B.C. „VICTORIABANK" S.A.

INDIVIDUAL FINANCIAL STATEMENTS

prepared in accordance with
INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the financial year ended 31 December 2023

(free translation)*

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

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Banca Comerciala Victoriabank S.A.
141, 31 August 1989 street, mun Chisinau, Republic of Moldova
Unique registration core: 1002600001338

Report on the Audit of the Financial Statements

Opinion

1. We have audited the individual financial statements of BC Victoriabank S.A. ("the Bank"), which comprise the statement of financial position as at December 31, 2023, and the income statement and statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, including a summary of material accounting policies and notes to the financial statements.

2. The financial statements as at December 31, 2023 are identified as follows:

   - Total equity: MDL 4,534,139 thousand
   - Net profit for the financial year: MDL 672,015 thousand

3. In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standard ("IFRS") as issued by the International Accounting Standard Board ("IASB").

Basis for Opinion

4. We conducted our audit in accordance with International Standards on Auditing (ISAs), and Law no. 271/2017 on the audit of financial statements as amended to date ("the Law"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the *Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code)*, in accordance with ethical requirements relevant for the audit of the financial statements in Republic of Moldova including the Law and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

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Nature of the area of focus	How our audit addressed the key audit matter
Collective impairment of loans and advances to customers	
According to IFRS 9, the Bank accounts for credit losses and advances to customers based on expected credit losses (ECL): for a period up to 12 months for credit exposures for which the credit risk did not increase significantly since origination, and throughout the credit life time for exposures with significant increase in credit risk, as detailed in impairment policy in notes 3.2 and 39.1 to the financial statements. As at 31 December 2023, the Bank registered impairment allowances in amount of MDL 454,697 thousand for loans and advances to customers in gross amount of MDL 6,436,284 thousand as disclosed in note 7 to the financial statements. The Bank exercises significant professional judgement using complex models, extensive data and subjective assumptions over both when and how much to record as impairment for loans. Because loans and advances to customers form a major portion of the Bank's assets, and due to the significance of the management professional judgments applied in classifying loans and advances to customers into various stages stipulated in IFRS 9 and determining the related impairment level, this audit area is considered a key audit matter. Key areas of judgement included: • utilization of historical data for determining risk parameters; • the interpretation of the requirements to determine impairment under the application of IFRS 9, which is reflected in the expected credit loss model; • assumptions used in the expected credit loss models to assess the credit risk related to the exposure and the expected future cash flows of the customers; • the identification of exposures with a high level of significant deterioration in credit quality and the industries affected by the restrictions imposed as a result of current economic environment;	Based on our risk assessment and industry knowledge, with the support of our credit risk experts, we have examined the impairment charges for loans receivables and evaluated the methodology applied as well as the key assumptions made by the management according to the description of the key audit matter. Our procedures included the following elements: 1) Testing of key internal controls We have checked the adequacy of the key processes and related key controls applied by management to ensure accuracy of impairment calculation, including: • key controls identified to ensure quality assurance of the methodological aspects used in the development of professional judgments and the ECL models; • key controls related to timely identification of impairment triggers and significant increase in credit risk; • key controls to assess the debtors' financial performance and estimate future cash flows. For the relevant key controls identified in, we have tested the design and operating effectiveness of such controls. 2) Testing the implementation of the ECL computation methodology into the IT computation systems, including: • test the general IT controls related to data sources and computations of ECL; • assessment on a sample basis of the credit quality and stage allocation; • test on a sample basis the ECL computations. 3) Obtaining and analysing the information to support the key assumptions used in: • development of the models for the key risk parameters computation (12-month probability of default, lifetime probability of default and loss given default), including procedures on the source data quality;

Nature of the area of focus	How our audit addressed the key audit matter
Collective impairment of loans and advances to customers	
• potential impact on the assumptions used, increases in credit risk and impairments, and future cash flows as a result of the current social and economic conditions; • assessment of prospective information.	• development of the expected credit loss models; • development and adequacy of the stage allocation and the criteria used to determine the significant increase in credit risk; • development of models to reflect the potential impact of future economic conditions in the ECL computation; • assessment of the adequacy of the analysis and adjustments made by the management, on all the aspects pertaining to the estimation of expected credit losses, including prospective information on customers loans portfolio. We have analysed whether the ECL material information presented in the financial statements is adequate, in accordance with the applicable IFRS requirements.
Interest and Fee Income Recognition	
Refer to notes 23 and 24 to the financial statements. For the year ended 31 December 2023, the interest income represents MDL 1,827,320 thousand and fee and commission income represents RON 617,931 thousand, the main source being loans to customers, current accounts and investment securities. These are the main contributors to the operating income of the Bank influencing the Bank's profitability. While interest income is accrued over the expected life of the financial instrument using the effective interest rate, the recognition of fee income depends on the nature of the fees as follows: • fees that are directly attributable to the financial instrument are part of the effective interest rate and accrued over the expected life of such an instrument and are presented as interest income; • fees for services provided are recognized when service is provided and are presented as fee and commission income; • fees for the execution of an act are recognized when the act has been completed and are presented as fee and commission income.	We have tested the design and operating effectiveness of the key internal controls and focused on: • interest/fee inputs on customer loans and accounts; • recording/ changes of fees and interest rates; • management oversight and key controls on interest and fee income, including budget monitoring; • key IT controls relating to access rights and change management of relevant automated controls with the assistance of our IT specialists. We performed also the following procedures with regard to interest and fees revenue recognition: - We evaluated the material accounting policies applied by the Bank in respect of fees charged to clients to determine whether the methodology complies with the requirement of the relevant accounting standards. We have focused our testing on challenging the correct classification of:

Nature of the area of focus	How our audit addressed the key audit matter
Interest and Fee Income Recognition	
Revenue recognition specifics, a high volume of individually small transactions which depends on data quality of interest and fee inputs and on IT solutions for their recording, resulted in this matter being identified as a key audit matter.	• fees that are identified as directly attributable to the financial instrument and are part of the effective interest rate; • fees that are not identified as directly attributable to the financial instrument. - We assessed the completeness and accuracy of data used for the calculation of interest and fee income. - We evaluated the mathematical formula used for accruing the relevant income over expected life of the loan. - We have assessed the interest and fee income by building our own expectation on the revenue and compared with the actual results of the Bank.

Other information – Annual Report

6. Management is responsible for the preparation and presentation of the other information. The other information comprises the Annual report, which also contains Management's Report, but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements for the year ended December 31, 2023, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Other Reporting Responsibilities in Accordance with the legislation of the Republic of Moldova Related to Other information

With respect to the Management's Report, we read it and report if this has been prepared, in all material respects, in accordance with the requirements of Law no. 287/2017 on Accounting and Financial Reporting, article 23, paragraph 2-8.

On the sole basis of the procedures performed within the audit of the financial statements, in our opinion:

a) the information included in the Management's Report for the financial year for which the financial statements have been prepared is consistent, in all material respects, with these financial statements;

b) the Management's Report has been prepared, in all material respects, in accordance with the provision of the Law no. 287/2017 on Accounting and Financial Reporting, article 23, paragraph 2-8.

Moreover, based on our knowledge and understanding concerning the Bank and its environment gained during the audit on the financial statements prepared as at December 31, 2023, we are required to report if we have identified a material misstatement of this Management's Report. We have nothing to report in this regard.

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

7. Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

    - Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

    - Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

    - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

    - Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

    - Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

The engagement partners of the audit resulting in this independent auditors' report are Claudiu Ghiurluc Lilia Colin.

Lilia Colin

For signature, please refer to the original signed Romanian version.

Claudiu Ghiurluc

For signature, please refer to the original signed Romanian version.

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On behalf of:

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Chisinau, Republic of Moldova

15 April 2024

B.C. VICTORIABANK S.A.

INDIVIDUAL STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the financial year ended 31 December
In MDL thousand

	Notes	2023	2022
Interest income calculated using the effective interest method		1,827,320	1,307,577
Interest expenses		(566,460)	(250,726)
Net interest income	23	**1,260,860**	**1,056,851**
Fee and commission income		617,931	586,252
Fee and commission expense		(409,549)	(346,062)
Net fee and commission income	24	**208,382**	**240,190**
Net trading income	25	265,838	252,188
Other operating income	26	12,327	22,834
Revenue		**1,747,407**	**1,572,063**
Net impairment losses on financial assets and provisions for off-balance sheet commitments	27	(115,637)	(206,103)
Net impairment (losses) / release on non-financial assets	28	8,572	56,929
Net reversals related to provisions	18	2,314	-
Personnel expenses	29	(473,101)	(361,777)
Depreciation	31	(116,684)	(93,508)
Other operating expenses	30	(285,356)	(233,967)
Total expenses		**(979,892)**	**(838,426)**
Profit before income tax		**767,515**	**733,637**
Income tax expense	32	(95,500)	(91,860)
Profit for the year		**672,015**	**641,777**
Other comprehensive income			
Items that will not be reclassified to profit or loss, net of tax			
Equity investments at fair value through other comprehensive income – net change in fair value	8	58	147
Foreign exchange currency revaluation gains/ (losses) on equity instruments at fair value through other comprehensive income		(25)	6
Tax related to items that will not be classified to profit or loss	19	(4)	(18)
		29	135
Items that are or may be reclassified subsequently to profit or loss			
Debt investments at fair value through other comprehensive income – net change in fair value		719	(383)
Tax on items that can be classified as profit or loss	19	(89)	43
		630	(340)
Total comprehensive income		**672,673**	**641,572**
Basic earnings per share, MDL	35	**26.88**	**25.67**
Diluted earnings per share	35	**26.88**	**25.67**

The financial statements were approved by the Board of Administration on April 12, 2024.
The financial statements were signed by the Management of the Bank on April 15, 2024 represented by:

Levon Khanikyan
Chief Executive Officer

Vitalie Corniciuc
Chief Financial Officer

B.C. VICTORIABANK S.A.

INDIVIDUAL STATEMENT OF FINANCIAL POSITION

For the financial year ended 31 December

In MDL thousand	Notes	31 December 2023	31 December 2022
ASSETS			
Cash and balances with National Bank of Moldova	4	7,317,370	7,056,788
Current accounts and placements with banks	5	1,769,324	1,101,283
Investment securities – debt instruments	6	5,860,016	4,453,627
Equity investment securities designated at fair value through other comprehensive income	8	3,378	3,366
Loans to customers	7	5,981,588	5,104,759
Other financial assets	12	227,296	174,711
Property and equipment	9	348,465	303,331
Intangible assets	10	86,312	74,312
Right-of-use assets	11	81,387	72,679
Deferred tax assets	19	4,002	742
Other assets	13	57,557	49,775
Total assets		**21,736,695**	**18,395,373**
LIABILITIES			
Deposits from banks	16	35,605	69,855
Deposits from customers	17	15,725,294	13,651,167
Other borrowings	15	512,482	196,838
Other financial liabilities	20	780,660	472,999
Provisions for other risks and loan commitments	18	39,216	37,175
Lease liabilities	11	79,583	72,860
Current tax liabilities	14	9,826	14,812
Other liabilities	21	19,890	18,201
Total liabilities		**17,202,556**	**14,533,907**
EQUITY			
Share capital	22	250,001	250,001
Share premium		10,250	10,250
Fair value reserves	22	916	258
Statutory reserves		25,000	25,000
Other reserves	22	51,445	94,610
Retained earnings		4,196,527	3,481,347
Total equity		**4,534,139**	**3,861,466**
Total liabilities and equity		**21,736,695**	**18,395,373**

The financial statements were approved by the Board of Administration on April 12, 2024.
The financial statements were signed by the Management of the Bank on April 15, 2024 represented by:

Levon Khanikyan
Chief Executive Officer

Vitalie Corniciuc
Chief Financial Officer

B.C. VICTORIABANK S.A.

INDIVIDUAL STATEMENT OF CHANGES IN EQUITY

For the financial year ended 31 December

In MDL thousand

	Note	Share Capital	Share premium	Fair value reserve	Statutory reserves	Other reserves	Retained earnings	Total equity
Balance at 1st of January 2022		250,001	10,250	462	25,000	448,925	2,485,256	3,219,894
Statement of comprehensive income for the period								
Profit for the period		-	-	-	-	-	641,777	**641,777**
Other comprehensive income, net of income tax								
Financial assets at FVOCI – net change in fair value	3.15	-	-	(204)	-	-	-	**(204)**
Total comprehensive income for the period		-	-	**(204)**	**-**	**-**	**641,777**	**641,573**
Contributions and distributions of the shareholders								
Dividends distributed to shareholders		-	-	-	-	-	-	**-**
Transfer of gains on disposal of equity investments at fair value through other comprehensive income to retained earnings	3.15	-	-	-	-	-	-	**-**
Appropriation of reserves	22b	-	-	-	-	(354,315)	354,315	**-**
Total contributions and distributions of the shareholders		-	-	-	-	**(354,315)**	**354,315**	**-**
Balance at 31st of December 2022		250,001	10,250	258	25,000	94,610	3,481,347	3,861,466
Statement of comprehensive income for the period								
Profit for the period		-	-	-	-	-	672,015	**672,015**
Other comprehensive income, net of income tax								
Financial assets at FVOCI – net change in fair value	3.15	-	-	658	-	-	-	**658**
Total comprehensive income for the period		-	-	**658**	-	-	**672,015**	**672,673**
Contributions and distributions of the shareholders								
Dividends distributed to shareholders		-	-	-	-	-	-	**-**
Transfer of gains on disposal of equity investments at fair value through other comprehensive income to retained earnings		-	-	-	-	-	-	**-**
Appropriation of reserves	22b	-	-	-	-	(43,165)	43,165	**-**
Total contributions and distributions of the shareholders		**-**	**-**	**-**	**-**	**(43,165)**	**43,165**	**-**
Balance at 31st of December 2023		250,001	10,250	916	25,000	51,445	4,196,527	4,534,139

The explanatory notes are an integral part of these financial statements.

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

B.C. VICTORIABANK S.A.

