less effective than expected, thus its monitoring takes into account the following components of credit risk treatment:

- As a result of using the standardized approach for credit risk, the Bank does not recognize as risk mitigation factors items that may be subject to significant impairment.
- As a result of using the standardized approach to counterparty credit risk, the Bank uses volatility adjustments and exchange rate adjustments, according to the Financial Collateral Comprehensive Method.

Moreover, the Bank applies adequate collateral acceptance policies, including procedures related to the monitoring and measurement of collateral values to ensure adequate monitoring of exposures to allow for risk mitigating measures or capital adjustment.

The Bank calculates and monitors the indicators comprising the residual risk profile in relation to the approved Risk Profile limits. As a further measure of control, according to the provisions of the NBR Regulation no. 5/2013, the Bank computes internal capital requirements to cover residual risk.

### **Risks stemming from FX lending to debtors exposed to foreign exchange risk**

Following the process of identifying borrowers exposed to foreign exchange risk at business department level, they are subject to an additional risk assessment process. In order to limit and control the impact of this risk, the Bank employs an adequate pricing mechanism for foreign currency loans and has implemented a methodology for assessing internal capital requirement to cover the risk of lending in foreign currency.

### **Settlement risk**

Settlement risk is very similar to the counterparty credit risk (which is also known as "pre-settlement risk"), the difference being that the settlement risk occurs after the maturity date of the contract (between maturity date and date settlement).

In order to implement an effective counterparty risk framework, the Bank continuously monitors and measures both pre-settlement and settlement risk. Prior to any transaction with a counterparty, a thorough credit analysis is performed and limits (Daily Settlement Limits (DSL)) are checked. The DSL limit is defined as the maximum daily trading amount of transactions that can be settled with a counterparty. Moreover, the Bank has in place comprehensive and enforceable legal contracts with its counterparties such as ISDA (International Swap Derivatives Association Agreement) master agreements, in order to mitigate CCR and settlement risk through netting of payments.

Settlement risk is diminished by prudently selecting banks that offer custody services or by making special transactions in accordance with trading system specifications. The bank considers the settlement risk to be not significant, but covers it quantitatively under both Pillar 1 and Pillar 2, in accordance with Article 378 of Regulation 575/2013.

### **Country risk**

Country risk is the risk of exposure to losses determined by events occurred in a foreign country. According to the risk materiality assessment, country risk was considered as significant for the Bank. Therefore, the Bank regularly calculates and monitors dedicated indicators defining the country risk profile, in relation to the limits established by the Risk Profile.

## **6.5 Monitoring**

The monitoring of credit risk and related risks, according to processes, methodologies, models and limits, has the role of identifying and signalling the need to improve the internal control system, as well as ensuring compliance with the policies regarding credit risk and related risks with the Bank's structures, respectively by business lines.

With respect to credit risk and / or related risks, the Bank monitors:

- The evolution of the risk - based on analyses on the structure of exposures and risk indicators.
- Framing within certain variation intervals - according to the objectives of the Risk Strategy and the Business Plan for the current year.
- Compliance with the specific limits at the operation / transaction level - specific to the portfolio exposed to counterparty risk.
- Ranking within an assessment scale - specific to concentration risk.
- Observing the prudential and risk limits - established in accordance with the prudential regulatory framework and the provisions of the Bank's risk strategy and policies.

## **6.6 Mitigation and control**

The Bank has implemented a range of control tools to limit credit risk / related risks, in line with prudential principles and the level of risk accepted by the management structure. Such instruments refer to (but not limited to):

- Defining an internal regulatory framework;
- Defining processes of the risk taking and related attributions;
- Defining exposure limits and competence limits;
- Defining the proper control instruments (systems, models, methodologies, etc.);
- Evaluation and monitoring of credit risk and related risks, according to processes, methodologies, models and limits to identify and signal the need for improvement of the internal control system;
- Ensure compliance with the credit risk and related risks policies at the level of the Bank's structures, respectively by business lines.

## **6.7 Reporting**

The results of analyzes and monitoring of credit risk and related risks are presented periodically to the management of the Bank through the Executive Committee and the Board Risk Management Committee, which informs the Board of Directors.

## **7 Market risk**

First Bank has clear policies and procedures to ensure active market risk management, as well as adequate market risk measurement and assessment systems, being prepared to cope with regulatory challenges and the banking environment.

Any activity that exposes the Bank to market risk is adequately reflected in the system, while new products are reviewed before launch.

The Bank periodically evaluates the time horizon that allows any material market risk to be covered or positions closed (periodic market liquidity assessment).

The main purpose of Credit Value Adjustment Risk (CVA) monitoring is to consider counterparty credit risk within the derivative portfolio. The Bank has adequate arrangements in place for the monitoring and managing of CVA for both accounting and regulatory purposes.

### **Foreign exchange risk**

The Bank has set as a strategic goal the establishment of an effective risk management related to exchange rate developments, as well as the optimal ratio between the desired profits and the risks assumed.

The exchange rate strategy provides for the following:

- Definition of an indicator measuring the the potential decrease of income caused by adverse changes of the exchange rates: the level of potential loss;
- Establishment of trading limits in accordance with the Risk Profile;
- Monitor the limits thus set by the Back Office Department and the Risk Management Division;
- Creating stress scenarios to calculate the impact of the abrupt change in the exchange rate on the Bank's income;
- Implementation of an internal Value-at-Risk model within the internal capital adequacy assessment process (ICAAP);
- Regularly informing management on compliance or breach of limits and observance of the approved risk profile

During 2022, all limits set for foreign exchange risk have been respected, except for the limit on the overall overnight FX position, which was exceeded for a single day in 2022 due to several adjustments of the initial FX position.

### **Monitoring and reporting**

The results of the monitoring of market risk, namely the adherence of risk exposures to the limits established is performed by the Risk Management Division and communicated to the regulator (National Bank of Romania), as well as to the Executive Committee, Board Risk Management Committee and Board of Directors, as per internal regulations.

## **8 Liquidity risk**

Maintaining a strong liquidity base is one of the objectives of risk management within the Bank.

In order to maintain liquidity risk within the risk appetite acceptable levels, the Bank created a framework for the prudential management of this risk. *The internal liquidity adequacy assessment framework (ILAAP) of First Bank*, together with complementary specific procedures, define the way to manage liquidity, as well as the reporting system and preventive and corrective measures so as the Bank can avoid crisis situations.

Also, the Risk Appetite of the Bank is built taking into account:

- The maintenance of adequate liquidity and diversification of financing sources;
- The need to ensure enough liquidity and capital resources in order to maintain stable and recurring profitability;
- The Bank is going to follow a policy that promotes autonomy, self-preservation (capital - liquidity) and not to take any risks that may jeopardize its sustainability;
- The Bank aims to respect the minimum regulatory requirements in terms of liquidity;
- The Bank maintains systems and extensive data retrieval processes specializing in the monitoring of liquidity.

The ability of the Bank to expand and continue business depends on the level of available capital and available liquidity. Therefore, First Bank's risk capacity as stated by the risk tolerance has the following dimensions:

- The level of (available) internal capital;
- The level of the liquidity buffer.

The Bank's liquidity risk management strategy is based on the following processes:

- Monitoring and reporting the position of the Bank in terms of liquidity;
- Maintaining a Contingency Funding Plan;
- Monitoring a set of Early Warning Indicators;
- Monitoring the liquidity position based on scenarios;
- Maintaining a stable relationship with the suppliers of funding sources (clients, counterparties, etc.) ensuring the adequate diversification of sources and avoiding the funding concentration, on a short, medium and long term;
- Promotion of attractive saving products and proper marketing;
- Use by the Bank of assets eligible for reversible sales (REPO with NBR) or for accessing the overnight credit facility (Lombard credit);
- Monthly analysis of the liquidity risk profile, as well as the monitoring of intraday liquidity positions, but also for longer periods of time;
- Preventing and managing crisis situations;
- Informing the management body about the liquidity situation.

### **Funding risk management**

First Bank's funding profile is mostly based on customer deposits, which stand relatively constant at around 75%-80% of the total balance sheet of the Bank and exhibit relatively low concentration. They are considered a stable source of funding and the main source for the Bank.

With regards to currency diversification, to ensure that the holdings of liquid assets comprising their liquidity buffer remain appropriately diversified at all times, including with relation to the proportion of net liquidity

outflows in a currency that can be met during a stress period by holding liquid assets not denominated in that currency, the minimum limit of 100% for the LCR ratio applies both overall and by significant currency.

### Monitoring and reporting

First Bank uses a liquidity monitoring system that provides different types of restrictions incorporated into risk indicators and limits or alert levels.

If a risk limit is exceeded or if a warning level is activated, the Risk Management Division investigates the event that caused the overrun, and activates the escalation and reporting of information to the competent committees to analyze / solve the situation.