INDIVIDUAL STATEMENT OF CASHFLOWS

For the financial year ended 31 December

In MDL thousand	Notes	2023	2022
Cash flows from operating activities			
Profit for the year		**672,015**	**641,777**
Adjustments for:			
Depreciation and amortization	**31**	116,684	93,508
Net impairment losses / (release) of financial assets and provisions for off-balance sheet commitments	**27**	113,323	233,862
Net impairment losses / (release) on non-financial assets	**28**	(8,572)	(56,929)
Income tax expense	**32**	95,500	91,860
Interest income	**23**	(1,827,320)	(1,307,577)
Interest expense	**23**	566,460	250,727
(Income) / losses from the revaluation of foreign currency	**25**	(9,102)	(16,500)
Net profit adjusted with non-monetary elements		**(281,012)**	**(69,272)**
Changes in operating assets and liabilities			
Change in current account with National Bank of Moldova	**4**	(264,390)	(2,324,061)
Change in current accounts and placements with banks	**5**	(276,164)	120,551
Change in loans to customers	**7**	(1,048,906)	(641,999)
Change in other assets	**12,13**	(62,597)	200,084
Change in deposits from banks	**16**	(30,194)	(5,373)
Change in deposits from customers	**17**	2,396,231	719,924
Change in other liabilities	**20,21**	316,513	243,765
		1,030,493	**(1,687,109)**
Interest received		757,177	842,627
Interest paid		(552,204)	(255,425)
Income tax paid		(104,192)	(81,000)
Net cash-flow from operating activities		**850,262**	**(1,250,179)**
Cash-flow used in investment activities			
Acquisitions of investment securities measured at amortized cost		(4,580,358)	(4,248,970)
Proceeds from the disposal of investment securities measured at amortized cost		4,537,068	4,370,744
Interest received for investment securities measured at amortized cost		968,408	598,463
Acquisitions of property and equipment	**9**	(121,509)	(124,538)
Proceeds from disposal of property and equipment	**9**	12,887	4,122
Acquisitions of intangible assets	**10**	(29,978)	(10,202)
Net cash-flow (used in) investment activities		**786,518**	**589,619**
Cash-flow from financing activities			
Gross proceeds from loans from other financial institutions	**15**	386,570	114,316
Gross payments for loans from other financial institutions	**15**	(66,646)	(65,907)
Repayment of the principal portion of the lease liabilities	**11**	(34,155)	(32,548)
Net cash-flow from / (used in) financing activities		**285,769**	**15,861**
Net increase/decrease (-) in cash and cash equivalents		**1,922,549**	**(644,699)**
Cash and cash equivalents at January 1		**3,244,724**	**3,862,134**
The impact of exchange rate variations on cash and cash equivalents		548	27,289
Cash and cash equivalents at December 31	**4**	**5,167,821**	**3,244,724**

The explanatory notes are an integral part of these financial statements.

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

B.C. VICTORIABANK S.A.

EXPLANATORY NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS

1. GENERAL INFORMATION

BC Victoriabank SA (thereafter "the Bank") was established in the Republic of Moldova on 22 December 1989. The Bank was re-incorporated as a joint-stock commercial bank on 26 August 1991, obtaining the license of the National Bank of Moldova. The Bank is primarily involved in investment, corporate and retail banking. See note 36 for segment reporting details.
On 29 November 2002 the Bank was re-registered as an open joint stock commercial bank and the shares became listed on Moldovan Stock Exchange.
The Head Office of the Bank is located at str. 31 August 1989, no. 141, MD-2004, Chisinau, Republic of Moldova.
The Bank operates through its head office located in Chisinau, 30 branches and 38 agencies (as at 31 December 2023), located throughout the country (30 branches and 41 agencies as at 31 December 2022).
The Bank's number of active employees as at 31 December 2023 was of 1,138 (1,097 as at 31 December 2022).
The share capital of B.C. „VICTORIABANK" S.A. represents 250.000.910 lei, divided into 25.000.091 first class registered common shares entitled to vote, at par/face value of 10 lei/share. Registered common shares issued by the Bank (ISIN: MD14VCTB1004) are allowed for trading on the regulated market at the Stock Exchange of Moldova (**www.bvm.md**).

The shareholders' structure and/ or groups of persons that act in concert and own significant share (i.e. greater than 1%) in the Bank's share capital and final beneficiaries as at 31 December 2023 and 31 December 2022:

	Direct owners				Final beneficiaries of significant share	
	Name of the shareholders	Residence country	Number of the group*	Share , %	Name of final beneficiary	Residence country
1	VB INVESTMENT HOLDING B.V.	NED	0	72.19	Banca Transilvania (61.82%); European Bank for Reconstruction and Development (EBRD) (38.18%); Ultimate beneficiaries do not exist	Romania Great Britain
2	Ţurcan Victor	MDA	0	10.76	Ţurcan Victor	Republic of Moldova
3	Ţurcan Valentina	MDA	1	8.07	Ţurcan Valentina	Republic of Moldova
4	Artemenco Elena	MDA	1	4.95	Artemenco Elena	Republic of Moldova
5	Proidisvet Galina	MDA	1	1.58	Proidisvet Galina	Republic of Moldova

The Board of Administration of the Bank acts based on the full information, in good faith and in the shareholders' interest, performs the role of supervising and monitoring the decision - making process of management and is responsible for the adoption of the development strategy, risk control policies, business plans and exercises the monitoring of their fulfilment. The Board of Administration represents the shareholders' interest during the period between the General Shareholders' Meetings and exercises the supervision of the Bank's activity.

According to the Articles of Association of the Bank, the Board of Administration consists of 7 members appointed by the General Shareholders' Meeting.
As at 31 December 2023, the composition of the Board of Administration of the Bank in exercise, selected at the ordinary General B.C."Victoriabank" S.A. Shareholders' Meeting as at the 24th of May 2019, is of the following members:

- Victor TURCAN, Chairman of the Board of Administration
- Thomas GRASSE, Vice-chairman of the Board of Administration, Independent member
- Tiberiu MOISĂ, Member of the Board of Administration
- Peter FRANKLIN, Member of the Board of Administration, Independent member
- Igor SPOIALĂ, Member of the Board of Administration, Independent member
- Mehmet Murat SABAZ, Member of the Board of Administration, Independent member
- Maris MANCINSKIS, Member of the Board of Administration, Independent member

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B.C. VICTORIABANK S.A.

EXPLANATORY NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board (IASB). These financial statements were authorized for issue by the Board of Administration on April 12, 2024.

2.2 Basis of preparation

These financial statements were prepared on historical cost or amortized cost basis, except for the financial instruments at fair value through other items of comprehensive income which are evaluated at fair value and repossessed collaterals which are evaluated at the lower value between carrying amount and fair value minus selling costs.

2.3 Functional and presentation currency

The amounts included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates ("the functional currency"). The financial statements are presented in Moldovan lei ("MDL"), which is the functional and presentation currency of the Bank, rounded to 1,000 units, except where otherwise specifically indicated.

2.4 Use of estimates and judgements

In preparing the financial statements, the Bank's management applies judgment, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events believed to be reasonable under the circumstances. Revisions of accounting estimates are recognized in the period in which the estimate is revised and affect only that period or in the revision period and future periods, if the revision affects both the current period and future periods.

Information about estimates used in the application of the accounting policies which have a significant impact on the financial statements, as well as the estimates involving a significant degree of uncertainty, are described below.

a) Impairment losses on financial assets

The measurement of impairment losses both under IFRS 9 across all categories of financial assets in scope requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral value when determing impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank review its loan portfolio in order to assess the impairment thereof on a monthly basis. The bank's expected credit loss (ECL) calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elemnets of the ECL models that are considered to be acocunting judgements and estimates include:

- The Bank's internal credit grading model, which assign probbility of defaults (PDs) to the individual grades,
- The Bank's assessment whethr there is a signficant incrase in credit risk;
- The segmentation of financial assets when their ECL is assessed on collective basis
- Development of ECL models, inluding the various formulas and the choise of inputs
- Determination of association between macroeconomic scenarios and economic inputs, such as GDP, Inflation, Unemployemnt rate, Gross salary, Average monthly consumption expenditure per person, base rate, interest rate on treasury bills, interest rate of new loans loans granted, exchange rates, and selection of forward-looking macroeconomic scenarions and their probability weightings as dislcosed in Note 39.1.1.(d)

It has been the Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary. For details regarding bank's assumtions used in assessing the ECL please refer to Notes 3.2 and 39.1.1.

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2. BASIS OF PREPARATION (CONTINUED)

2.4 Use of estimates and judgements (continued)

a) Impairment losses on financial assets (continued)

The process of selecting significant exposures at the individual level is automatic and applies to exposures equal to or exceeding MDL 20 million which are classified in Stage 3. A specialized team of credit risk experts of the Bank uses professional judgment to assess the unlikeliness to pay and determine the scenarios used in the ECL calculation.

According to IFRS 9, the impairment of assets is classified into 3 stages, depending on a possible significant increase in credit risk since initial recognition. If the credit risk has not increased significantly as outlined in Note 39.1.1, the impairment equals to the expected credit loss resulting from possible default events in the next 12 months (stage 1). If the credit risk has increased significantly, the loan is more than 30 days past due, or is in default or impaired due to other causes, the impairment equals the expected loss of credit risk for the entire duration of the loan (lifetime).

In determining the impairment for expected credit losses, management incorporates forward-looking information, exercises judgement and uses estimates and assumptions.

The estimation of expected credit losses involves forecasting future economic conditions over 3 years.

More details about assumptions made, scenarios used, weights applied to each scenario is described in Note 39.1.1.(d). The incorporation of forward-looking elements reflects the expectations of the Bank and involves the creation of scenarios, including an assessment of the probability for each scenario.

A large part of the impact on the expected credit losses for 2023 year resulted from the effects of the economic turbulences (energy crisis, increase of interest rates, increase of inflation rate, supply chain disruption etc.) on the Bank's customers' activity. In this context, the Bank's management applied its own judgments, considering that a series of post-model adjustments, as well as individual analyzes, are necessary to reflect the context and its own expectations in credit risk modeling. Internal analyzes have assisted the Bank in determination of additional adjustments when indicators of increase in credit risk have been identified.

Thus, a source of the increase in the volumes of expected losses from impairment of loans to customers was an expert individual analysis of the exposures exceeding threshold of MDL 5 million, initiated in order to capture and understand the situations and difficulties faced by debtors, that could affect their ability to meet their credit obligations.

Additionally, in the light of economic turbulences of 2022, the exposures of customers which operate in industries that require a high energy consumption and also specific customers, whose activity could be significantly influenced by the cost of raw materials and disruptions in global supply chains, were subject to additional individual analysis. Exposures, with no impairment triggers but considered susceptible to the effects of economic turbulences were classified in Stage 2. In order to incorporate the effects of the uncertainties associated with this portfolio as a result of the current economic turbulences, the Bank applied post-model adjustments(PMA) in the amount of 2x standard deviations for the guaranteed portfolios (Corporate and Retail guaranteed) and 2.5x standard deviations for the unsecured portfolios (Retail unsecured and credit cards), calculated at default rates.

The major post-model adjustment factor which determined increase in expected credit losses in 2022 was represented by inflationary increases. For this purpose, the Bank's management applied its own judgments, considering that a number of post-model adjustments are required to adequately reflect the risks and uncertainties associated in credit risk modeling. The quantification of the post-model adjustments was reflected by applying some uplifts to all default rates as follows: Q4_2022 – 40%; Q1_2023 – 40%; Q2_2023 – 40%; Q3_2023 – 30%; Q4_2023 – 30%; Q1_2024 – 20%; Q2_2024 – 10%; for the following quarters, the original forecasted default rate being used.

The application of the above mentioned post-model adjustments resulted in an increase in expected credit risk losses as at 31 December 2022 by MDL 107,904 thousand.

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2. BASIS OF PREPARATION (CONTINUED)

2.4 Use of estimates and judgements (continued)

a) Impairment losses on financial assets (continued)

For 2023, as result of evolution of the macroeconomic factors, the Bank adjusted the model by considering the following key types of uncertainties that appear in the model output were also considered:

a. Model peculiarities related to changes in portfolio and underwriting standards for the period 2023 versus 2018. During this time the Bank has gone through significant transformations since 2018, including a change in customers in the portfolio, a more structured approach in sales and in underwriting with 3 lines of business.
b. Uncertainty of results due to model estimation. The model is estimated on a macroeconomic data set characterized by a period with large variations for some economic factors (e.g. MDL devaluation in 2015), while the estimated value of macroeconomic factors may be outside this range and is generally a different set than historical ones.
c. Inherent cause-effect lag. While we are in an economic crisis and the FLI takes this into account, it has not yet fully materialized in all portfolios.

The bank has considered an uncertainty component for each portfolio as at 31 December 2023 based on the standard deviation calculation:

For the Corporate portfolio the limitations of the model would largely relate to uncertainties (a. and (b) mentioned above, thus post model adjustments have been applied as follows:

- for uncertainty type (a). ½ standard deviation (0.5 StDev) was applied
- for uncertainty type (b). ½ standard deviation (0.5 StDev) was applied.

For the Retail Secured portfolio the model limitations would largely relate to uncertainties (a), (b), and (c), thus post model adjustments were applied as follows:

- for uncertainty type a. ½ standard deviation (0.5 StDev) was applied
- for uncertainty type b. ½ standard deviation (0.5 StDev) was applied
- for uncertainty type c. ½ standard deviation (0.5 StDev) was applied.

For the Retail Unsecured portfolio the model limitations would largely relate to uncertainties a., b., and c., thus post model adjustments have been applied as follows:

- for uncertainty type a. ½ standard deviation (0.5 StDev) was applied
- for uncertainty type b. ½ standard deviation (0.5 StDev) was applied
- for uncertainty type c. ½ standard deviation (0.5 StDev) was applied.