The evolution of the LCR indicator in 2022 is presented in the table below:

Currency and units (RON million)	31/03/2022		30/06/2022		30/09/2022		31/12/2022	
	Gross Amount	Weighted Amount	Gross Amount	Weighted Amount	Gross Amount	Weighted Amount	Gross Amount	Weighted Amount
<b>Stock of high quality liquid assets (HQLA)</b>	<b>1,184.06</b>	<b>1,152.63</b>	<b>1,170.45</b>	<b>1,143.00</b>	<b>1,367.24</b>	<b>1,333.75</b>	<b>1,913.34</b>	<b>1,880.79</b>
Cash Outflows	6,092.47	1,056.78	6,136.89	1,068.99	6,654.53	1,302.86	7,080.71	1,507.40
Cash Inflows	1,077.64	521.93	1,013.75	411.78	1,234.95	645.68	1,046.67	464.83
<b>Net cash outflows</b>		<b>534.85</b>		<b>657.21</b>		<b>657.19</b>		<b>1,042.57</b>
<b>Liquidity Coverage Ratio = HQLA / Net cash outflows</b>		<b>216%</b>		<b>174%</b>		<b>203%</b>		<b>180%</b>

### Contingency funding plans

First Bank's contingency funding plan describes the procedures for the identification and management of liquidity crises. Such crises can be caused either by idiosyncratic events or situations or by general market circumstances. The Bank's Liquidity contingency funding plan is robust, and the measures are effective to assure business continuity in case of a liquidity crisis. The Liquidity Contingency funding plan is linked to the Bank's Recovery Plan and both documents include warning signals of potential liquidity crises, as well as action plans to handle several types of crises.

### Liquidity stress testing

Liquidity Crisis situations may occur as the result of an event specific to First Bank (idiosyncratic), or due to a context that characterizes the whole financial system. The Bank performs liquidity stress testing monthly by comparing available liquidity with the total potential outflows resulting from stress tests, in multiple scenarios, based on a set of approved stress testing assumptions. The results are presented to all relevant stakeholders during the monthly ALCO meetings.

## 9 Operational risk

The Bank recognizes operational risk as a distinct category of risk and sets out principles for its management:

- Establish an appropriate framework for operational risk management through appropriate policies, procedures, methodologies and limits, ensuring consistent and effective operational risk management across all entities of the Bank. The framework includes the following processes / tools: self-

assessment and operational risk control, extreme scenario analysis, key risk indicators, action plans, incident and loss collection, VaR and capital calculation, operational risk appetite, and reporting operational risk.

- A common culture and attitude regarding the management of operational risk is cultivated within all Bank's functions / structures through continuous training and communication with a vast network of operational risk correspondents.
- The Bank's operating model pursues the standardization and application of policies and procedures within the Bank's support activities and functions, thus improving operational efficiency and effectively mitigating operational risks.
- An internal control system, consisting of a wide range of internal controls and processes, covers all the Bank's activities and ensures efficient and secure operation. The Bank systematically updates its internal control system and implements improvements directly.
- The Business Continuity Plan (BCP) aims to eliminate any negative impact that may arise in crisis situations within the Bank's business.
- The risk of conduct is directly managed in all phases (identification, evaluation, monitoring, reporting) in the operational risk management framework.
- An IT Security Framework, aimed at reducing the risk of ICT and cyber risks, has been developed by the Bank's IT Security Officer. The Bank recognizes and calculates the necessary provisions for the potential loss of claims for the damages caused by the counterparties (and / or third parties).

The Bank has developed the following operational risk strategy:

- Identification of operational risk events, Risk profile and internal operational risk / policy;
- Collecting and reporting operational risk data;
- The use of a risk matrix to ensure continuous monitoring of the occurrence of operational risk events;
- Hierarchy of events depending on the probability of occurrence and the financial impact on the Bank;
- Maintaining a historical database and collecting all operational risk events and losses;
- Implementing a corporate governance model that assigns roles and responsibilities to those involved in managing operational risk;
- Running a process of self-evaluation and control of operational risk in all organizational structures of the Bank;
- Implement a set of action plans to minimize and eliminate the most critical operational risk events.
- Use of specific key operational and operational risk indicators as well as acceptable tolerance levels (low, medium and high) following the process of self-assessment and operational risk control;
- Use of relevant operational risk indicators, as well as ratings established through the Risk Profile.

At the same time, the Bank has implemented a number of control tools for each category of risk event in order to minimize operational risks. These are formalized within the Operational Risk Management Policy, but also within the policies and procedures specific to the various structures or business lines.



First Bank periodically monitors the implementation of the approved action plans in order to formalize all the Bank's shares through the issuance of rules and procedures. At the same time, the Bank has formalized a plan for the resumption of business and for unforeseen situations.

Regarding outsourced activities, the Bank has developed a Policy on the outsourcing of auxiliary or related activities of the Bank which aims to:

- establishing outsourced activities;
- analyzing and evaluating outsourcing opportunities;
- use of documentation that includes the criteria for evaluating and selecting the entity to which outsourcing is to be performed;
- implementation of a risk monitoring and control system resulting from the outsourcing of activities;
- reporting to the Bank's management of the risk situations arising from the outsourcing contracts.

## **10 Reputational risk**

First Bank recognizes that the critical and complex macroeconomic developments, the strong focus of the public on the financial sector and the increased flow of information and news on critical issues (liquidity, capital adequacy, deposit guarantees, prospects) may affect the reputation and therefore the Bank's ability to attract and retains depositors and investors.

The Bank acts on two main pillars:

- To consolidate the name and reputation in the market;
- To efficiently manage potential events that may give rise to reputational risk.

Regarding the efficient management of events that may give rise to reputational risk, the Bank considers:

- Permanent identification of potential situations generating reputational risk;
- Monitor the risk profile indicators that commensurate the level of risk;
- Maintaining structures within the Bank to deal with the identification of situations that may generate reputational risk, identifying appropriate crisis management measures, coordinating the actions of key persons in order to reduce/eliminate the effects of potential crisis and for the implementation or execution of executive decisions;
- Ensuring business continuity, respectively plans for its resumption in unforeseen situations;
- Monitoring the Bank's image in the media in order to identify any rumors that could generate reputational risk, especially with impact on the Bank's liquidity.

## **11 Other risks**

### **11.1 Compliance risk**

Compliance risk represents the current or future risk of adversely affecting profits, equity, or liquidity, which could lead to significant financial losses or damage to a credit institution's reputation as a result of a breach or non-compliance with the legal and regulatory framework, with the agreements, best practices or ethical standards applicable to its activities.

The Bank is committed to a high level of compliance with all relevant legislation, regulations, industry codes and standards, as well as internal policies. For an in-depth analysis of the compliance risk framework within First Bank, please refer to section 3.2 *Compliance function*.

## 11.2 Interest rate risk in the banking book

**Interest rate risk** is a component of market risk and refers to the risk of loss in returns or in capital as a consequence of adverse movements of interest rates. First Bank distinctively recognizes trading and banking book activities. During 2022 the Bank carried out solely banking book activities.

The Bank has clearly defined policies and procedures in order to ensure active banking book risk management and appropriate systems in order to measure and assess banking book risk while keeping up with current regulatory and banking environment challenges.

The main sources of interest rate risk from banking book activities are the imperfect correlations between the re-pricing/maturity date of cash flows (for fixed-interest interest-bearing assets and liabilities), the adverse evolution of the yield curve (the unparalleled evolution of interest rate yields of interest-bearing assets and liabilities) and / or the imperfect correlation between interest rate changes for placements and deposits for instruments with similar rate redevelopment features of interest.

In order to evaluate and monitor its level of exposure to interest rate risk from the banking book, the Bank has defined limits and early warning thresholds for economic value and earnings-based measures, as well as sensitivity measures, which it calculates and reports monthly.

Economic value-based measures look at the change in economic value of banking book assets, liabilities and off-balance sheet exposures resulting from interest rate movements, independent of the accounting treatment. The Bank implemented the methodology proposed by the National Bank of Romania in Regulation no. 5/2013, which calculates the variation in the Bank's economic value following a +/- 200bps parallel shock on rates interest rate, together with the six standard scenarios defined by the European Banking Authority (EBA).

As of December 31<sup>st</sup>, 2022, the potential changes to the Bank's economic value for the main currencies were as follows:

Interest Rate Scenarios (absolute values, RON mio)	EUR	RON	Others	Total (RON eq.)	% Own Funds
Base case (parallel shift +/- 200bps)	2.9	18.6	0.7	22.3	2.82%
Parallel shock up (RON +350bp; EUR & USD +200bp; CHF +100bp)	2.9	32.5	0.5	35.9	4.55%
Parallel shock down (RON -350bp; EUR & USD -200bp; CHF -100bp)	-2.9	-32.5	0.5	-35.9	4.55%
Steeper shock (short rates down and long rates up)	-0.2	1.3	0.2	1.6	0.21%
Flattener shock (short rates up and long rates down)	0.6	5.7	0.3	6.6	0.84%
Short rates shock up	1.5	17.8	0.5	19.8	2.51%
Short rates shock down	-1.5	-17.8	0.5	-19.8	2.51%

Per total, the potential changes in economic value for both the Regulation no. 5/2013 scenario (parallel shift +/- 200bps) and under stress scenarios were very low and well below their defined limits.

To capture the impact of the change in the term structure of interest rates on net interest income, the Bank uses the Earnings-at-Risk approach for the banking book portfolio (EaR) over a period of 12 months.