For the Credit Card portfolio the model limitations would mostly relate to uncertainties a., b., and c., thus post model adjustments were applied as follows:

- for uncertainty type a. ½ standard deviation (0.5 StDev) was applied
- for uncertainty type b. ½ standard deviation (0.5 StDev) was applied
- for uncertainty type c. ½ standard deviation (0.5 StDev) was applied.

*Additional 1.5 StDev were considered for the Credit Card portfolio.

The application of the above mentioned post-model adjustments resulted in an increase in expected credit risk losses as at 31 December 2023 by MDL 32,200 thousand.

b) Other significant litigations

The Bank was notified on 6 July 2020 that it is being investigated in a case instrumented by the Prosecutor's Office of the Republic of Moldova and on 6 August 2020, a precautionary seizure was placed on some of the Bank's assets, in order to cover the claims in the file - amounting to approximately MDL 2.2 billion. Considering the nature of the case, current status of the investigation, legal limitations related to the investigation, the lawyers' analysis of the content of investigators case files, corroborated with the lawyer's legal opinion on the background facts and evidence provided by the prosecutors, the management of the Bank concluded that the disclosure of a contingent liability in the financial statements satisfies the requirements of IAS 37. The Bank will monitor the evolution of the topic at each reporting date, in accordance with the relevant provisions of the accounting standards and regulations.

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3. MATERIAL ACCOUNTING POLICIES

The bank has consistently applied the following accounting policies to all periods presented in these individual financial statements, except in mentioned otherwise.

In addition, the Bank adopted *Disclosure of Accounting policies* (Amendments to IAS 1 and IFRS Practice statement 2) from 1 January 2023. The amendments require the disclosure of "material" rather than "significant", accounting policies.

Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information related to financial instruments disclosed in Note 39.1 in certain instances.

3.1 Foreign currency transactions

Transactions denominated in foreign currency are converted into the functional currency at the exchange rates in effect at the date of transaction. The exchange rate differences resulting from such transactions denominated in foreign currency are reflected in the statement of profit or loss at the transaction date.

Monetary assets and liabilities denominated in foreign currencies at the date of the statement of financial position are translated to the functional currency at the exchange rate valid at that date.

Gains and losses in foreign currency resulting from the revaluation of monetary assets and liabilities in foreign currency are reflected in profit or losses, excluding equity investments at FVOCI.

Non-monetary assets and liabilities that are measured in terms of historical cost in foreign currency are translated in the functional currency by using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at the exchange rate valid at the date when the fair value is determined.
Exchange rates of major currencies at the end of the year and the average exchange rates were:

	2023		2022	
	USD	EUR	USD	EUR
Average for the period	18.1607	19.6431	18.9032	19.8982
The end of the year	17.4062	19.3574	19.1579	20.3792

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EXPLANATORY NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets and liabilities

(i) Recognition and initial evaluation

Date of recognition

Financial assets and liabilities, with the except of loans and advances to customers and balances due to customers, are initially recognized on the trade date, i.e., the date on which the Bank becomes a party to the contractual provision of the instrument. Loans and advances to customers are recognized when the funds are transferred to the customer's accounts. The Bank recognizes balances due to customers when funds are transferred to the Bank's accounts.

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments as described in Note 3.2.(iii). Financial instruments are initially measured at their fair value as defined in Note 3.2.(vii), except in the case of financial assets and financial liabilities recorded at fair value through profit or loss. A financial asset or liability that is not recorded at fair value through profit or loss is initially measured at fair value plus transaction costs directly attributable to the acquisition or issuance.

(ii) Classification

On initial recognition financial assets are classified as measured at:

- amortized cost;
- fair value through other comprehensive income (FVOCI);
- fair value through profit or loss (FVTPL).

Amortized cost classification

The Bank measures Cash and balances with National Bank of Moldova, Current accounts and placements with banks, Loans to customers, Investment securities – debt instruments and other financial assets at amortized cost if it meets both of the following conditions and is not designated at fair value through profit or loss:

- The asset is held within a business model whose objective is the ownership of the asset to collect the contractual flows; and
- contractual terms of the financial asset give rise to the specific data for cash flows that are only principal and interest ("SPPI").

Debt instruments at FVOCI

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated at fair value through profit or loss:

- The asset is held within a business model whose objective is achieved both by collecting contractual flows and the sale of financial assets; and
- contractual terms of the financial asset give rise to the specific data for cash flow that are only principal and interest ("SPPI").

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in OCI. Interest income and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost as explained in Note 3.3.

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3. MATERIAL ACCOUNTING POLICIES (CONTINUED)
3.2 Financial assets and liabilities (continued)

Equity instruments at FVOCI

On initial recognition of an equity instrument that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value through other comprehensive income (FVOCI). This choice is made on an individual basis for each instrument.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognized in profit or loss as other operating income when right of payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument in which case, such gains are recorded in OCI. Equity instruments are not subject to an impairment assessment.

All other financial assets are classified as at fair value through profit or loss (FVTPL).

(iii) Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the application of those policies in practice, in particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered separately, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

The bank's retail and corporate banking business comprises primarily loans to customers that are held for collecting contractual cash flows. In the retail business the loans comprises mortgages, overdraft, unsecured personal lending and credit card facilities. Sales of loans from these portfolios are very rare.

Certain debt securities are held in a separate portfolio by Bank's Treasury department for long-term yield. These securities may be sold, but such sales are not expected to be more than infrequent. The Bank considers that these securities are held within a business model whose objective is to hold assets to collect the contractual cash flows.

Certain other debt securities are held in a separate portfolio by Bank's Treasury department to meet every day liquidity needs. These securities may be sold, but such sales are not expected to be more than infrequent. The Bank considers that these securities are held within a business model whose objective is achieved by both collecting the contractual cash flows and selling the financial assets.

The Bank has no assets classified at FVTPL.

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3. MATERIAL ACCOUNTING POLICIES (CONTINUED)
3.2 Financial assets and liabilities (continued)

The evaluation if cash flows represent only payments of principal and interest (SPPI)

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are only SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets; and
- features that could modify consideration of the time value of money (e.g. periodical reset of interest rates);
- loans granted to employees or to large corporate clients;
- terms applied to syndicated loans etc.

Based on the analysis performed, the Bank concluded that the portfolio of loans to customers as well as portfolio of debt securities meet the criteria of SPPI.

(iv) Derecognition

Bank derecognizes a financial asset when the rights to receive cash flows of that financial asset expire or when the Bank has transferred its rights to receive contractual cash flows related to that financial asset in a transaction in which it transferred substantially all risks and rewards of ownership. Any interest in transferred financial assets that is retained by the Bank or its created for the Bank and it is recognized as a separate asset or liability.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) total encashments (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss., except for the equity investments measured at FVOCI. Bank derecognizes a financial liability when its established contractual obligations are canceled or expire.

The Bank enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognized.

Transfers of assets with retention of all or most significant risks and rewards include, for example, securities lending or sale transactions with repurchase terms.

When assets are sold to a third party with a total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and-repurchase transactions, because the Bank retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

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3. MATERIAL ACCOUNTING POLICIES (CONTINUED)
3.2 Financial assets and liabilities (continued)

(v) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(vi) Modifications of financial instruments

If the terms of a financial instrument are modified, the Bank evaluates whether the cash flows of the modified instrument are substantially different.

If the contractual terms are substantially altered due to commercial renegotiations, both at the client's request and at the Bank's initiative, the existing financial asset is derecognized and the modified financial asset is subsequently recognized, such modified financial asset being considered as a "new" asset. The criteria set at Bank level to evaluate modifications leading to derecognition of financial assets, are developed having in mind that they must reflect modifications that are substantial enough (either quantitatively or qualitatively) to satisfy the derecognition requirements in IFRS 9.3.2.3. On the quantitative side, these criteria refer to a significance threshold of 10% by analogy to the de-recognition trigger set by IFRS 9.3.2.3 for derecognition of financial liabilities. On the qualitative side, these criteria refer to contractual modifications that are substantially changing the nature of lender's risks associated with the pre-existing loan contract. During 2022 and 2021, the Bank did not have modification of financial assets that resulted in derecognition of the original instrument.

If a modification of a financial asset measured at amortized cost or FVOCI does not result in the derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate and recognizes the resulting adjustment as a modification gain or loss in profit or loss. For floating rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect the current market terms at the time of modification. Any cost or fee supported or received adjust the gross carrying amount of the modified financial asset and is amortized over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the debtor, then the gain or loss is presented in the impairment expense. In other cases, it is presented as interest income calculated using the effective interest rate method.

The gain or loss from modification of financial assets was not significant for the years ended 31 December 2023 and 2022.

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets and liabilities (continued)

(vii) Fair value measurement

Fair value is the price that would be received from the sale of an asset or the price that would be paid to transfer a liability in a normal transaction between market participants at the measurement date, mainly, or, in its absence, on the most advantageous market where the Bank has access to that date. The fair value of a liability reflects its non-performance risk.

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

If there is no quoted market price in an active market, the Bank uses valuation techniques that maximize the use of relevant observable values and minimizes the use of unobservable values.

The chosen valuation technique incorporates all factors that market participants would consider in pricing a transaction. The best evidence of fair value of a financial instrument on initial recognition is normally the transaction price – the fair value of a consideration given or received. If the Bank determines that the fair value on initial recognition differs from the transaction price and the fair value is not evidenced by any quoted market price in an active market for an asset or liability identical or based on an evaluation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and transaction price.

Subsequently, this difference is recognized in profit or loss on an appropriate basis over the life of an instrument, but no later than when the valuation is supported wholly by observable market values or when the transaction is closed.

The Bank recognizes transfers between fair value hierarchy levels at the end of the reporting period in which the changes have been occurred.

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3. MATERIAL ACCOUNTING POLICIES (CONTINUED)
3.2 Financial assets and liabilities (continued)

(viii) Impairment of financial assets

The Bank recognizes loss allowances for expected credit loss on the following financial instruments that are not held at FVTPL:

- Financial assets that are debt instruments
- Financial guaranties contracts
- Loans commitments.

Equity investments are not subject to impairment under IFRS 9.

Impairment according to IFRS 9 is based on credit losses expected to arise over the life of the asset (the lifetime expected credit loses or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit losses (12mECL) as outlines in Note 39.1. The bank's policies for determining if there has been a significant increase in credit risk are set out in Note 39.1.1(c).

The 12mECL is the portion of LTECL that represent the ECL that result from default events on a financial instruments that are possible within the 12 months after the reporting date.

Both LTECL and 12mECL are calculated on either an individual basis or collective basis, depending on the nature of the underlying portfolio of financial instruments. The Bank's policy for grouping financial assets measured on a collective basis is explained in Note.

The bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increase significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in Note 39.1.1.

Based on above process, the Bank groups its financial instruments into Stage I, Stage II, Stage III and POCI are described below:

a) **Stage I** includes financial assets for which there is no significant increase in credit risk at the time of the analysis compared to the origination date or which have a low credit risk exemption at the time of the analysis. For these assets, an impairment adjustment will be determined using the below presented method "ECL 12M".

   Estimated loan losses for 12 months = ECL 12M = The portion of lifetime expected credit losses that represent the expected credit losses that result from default events of a financial instrument that are possible within the 12 months after the reporting date.

b) **Stage II** includes financial assets for which there was a significant increase in credit risk ('SICR') at the time of the analysis compared to the original recognition date (except for assets that have a low credit risk exemption) and which are not reported as impaired (or impairment evidence is not identified). For these assets, an impairment adjustment will be determined using the below method presented "Lifetime ECL".

   Estimated lifetime loss = Lifetime ECL = resulting from all possible default events over the expected life of a financial instrument, further reflected trough the average credit losses weighted by the respective risk of default (measured through PD).

c) **Stage III** (default) includes financial assets for which impairment evidence have been identified at the reporting date. For these assets, a "Lifetime ECL" depreciation adjustment will be determined, with the assigned PD of 100%.

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3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets and liabilities (continued)

(viii) Impairment of financial assets (continued)

d) Purchased or originated credit-impaired financial assets ("POCI") are those financial assets that are credit-impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognized based on a credit-adjusted effective interest rate. Their ECL is only recognized or released to the extent that there is a subsequent change in the expected credit losses..
A financial asset classified as impaired upon initial recognition will be maintained as such until its derecognition.
The Bank estimates the expected credit losses ('ECL') for debt instrument assets measured at amortized cost and fair value through other comprehensive income and for exposure from loan commitments and financial guarantee contracts.

The Bank recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:
- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information, please refer to note 39.1.1.(d);

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount of a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a derecognition. Partial derecognition of the financial asset.

The determination of expected losses at the reporting date relies on the effective interest rate established upon the initial recognition or an estimated rate. As concerns financial assets with variable interest rate, the expected credit losses must be determined based on the current effective interest rate.

Evidence that a financial asset has a significant increase in credit risk since origination or credit-impaired includes observable data about the following events:
- significant financial difficulty of the issuer or borrower;
- a breach of contract, such as a default or past-due event or financial/nonfinancial covenants;
- the lender, based on economic or contractual reasons relating to the borrower's financial difficulty, grants the borrower a concession that would not otherwise be considered;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for the financial asset because of financial difficulties; or
- the purchase or origination of a financial asset at a deep discount that reflects incurred credit losses.

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3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets and liabilities (continued)

(viii) Impairment of financial assets (continued)

The calculation of ECL

The Bank calculates ECL based on a three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

They are measured as follows:

- *Financial assets that are not credit impaired at the reporting date*: as the present value of all cash shortfalls
- *Financial assets that are credit-impaired at the reporting date*: as the difference between the gross carrying amount and the present value of the estimated future cash flows
- *Undrawn loan commitments*: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expect to receive; and
- *Financial guarantee contracts*: the expected payments to reimburse the holder less any amounts that the Bank expect to recover.

When discounting future cash flows, the following discount rates are used:

- *Financial assets other than POCI*: the actual effective interest rate or an approximation thereof
- *POCI assets*: a credit-adjusted effective interest rate
- *Undrawn loan commitments*: the effective interest rate, or an approximation thereof, that will be applied to the financial asset resulting from the loan commitment; and
- *Financial guarantee contracts*: the rate that represent the current market assessment of the time value of money and the risks that are specific to the cash flows.