As of 31.12.2022, the impact on profit due to the change in parallel to 100 basis points of interest rates over a one-year period was:

Currency (absolute values, RON mio.)	31.12.2022
EUR	1.55
RON	1.35
CHF	0.21
USD	0.08
OTHER	0.01
<b>Total</b>	<b>3.20</b>

The Bank employs interest rate swaps as mitigation techniques to hedge the interest rate risk arising from nontrading positions within given limits.

The interest rate risk for banking book activities is covered quantitatively in the Internal Capital Adequacy Process (ICAAP), using the methodology proposed by *EBA/GL/18/02 - Annex III - The standardised interest rate shock scenarios*.

### 11.3 Strategic risk

The Bank aims at maximizing its competitive position and strengthening its ability to achieve its strategic objectives and to preserve shareholder value. Strategic risk is assessed by monitoring the risk limits and parameters related to the achievement of the strategic business objectives from the point of view of risk taking, according to the Risk Strategy, correlated with the Bank's Business Plan. In order to limit / avoid strategic risk, the management body will establish rational strategic objectives, will permanently adopt a prudential policy and will keep track of the evolution of the market in relation to the budgeted activities. In addition, business strategy and, implicitly, the Bank's budget are defined taking into account the risk appetite and risk tolerance, as well as the risk profile of the Bank.

### 11.4 Regulatory risk

Regulatory risk is managed within the Bank by ensuring adequate review and alignment of internal policies to new regulatory requirements and ensuring an adequate compliance risk management framework. According to the 2022 risk materiality assessment, regulatory risk is not currently material for the Bank. However, it is covered quantitatively within the ICAAP using an internal methodology.

### 11.5 Excessive leverage risk

The Bank monitors the risk associated with the excessive leverage under the NBR Regulation no. 5/2013.

The main strategic objectives with potential impact on the risk of excessive leverage are:

- Maintaining the share capital at pre-existing levels;
- Organic growth of capital by restoring profitability;
- to cover additional capital requirements through surplus resulting from the relaxation of prudential filters.

Managing the risk of excessive leverage is achieved by:

- regular monitoring and management of the regulatory leverage ratio;
- a balanced management of assets and liabilities, together with adequate planning and protection of the capital base.

First Bank's management body has approved a statement confirming that the Bank's risk management systems, methods, and techniques are in line with its risk profile, ensuring that it operates under appropriate prudential, as well as a sustainable development of the Bank.

Also, a statement was approved by which the Management Body confirms that the Bank's risk profile is consistent with the risk appetite and assumed through the Risk Management Strategy.

The two documents are attached to this report.

The Risk Management Division periodically presents appropriate risk management information to the Board Risk Management Committee and the Executive Committee, including, but not limited to:

- risk appetite;
- risk profile;
- risk tolerance;
- capital requirements;
- liquidity position;
- concentration risk;
- stress tests results;
- exposures to affiliated parties and large exposures; exposures that represent a particular risk; any exceptions thereto;
- the state of the bank's assets portfolio, including the classification of loans;
- the level of provisioning and the main problematic assets;
- ranks within the risk limits and the impact of limit and / or overruns on the Bank's risk profile;
- the indicators in the Recovery Plan and inform the Executive Committee of their evolution.

## **12 Own funds and capital requirements**

In order to calculate the required own funds to cover the risks, the Bank applies Regulation no. 5/2013 of the National Bank of Romania on prudential requirements for credit institutions and Regulation (EU) no. 575/2013 on prudential requirements for credit institutions and investment companies, with subsequent amendments and completions.

**EU KM1 – Key metrics**

(RON thousand)		31/12/2022	31/12/2021	31/12/2020	31/12/2019	31/12/2018
		T	T-1	T-2	T-3	T-4
<b>Available own funds (amounts)</b>						
1	Common Equity Tier 1 (CET1) capital	769,012	738,889	749,273	790,632	587,911
2	Tier 1 capital	769,012	738,889	749,273	790,632	587,911
3	Total capital	788,617	798,039	846,394	924,253	755,576
<b>Risk-weighted exposure amounts</b>						
4	Total risk exposure amount	3,809,093	3,448,217	3,650,511	4,444,830	4,003,392
<b>Capital ratios (as a percentage of risk-weighted exposure amount)</b>						
5	Common Equity Tier 1 ratio (%)	20.19%	21.43%	20.53%	17.79%	14.69%
6	Tier 1 ratio (%)	20.19%	21.43%	20.53%	17.79%	14.69%
7	Total capital ratio (%)	20.70%	23.14%	23.19%	20.79%	18.87%
<b>Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)</b>						
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	6.22%	5.67%	4.23%	5.02%	5.02%
EU 7b	of which: to be made up of CET1 capital (percentage points)	3.50%	3.19%	2.38%	2.82%	2.82%
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	4.67%	4.25%	3.17%	3.77%	3.77%
EU 7d	Total SREP own funds requirements (%)	14.22%	13.67%	12.23%	13.02%	13.02%
<b>Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)</b>						
8	Capital conservation buffer (%)	2.50%	2.50%	2.50%	2.50%	2.50%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	0.00%	0.00%	0.00%	0.00%	0.00%
9	Institution specific countercyclical capital buffer (%)	0.50%	0.00%	0.00%	0.00%	0.00%
EU 9a	Systemic risk buffer (%)	0.00%	1.00%	1.00%	1.00%	1.00%
10	Global Systemically Important Institution buffer (%)	0.00%	0.00%	0.00%	0.00%	0.00%
EU 10a	Other Systemically Important Institution buffer (%)	0.00%	0.00%	0.00%	0.00%	0.00%
11	Combined buffer requirement (%)	3.00%	3.50%	3.50%	3.50%	3.50%
EU 11a	Overall capital requirements (%)	17.22%	17.17%	15.73%	16.52%	16.52%
12	CET1 available after meeting the total SREP own funds requirements (%)	9.19%	10.24%	10.15%	6.97%	3.86%
<b>Leverage ratio</b>						
13	Total exposure measure	7,949,077	7,109,543	7,516,695	7,823,308	6,940,822
14	Leverage ratio (%)	9.67%	10.39%	9.97%	10.11%	8.47%
<b>Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)</b>						
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)	n/a	n/a	n/a	n/a	n/a
EU 14b	of which: to be made up of CET1 capital (percentage points)	n/a	n/a	n/a	n/a	n/a
EU 14c	Total SREP leverage ratio requirements (%)	n/a	n/a	n/a	n/a	n/a
<b>Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)</b>						
EU 14d	Leverage ratio buffer requirement (%)	n/a	n/a	n/a	n/a	n/a
EU 14e	Overall leverage ratio requirement (%)	3.00%	3.00%	3.00%	3.00%	3.00%
<b>Liquidity Coverage Ratio</b>						
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	1,880,787	1,674,368	2,189,559	1,999,911	1,796,580
EU 16a	Cash outflows - Total weighted value	1,507,401	1,337,008	1,320,604	1,335,311	1,464,031
EU 16b	Cash inflows - Total weighted value	464,829	593,656	566,790	433,452	202,358
16	Total net cash outflows (adjusted value)	1,042,572	743,352	753,814	901,859	1,261,673
17	Liquidity coverage ratio (%)	180.40%	225.25%	290.46%	221.75%	142.40%
<b>Net Stable Funding Ratio</b>						
18	Total available stable funding	5,493,851	5,225,527	5,585,613	5,725,880	4,623,665
19	Total required stable funding	3,315,701	2,994,035	3,299,481	4,188,345	3,028,699
20	NSFR ratio (%)	165.69%	174.53%	169.29%	136.71%	152.66%

The following table provides an overview of the composition of regulatory own funds.

### EU CC1 - Composition of regulatory own funds

RON thousand		(a) Amounts	(b) Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
<b>Common Equity Tier 1 (CET1) capital: instruments and reserves</b>			
1	Capital instruments and the related share premium accounts	1,246,880	(b)
	of which: ordinary shares	1,246,880	(b)
	of which: Instrument type 2	0	
	of which: Instrument type 3	0	
2	Retained earnings	-504,016	(c) + (d) + (e) + (f)
3	Accumulated other comprehensive income (and other reserves)	106,823	
EU-3a	Funds for general banking risk	0	
4	Amount of qualifying items referred to in Article 484 (3) CRR and the related share premium accounts subject to phase out from CET1	-7,289	(i)
5	Minority interests (amount allowed in consolidated CET1)	0	
EU-5a	Independently reviewed interim profits net of any foreseeable charge or dividend	0	
6	<b>Common Equity Tier 1 (CET1) capital before regulatory adjustments</b>	842,398	
<b>Common Equity Tier 1 (CET1) capital: regulatory adjustments</b>			
7	Additional value adjustments (negative amount)	0	
8	Intangible assets (net of related tax liability) (negative amount)	-84,448	(a)
9	Not applicable	0	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	0	
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	0	
12	Negative amounts resulting from the calculation of expected loss amounts	0	
13	Any increase in equity that results from securitised assets (negative amount)	0	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	0	
15	Defined-benefit pension fund assets (negative amount)	0	
16	Direct, indirect and synthetic holdings by an institution of own CET1 instruments (negative amount)	0	
17	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	
20	Not applicable	0	
EU-20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	0	
EU-20b	of which: qualifying holdings outside the financial sector (negative amount)	0	
EU-20c	of which: securitisation positions (negative amount)	0	
EU-20d	of which: free deliveries (negative amount)	0	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	0	
22	Amount exceeding the 17,65% threshold (negative amount)	0	
23	of which: direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	0	
24	Not applicable	0	
25	of which: deferred tax assets arising from temporary differences	0	
EU-25a	Losses for the current financial year (negative amount)	0	