The mechanism of ECL calculation and the key elements are, as follows:

- *PD - The Probability of Default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio. The concept of PD is further explained in Note 39.1.1.(b).
- *EAD The Exposure at Default* is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in Note 39.1.1.(e).
- *LGD - The Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral or credit enhancements that are integral to the loan and not required to be recognized separately.

When estimating the ECL, the Bank considers three scenarios (a base case, an upside and a downside). Each of these is associated with different PDs. The maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier.

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3. MATERIAL ACCOUNTING POLICIES (CONTINUED)
3.2 Financial assets and liabilities (continued)
(viii) Impairment of financial assets (continued)

Presentation of allowance for ECL in the statement of financial position
Loss allowances for ECL are presented in the statement of financial position as follows:
- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve through FVOCI.

Write-off
Based on an analysis, the Bank may decide to derecognize a depreciated asset, by recording it in the off-balance sheet. These assets will continue to be subject to recovery procedures. The Bank considers that a financial asset is in the situation of derecognition and writes it off when there are no reasonable expectations regarding its full or partial recovery.

The Bank periodically analyzes the financial assets to be written-off:

a) for assets that have exceeded the expected recovery horizon. The following levels are set for the recovery horizon:
   - for unsecured loans, maximum 2 years;
   - for guaranteed loans, maximum 7 years.

The recovery horizon is calculated from the date of registration of the exposure in the non-performing category.
The Bank is not obliged, upon reaching these thresholds, to proceed with the write-off of exposures - these loans will be the subject of additional analyzes to estimate the chances of recovery in the next period.

b) for assets that have been guaranteed, and for a specific reason, at the moment, are no longer guaranteed;
c) for loans that are collateralized, but it is estimated that there are no reasonable chances of recovery (uncertain and expensive sources, which do not justify the Bank's effort compared to the expected value of recoveries). This category also includes exposures for which the exposure reduction is based entirely on sale of collateral, and, considering the background of a low degree of coverage, there is the possibility that procedural costs may absorb a significant part of the amounts resulting from sales of collaterals;
d) for the assets for which the Bank has stopped the recovery procedures or they have expired or those for which by a court decision they are no longer due by the debtor;
e) the bankruptcy procedure of the debtor was closed, and the Bank's exposure was not fully covered;
f) the exposure has been partially transferred to another entity (third party) and the remaining exposure has no chance of recovery.

Mandatory, before recording in the off-balance sheet, the Bank shall ensure that the financial asset is fully covered by ECL. Therefore, the amounts subsequently collected from the recovery of the exposure will be directly recognized as income in the Bank's profit or loss account. However, after write-off, the Bank has no reasonable expectations for the recovery of the financial asset.

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3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.3 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognized in profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer impaired, then the calculation of interest income reverts to the gross basis.

3.4 Fee and commission income

The Bank earns commissions from a wide range of services provided to customers. Commissions are generally recognized on an accrual basis when the service was provided. Credit commitment fees that are likely to be drawn are referred to (together with related direct costs) and recognized as an adjustment to the effective interest rate of the loan.

Commissions arising from negotiating, or participating in the negotiation of, a transaction with a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognized on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-pro-rated basis.

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Bank recognizes revenue when it transfers control over a service to a customer.
Below is presented information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms and related revenue recognition policies.

Type of services	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Retail and corporate banking service	The Bank provides banking services to retail and corporate customers, including account management, provision of overdraft facilities, foreign currency transactions, servicing fees etc. Fees for ongoing account management are charged to customer's account on a monthly basis. The Bank sets the rates separately for retail and corporate customers on a periodical basis. Transaction-based fees (e.g. interchange), are charged to the customer's account when the transaction takes place. Servicing fees are charged on a monthly basis and are based on fixed of variable rates according to the published list of commission or individually negotiated tariffs. The rates are periodically reviewed.	Revenue from account service and servicing fees is recognized over time as the services are rendered. Revenue related to transactions is recognized at the point in time when the transaction takes place.

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3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.5 Net trading income

Net trading income represents the gain or loss from the foreign exchange transactions and foreign exchange position revaluation.

3.6 Income tax expenses

Current and deferred tax shall be recognized in profit and loss, except when it relates to items that are recognized in other comprehensive income or directly to equity, in which case current and deferred tax shall be also recognized in other comprehensive income or directly to equity.

The current corporate tax, as according to the applicable laws of the Republic of Moldova, is recognized as an expense when taxable profits arise. The corporate tax rate for 2022 was 12% (2021 -12%).

The deferred corporate tax is recognized for temporary differences between the carrying amounts of assets and liabilities in the financial statements and the appropriate tax base used for calculation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences.

Deferred tax assets are recognized for all deductible tax differences to the extent that taxable profits are likely to be available against which deductible temporary differences can be used. The deferred tax asset value is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that taxable profits will be available to enable the whole or part of the asset to be recovered. Deferred tax assets and liabilities are determined using the tax rates in force and are expected to apply when the deferred tax asset is disposed of or the deferred tax liability is extinguished.

3.7 Sale and repurchase agreements („REPO")

Investment securities (debt instruments) sold subject to repurchase agreements ("REPO") are classified in the financial statements as debt instruments at amortized cost (treasury bills) and the counter party liability is included in amounts due to banks or customers, as appropriate. Investment securities purchased under agreements to resell ('reverse repos') are recorded as loans to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and is accrued over the life of the agreements using the effective interest method.

Investment securities held by the Bank as collateral for lending activities with financial institutions are not recognized in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return them is recorded at fair value as a trading liability.

3.8 Intangible assets

The intangible assets are measured initially at cost. After recognition, intangible assets are measured according to the cost-based model, i.e. cost less any accumulated depreciation and any accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount if the recognition criteria are met: generate future economic benefits, are reliably measured, improve future performance and are separately identified within the economic activity. The maintenance and support costs are recognized as expenses during the period when incurred.

The straight-line method is used for depreciation of intangible assets. The period of depreciation and the finite useful life shall be reviewed at least at each financial year-end. The finite useful life of intangible assets shall be from 3 to 20 years at most. Expenses related to brands, publishing titles and other similar items are not recognized as intangible assets.

Intangible assets in execution are not depreciated until they are put into function (available for use).

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3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.9 Property and equipment

Property and equipment are measured at historical cost minus accumulated depreciation and impairment losses. Historical cost includes expenditure directly attributable to the acquisition of tangible elements.

Subsequent costs are recognized in the asset's carrying amount when incurred, if it is probable that future economic benefits associated with the item will be attributed to the Bank, and the cost of the item can be measured reliably. All repairs and daily maintenance are recorded at other costs as incurred.

Depreciation is calculated using the straight-line method over the lifetime estimated for each item of the property and equipment category.

The useful lives estimated by category are:

- Buildings 25-45 years
- Improvements to leased buildings 5 years
- Furniture and equipment 2-15 years
- Vehicles 6-7 years

Computers are included in the category of Furniture and equipment and have a useful life of 3 years.

Assets under construction are not depreciated until they are put into function (available for use). Likewise, land presents the separate category of property and equipment that are not depreciated. The useful life is reviewed and adjusted, if necessary, at each reporting date. The assets subject to depreciation are reviewed for depreciation whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount of an asset is immediately reduced to recoverable amount if the carrying amount of the asset is greater than the estimated recoverable amount.

Gains and losses on the sale of property, plant and equipment are reported by reference to their carrying amount when reflected in the income statement at the reporting date.

3.10 Leases

The Bank assesses at contract inception whether a contract is, or contains, a lease. The Bank applies the requirements of IFRS 16 for all leasing contracts.

At the beginning of the operation, the Bank as a lessee recognizes an asset related to the right-of-use and a liability arising from the lease.

Exceptions from the requirements of this standard may be short-term contracts of up to 12 months or for contracts with a low value. The Bank considered the threshold for low value leased assets that are less than five thousand euros or the equivalent of five thousand euros at the date of recognition.

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS 16.

Bank acting as a lessee:
At commencement or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

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3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.10 Leases (continued)

The Bank recognizes a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, and the Bank's incremental borrowing rate. Generally, the Bank uses the average rate of corporate deposits that have a comparable currency and maturity with the lease contract at the origination date as the discount rate.

The Bank determines its incremental borrowing rate by analyzing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:
- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

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

The Bank presents right-of-use assets and lease liabilities as separate lines in the statement of financial position.

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3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.11 Impairment of non-financial assets

The Bank assesses, at each reporting date , whether there is an indication that a non-financial assets may be impaired. Intangible assets that have an indefinite useful life are not subject to depreciation and are tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized in profit or loss statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3.12 Cash and cash equivalents

In the cash flow statement, cash and cash equivalents comprise balances with less than three months initial maturity of the assets from acquisition dates, including: cash, non-restricted balances with National Bank of Moldova, treasury bills, NBM certificates and amounts due from other banks.

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

3.13 Loans and advances

Loans and advances include loans to banks and customers measured at amortized cost. They are initially measured at fair value plus incremental direct transaction costs. Subsequently, they are measured at amortized cost using the effective interest method. Please refer to note 3.2 for more details.

The Bank does not hold loans and advances at FVTPL at 31 December 2023 and 2022.

3.14 Investment securities

Investment securities include:

- debt investment securities measured at amortized cost. They are initially measured at fair value plus incremental direct transaction costs. They are subsequently measured at amortized cost using the effective interest method.
- debt investment securities measured at FVOCI. These are initially measured at fair value, the changes being recognized in the statement of other comprehensive income.

The Bank does not hold debt investment securities at FVTPL at 31 December 2023 and 2022.

For debt securities measured at FVOCI, gains and losses are recognized in OCI, except for the following, which are recognized in profit or loss in the same manner as for financial assets measured at amortized cost:

- interest revenue calculated using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When debt security measured at FVOCI is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss.

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3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.15 Equity investment securities

The Bank initially measures the equity investment securities at fair value through other comprehensive income, the changes being recognized in the statement of other comprehensive income.

The Bank elects to present the changes in fair value of certain investments in equity instruments that are not held for trading in OCI. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Fair value gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognized in profit or loss. Dividends are recognized in profit or loss ("Net trading income"), unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognized in OCI. Cumulative gains and losses recognized in OCI are transferred to retained earnings on disposal of an investment.

3.16 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Subsequently borrowings are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the profit or loss, over the period of the borrowings using the effective interest method.

3.17 Customers' deposits and current accounts

Customers' current accounts and deposits are recognized at fair value and are subsequently carried at amortized cost using the effective interest rate.

3.18 Provisions

The provisions and legal obligations are recognized when the Bank has a current or implied obligation arising from a past event, the settlement of which is expected to result in an outflow of resources embodying the Bank's economic benefits, and the amount can be estimated reliably. When there are a number of similar obligations, the probability that an outflow of resources will be required in settlement is determined at the expected weighted value with associated probabilities taking into account all possible outcomes.

Provisions are measured at the output expenditures necessary to settle the obligation using the reasoning - based on experience with similar transactions and with the assistance of lawyers or other experts. The subsequent measurement of the provision due to the passage of time is recognized as an interest expense.

3.19 Financial guarantee contracts and loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognized in the financial statements (within ***Provisions***) at fair value on the date the guarantee was given, being the premium received. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the amount initially recognized less cumulative amortization recognized in the income statement, and an ECL allowance as set out in Note 39.1. The premium received is recognized in the income statement in ***Net fees and commission income*** on a straight-line basis over the life of the guarantee.

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3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.19 Financial guarantee contracts and loan commitments (continued)

Undrawn loan commitments and letters of credit are commitments under which. Over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the statement of financial position. The nominal values of these instruments together with the corresponding ECL are disclosed in Note 39.1.I.

3.20 Employee Benefits

(i) Short term benefits
Short-term employee benefits include wages, salaries and social security contributions. Short-term employee benefits are recognized as expense as the services are rendered.

(ii) Defined contribution plan
The Bank, in the normal course of business makes payments to the Moldovan State funds on behalf of its employees for pension, health care and unemployment benefit. All employees of the Bank are members of the State pension plan.
The Bank does not operate any other pension scheme and, consequently, has no further obligation in respect of pensions. The Bank does not operate any other defined benefit plan or postretirement benefit plan. The Bank has no obligation to provide further services to current or former employees.

(iii) Other benefits
The variable remuneration for management is also granted share-based payments in the form of shadow shares.

Shadow share arrangements are a form of compensation where employees receive a bonus or benefit based on the performance of a company's stock without actually owning shares. These arrangements mimic the economic effects of share ownership without transferring legal ownership of shares.

The variable component of the total remuneration represents the remuneration that can be granted by the Bank in addition to the fixed remuneration, on condition that certain performance ratios are achieved. The variable remuneration may be granted either in cash or in shadow shares related to the stock price of Banca Transilvania shares (TLV on the Bucharest Stock Exchange). In the case of the identified staff, in the establishment of the annual variable remuneration, one shall aim at limiting excessive risk-taking. A substantial part of the variable component of the total remuneration, in all cases at least 40%, is deferred for a period of 3 years and is correlated with the activity nature, the risks and the responsibilities of the respective staff.

The Board of Administration of the Bank decides in respect of the number of shadow shares to be granted as variable remuneration..

The fair value of the shadow shares are determined at the grant date and re-measured at each reporting date until settlement. This expense should be recognized over the period in which the employees provide services in exchange for the benefits, based on the fair value of the benefits granted.

The expense recognized should be amortized over the vesting period, which is the period over which the employees become entitled to the benefits. The amount recognized as an expense is adjusted to reflect the value of awards for which the related services and non-market related performance conditions are expected to be fulfilled, so that the amount ultimately recognized as an expense is based on the actual compensation for the services and performance conditions which are not related to the market at the vesting date.

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3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.21 Dividends

Dividends income is recognized in the result of the year to date when the right to receive such income is established and it is probable that the dividends will be collected . Dividends are reflected as a component of "Net trading income" in the statement of profit or loss.