RON thousand		(a) Amounts	(b) Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
EU-25b	Foreseeable tax charges relating to CET1 items except where the institution suitably adjusts the amount of CET1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses (negative amount)	0	
26	Not applicable	0	
27	Qualifying AT1 deductions that exceed the AT1 items of the institution (negative amount)	0	
27a	Other regulatory adjustments	11,061	
28	<b>Total regulatory adjustments to Common Equity Tier 1 (CET1)</b>	<b>-73,387</b>	
29	<b>Common Equity Tier 1 (CET1) capital</b>	<b>769,012</b>	
<b>Additional Tier 1 (AT1) capital: instruments</b>			
30	Capital instruments and the related share premium accounts	0	
31	of which: classified as equity under applicable accounting standards	0	
32	of which: classified as liabilities under applicable accounting standards	0	
33	Amount of qualifying items referred to in Article 484 (4) CRR and the related share premium accounts subject to phase out from AT1	0	
EU-33a	Amount of qualifying items referred to in Article 494a(1) CRR subject to phase out from AT1	0	
EU-33b	Amount of qualifying items referred to in Article 494b(1) CRR subject to phase out from AT1	0	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	0	
35	of which: instruments issued by subsidiaries subject to phase out	0	
36	<b>Additional Tier 1 (AT1) capital before regulatory adjustments</b>	<b>0</b>	
<b>Additional Tier 1 (AT1) capital: regulatory adjustments</b>			
37	Direct, indirect and synthetic holdings by an institution of own AT1 instruments (negative amount)	0	
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	0	
41	Not applicable	0	
42	Qualifying T2 deductions that exceed the T2 items of the institution (negative amount)	0	
42a	Other regulatory adjustments to AT1 capital	0	
43	<b>Total regulatory adjustments to Additional Tier 1 (AT1) capital</b>	<b>0</b>	
44	<b>Additional Tier 1 (AT1) capital</b>	<b>0</b>	
45	<b>Tier 1 capital (T1 = CET1 + AT1)</b>		
<b>Tier 2 (T2) capital: instruments</b>			
46	Capital instruments and the related share premium accounts	197,896	
47	Amount of qualifying items referred to in Article 484(5) CRR and the related share premium accounts subject to phase out from T2 as described in Article 486(4) CRR	0	
EU-47a	Amount of qualifying items referred to in Article 494a(2) CRR subject to phase out from T2	0	
EU-47b	Amount of qualifying items referred to in Article 494b(2) CRR subject to phase out from T2	0	
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	0	
49	of which: instruments issued by subsidiaries subject to phase out	0	
50	Credit risk adjustments	0	
51	<b>Tier 2 (T2) capital before regulatory adjustments</b>	<b>197,896</b>	
<b>Tier 2 (T2) capital: regulatory adjustments</b>			
52	Direct, indirect and synthetic holdings by an institution of own T2 instruments and subordinated loans (negative amount)	0	
53	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-178,291	
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	
54a	Not applicable	0	

RON thousand		(a) Amounts	(b) Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
55	Direct, indirect and synthetic holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	0	
56	Not applicable	0	
EU-56a	Qualifying eligible liabilities deductions that exceed the eligible liabilities items of the institution (negative amount)	0	
EU-56b	Other regulatory adjustments to T2 capital	0	
<b>57</b>	<b>Total regulatory adjustments to Tier 2 (T2) capital</b>	<b>-178,291</b>	
<b>58</b>	<b>Tier 2 (T2) capital</b>	<b>19,605</b>	
<b>59</b>	<b>Total capital (TC = T1 + T2)</b>	<b>788,617</b>	
<b>60</b>	<b>Total Risk exposure amount</b>	<b>3,809,093</b>	
<b>Capital ratios and requirements including buffers</b>			
61	Common Equity Tier 1 capital	20.19%	
62	Tier 1 capital	20.19%	
63	Total capital	20.70%	
64	Institution CET1 overall capital requirements	11.00%	
65	of which: capital conservation buffer requirement	2.5%	
66	of which: countercyclical capital buffer requirement	0.5%	
67	of which: systemic risk buffer requirement	0.0%	
EU-67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer requirement	0.0%	
EU-67b	of which: additional own funds requirements to address the risks other than the risk of excessive leverage	0.0%	
68	<b>Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements</b>	<b>9.19%</b>	
<b>National minima (if different from Basel III)</b>			
69	Not applicable		
70	Not applicable		
71	Not applicable		
<b>Amounts below the thresholds for deduction (before risk weighting)</b>			
72	Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)		
74	Not applicable		
75	Deferred tax assets arising from temporary differences (amount below 17,65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)		
<b>Applicable caps on the inclusion of provisions in Tier 2</b>			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)		
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach		
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)		
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach		
<b>Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)</b>			
80	Current cap on CET1 instruments subject to phase out arrangements		
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)		
82	Current cap on AT1 instruments subject to phase out arrangements		
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		
84	Current cap on T2 instruments subject to phase out arrangements		
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		



The following table provides an overview of the reconciliation of regulatory own funds to balance sheet in the audited financial statements.

**EU CC2 - reconciliation of regulatory own funds to balance sheet in the audited financial statements**

<i>RON thousand</i>		Balance sheet as in published financial statements	Reference
		As at period end	
<b>Assets - Breakdown by asset classes according to the balance sheet in the published financial statements</b>			
1	Cash on hand	276,069	
2	Cash balances at central banks	858,781	
3	Other demand deposits	247,594	
4	Financial assets held for trading	12,205	
5	Non-trading financial assets mandatorily at fair value through profit or loss	1,351	
6	Financial assets at fair value through profit or loss	21,719	
7	Debt securities at fair value through other comprehensive income	309,935	
8	Debt securities at amortised cost	919,908	
9	Loans and advances at amortised cost	4,821,873	
10	Tangible assets	121,550	
11	Intangible assets	84,448	(a)
12	Tax assets	8,948	
13	Other assets	39,466	
14	Non-current assets and disposal groups classified as held for sale	9,567	
	<b>Total assets</b>	<b>7,733,414</b>	
<b>Liabilities - Breakdown by liability classes according to the balance sheet in the published financial statements</b>			
1	Financial liabilities held for trading	1,452	
2	Deposits	6,680,640	
3	Other financial liabilities	123,321	
4	Provisions	66,259	
5	Other liabilities	11,641	
6	Current tax	2,422	
	<b>Total liabilities</b>	<b>6,885,733</b>	
<b>Shareholders' Equity</b>			
1	Capital	1,246,880	(b)
2	Items that will not be reclassified to profit or loss	19,080	(h)
3	Items that may be reclassified to profit or loss	-6,907	(i)
4	Share premium	-94	(f)
5	Retained earnings	-558,210	(c)
6	Profit or loss attributable to owners of the parent	58,054	(d)
7	Profit allocation	-3,767	(e)
8	Other reserves	92,645	(g)
	<b>Total shareholders' equity</b>	<b>847,681</b>	

**Capital instruments qualify as Common Equity Tier 1 instruments** if the eligibility conditions listed below are met:

- Instruments are issued directly by the institution with the prior consent of the institution's shareholders or, if so allowed, under the national law applicable to the governing body of the institution;
- Instruments are paid and their purchase is not funded directly or indirectly by the institution; are classified as equity within the meaning of the applicable accounting framework;
- The instruments are clearly and distinctly presented in the balance sheet in the financial statements of the institution;
- The instruments are perpetual;
- Instruments meet the following distribution requirements:
  - There is no preferential distribution treatment with regard to the order of performance of the indemnities, including in relation to other basic level 1 own funds instruments,
  - and the conditions governing the instruments do not give preferential rights to distribution;
  - Distributions to instruments holders can only be made from distributable items;
  - The conditions governing the instruments do not include a minimum level or other maximum distribution limit;
  - The level of distributions is not determined on the basis of the purchase price of the instruments at issue;
- The conditions governing the instruments do not include any obligation for the institution of distribution to their holders and the institution is not otherwise subject to such an obligation;
  - Failure of distribution is not a default for the institution;
  - Annual distributions do not impose restrictions on the institution

**Subordinated loans qualify as Tier 2 own funds instruments** if the eligibility conditions listed below are met:

- Subordinated loans are acquired and fully paid;
- Subordinated loans are not granted by a subsidiary or an associate;
- Subordinated loans are not funded directly or indirectly by the institution;
- The claim on the principal subordinated loans, under the provisions governing subordinated loans, is wholly subordinated to the debts of all unsubordinated creditors;
- Subordinated loans have an initial maturity of at least five years;
- The provisions regulating subordinated loans do not include any incentive for the principal to be reimbursed or, as the case may be, repaid by the institution before maturity;
- Subordinated loans can be recognized as Tier 2 own fund items if, in the opinion of the National Bank of Romania, they meet the eligibility conditions listed above.

**The main components of own funds****Tier 1 own funds**

Tier 1 own funds comprise of CET 1 plus additional Tier 1 (AT1) own funds, less deductions from core Tier 1 own funds, mainly consisting of intangible assets and a prudential filter.

At the end of 2022, Tier 1 own funds of the Bank were in amount of RON 769,012 ths. (2021: RON 738,889 ths.).

**Tier 2 own funds**

The tier 2 own funds of the Bank after deductions are in amount of RON 19,605 ths (2021: 59,150 ths), consisting of subordinated loans.

The amount of Tier I of own funds and the Capital Requirements for credit risk, market risk and operational risk.

The Bank calculates risk-weighted assets (RWAs) in accordance with the provisions laid down in Regulation (EU) 575/2013 of the European Parliament and the European Council using the Standardized Approach. The risk-weighted exposure amount is calculated using the regulated fixed risk weights and depends on the type of debtors (companies / retail) and the external rating (if available).

At the end of 2022 the Bank registered a level of own funds of RON 788,617 ths, which covered the capital requirement level (solvency ratio at 31 December 2022 being at the of 20.70%, above the regulatory limit):

- for the credit risk, computed using the standard approach method (requirement of RON 240,147 ths);
- for the operational risk, computed using the basic approach method (requirement of 63,478 ths);
- for credit valuation adjustment (CVA), computed using the standardized method (requirement of 1,102 ths).

**EU OV1 – Overview of total risk exposure amounts**

RON thousand		Total risk exposure amounts (TREA)		Total own funds requirements
		T	T-1	T
1	Credit risk (excluding CCR)	3,001,842	2,712,086	240,147
2	Of which the standardised approach	3,001,842	2,712,086	240,147
3	Of which the Foundation IRB (F-IRB) approach			
4	Of which slotting approach			
EU 4a	Of which equities under the simple riskweighted approach			
5	Of which the Advanced IRB (A-IRB) approach			
6	Counterparty credit risk - CCR	13,774	4,835	1,102
7	Of which the standardised approach			
8	Of which internal model method (IMM)			
EU 8a	Of which exposures to a CCP			
EU 8b	Of which credit valuation adjustment - CVA	13,774	4,835	1,102
9	Of which other CCR			
15	Settlement risk			
16	Securitisation exposures in the non-trading book (after the cap)			
17	Of which SEC-IRBA approach			
18	Of which SEC-ERBA (including IAA)			
19	Of which SEC-SA approach			
EU 19a	Of which 1250% / deduction	-		
20	Position, foreign exchange and commodities risks (Market risk)			
21	Of which the standardised approach			
22	Of which IMA			
EU 22a	Large exposures			
23	Operational risk	793,478	731,295	63,478
EU 23a	Of which basic indicator approach	793,478	731,295	63,478
EU 23b	Of which standardised approach			
EU 23c	Of which advanced measurement approach			
24	Amounts below the thresholds for deduction (subject to 250% risk weight)			
<b>29</b>	<b>Total</b>	<b>3,809,093</b>	<b>3,448,217</b>	<b>304,727</b>

**Risk-weighted assets and business activities**

Under Basel III, total risk-weighted assets (RWA) are the sum of the following components:

- Credit risk weighted assets (Bank Portfolio RWA + Counterparty risk RWA);
- The equivalent of market risk weighted assets;
- Equivalent of operational risk weighted assets.

**CVA capital charge**

31.12.2022

<i>Amounts in RON thousand</i>	<b>Exposure value</b>	<b>RWAs</b>
Total portfolios subject to the advanced method	-	-
(i) VaR component (including the 3x multiplier)		-
(ii) SVaR component (including the 3x multiplier)		-
All portfolios subject to the standardised method	47,023	13,774
Based on the original exposure method	-	-
<b>Total subject to the CVA capital charge</b>	<b>47,023</b>	<b>13,774</b>

**13 Quantitative and qualitative information concerning credit risk and concentration risk**
**Definitions of credit quality**

**Past due:** A financial asset is past due if a counterparty did not make a payment when the payment was due by contract.

*Countdown of days past due:*

- General considerations on counting days past due

Where any amount of principal, interest or fee has not been paid at the date it was due, the Bank recognizes this as credit obligation past due.

Where there are modifications of the schedule of credit obligations, the counting of days past due will be based on the modified schedule of payments.

Where the credit arrangement explicitly allows the debtor to change the schedule, suspend or postpone the payments under certain conditions and the debtor acts within the rights granted in the contract, the changed, suspended or postponed installments will not be considered past due, but the counting of days past due will be based on the new schedule once it is specified. Nevertheless, if the debtor changes the schedule, suspends or postpones the payments, the Bank will analyze the reasons for such a change and assess the possible indications of unlikelihood to pay.

Where the repayment of the obligation is suspended because of a law allowing this option or other legal restrictions, the counting of days past due should also be suspended during that period. Nevertheless, in such situations, the Bank will analyze, where possible, the reasons for exercising the option for such a suspension and will assess the possible indications of unlikelihood to pay.

Where the debtor changes due to an event such as a merger or acquisition of the debtor or any other similar transaction, the counting of days past due should start from the moment a different person or entity becomes obliged to pay the obligation. The counting of days past due is, instead, unaffected by a change in the debtor's name. If one of the events mentioned above occurs, these provisions are only used for the initial recognition of a non-performing exposure and not as a criteria for getting out of the state of non-performance.

The calculation of the sum of all amounts past due that are related to any credit obligation of the debtor to the Bank should be performed with a frequency allowing timely identification of default (usually on daily basis).

The Bank will ensure that the information about the days past due and default is up-to-date whenever it's being used for decision making, internal risk management, internal or external reporting and the own funds requirements calculation processes. The classification of the debtor to a defaulted status should not be subject to additional expert judgment; once the debtor meets the past due criterion all exposures to that debtor are considered defaulted, unless the so called 'technical past due situation' is considered to have occurred (as described below).

b) Considerations applicable to overdrafts and credit cards

For overdrafts, days past due commence once the debtor has breached an advised limit, has been advised a limit smaller than current outstandings, or has drawn credit without authorization. An advised limit comprises any credit limit determined by the Bank and about which the debtor has been informed.

Days past due for credit cards commence on the minimum payment due date.

c) Technical past due situations

A technical past due situation should only be considered to have occurred in any of the following cases:

- where the Bank identifies that the defaulted status was a result of data or system error, including manual errors of standardised processes but excluding wrong credit decisions;
- where the Bank identifies that the defaulted status was a result of the non-execution, defective or late execution of the payment transaction ordered by the debtor or where there is evidence that the payment was unsuccessful due to the failure of the payment system;
- where due to the nature of the transaction there is a time lag between the receipt of the payment by the Bank and the allocation of that payment to the relevant account, so that the payment was made before the 90 days and the crediting in the client's account took place after the 90 days past due.

Technical past due situations should not be considered as defaults. All detected errors that led to technical past due situation should be rectified by the Bank in the shortest timeframe possible

*Threshold of materiality*

The Bank applies the following material materiality thresholds for overdue credit obligations:

Threshold for households' exposures that need to be fulfilled simultaneously:

- a) an absolute component set as a limit to the sum of all past due amounts related to the credit obligations of the debtor towards the Bank, equal to 150 RON or equivalent ; and

- b) a relative component set as a ratio, expressed as a percentage, of the credit obligation past due versus the total amount of all on-balance sheet exposures to the debtor equal to 1%.

Threshold for legal entities exposures that need to be fulfilled simultaneously:

- a) an absolute component set as a limit to the sum of all past due amounts related to the credit obligations of the debtor towards the Bank, equal to 1,000 RON or equivalent; and
- b) a relative component set as a ratio, expressed as a percentage, of the credit obligation past due versus the total amount of all on-balance sheet exposures to the debtor equal to 1%.

The calculation of days past due starts when the materiality threshold is breached.

### ***Definition of default***

The definition of default is based on the “past-due” criterion and the “unlikely-to-pay” criterion.

Therefore, defaulted exposures are those that satisfy at least one of the following criteria:

1. material exposures which are more than 90 days past-due;
2. the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or of the number of days past due.

The definition of default is assessed on debtor level for the entire portfolio.

### ***“Past due” criterion***

A default shall be considered to have occurred with regard to a particular debtor when the debtor is past due more than 90 days on any material credit obligation to the Bank.

### ***“Unlikely-to-pay” criterion***

In contrast with triggers relating to past-due payments, the triggers relating to unlikeliness to pay as rely less on quantitative criteria but define some events that trigger the default classification.