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

3.22 Repossessed collaterals

The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value for financial assets, and fair value less cost to sell for non-financial assets at the repossession date.

In the normal course of the business, the Bank engages external agents to recover funds form repossessed assets, generally at auction, to settle outstanding debt. Any surplus funds are returned to the borrower.

At 31 December 2023 and 2022, repossessed collaterals includes repossessed assets - guaranties that completed the legal repossession process related to non-performing loans. All assets that did not complete the legal repossession process are not recorded on the balance sheet. .

At each reporting date repossessed collateral are tested for impairment as disclosed in Note 3.11.

3.23 Inventories

Inventories are measured at the lower of cost and net realizable value. The value of any decrease in the net book value of inventories to the net realizable value is charged as expense in the period it is incurred.

For each subsequent period, a new valuation is made of the net realizable value. When those conditions that in the past led to a reduction in the book value of inventories below cost have ceased to exist or when there is clear evidence of an increase in the net realizable value as a result of changes in the economic circumstances, the amount representing the reduction in the book value is reversed, so that the net book value of inventory equals the lower of cost and the revised net realizable value.

When inventories are sold, book value of those inventories should be recognized as expenses in the period when the corresponding income is recognized.

3.24 Contingent assets and liabilities

Contingent liabilities are not recognized in the financial statements, but they are disclosed in the financial statements unless there is a "low" probability of an outflow of resources.

A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

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3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.25 Earnings per share

The Bank presents basic and diluted earnings per share ("EPS") for its ordinary shares. Basic EPS is calculated by dividing the profit or loss, attributable to ordinary Bank shareholders, to the average outstanding ordinary shares.
Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders with the weighted average number of outstanding ordinary shares, affecting all potential ordinary shares, which comprise convertible securities and share options granted to employees.

3.26 Segment reporting

An operating segment is a component of the Bank:

- that engages in business activities from which it may earn revenues and incur expenses,
- for which discrete financial information is available;
- whose operating results are reviewed in order to make decisions about resources to be allocated to the segment and to assess its performance.

The Bank's segment reporting is presented in Note 36.

3.27 Implementation of new or reviewed standards and interpretations that are effective for the current year

New or reviewed standards and interpretations applied for periods beginning on 1 January 2023.
The following new standards, as well as updates to existing standards, are into force for annual periods beginning January 1, 2023. The Bank has analyzed these new or amended standards and concluded that their application did not result in a significant impact on the Bank's financial statements since their application.

- **IFRS 17 "Insurance Contracts"** issued by IASB on 18 May 2017. The new standard requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 "Insurance Contracts" and related interpretations while applied. Amendments to IFRS 17 "Insurance Contracts" issued by IASB on 25 June 2020 defer the date of initial application of IFRS 17 by two years to annual periods beginning on or after 1 January 2023. Additionally, the amendments issued on 25 June 2020 introduce simplifications and clarifications of some requirements in the Standard and provide additional reliefs when applying IFRS 17 for the first time.
- **Amendments to IFRS 17 "Insurance contracts" - Initial Application of IFRS 17 and IFRS 9 – Comparative Information** issued by IASB on 9 December 2021. It is a narrow-scope amendment to the transition requirements of IFRS 17 for entities that first apply IFRS 17 and IFRS 9 at the same time.
- **Amendments to IAS 1 "Presentation of Financial Statements" - Disclosure of Accounting Policies** issued by IASB on 12 February 2021. Amendments require entities to disclose their material accounting policies rather than their significant accounting policies and provide guidance and examples to help preparers in deciding which accounting policies to disclose in their financial statements.
- **Amendments to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" - Definition of Accounting Estimates** issued by IASB on 12 February 2021. Amendments focus on accounting estimates and provide guidance how to distinguish between accounting policies and accounting estimates.
- **Amendments to IAS 12 "Income Taxes" - Deferred Tax related to Assets and Liabilities arising from a Single Transaction** issued by IASB on 6 May 2021. According to amendments, the initial recognition exemption does not apply to transactions in which both deductible and taxable temporary differences arise on initial recognition that result in the recognition of equal deferred tax assets and liabilities.
- **Amendments to IAS 12 "Income Taxes" - International Tax Reform — Pillar Two Model Rules** issued by IASB on 23 May 2023. The amendments introduced a temporary exception to the accounting for deferred taxes arising from jurisdictions implementing the global tax rules and disclosure requirements about company's exposure to income taxes arising from the reform, particularly before legislation implementing the rules is in effect.

The Bank concluded that the amendments, do not have a material impact on the financial statements for the year 2023.

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.28 New or reviewed standards and interpretations that will apply for periods beginning on or after 1 January 2024

- **Amendments to IFRS 16 "Leases" - Lease Liability in a Sale and Leaseback** issued by IASB on 22 September 2022. Amendments to IFRS 16 require a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognize any amount of the gain or loss that relates to the right of use it retains. The new requirements do not prevent a seller-lessee from recognizing in profit or loss any gain or loss relating to the partial or full termination of a lease. The Bank does not expect that the amendments, when initially applied, could have a material impact on its financial statements.

- **Amendments to IAS 1 "Presentation of Financial Statements" - Classification of Liabilities as Current or Non-Current** issued by IASB on 23 January 2020 and **Amendments to IAS 1 "Presentation of Financial Statements" - Non-current Liabilities with Covenants** issued by IASB on 31 October 2022. Amendments issued on January 2020 provide more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. Amendments issued on October 2022 clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability and set the effective date for both amendments to annual periods beginning on or after 1 January 2024. The Bank does not expect that the amendments, when initially applied, could have a material impact on its financial statements.

- **Amendments to IAS 7 "Statement of Cash Flows" and IFRS 7 "Financial Instruments: Disclosures" - Supplier Finance Arrangements** issued by IASB on 25 May 2023. Amendments add disclosure requirements, and 'signposts' within existing disclosure requirements to provide qualitative and quantitative information about supplier finance arrangements. The Bank does not expect that the amendments, when initially applied, could have a material impact on its financial statements.

- **Amendments to IAS 21 "The Effects of Changes in Foreign Exchange Rates" - Lack of Exchangeability** issued by IASB on 15 August 2023. Amendments contain guidance to specify when a currency is exchangeable and how to determine the exchange rate when it is not. The Bank does not expect that the amendments, when initially applied, could have a material impact on its financial statements.

- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture** issued by IASB on 11 September 2014. The amendments address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The Bank expects that the new standard, when first applied, is unlikely to have a material impact on the financial statements.

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4. CASH AND BALANCES WITH THE NATIONAL BANK OF MOLDOVA

In MDL thousand	31 December 2023	31 December 2022
Cash on hand and other values	1,049,675	1,354,394
Current account with National Bank of Moldova	566,196	40,560
Minimum reserve requirement in MDL	3,333,055	3,039,254
Minimum reserve requirement in foreign currency	2,368,444	2,622,580
Cash and balances with National Bank of Moldova	**7,317,370**	**7,056,788**
Balances with National Bank of Moldova, out of which:		
Gross value	6,273,994	5,708,065
Expected credit loss allowances	(6,299)	(5,671)
Total	**6,267,695**	**5,702,394**

Current account and mandatory reserve

The National Bank of Moldova (NBM) requires commercial banks to maintain for liquidity purposes minimum reserves calculated at a certain rate of the average funds borrowed by banks. The attracted funds in Moldovan Lei (MDL) and in non-convertible currencies (NCC) are reserved in MDL. The attracted funds in freely convertible currencies (FCC) are reserved in US Dollars (USD) and/or EURO (EUR). The required reserves' calculation base are determined for all dates of observance periods from 16th of the previous month – up to the 15th of the current month.

As at 31 December 2023 the reserving ratio from financial means attracted in MDL and NCC was 33.0%, and the reserving ratio from financial means attracted in FCC was 43.0% (31 December 2022: the reserving ratio from financial means attracted in MDL and NCC – 34%, attracted in FCC – 45.0%). The Bank keeps the amount of required reserves attracted in MDL and NCC on bank's "Nostro" account opened with the National Bank. Banks' required reserves in USD and EUR are maintained in the "Nostro" accounts of the National Bank in USD and in EUR opened in foreign currencies. The Bank records and managing the required reserves in USD and EUR in its analytical accounts, separately for each currencies.

Reserving in MDL is made by keeping financial means in MDL on Bank's "Loro" account opened with the NBM, in average balance, in period from the 16th of the current month to the 15th of the following month, taking into account the number of calendar days in that period. The required reserves in USD and EUR, in case of the reserves deficit, are transferred by the bank to the "Nostro" accounts of the National Bank opened in foreign banks, at the latest by the date of the 20th of the current month.

As at 31 December 2023, the balance of "Nostro" account at the NBM amounts to 3,896,599 MDL'000 (31 December 2022: 3,042,258 MDL'000), that included the amount of required reserves attracted in Moldovan lei and in non-convertible currencies. The balance of the required reserves' accounts in USD and EUR amount to 34,450 USD'000 and 91,286 EUR'000 respectively (31 December 2022: 33,674 USD'000 and 97,161 EUR'000).

The remuneration interest on mandatory reserves paid by the NBM during 2023 for reserves in MDL decreased from 18% to 2.75%. The interest rate applied to the remuneration of foreign currency reserves increased from 0.01% to 3.32% for USD and to 1.90% for EUR. (2022: the interest rate increased from 4.5% to 18% for reserves in MDL and was maintained at 0.01%, for reserves in foreign currency). At 31 December 2023 the accrued interest for reserves maintained in MDL was 6,570 MDL'000 and for those in convertible currencies: 4,120 MDL'000 (2022: 40,600 MDL'000 and 18.7 MDL'000).

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with the initial maturity less than three months:

In MDL thousand	Notes	31 December 2023	31 December 2022
Cash on hand and other values	4	1,049,675	1,354,394
Current account with the NBM	4	566,196	40,560
Current accounts with other banks and overnight placement	5	985,282	897,217
Term placements with banks with maturity up to 3 months	5	371,385	-
Certificates issued by the NBM	6	2,195,283	944,373
State Securities, initial maturity less than 3 months	6	-	8,180
Cash and cash equivalents in the cash flow statement		**5,167,821**	**3,244,724**

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5. CURRENT ACCOUNTS AND PLACEMENTS WITH BANKS

In MDL thousand	31 December 2023	31 December 2022
Current accounts with other banks and overnight placements, out of which:	**985,282**	**897,217**
Gross value	988,507	897,873
Expected credit loss allowances	(3,225)	(656)
Term deposits-guarantees in banks, out of which:	**120,726**	**107,015**
Gross value	120,769	107,052
Expected credit loss allowances	(43)	(37)
Term placements with banks with maturity below 3 months, out of which (Note 4):	**371,385**	**-**
Gross value	372,295	-
Expected credit loss allowances	(910)	-
Term placements with banks due after 3 months, out of which:	**291,931**	**97,051**
Gross value	292,642	97,142
Expected credit loss allowances	(711)	(91)
Total	**1,769,324**	**1,101,283**

As at 31 December 2023 placements with banks include „NOSTRO" accounts and overnight deposits, which are included in the cash flow statement (Note 4), amounting to 1,356,667 MDL'000 (2022: 897,217 MDL'000).

The amount of 1,601,898 MDL'000 (2022: 980,427 MDL'000) are placed in the banks from OECD member countries, the amount of 167,426 MDL'000 (2022: 120,856 MDL'000) are placed in non-OECD member countries.

The qualitative analysis regarding the placements with banks was based on the credit ratings issued by Standard & Poor's, Moody's and Fitch, if available. For placements with banks that are not rated by Standard & Poor's, Moody's or Fitch, the Standard & Poor's sovereign rating was used.

In MDL thousand

Placements with banks	31 December 2023	31 December 2022
Rating from A to AA-	696,470	963,683
Rating from BBB to BBB+	663,671	137,600
Rating BBB- and lower	409,183	-
Total	**1,769,324**	**1,101,283**

6. INVESTMENT SECURITIES – DEBT INSTRUMENTS

In MDL thousand	31 December 2023	31 December 2022
Investment securities measured at amortized cost	5,845,593	4,437,111
Investment securities measured at FVOCI	14,423	16,516
Total	**5,860,016**	**4,453,627**

Investment securities measured at amortized cost – debt instruments

In MDL thousand	31 December 2023	31 December 2022
Certificates issued by the National Bank of Moldova	2,195,283	944,373
State securities included in cash and cash equivalents (Note 4)	-	8,180
State securities with initial maturity greater than three months	3,306,726	3,270,662
State securities issued by Romanian Government	343,584	213,896
Total	**5,845,593**	**4,437,111**
Gross value	5,890,957	4,479,836
Expected credit loss allowances	(45,364)	(42,725)

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6. INVESTMENT SECURITIES – DEBT INSTRUMENTS (CONTINUED)

Investment securities measured at FVOCI – debt instruments

In MDL thousand	31 December 2023	31 December 2022
State securities	14,086	16,922
Changes in the fair value	337	(406)
Total	**14,423**	**16,516**

As at 31 December 2023, in the caption investment securities, the Bank holds debt instruments measured at amortized cost as treasury bills issued by the Government of Republic of Moldova, certificates issued by the National Bank of Moldova and state securities issued by Romanian Government. The amount invested in these debt instruments at 31 December 2023 has an amortized cost of 5,845,593 MDL'000 (2022: 4,437,111 MDL'000).

As at 31 December 2023 the Bank holds a portfolio of debt instruments issued by the Government of Republic of Moldova classified as "Financial assets at fair value through other comprehensive income" with a fair value amounting to 14,423 MDL'000 (2022: 16,516 MDL'000).

The state securities in the Bank's portfolio as at 31 December 2023 represent treasury bills issued by the Ministry of Finance of the Republic of Moldova in MDL with discount and redeemed at face value at maturity, with maturity between 182 and 364 days, the interest rate ranging between 5.76% and 14.43% (2022: 9.88% and 22.01%) and bonds issued by the Ministry of Finance of the Republic of Moldova in MDL nominal value or with a premium, for a period of 730-2557 days fixed or floating rate ranging between 5.85% and 16.00% (2022: 5.65% and 24.39%).