Considering that generally, the “unlikely-to-pay” criterion gives some leeway for interpretation, the Bank has defined internal criteria to identify indicators of unlikeliness to pay (UTP):

- a) Non-accrual status
- b) Write-offs: those exposures where the writing off measures implies a reduction of financial obligation higher than a 5% threshold, with the exception of haircuts approved on CHF loans.
- c) Sales of credit obligations at a material credit-related loss, i.e. higher than a threshold of 5%.
- d) Distressed restructuring - those forbore exposures where the forbearance measures result in a diminished financial obligation having associated a loss of NPV higher than a 1% threshold. The conversions of CHF loans are exempted from this rule.
- e) Bankruptcy or insolvency procedures filled by the debtor, by the Bank or by a third party.
- f) Loan is accelerated or called.
- g) Lawsuit, execution or enforced execution in order to collect debt.
- h) The Bank has called any collateral / guarantee.
- i) Out-of-court negotiations for settlement or repayment (e.g. stand-still agreements) which may result in losses higher than a 1% threshold.
- j) Fraud cases.

- k) Loans notified by customers under the law 77/2016 regarding the giving in payment of immovable property.
- l) Restructured exposures for which either the restructuring measures have been extended or have registered more than 30 DPD during 24 months' period.

**Total and average net exposures**

The following table shows the total and average net amounts of exposures over the period, depending on the class of exposures:

<i>Amounts in RON thousand</i>		
Position	Net value of exposures at the end of the period	Average net value of exposures of the period
Central governments or central banks	2,103,527	1,636,746
Regional governments or local authorities	600	749
Public sector entities	600	749
Multilateral development banks	0	0
International organisations	0	0
Institutions	453,353	567,143
Corporates	1,487,540	1,481,795
Retail	1,671,078	1,574,259
Secured by mortgages on immovable property	2,595,481	2,240,103
Exposures in default	79,531	99,666
Items associated with particularly high risk	0	0
Covered bonds	0	0
Claims on institutions and corporates with a short-term credit assessment	0	0
Collective investments undertakings	0	0
Equity exposures	1,351	1,353
Other exposures	559,077	533,802
<b>TOTAL</b>	<b>8,952,136</b>	<b>8,136,365</b>



**Geographic breakdown of net exposures**

The table below shows the breakdown of Bank exposures by geographic area and exposure classes as of 31 December 2022 (amounts expressed in RON thousand):

Exposure class	Brasov	Cluj	Constanta	Timis	Bucuresti	Other counties	Total
Central governments or central banks	0	0	0	0	2,103,526	1	2,103,527
Regional governments or local authorities	0	0	0	600	0	0	600
Public sector entities	0	0	87	0	423	90	600
Multilateral development banks	0	0	0	0	0	0	0
International organizations	0	0	0	0	0	0	0
Institutions	0	0	0	0	453,280	72	453,353
Corporates	23,914	7,345	109,964	81,797	984,390	280,131	1,487,540
Retail	48,626	53,496	78,915	97,887	687,381	704,773	1,671,078
Secured by mortgages on immovable property	162,509	65,105	137,579	64,897	1,407,823	757,568	2,595,481
Exposures in default	6,132	3,103	2,138	7,744	17,774	42,641	79,531
Items associated with particularly high risk	0	0	0	0	0	0	0
Covered bonds	0	0	0	0	0	0	0
Claims on institutions and corporates with a short-term credit assessment	0	0	0	0	0	0	0
Collective investments undertakings	0	0	0	0	0	0	0
Equity exposures	0	0	0	0	1,351	0	1,351
Other exposures	1,451	0	3	2	22,870	534,751	559,077
<b>TOTAL</b>	<b>242,632</b>	<b>129,048</b>	<b>328,685</b>	<b>252,925</b>	<b>5,678,818</b>	<b>2,320,028</b>	<b>8,952,136</b>

**Concentration of exposures by economic sectors or counterparty types**

The table below shows the breakdown of Bank gross exposures by type of business or counterparty and exposure classes as of December 2022 (amounts expressed in RON thousand):

Exposure class	Industry sectors							Total
	Industry	Trade	Agriculture	Services	Construction	Other services	Individuals	
Central governments or central banks	0	0	0	866,968	0	1,236,794	0	2,103,762
Regional governments or local authorities	0	0	0	0	0	600	0	600
Public sector entities	0	0	190	0	0	399	0	589
Multilateral development banks	0	0	0	0	0	0	0	0
International organisations	0	0	0	0	0	0	0	0
Institutions	0	0	0	453,373	0	0	0	453,373
Corporates	185,292	260,844	100,119	325,589	608,377	21,716	2,864	1,504,802
Retail	164,957	448,958	55,512	225,114	228,679	89,378	487,774	1,700,373
Secured by mortgages on immovable property	147,083	477,008	73,750	260,256	370,492	48,842	1,250,908	2,628,339
Exposures in default	8,080	38,779	24,901	12,067	30,466	4,789	97,823	216,903
Items associated with particularly high risk	0	0	0	0	0	0	0	0
Covered bonds	0	0	0	0	0	0	0	0
Claims on institutions and corporates with a short-term credit assessment	0	0	0	0	0	0	0	0
Collective investments undertakings	0	0	0	0	0	0	0	0
Equity exposures	0	0	0	1,351	0	0	0	1,351
Other exposures	3,161	5,788	0	959,694	3,762	779	4,149	977,334
<b>TOTAL</b>	<b>508,573</b>	<b>1,231,378</b>	<b>254,472</b>	<b>3,104,412</b>	<b>1,241,776</b>	<b>1,403,297</b>	<b>1,843,518</b>	<b>9,587,426</b>

**Exposures maturity**

The table below shows the breakdown of Bank gross exposures by residual maturity and exposure classes (amounts expressed in RON thousand):

Exposure class	Residual maturity			Total
	< 1 year	1-5 years	> 5 years	
Central governments or central banks	1,731,474	372,288	0	2,103,762
Regional governments or local authorities	197	403	0	600
Public sector entities	1	564	24	589
Multilateral development banks	0	0	0	0
International organisations	0	0	0	0
Institutions	445,480	41	7,852	453,373
Corporates	490,058	803,845	210,900	1,504,802
Retail	713,664	819,416	167,293	1,700,373
Secured by mortgages on immovable property	324,300	544,636	1,759,403	2,628,339
Exposures in default	107,537	60,496	48,870	216,903
Items associated with particularly high risk	0	0	0	0
Covered bonds	0	0	0	0
Claims on institutions and corporates with a short-term credit assessment	0	0	0	0
Collective investments undertakings	0	0	0	0
Equity exposures	1,351	0	0	1,351
Other exposures	977,334	0	0	977,334
<b>TOTAL</b>	<b>4,791,395</b>	<b>2,601,689</b>	<b>2,194,342</b>	<b>9,587,426</b>

**Exposure credit quality by exposure class**

The following table shows the Bank credit exposures (gross values), adjustments and exposure-related provisions and net exposure broken down by exposure classes (amounts expressed in RON thousand):

	Gross carrying values of:		Adjustments and exposure-related provisions	Net values
	Defaulted exposures	Non-defaulted exposures		
Central governments or central banks	0	2,103,762	235	2,103,527
Regional governments or local authorities	623	-24	0	600
Public sector entities	9	580	12	577
Multilateral development banks	0	0	0	0
International organisations	0	0	0	0
Institutions	5,172	448,201	20	453,353
Corporates	60,170	1,444,632	17,262	1,487,540
Of which: SMEs	60,170	1,172,204	15,181	1,217,194
Retail	150,929	1,549,445	29,295	1,671,078
Of which: SMEs	53,106	1,159,209	10,666	1,201,649
Secured by mortgages on immovable property	0	2,628,339	32,859	2,595,481
Of which: SMEs	0	1,173,544	10,808	1,162,737
Exposures in default	0	216,903	137,372	79,531
Items associated with particularly high risk	0	0	0	0
Covered bonds	0	0	0	0
Claims on institutions and corporates with a short-term credit assessment	0	0	0	0
Collective investments undertakings	0	0	0	0
Equity exposures	0	1,351	0	1,351
Other exposures	0	977,334	418,257	559,077
<b>Total</b>	<b>216,903</b>	<b>9,370,524</b>	<b>635,313</b>	<b>8,952,114</b>

***The credit quality of the exposures according to the sector of activity***

The table below shows the breakdown of Bank exposures according to the types of activity sectors and the credit quality, both in gross amounts, as well as the adjustments and exposure-related provisions and net exposure (amounts expressed in RON thousand):

Sectors of activity	Gross carrying values of:		Adjustments and exposure-related provisions	Net values
	Defaulted exposures	Non-defaulted exposures		
Industry	8,080	500,494	10,704	497,869
Trade	38,779	1,192,599	37,591	1,193,787
Agriculture	24,901	229,571	24,551	229,920
Services	12,067	3,092,345	432,055	2,672,357
Construction	30,466	1,211,310	29,588	1,212,188
Individuals	97,823	1,745,695	95,983	1,747,535
Other sectors	4,789	1,398,508	4,839	1,398,457
<b>TOTAL</b>	<b>216,903</b>	<b>9,370,523</b>	<b>635,313</b>	<b>8,952,114</b>

**Nonperforming and restructured exposures**

The table below shows non-performing and restructured exposures (gross book value) in accordance with Implementing Regulation (EU) 680/2014 of the Commission (amounts in RON thousand):

	Gross carrying values of performing and non-performing exposures	Gross carrying values of performing and non-performing exposures					Accumulated impairment and provisions and negative fair value adjustment due to credit risk				Collaterals and financial guarantees received	
		Performing exposures		Non-performing exposures			Performing exposures		Non-performing exposures		On non-performing exposures	Of which forborne exposures
		Of which performing but past due > 30 days <= 90 days	Of which performing forborne	Of which default	Of which impaired	Of which forborne	Total	Of which forborne	Total	Of which forborne		
Debt Securities	1,229,968	0	0	0	0	0	125	0	0	0	0	0
Loans and advances	5,063,025	26,790	75,905	205,938	194,502	74,667	81,284	2,925	138,149	43,250	63,547	31,293
Off-balance-sheet exposures	1,163,612	0	0	4,748	4,748	0	1,264	0	422	0	0	0

**Loans and advances individually impaired**

Individually impaired loans are loans with respect to which the Bank considers that difficulties may occur in collecting the principal and interest due according to the contractual terms of the loan agreement (amounts in RON thousand).

Grades	Loans to individuals			Loans to corporate entities			Total loans and advances to customers
	Consumer unsecured	Consumer secured	Mortgages	Small/ medium entities	Large corporate entities		
Past due 0-90 days	35,452	31,637	18,244	107,095	5,860	198,289	
Past due 91-180 days	4,689	2,675	2,716	7,014	0	17,094	
Past due >180 days	28,640	22,025	9,801	70,099	5,226	135,791	
Impaired loans	68,782	56,338	30,760	184,208	11,085	351,174	
Less: allowance for impairment	0	0	-9,014	-76,203	-4,175	-89,392	
<b>Net exposure</b>	68,782	56,338	21,746	108,005	6,910	261,781	
Fair value of collateral	0	21,030	21,079	30,697	280	73,086	

**Exposures subject to measures applied in response to the Covid-19 crisis**

Since the outbreak of the COVID-19 crisis, national governments and EU bodies have taken measures to address and mitigate the negative systemic impact of the pandemic on the EU banking sector. In accordance with EBA/GL/2020/07, the tables below, filled in in accordance with EU guidelines EBA/GL/2020/07, show information on Bank's loans and advances subject to legislative and non-legislative moratoria.

**EBA Template 1 Covid-19: Information on loans and advances subject to legislative and non-legislative moratoria**
*Amounts in RON thousand*

		Gross carrying amount							Accumulated impairment, accumulated negative changes in fair value due to credit risk							Gross carrying amount
			Performing			Non performing				Performing			Non performing			Inflows to non-performing exposures
			Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days			Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days		
1	Loans and advances subject to moratorium	363,377	311,055	27,838	143,675	52,322	32,643	38,855	-36,287	-6,543	-533	-4,082	-29,744	-17,336	19,542	5,847
2	of which: Households	139,689	122,737	5,530	45,642	16,952	5,264	7,774	-13,475	-3,784	-528	-2,959	-9,691	-2,478	-3,026	3,840
3	of which: Collateralised by residential immovable property	110,848	101,490	3,864	35,457	9,358	3,437	6,740	-5,899	-2,818	-220	-2,179	-3,081	-1,082	-2,452	2,556
4	of which: Non-financial corporations	223,656	188,286	22,308	98,033	35,370	27,378	31,081	-22,811	-2,758	-5	-1,123	-20,053	-14,858	-16,516	2,007
5	of which: Small and Medium-sized Enterprises	223,656	188,286	22,308	98,033	35,370	27,378	31,081	-22,811	-2,758	-5	-1,123	-20,053	-14,858	-16,516	2,007
6	of which: Collateralised by commercial immovable property	190,655	158,737	22,158	97,032	31,918	25,751	29,732	-19,331	-2,213	0	-1,069	-17,118	-13,696	-15,632	1,720

**EBA Template 2 Covid-19: Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria**

Amounts in RON thousand

		Number of obligors	Gross carrying amount							
				Of which: legislative moratoria	Of which: expired	Residual maturity of moratoria				
						<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
1	Loans and advances for which moratorium was offered	2,123	397,145	-	-	-	-	-	-	-
2	Loans and advances subject to moratorium (granted)	1,584	363,377	349,374	363,377	-	-	-	-	-
3	of which: Households		139,689	139,689	139,689	-	-	-	-	-
4	of which: Collateralised by residential immovable property		110,848	110,848	110,848	-	-	-	-	-
5	of which: Non-financial corporations		223,656	209,653	223,656	-	-	-	-	-
6	of which: Small and Medium-sized Enterprises		223,656	209,653	223,656	-	-	-	-	-
7	of which: Collateralised by commercial immovable property		190,655	184,820	190,655	-	-	-	-	-

**EBA Template 3 Covid-19: Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis**

Amounts in RON thousand

		Gross carrying amount		Maximum amount of the guarantee that can be considered	Gross carrying amount
			of which: forborne	Public guarantees received	Inflows to non-performing exposures
1	<b>Newly originated loans and advances subject to public guarantee schemes</b>	477,174	-	-	-
2	of which: Households	-			-
3	of which: Collateralised by residential immovable property	-			-
4	of which: Non-financial corporations	477,174	-	-	-
5	of which: Small and Medium-sized Enterprises	444,548			-
6	of which: Collateralised by commercial immovable property	33,965			-

\*

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- significant value decrease of the guarantees made by the debtor;
- significant decrease of the borrower's turnover; or
- debtor operates in an industry facing major financial difficulties.

The estimated period between a loss occurring and its identification is determined by the management for each identified portfolio.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (e.g. on the basis of the industry and product type). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets



with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

#### **Written-off loans**

The primary requirement for a credit to be written-off is when the likely prospects of generating future cash flows from the loans have disappeared and therefore total related loan outstanding exposure was fully covered with provisions for impairment calculated in accordance with IFRS.

The Bank continues however the legal actions against the debtors in order to collect the outstanding loans. Subsequent recoveries of amounts previously written off are recognised in the period in which they occur and decrease the amount of the impairment charge for credit losses in profit and loss.

#### **Changes in the stock of general and specific credit risk adjustments**

The table below shows movements in accumulated specific and general credit risk adjustment:

31.12.2022

<i>Amounts in RON thousand</i>	Accumulated specific credit risk adjustment
<b>Opening balance</b>	208,299
Increases due to origination and acquisition	66,571
Decreases due to derecognition	(32,700)
Changes due to change in credit risk (net)	21,966
Changes due to modifications without derecognition (net)	(13,949)
Changes due to update in the institution's methodology for estimation (net)	-
Decrease in allowance account due to write-offs	(32,549)

<i>Amounts in RON thousand</i>	Accumulated specific credit risk adjustment
Other adjustments	(2,027)
<b>Closing balance</b>	219,665
Recoveries of previously written-off amounts recorded directly to the statement of profit or loss	-
Amounts written-off directly to the statement of profit or loss	-

The status of the encumbered and unencumbered assets is presented as follows:

31.12.2022

<i>Amounts in RON thousand</i>	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Loans on demand	0		1,106,375	
Equity instruments	0	0	1,351	1,351
Debt securities	24,078	24,078	1,205,765	1,195,533
Loans and advances other than loans on demand	24,010		4,819,583	
Other assets	0		552,253	
<b>TOTAL</b>	<b>48,088</b>	<b>24,078</b>	<b>7,685,326</b>	<b>1,196,883</b>

The encumbered assets of the Bank represented 0.62% of total assets held at the end of 2022. The encumbered active portfolio and the related sources include mainly:

- Pledged government securities in settlement systems for payments guarantee;
- Collateral deposits at banks.

To the financial institutions exposures for which a rating provided by an external credit assessment institution is not available, it will be assigned the highest risk weighting ratio between exposures to the central government of the State in which the institution is established and the risk weight established on the basis of the external credit quality assessment method. This method differentiates the exposures by effective maturity, respectively less than or equal to 3 months.

For establishing the risk weight, it is used the correlation table between the level of the credit quality assessment scale and the risk weight made by the NBR.

Where two or three ratings provided by different rating agencies are available for an exposure, the next steps are followed:

- two ratings are available: It is used the rating that leads to the highest risk;
- three ratings are available: there are taken into account those two ratings that lead to the lowest risk weights. If the percentages of risk are different, it is applied the highest risk weight, and if they are identical, the respective weighting risk is applied.

In order to calculate the required capital for market risk, the bank uses the standardized approach for all three risks, respectively for:

- position risk for traded debt securities (MKR SA TDI)
- position risk for equity securities (MKR SA EQU)
- foreign exchange (MKR SA FX).

When calculating the required capital for market risk, the bank applies provisions of EU Regulation no. 575/2013.

**Foreign exchange risk** - calculating capital requests for this risk is performed only if the value of total net position on currency and gold exceeds 2% of its total personal funds. In this situation, capital requests are calculated by applying 8% over the value of net currency and gold position.