Certificates issued by the National Bank in the Bank's portfolio as at 31 December 2023 have an original maturity of 14 days at a rate of 4.75% (2022: 20.0%).

State securities issued by the Romanian Government in the Bank's portfolio are issued by the Romanian Ministry of Public Finances, are denominated in EUR, have an initial maturity between 1 and 3 years, and pay a fixed interest rate between 1.6% and 4.9%.

The qualitative analysis regarding the investment securities was based on the credit ratings issued by Standard & Poor's, Moody's and Fitch, if available. For investments securities that are not rated by Standard & Poor's, Moody's or Fitch, the Standard & Poor's sovereign rating was used.

In MDL thousand **Investment securities measured at amortized cost – debt instruments**	31 December 2023	31 December 2022
Rating BBB-	343,584	213,896
Rating B-	5,502,009	4,223,215
Total	**5,845,593**	**4,437,111**

As of 31 December 2023, state securities with an amortized cost in amount of 1,850,283 MDL'000 (31 December 2022: 1,850,283 MDL'000) are under seizure of Moldovan Authorities (please see Note 34).

This seizure does not affect the Bank's activity, liquidity management and interest income, as securities which mature are replaced by new ones, keeping constant the amount of seized securities at 1,850,283 MDL'000.

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7. LOANS TO CUSTOMERS

Bank lending activity focuses on providing loans to individuals and legal entities.

	31 December 2023			31 December 2022		
In MDL thousand	Gross value	Expected credit loss allowances	Carrying Amount	Gross value	Expected credit loss allowances	Carrying Amount
Corporate customers	3,387,597	(237,204)	3,150,393	2,858,326	(329,368)	2,528,958
Mortgage loans	1,281,649	(15,053)	1,266,596	1,377,552	(13,384)	1,364,168
Consumer loans	1,767,038	(202,440)	1,564,598	1,408,266	(196,633)	1,211,633
Total	**6,436,284**	**(454,697)**	**5,981,587**	**5,644,144**	**(539,385)**	**5,104,759**

Analysis of loan portfolio of corporate customers by economic sector as at 31 December 2023 and 31 December 2022 is presented below:

Corporate customers *In MDL thousand*	31 December 2023	31 December 2022
Production and trade	1,306,251	806,352
Real estate	62,156	173,665
Farming and food industry	703,175	692,627
Consumer loans	63,313	42,564
Transport and road construction	134,650	35,297
Energy sector	80,252	27,379
Government	48,760	92,023
Others	989,040	988,419
Total	**3,387,597**	**2,858,326**

Effect of expected credit loss allowances on loans to customers during 2023 and 2022 is presented in **Note 39.1**.

8. EQUITY INVESTMENT SECURITIES DESIGNATED AT FVOCI

The movement in the investment portfolio is presented below:

In MDL thousand	2023	2022
Balance as at 1 January	**3,366**	**3,207**
Changes in the fair value	58	147
Additions	-	-
Disposals	-	-
Exchange rate movements	(46)	12
Balance as at 31 December	**3,378**	**3,366**

As of 31 December 2023, within its portfolio, the Bank holds equity securities valued at fair value through other comprehensive income in local and foreign companies that are not listed.

Below is presented the analysis of equity securities at fair value through other comprehensive income as of 31 December 2023 and 31 December 2022:

In MDL thousand	Scope of business	Owned share 2023, %	31 December 2023	Owned share 2022, %	31 December 2022
Biroul de Credit SRL	Data processing	18.19	2,038	18.19	2,038
S.W.I.F.T SCRL	International transfer	0.01	901	0.01	889
Bursa de Valori	Stock exchange	6.16	439	7.69	439
Total			**3,378**		**3,366**

As of 31 December 2023 and 31 December 2022, the Bank's investment securities in Biroul de Credit SRL in the amount of 2,038 MDL'000 are under seizure of Moldovan Authorities (please see Note 34).

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EXPLANATORY NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS

9. PROPERTY AND EQUIPMENT

In MDL thousand	Land and buildings	Furniture and equipment	Vehicles	Improvements of leased assets	Fixed assets under construction	Total
Cost						
Balance at 1 January 2022	**144,329**	**226,323**	**24,502**	**34,644**	**27,005**	**456,803**
Additions	-	2,216	-	-	122,322	**124,538**
Transfers	1,568	102,913	-	11,612	(116,093)	**-**
Disposals (write-offs)	-	(35,398)	-	(326)	(3,568)	**(39,291)**
Balance at 31 December 2022	**145,897**	**296,054**	**24,502**	**45,930**	**29,666**	**542,049**
Balance at 1 January 2023	**145,897**	**296,054**	**24,502**	**45,930**	**29,666**	**542,049**
Additions	-	6,395	-		115,114	**121,509**
Transfers	-	78,596	-	22,144	(100,740)	**-**
Disposals (write-offs)	-	(38,354)	-	(364)	(11,833)	**(50,551)**
Balance at 31 December 2023	**145,897**	**342,691**	**24,502**	**67,710**	**32,207**	**613,007**
Accumulated depreciation and impairment losses						
Balance at 1 January 2022	**56,740**	**142,209**	**13,884**	**15,803**	**-**	**228,637**
Depreciation for the year	4,075	32,732	2,530	5,914	-	**45,250**
Reclassified as held for sale	-	-	-	-	-	**-**
Disposals	-	(34,843)	-	(326)	-	**(35,169)**
Balance at 31 December 2022	**60,815**	**140,098**	**16,414**	**21,391**	**-**	**238,718**
Balance at 1 January 2023	**60,815**	**140,098**	**16,414**	**21,391**	**-**	**238,718**
Depreciation for the year	4,081	49,830	2,227	8,146		**64,284**
Impairment losses	-	-	6	-	-	**6**
Disposals	-	(38,113)	-	(353)		**(38,466)**
Balance at 31 December 2023	**64,896**	**151,815**	**18,647**	**29,184**	**-**	**264,542**
Carrying amounts						
Balance at 1 January 2022	**87,589**	**84,114**	**10,617**	**18,841**	**27,005**	**228,166**
Balance at 31 December 2022	**85,082**	**155,956**	**8,088**	**24,539**	**29,666**	**303,331**
Balance at 31 December 2023	**81,001**	**190,876**	**5,855**	**38,526**	**32,207**	**348,465**

As at 31 December 2023, the costs of property and equipment fully amortized and still used by the Bank amounted to 59,547 MDL'000 (31 December 2022: 79,732 MDL'000). As at 31 December 2023 tangible assets in amount of 49,178 MDL'000 (31 December 2022 in amount of 53,721 MDL'000) are under seizure of Moldovan Authorities (please see Note 34).

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10. INTANGIBLE ASSETS

In MDL thousand	Software	Intangible assets in execution	Total
Cost			
Balance at 1 January 2022	**166,397**	**7,412**	**173,809**
Additions	-	10,202	**10,202**
Transfers	17,296	(17,296)	**-**
Disposals	-	(318)	**(318)**
Balance at 31 December 2022	**183,693**	**-**	**183,693**
Balance at 1 January 2023	**183,693**	**-**	**183,693**
Additions	4,967	25,011	**29,978**
Transfers	7,948	(7,948)	**-**
Disposals	(348)	(787)	**-1,135**
Balance at 31 December 2023	**196,260**	**16,276**	**212,536**
Accumulated depreciation			
Balance at 1 January 2022	**94,364**	**-**	**94,364**
Depreciation for the year	15,017	-	**15,017**
Disposals	-	-	**-**
Balance at 31 December 2022	**109,381**	**-**	**109,381**
Balance at 1 January 2023	**109,381**	**-**	**109,381**
Depreciation for the year	17,177	-	17,177
Disposals	(334)	-	(334)
Balance at 31 December 2023	**126,224**	**-**	**126,224**
Carrying amounts			
Balance at 1 January 2022	**72,033**	**7,412**	**79,445**
Balance at 31 December 2022	**74,312**	**-**	**74,312**
Balance at 31 December 2023	**70,036**	**16,276**	**86,312**

As at 31 December 2023, the cost of intangible assets fully amortized but still used by the Bank amounted to 28,775 MDL'000 (31 December 2022: 27,416 MDL'000). As at 31 December 2023 intangible assets have not been pledged as collateral.

11. LEASES

The Bank leases a number of vehicles and offices for the bank's branches. The leases typically run for a period of 1 - 7 years. The leases were classified as leases under IFRS 16. The information about leases for which the Bank is a lessee is presented below.

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11. LEASES (CONTINUED)

I. Right-of-use assets

In MDL thousand	Vehicles	Leased spaces	Total
Balance at 1 January 2022	**-**	**122,965**	**122,965**
Additions	729	44,192	44,921
Disposals	-	(42,950)	(42,950)
Balance at 31 December2022	**729**	**124,207**	**124,936**
Additions	1,999	50,614	52,613
Disposals	(61)	(38,863)	(38,924)
Balance at 31 December2023	**2,667**	**135,958**	**138,625**
Accumulated depreciation			
Balance at 1 January 2022	**-**	**57,718**	**57,718**
Depreciation charge for the year	12	33,229	33,241
Disposals	-	(38,702)	(38,702)
Balance at 31 December 2022	**12**	**52,245**	**52,257**
Depreciation charge for the year	383	34,839	35,222
Disposals	(3)	(30,239)	(30,242)
Balance at 31 December 2023	**392**	**56,845**	**57,237**
Carrying amounts			
Balance at 1 January 2022	**-**	**65,247**	**65,247**
Balance at 31 December 2022	**717**	**71,962**	**72,679**
Balance at 31 December 2023	**2,275**	**79,113**	**81,388**

Maturity analysis – Contractual undiscounted cash flows

In MDL thousand	2023	2022
Less than one year	32,179	4,816
Between one and three years	39,017	40,309
Between three and five years	10,141	28,070
More than five years	319	654
Total undiscounted lease liabilities at 31 December	**81,656**	**73,849**

II. Amounts recognized in profit or loss

In MDL thousand ***Leases under IFRS 16***	Note	2023	2022
Interest expense on lease liabilities (included in interest expenses)	**23**	932	654
Expense relating to leases of low-value assets (included in other operating expenses)	**30**	3,083	2,158

III. Amounts recognized in statement of cash flow

In MDL thousand	2023	2022
Lease liabilities	**79,583**	**72,860**
Total cash outflow for leases	35,238	33,075

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12. OTHER FINANCIAL ASSETS

In MDL thousand	31 December 2023	31 December 2022
Receivables from international payment systems	22,587	19,837
Receivables from Visa and Mastercard	178,370	128,329
Other financial assets	50,423	55,973
Expected credit loss allowance for other financial assets	(24,084)	(29,428)
Total financial assets	**227,296**	**174,711**

Other financial assets of the Bank consist of receivables related to calculated commissions not related to interest, contracts for sale of collaterals in installments and settlements with individuals and legal entities.

The evolution of allowances for expected credit losses of other financial assets during 2023 and 2022 financial years, is presented in Note 39.1.

13. OTHER ASSETS

In MDL thousand	31 December 2023	31 December 2022
Repossessed collaterals	10,968	32,930
Inventories	22,681	7,339
Advances to suppliers	14,180	27,106
Prepaid expenses	20,696	14,415
Impairment allowance for other non-financial assets	(10,968)	(32,014)
Total other assets	**57,557**	**49,776**

The other assets (non-financial) of the Bank include mainly the assets repossessed in exchange for the reimbursement of loans. The Bank takes measures in respect of the sale of the assets held for sale, quarterly sales plans are prepared for each asset, which include the management, promotion and identification of potential buyers.

Movement in allowance for impairment of the collaterals repossessed is presented below:

In MDL thousand	2023	2022
Balance as at 1 January	**32,014**	**101,508**
Impairment charges / (release) (Note 28)	(8,577)	(57,247)
Disposals due to sales	(12,469)	(12,247)
Balance as at 31 December	**10,968**	**32,014**

14. CURRENT INCOME TAX ASSETS AND LIABILITIES

Below is an analysis of current income tax assets/liabilities presented in the financial statement:

In MDL thousand	31 December 2023	31 December 2022
Current income tax assets	-	-
Current income tax liability	(9,826)	(14,812)
Current income tax assets / (liabilities), net	**(9,826)**	**(14,812)**

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15. OTHER BORROWINGS

In MDL thousand	31 December 2023	31 December 2022
Loans from the Ministry of Finance	128,590	105,908
Loans from international finance organizations	383,892	90,930
Total	**512,482**	**196,838**

Reconciliation of movements of other borrowings to cash flows arising from financing activities:

In MDL thousand	2023	2022
Balance as at 1 January	196,838	144,372
Proceeds received	386,570	114,316
Payments	(66,646)	(65,907)
Liability-related:		
Interest expense (Note 23)	16,679	7,102
Interest paid	(10,328)	(6,258)
The effect of changes in foreign exchange rates	(10,631)	3,213
Balance as at 31 December	**512,482**	**196,838**

The loans received by the Bank for the purpose of re-crediting are from the European Bank for Reconstruction and Development (EBRD), the European Fund for Southeast Europe (EFSE), from the Ministry of Finance of the Republic of Moldova through the Office of Management of Foreign Assistance Programs (OGPAE).

The purpose is to finance certain investment projects and to supplement the current means (EU4Business project - in improving the quality of products and modernizing services, IFAD projects - mainly in the agricultural field, RISP projects - in rural business development, the Moldova Orchard project (Livada Moldovei) – investments in the horticultural sector and related sectors, the Covid19 project - support for SMEs affected by the pandemic crisis).

In 2023, 8 investment loans were granted from EBRD resources, within the EU4BUSINESS-EBRD CREDIT LINE project, in the amount of 1.9 million EUR.

In 2023, the interest rate experienced a significant fluctuation, thus the interest related to the loans received from OGPAE varied between 6.6% - 5.35% for MDL, 3.83% - 4.54% for EUR. For the loan from EBRD, the interest rate in EUR varied between 6.442% - 7.341% and for the loan from EFSE, the rate is 7.125% in EUR and 7.46% in MDL.