In order to determine capital requests for foreign exchange, we use a calculation in two stages:

- 1) Firstly, the open net position of the institution is calculated on each of them, which is formed of the following elements (positive or negative):
  - net spot position (all asset elements except for elements representing debts, on corresponding currency)
  - net forward position (respectively, all receivable amounts except for amounts paid in forward transactions on currency and principal for currency swap which is not reflected in position spot)
- 2) Secondly, long and short net positions on each currency, other than reporting currency, are transformed in reporting currency. After transforming in reporting currency, they are collected separately to form total short net positions and respectively total long net positions. The highest of the two totals represents total net currency position.

The capital requirement for operational risk is determined in accordance with Regulation no. 575/2013 of the European Parliament and of the Council of the European Union on prudential requirements for credit institutions and investment firms.

The Bank determines the regulatory capital requirement to cover operational risk in line with the Basic Indicator Approach (BIA).

The own funds requirement for operational risk is equal to 15% of the average over three years of the relevant indicator.

The average for three years is calculated based on the last three annual observations performed at the end of each financial exercise.

The relevant indicator is calculated before deduction of provisions, as sum of the following elements:

- Income receivable and similar income,

- Interest payable and similar charges;
- Income from shares and other fixed/variable yield securities;
- Commissions/ fees receivable;
- Commission/ fees payable;
- Net profit or net loss from financial operations;
- Other operating income.

According to Art. 316 from EU Reg 575/2013, the Bank does not include in the calculation of the relevant indicator the following elements:

- Realized profits/ losses from the sale of non-trading book items;
- Income from extraordinary or irregular items;
- Income derived from insurance.

The Bank's placements in the non-marketable equity instruments on the open market in the amount of RON 1,350 thousand are classified in the non-trading financial assets mandatorily at fair value through profit or loss (equity instruments). The conditions in the domestic capital market do not offer the possibility to obtain a market value for these investments (shares).

*Amounts in RON thousand*

Article 447 (b) to (c)	Carrying amount	Fair value	Market value
<b>Capital instruments</b>	1,350	1,350	-
Unlisted	1,350	1,350	-
Investments in associates and joint ventures	-	-	-
Unlisted	-	-	-

The leverage effect is the excessive exposures accumulation in a bank portfolio in relation to its own funds. Leverage indicator can be considered a simplified solvency indicator because it measures the volume of risk unweighted assets versus Tier 1.

The management of the risk of excessive leverage is achieved by:

- definition of risk indicators and their inclusion in the risk profile;
- measuring and monitoring these indicators, as well as their evolution and impact on the Bank's risk profile;
- balanced management of the balance sheet structure and the planning and protection of the capital base.

#### **14 The Internal Capital Adequacy Assessment Process (ICAAP)**

The Internal Capital Adequacy Assessment Process (ICAAP) is an indispensable part of Basel III, Pillar II. Through ICAAP, the Bank ensures that it has sufficient capital to cover all material risks to which it is or might be exposed on a continuing basis.

The purpose of the internal capital adequacy assessment process is to identify and measure all major risks to which the Bank is currently exposed, without being limited to those addressed under Pillar I, building on existing capabilities and developing more advanced methodologies, and provide sufficient capital availability to cover all risks according to risk profile and risk appetite. Additionally, capital adequacy is evaluated in a forward-looking manner through base and stress scenarios in line with the business plan in place.

Thus, the ICAAP framework includes key aspects of the capital adequacy assessment process, namely:

- Key regulatory requirements;
- Internal governance and structures involved;
- Risk coverage within ICAAP;
- Integration with risk appetite and recovery plan;
- Integrate with the Bank's business planning process;
- The ICAAP process;
- Approaches used in assessing capital adequacy.

ICAAP ensures the priority of quantitative risk management aspects and capital requirement estimation without neglecting the importance of qualitative aspects of risk management and control. Therefore, there is a clear relationship between capital requirements, on the one hand, and the robustness and efficiency of internal governance, risk management, control systems, and existing procedures, on the other.

The Bank has adopted clear, effective and comprehensive strategies and processes to continually assess capital requirements and to maintain internal capital at a level deemed appropriate to cover the nature and extent of the risks to which the Bank is or might be exposed.

ICAAP extends to risk types as defined in the SREP guide (EBA/GL/2014/13) and defined in the Bank's risk strategy.

The risk types presented in the following Table are assessed within the ICAAP, subject to the materiality assessment:

Primary Risk Categories	Risk Sub-categories
<b>Credit Risk</b>	Default Risk
	Residual Risk
	Risk generated by foreign currency lending
	Concentration Risk
	Counterparty Credit Risk
	Settlement Risk
<b>Market Risk</b>	FX Risk
	Credit Valuation Adjustment (CVA)
<b>Operational Risk</b>	Operational Risk (including legal risk, conduct risk, ITC and security risk and model risk)
<b>Other Risks</b>	Interest Rate Risk in the Banking Book (IRRBB)
	Liquidity Risk
	Reputational Risk
	Regulatory Risk

Primary Risk Categories	Risk Sub-categories
	Strategic Risk
	Risk of Excessive Leverage

The internal estimates of the necessary capital and available capital according to the ICAAP methodology at the end of 2022 are presented in the table below:

Risk	RON million	
	Pillar 1	Pillar 2
<b>1. Credit risk and associated risks</b>	<b>240</b>	<b>380</b>
1.1 Default risk	238	329
1.2 Residual risk		13
1.3 Risk stemming from FX lending activities		4
1.4 Concentration risk		32
1.5 Counterparty credit risk	3	3
<b>2. Market risk</b>	<b>1</b>	<b>5</b>
2.1 Foreign exchange risk	-	4
2.3 Credit value adjustment risk	1	1
<b>3. Operational risk</b>	<b>63</b>	<b>68</b>
<b>4. Other risks</b>		<b>52</b>
4.1 Interest Rate Risk Banking Book		36
4.2 Liquidity risk		15
4.3 Reputational risk		1
4.4 Regulatory risk		0
4.5 Strategic risk		-
<b>Total capital requirements</b>	<b>305</b>	<b>504</b>
<b>Own funds</b>		<b>789</b>

Risk	RON million	
	Capital requirement Pillar I	Capital requirement Pillar II
<b>Capital requirements</b>	<b>304.73</b>	<b>506.26</b>
<b>Own funds</b>	<b>788.62</b>	
<b>CET 1 Capital ratio</b>	<b>20.19%</b>	
<b>Tier 1 Capital ratio</b>	<b>20.19%</b>	
<b>Total capital ratio</b>	<b>20.70%</b>	
<b>TSCR (%)</b>	<b>14.22%</b>	
- Tier 1	<b>10.67%</b>	
- CET 1	<b>8.00%</b>	
<b>OCR (%)</b>	<b>17.23%</b>	
- Tier 1	<b>13.67%</b>	
- CET 1	<b>11.00%</b>	

By reference to the results presented in the above table, the internal capital requirements are adequately covered by internal capital requirements.

**Declaration of Management Body of First Bank  
on the adequacy of risk management framework in 2022**

According with the requirements of art. 435, par. (1) (e) of Reg. (EU) no. 575/2013, First Bank SA's Management Body confirms that First Bank's risk management systems, methods and techniques are in line with the bank's risk strategy and risk profile, ensuring that it operates under appropriate prudential conditions, as well as sustainable development.

The risk management framework is one of the core components of the Bank's management framework, being adapted to the business carried out, as well as to the nature and complexity of the risks generated by the business model.

The Bank focuses on effective risk monitoring and management in order to maintain its stability, financial soundness and continuity of operations. In this context, the risk management framework includes all the strategies, policies, procedures, governance and systems developed and implemented by the Bank to identify, measure, monitor, control and mitigate the risks arising from its operations.

Chairperson of Board of Directors,

Ilinca Rosetti

**Declaration of the Management Body of First Bank  
on 2022 overall risk profile of the Bank**

According with the requirements of art. 435, par. (1) (f) of EU Regulation 575/2013, First Bank SA's Management Body confirms that the risk profile of the bank is consistent with the risk appetite and risk tolerance assumed through its risk management strategy and risk profile policy.

The management of the Bank's significant risks is a process focused on the analysis of the risk profile in order to optimize the Bank's risk-to-profit ratio in different areas of activity.

The risk profile aims to assess if the significant risks (potential losses) accepted at the Bank's level are in line with its risk appetite and risk tolerance.

The risk profile is defined as the level of the exposure at risk, at a given point in time and per each risk type, which considers all the business activities of the Bank. The risk profile, assessed through the risk matrix, is not a mere static measure, but must provide a dynamic assessment of the evolution of risks. The purpose of the risk profile is to determine the dimension of each significant risk and the total level of risk, based on key risk indicators.

The set-up of targeted risk profile is done on an yearly basis, by considering market and macroeconomic conditions, past performance (historical) and First Bank' strategy. For 2022, a medium risk profile was assumed in First Bank.

We present below the key risk indicators as of 31.12.2022:

Indicator	2022
<b>Capital Adequacy</b>	
Core Tier 1 ratio (Tier 1 Capital / Risk Weighted Assets)	20.19%
Total capital ratio (Own funds / Risk Weighted Assets)	20.70%
Leverage ratio	9.7%
<b>Financing and liquidity</b>	
Liquidity Coverage Ratio	180%
Net Stable Funding Ratio	166%

Chairperson of the Board of Directors,  
Ilinca Rosetti