The loans financed from the mentioned borrowings were granted for a period of up to 7 years for investment projects and up to 4 years for supplementing the current assets depending on the project.

On 31 December 2023, the Bank complied with historical covenants within the project granted under the Polish Credit sub-project.

16. DEPOSITS FROM BANKS

In MDL thousand	31 December 2023	31 December 2022
"Loro" accounts from banks	35,605	69,455
Overnight deposits	-	400
Total	**35,605**	**69,855**

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17. DEPOSITS FROM CUSTOMERS

Deposits from customers can be analyzed as follows:

In MDL thousand		
Legal entities	**31 December 2023**	**31 December 2022**
Current accounts	6,306,859	5,106,839
Term deposits	629,088	407,476
Total	**6,935,947**	**5,514,315**
Individuals	**31 December 2023**	**31 December 2022**
Current accounts	4,976,218	4,155,008
Term deposits	3,813,129	3,981,844
Total	**8,789,347**	**8,136,852**
Deposits from customers	**15,725,294**	**13,651,167**

Analysis of the deposits from customers by economic sector as at 31 December 2023 and 31 December 2022 is presented below:

Legal entities, *MDL thousand*	**31 December 2023**	**31 December 2022**
Production and trade	2,049,555	1,871,884
Services	2,169,833	788,834
Manufacturing and processing	3,310	417,716
Constructions	286,954	313,889
Real estate	293,733	351,877
Transportation	588,127	365,284
Financial services	316,141	272,603
Health	250,720	277,663
Agriculture	35,867	69,200
Government/Public Administrations	12,785	9,538
Energy sector	506,362	1,875
Others	422,560	773,952
Total	**6,935,947**	**5,514,315**

18. PROVISIONS FOR OTHER RISKS AND LOAN COMMITMENTS

In MDL thousand	**31 December 2023**	**31 December 2022**
Provisions for loan commitments, financial guarantees	39,216	34,861
Litigation provisions	-	2,314
Total	**39,216**	**37,175**

The table below shows reconciliation from the opening to the closing balance of the litigations provisions:

	2023	**2022**
Balance at 1 January	**2,314**	**2,314**
Provisions reversed during the year	(2,314)	-
Balance at 31 December	**-**	**2,314**

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

19. DEFERRED TAX BALANCES

An analysis of deferred income tax assets / (liabilities) presented in statement` of financial position is presented below:

In MDL thousand	31 December 2023	31 December 2022
Deferred income tax assets	8,062	5,369
Deferred income tax liabilities	(4,060)	(4,627)
Deferred tax assets / (liabilities), net	**4,002**	**742**

Movement in deferred tax balances is presented below:

In MDL thousand	31 December 2022	Recognized in profit and loss	Recognized in other items of comprehensive income	31 December 2023
Property and equipment	(4,570)	611	-	(3,959)
Provisions for litigations	278	(278)	-	-
Accrual for untaken holidays	1,482	333	-	1,815
Accrual for other employee benefits	3,561	2,686	-	6,247
Debt securities measured at FVOCI	48	-	(89)	(41)
Equity investment securities measured at FVOCI	(56)	-	(4)	(60)
Deferred tax assets / (liabilities)	**742**	**3,352**	**(93)**	**4,002**

In MDL thousand	31 December 2021	Recognized in profit and loss	Recognized in other items of comprehensive income	31 December 2022
Property and equipment	(3,445)	(1,125)	-	(4,570)
Provisions for litigations	278	-	-	278
Accrual for untaken holidays	1,264	218	-	1,482
Accrual for other employee benefits	2,368	1,192	-	3,561
Debt securities measured at FVOCI	5	-	43	48
Equity investment securities measured at FVOCI	(38)	-	(18)	(56)
Deferred tax assets / (liabilities)	**432**	**285**	**25**	**742**

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20. OTHER FINANCIAL LIABILITIES

In MDL thousand	31 December 2023	31 December 2022
Amounts pending for customers instructions	244,762	182,988
Approved and issued treaties	129,988	11,394
Bank cards operations	36,803	22,264
Non-interest-bearing calculated expenses	47,531	44,209
Payments collected for transfer according to the destination	21,640	14,468
Suspense amounts	927	1,071
Settlements with the brokers	5,169	2,892
Accruals for untaken holidays	15,127	12,349
Accruals for other employee benefits	52,058	29,672
Creditors regarding documentary transactions	-	989
Settlements related to intangible assets	865	210
Other financial liabilities	225,790	150,493
Total	**780,660**	**472,999**

Other financial liabilities include transfers to cards, salary projects, merchant advance payments (internet-stores).

21. OTHER LIABILITIES

In MDL thousand	31 December 2023	31 December 2022
Other settlements with the state budget	12,013	11,947
Other non-financial liabilities	7,877	6,253
Total	**19,890**	**18,200**

22. CAPITAL AND RESERVES

a. Share capital

During the year 2023, there were no changes to the Bank's share capital amounting to MDL 250,000,910 as at 31 December 2023 and 31 December 2022, consisting of 25,000,091 ordinary nominative shares of class I, code ISIN MD14VCTB1004, with a nominal value MDL 10, with voting right, the right to receive dividends, issued in non-material form.

As at 31 December 2023 the Bank has a total of 184 shareholders - individuals and legal entities (31 December 2023: 183 shareholders), among which:

	31 December 2023	31 December 2022
Shareholders with a share equal to or above 1%, among which:	**5 persons**	**5 persons**
Legal entities	1	1
Individuals	4	4
Other shareholders, of which:	**179 persons**	**178 persons**
Legal entities	11	11
Individuals	168	167

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22. CAPITAL AND RESERVES (CONTINUED)

a. Share capital (continued)

	31 December 2023, %	31 December 2022, %
Shareholders with a share equal to or above 1%, among which:		
VB Investment Holding B.V.	72.19	72.19
Ţurcan Victor	10.76	10.76
Ţurcan Valentina	8.07	8.07
Artemenco Elena	4.95	4.95
Proidisvet Galina	1.58	1.58
Other shareholders	2.45	2.45
TOTAL	**100**	**100**

The holders of ordinary shares are entitled to receive dividends as declared by the general shareholders meeting, and are entitled to one vote per share at meetings of the Bank. All ordinary shares rank equally with regard to the Bank's residual assets.

b. Other reserves

The balance represents the general reserve for bank risks and relates to the difference between the assets impairment losses and provisions for conditional commitments, according to IFRS, and the amount calculated but unformed of allowances for losses on assets and conditional commitments, according to prudential regulations of the National Bank of Moldova.

Starting with 2012, general reserves for bank risks were made up of the reported result.
On 31 December 2023, the above-mentioned difference decreased from the balance reflected in the general reserve account for bank risks of 31 December 2022. Thus, the amount of 43,165 MDL'000 was returned in the retained earnings.

c. Statutory reserves

In accordance with the local legislation, 5% of the net profit of the Bank is required to be transferred to a non-distributable statutory reserve until such time as this reserve represents at least 10% of the share capital of the Bank. This reserve is non-distributable. According to the Bank's statute these can be used to absorb losses.

d. Fair value reserve

The fair value reserve comprises:

- the cumulative net change in the fair value of equity securities measured at FVOCI (see Note 3.15) and
- the cumulative net change in fair value of debt securities measured at FVOCI until the assets are derecognized or reclassified. This amount is increased by the amount of loss allowance (see Note 3.14).

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23. NET INTEREST INCOME

In MDL thousand	2023	2022
Interest income calculated using the effective interest method		
Loans to customers*	673,150	543,217
Current accounts and placements held with NBM, other banks	320,257	325,105
Investment securities at amortized cost	832,193	437,403
Investment securities at FVOCI	1,720	1,852
Total interest income	**1,827,320**	**1,307,577**

*The interest income on impaired loans for the year ended 31 December 2023 amounted to 35,757 MDL'000 (2022: 41,693 MDL'000).

In MDL thousand	2023	2022
Interest expense		
Deposits from customers	(548,069)	(239,325)
Current accounts with banks	-	(3,160)
Deposits from banks	(780)	(485)
Other borrowings	(16,679)	(7,102)
Operational leasing	(810)	(650)
Financial leasing	(122)	(4)
Total interest expense	**(566,460)**	**(250,726)**
Net interest income	**1,260,860**	**1,056,851**

The amounts reported above include interest income and expense, calculated using the effective interest method, that relate to the following financial assets and financial liabilities:

In MDL thousand	2023	2022
Financial assets measured at amortized cost	1,825,600	1,305,725
Financial assets measured at FVOCI	1,720	1,852
Total	**1,827,320**	**1,307,577**
Financial liabilities measured at amortized cost	**(566,460)**	**(250,726)**

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24. NET FEE AND COMMISSION INCOME

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

In MDL thousand	2023	2022
Fee and commissions income		
Bank cards operation	407,796	359,081
Transactions with customers	169,982	181,160
Clearing operations	20,950	24,919
Currency exchange operations	970	2,120
Commission for release of guarantees	2,109	2,540
Brokerage fees	1,097	956
Lending activity	224	434
Other commissions income	14,803	15,042
Total fee and commissions income	**617,931**	**586,252**

24. NET FEE AND COMMISSION INCOME (CONTINUED)

Fee and commissions expenses	2023	2022
Commissions for card services	(371,222)	(303,632)
Payment transactions	(17,940)	(15,635)
Commissions upon cash withdrawal and depositing	(20,330)	(26,640)
Other commissions related to borrowings	(57)	(155)
Total fee and commissions expenses	**(409,549)**	**(346,062)**
Net fee and commission income	**208,382**	**240,190**

Other commissions income represents the commissions charged for other bank operations (i.e. utilities payments), cash collection services and bancassurance fees.

25. NET TRADING INCOME

In MDL thousand	2023	2022
Net income from foreign exchange transactions	255,991	234,781
Losses from the revaluation of foreign currency assets and liabilities	9,102	16,500
Dividends on equity investments measured at FVOCI	694	472
Other financial income	51	435
Total	**265,838**	**252,188**

26. OTHER OPERATING INCOME

In MDL thousand	2023	2022
Other operating income	5,658	11,178
Fines and penalties received	3,584	2,582
Other income	3,085	9,074
Total	**12,327**	**22,834**

Other operating income includes the refund of amounts paid by Visa Inc. and MasterCard Incorporated to cover expenses related to promotional services.

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27. NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS AND PROVISIONS FOR OFF-BALANCE SHEET COMMITMENTS

Additional information on impairment of financial assets during the financial years 2023 and 2022 are presented in Note 39.1. (I. Amounts arising from ECL).

The following table provides reconciliation position "net impairment (losses) / releases on financial assets" in statement of profit or loss:

In MDL thousand	2023	2022
Cash and balances with the National Bank of Moldova	(793)	(2,422)
Current accounts and placements with banks	(4,137)	1,455
Debt securities at amortized cost	(2,717)	3,740
Debt securities at FVOCI	25	19
Loans to customers at amortized cost	(102,340)	(185,017)
Receivables from sales of collaterals	1,224	(904)
Other financial assets	(2,051)	(3,964)
Loan commitments and financial guarantee contracts	(4,848)	(19,010)
Total	**(115,637)**	**(206,103)**

28. NET IMPAIRMENT (LOSSES) / RELEASE ON NON-FINANCIAL ASSETS

In MDL thousand	2023	2022
Repossessed collaterals	8,577	57,247
Tangible assets	(5)	-
Intangible assets	-	(318)
Total	**8,572**	**56,929**

29. PERSONNEL EXPENSES

In MDL thousand	2023	2022
Salaries and bonuses	(333,790)	(258,910)
Social insurance and contributions	(85,561)	(66,581)
Net expenses with accruals for untaken holidays and other accruals	(24,338)	(12,010)
Other staff expenses (other payments, meal vouchers)	(29,412)	(24,276)
Total	**(473,101)**	**(361,777)**

The average monthly number of employees active in the Bank during 2023 was 1,119 people (in 2022 was 1,063).

The Bank's expenses related to the share-based payments are included in the salaries and bonuses and amounted to MDL 2,197 thousand in 2023 (2022: MDL 2,084 thousand). The related contributions were MDL 527 thousand in 2023 and MDL 484 thousand in 2022.

The Bank established a Shadow Shares Plan ("SSP"), by which members of the executive committee may exercise the right and option to receive a number of shadow shares, as part of their variable remuneration.

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29. PERSONNEL EXPENSES (CONTINUED)

Vesting conditions for 2023 related to SSP 2022:
- Achievement of performance and prudential indicators during 2022;
- Compliance with certain individual eligibility and/or performance criteria, in accordance with the applicable remuneration policy and standard, related to the year for which shares are granted;
- Being an employee upon the granting of the SSP right and when exercising such right (starting from June 2023);

Contractual vesting period for the shares granted for the year 2023 through SSP:
- Release after 1 June 2023;
- Deferral period for the identified personnel – 3 - 5 years, subject to applicable restrictions, pursuant to internal regulations in force.

As at 31 December 2023 the Bank accrued MDL 2,041 thousand for SSP expected to vest in 2024 and MDL 490 thousand of related taxes and contributions (as 31 December 2022 MDL 1,744 thousand for SSP expected to vest in 2023 and MDL 418 thousand of related taxes and contributions).

The total deferred variable remuneration as 31 December 2023, for SSP expected to vest after 31 December 2024 is estimated at MDL 3,924 thousand and MDL 942 thousand of related contributions.

30. OTHER OPERATING EXPENSES

In MDL thousand	2023	2022
Utilities and rent	(16,108)	(12,480)
Repairs and maintenance expenses	(20,229)	(15,499)
Contribution to the Bank Deposit Guarantee Fund and Resolution Fund	(26,829)	(32,001)
Security and protection	(6,012)	(5,617)
Advertising, marketing, entertainment and sponsorship expenses	(21,453)	(20,719)
Expenses for maintaining intangible assets	(49,008)	(44,968)
Mail, telecommunication and SMS traffic expenses	(12,727)	(11,890)
Stationery and supplies	(3,592)	(3,034)
Audit, advisory and legal expenses	(24,210)	(16,622)
Training	(4,249)	(1,878)
Travel and transportation	(2,991)	(2,785)
Expenses related to the disposal of other assets	(19,355)	(5,780)
Taxes and penalties	(1,556)	(625)
Success fees for insolvency administrators	-	(2,873)
Other operating expenses	(77,037)	(57,196)
Total	**(285,356)**	**(233,967)**

Other operating expenses include expenses related to the seconded employees, insurance of Bank's property and other non-deductible expenses.

31. DEPRECIATION

In MDL thousand	2023	2022
Property and equipment (Note 9)	(64,285)	(45,250)
Right-of-use assets (Note 11)	(35,222)	(33,241)
Intangible assets (Note 10)	(17,177)	(15,017)
Total	**(116,684)**	**(93,508)**

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32. NET INCOME TAX RELEASE/ (EXPENSES)

Income tax expenses consist of current tax and deferred tax are presented as follows:

Income tax recognized in profit and loss account

In MDL thousand	31 December 2023	31 December 2022
Current tax		
Current tax expenses	(98,853)	(92,145)
Deferred tax		
Deferred tax (expenses) / release	3,352	285
Total income tax expenses recognized during the year	**(95,500)**	**(91,860)**

Income tax expenses reconciles to profit before tax as follows:

In MDL thousand		2023		2022
Profit before tax		**767,515**		**733,636**
Tax using the Bank's domestic tax rate	12.00%	92,102	12.00%	88,036
Tax effect of non-deductible expenses	0.47%	3,620	0.54%	3,944
Tax-exempt income	(0.03%)	(222)	(0.02%)	(120)
Income tax expense recognized in profit and loss account	12.44%	**95,500**	12.52%	**91,860**

Non-deductible expenses are related to some expenses related to detached employees, insurance premiums and other non-deductible expenses according to provisions of Tax Code of Republic of Moldova.

32. NET INCOME TAX RELEASE/ (EXPENSES) (CONTINUED)

Income tax recognized in other comprehensive income

In MDL thousand	31 December 2023	31 December 2022
Current income tax		
Current tax	-	-
Deferred income tax		
Change in fair value of debt investment securities designated at FVOCI	(89)	43
Change in fair value of equity investments securities designated at FVOCI	(4)	(18)
Total income tax recognized in other comprehensive income	**(93)**	**25**

33. OFF BALANCE SHEET GUARANTEES AND OTHER FINANCIAL COMMITMENTS

The cumulated amounts of guarantees in balance and other off balance sheet elements as at 31 December 2023 and 2022:

In MDL thousand	31 December 2023	31 December 2022
Letters of credit	-	988
Issued guarantees	130,962	84,687
Commitments to issue guarantees	49,821	81,183
Loan commitments	691,694	724,922
Total	**872,477**	**891,780**

The Bank issues guarantees and letters of credit on behalf of its customers. The credit risk on guarantees is similar to that arising from granting of loans. Financing commitments represent the Bank's commitments to grant loans to customers and do not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

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34. CONTINGENT LIABILITIES AND LITIGATIONS

The Bank was notified on 6 July 2020 that it is being investigated in a case instrumented by the Prosecutor's Office of the Republic of Moldova and on 6 August 2020, a precautionary seizure was placed on some of the Bank's assets, in order to cover the claims in the file - amounting to approximately MDL 2.2 billion.

As at 31 December 2023, the amount of the Bank's assets that were seized by the criminal investigation body was MDL 1.9 billion (31 December 2022: MDL 1.9 billion).

Considering the nature of the case, current status of the investigation, legal limitations related to the investigation, the lawyers' analysis of the content of investigators case files, corroborated with the lawyers' legal opinion on the background facts and evidence provided by the prosecutors, the management of the Bank concluded that the disclosure of a contingent liability in the financial statements satisfies the requirements of IAS 37.

Based on consultations with its lawyers and understanding the risks associated with the case, the Bank did not recognize any provision related to this dispute as of 31 December 2023 and as of 31 December 2022. The Bank will monitor the evolution of the topic at each reporting date, in accordance with the relevant provisions of the accounting standards and regulations.

The Bank is also involved as defendant in a number of other litigations as at 31 December 2023 and 31 December 2022, emerged from normal banking activities.

35. BASIC EARNINGS PER SHARE

MDL thousand	31 December 2023	31 December 2022
Profit for the year	672,015	641,777
The number of ordinary shares	25,000,091	25,000,091
Basic earnings per share	**26.88**	**25.67**

The basic earnings per share are calculated by dividing the net profit for the year attributable to the holders of ordinary equity by the weighted average number of ordinary shares outstanding during the year. The calculation of the basic earnings per share as at 31 December 2023 and as at 31 December 2022 was based on the number of outstanding shares during the period, this number being unmodified – 25,000,091 – since 2011.

The diluted earnings per share for 2023 took into consideration the adjusted net profit attributable to the ordinary shareholders of the Bank and the weighted average number of outstanding diluted ordinary shares.

For 2022-2023, the amount of convertible bonds was 0, in this case the diluted net profit attributable to the shareholders is equal with the net profit of the Bank and the earning per diluted share is the same as the earning per ordinary share.

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36. SEGMENT REPORTING

The Bank's segment reporting is presented in accordance with the internal requirements of the Management. The operational segments correspond to the internal reports to the Executive Management and the Board of Administration. The reporting format is based on the internal management reporting format. All assets and liabilities, income and expenses presented are allocated to operating segments either directly or on the basis of criteria established by Management.

A business segment is a component of the Bank:

- That engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses related to transactions with other components of the same entity);
- The operating results of which are reviewed regularly by the entity's decision maker in order to make decisions about resources to be allocated to the segment and to assess its performance;
- For which distinct financial information is available.

The Bank has the following four strategic divisions, which are operating and reportable segments. These divisions offer different products and services, and are managed separately based on the Bank's management and internal reporting structure:

Corporate Clients: In this category, the Bank mainly manages loans and other credit facilities and deposit and current accounts for legal entities with an annual turnover of more than MDL 50 million. This category includes Public administration, national public institutions, the City Hall and the council of Chisinau and Balti municipalities and insurance companies.

SME customers: In this category, the Bank mainly manages loans and other credit facilities and deposit and current accounts for legal entities with an annual turnover (sales revenue) up to MDL 50 million according to the financial statements presented, Non-compliant entities in the criteria of Corporate Client, including the entities for which it is not possible to identify the turnover.

Individuals: The Bank provides individuals with a wide range of financial products and services, including lending (mortgages, consumer and vehicle loans), current and deposit accounts, and payment services.

Treasury: The Bank includes in this category the services provided by the treasury activity: interbank operations, securities transactions and equity instruments. Also, the bank incorporates in this category the services offered by the treasury activity in foreign exchange transactions.

Others: The Bank includes in this category elements that do not fall into the existing categories and result from financial and strategic decisions taken centrally such as tangible and intangible assets, assets related to the right of use and other assets that cannot be directly identified.

In terms of geographical distribution, the Bank covers mainly the Republic of Moldova territory.

As of December 31, 2023 and December 31, 2022, no customer generated more than 10% of total revenue for the Bank.

The Management of the Bank monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses and is measured consistently with operating profits or losses in the financial statements. However, income taxes and net expenses for expected losses from impairment of loans and advances to customers, provisions for loan commitments and litigations are managed on a consolidated basis and are not allocated to operating segments.

We present below segmented financial information on the statement of financial position and operating profit before income tax expenses, net expenses for expected losses from impairment of loans and advances to customers and provisions for loan commitments and litigations as of December 31, 2023 and comparative data for December 31, 2022:

36. SEGMENT REPORTING (CONTINUED)

Reportable segments as of December 31, 2023

MDL thousand	Corporate	SME	Individuals	Treasury	Others	Total
Loans to customers	1,963,825	1,423,772	3,048,688	-	-	**6,436,285**
Expected credit loss allowances	*(149,924)*	*(87,280)*	*(217,493)*	-	-	*(454,697)*
Current accounts and placements with NBM and banks	-	-	-	8,037,020	-	**8,037,020**
Debt and equity instruments	-	-	-	5,863,394	-	**5,863,394**
Other assets	8,763	4,104	6,812	-	1,835,014	**1,854,693**
Total assets	**1,822,664**	**1,340,596**	**2,838,007**	**13,900,414**	**1,835,014**	**21,736,695**
Deposits from banks	-	-	-	35,605	-	**35,605**
Deposits from customers	4,006,063	2,929,884	8,789,347	-	-	**15,725,294**
Other borrowings	383,892	128,590	-	-	-	**512,482**
Provisions for other risks and loan commitments	17,849	10,607	10,760	-	-	**39,216**
Other liabilities	-	-	-	-	889,959	**889,959**
Total liabilities	**4,407,804**	**3,069,081**	**8,800,107**	**35,605**	**889,959**	**17,202,556**
Equity					4,534,139	**4,534,139**
Total liabilities and equity	**4,407,804**	**3,069,081**	**8,800,107**	**35,605**	**5,424,098**	**21,736,695**

Reportable segments as of December 31, 2022

MDL thousand	Corporate	SME	Individuals	Treasury	Others	Total
Loans to customers	1,926,203	932,123	2,785,818	-	-	**5,644,144**
Expected credit loss allowances	*(269,791)*	*(59,577)*	*(210,017)*	-	-	*(539,385)*
Current accounts and placements with NBM and banks	-	-	-	6,803,677	-	**6,803,677**
Debt and equity instruments	-	-	-	4,456,993	-	**4,456,993**
Other assets	8,654	2,438	786	-	2,018,066	**2,029,945**
Total assets	**1,665,066**	**874,984**	**2,576,587**	**11,260,670**	**2,018,066**	**18,395,373**
Deposits from banks	-	-	-	69,855	-	**69,855**
Deposits from customers	3,015,411	2,498,904	8,136,852	-	-	**13,651,167**
Other borrowings	90,930	105,908	-	-	-	**196,838**
Provisions for other risks and loan commitments	20,494	7,814	6,553	-	2,314	**37,175**
Other liabilities	-	-	-	-	578,872	**578,872**
Total liabilities	**3,126,835**	**2,612,626**	**8,143,405**	**69,855**	**581,186**	**14,533,907**
Equity	-	-	-	-	3,861,466	**3,861,466**
Total liabilities and equity	**3,126,835**	**2,612,626**	**8,143,405**	**69,855**	**4,442,652**	**18,395,373**

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36. SEGMENT REPORTING (CONTINUED)

Reportable segments as of December 31, 2023

MDL thousand	Corporate	SME	Individuals	Treasury	Total
Net interest income	206,002	154,325	375,034	525,498	**1,260,859**
Net commission income	14,686	44,056	143,936	5,703	**208,381**
Net trading income	36,332	41,968	42,894	144,644	**265,838**
Other operating income	4,902	2,844	2,683	1,899	**12,328**
Total income	**261,922**	**243,193**	**564,547**	**677,744**	**1,747,406**
Personnel expenses	58,133	78,248	246,159	90,561	**473,101**
Other operating expenses	58,525	55,749	149,737	138,029	**402,040**
Total expenses	**116,658**	**133,997**	**395,896**	**228,590**	**875,141**
Operating income before net impairment expenses, provisions for contingent liabilities / litigations and income tax	**145,264**	**109,196**	**168,651**	**449,154**	**872,265**

Reportable segments as of December 31, 2022

MDL thousand	Corporate	SME	Individuals	Treasury	Total
Net interest income	144,913	140,615	313,387	457,936	**1,056,851**
Net commission income	16,704	41,479	175,248	6,759	**240,190**
Net trading income	41,604	32,470	36,824	141,290	**252,188**
Other operating income	2,590	3,747	14,052	2,445	**22,834**
Total income	**205,811**	**218,311**	**539,511**	**608,430**	**1,572,063**
Personnel expenses	49,077	60,757	186,795	65,149	**361,778**
Other operating expenses	45,564	54,163	175,439	52,309	**327,475**
Total expenses	**94,641**	**114,920**	**362,234**	**117,458**	**689,253**
Operating income before net impairment expenses, provisions for contingent liabilities/litigation and income tax	**111,170**	**103,391**	**177,277**	**490,972**	**882,810**

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37. FAIR VALUE OF THE FINANCIAL INSTRUMENTS

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments according to the valuation method:

Level 1 in the fair value hierarchy

The fair value of financial assets and liabilities allocated to Level 1 in the fair value hierarchy is determined based on quoted prices in active markets for identical financial assets or liabilities. The price quotations used are regularly and immediately available on active markets / exchange indices and the prices that represent current and regular market transactions according to the arm's length basis.

Level 2 in the fair value hierarchy

The fair value of financial assets and liabilities included in Level 2 in the fair value hierarchy is determined by using evaluation methods which contain observable market data when market prices are not available. Observable interest rates and yield curves at commonly quoted intervals, credit spreads and implied volatilities are typically used as observable market parameters for Level 2 valuations.

Level 3 in the fair value hierarchy

The fair value of financial assets and liabilities included in Level 3 in the fair value hierarchy is determined by using input data that are not based on observable market information (unobservable data inputs shall reflect the assumptions made by the market participants to establish the price of an asset or a liability, including risk assumptions).

The objective of valuation techniques is to derive the fair value that reflects a price for the financial instrument at the reporting date, price that would be obtained by the market participants acting at arm's length.

The availability of observable market data and models reduces the need for the Management to operate judgements and estimations and also reduces the uncertainty associated with the determination of the fair value. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Fair value hierarchy analysis of financial instruments carried at fair value

To establish the hierarchy of the fair value of debt instruments, the Bank uses classification criteria in one of the three levels mentioned by the International Financial Reporting Standard 13. For the purpose of classification, the methodology takes into account the aggregation of results from two sources of observations:

- direct observations of transactions, indicative or executable prices of the respective instrument;
- observations of transactions, indicative and executable prices of comparable instruments, with the aim of deriving a price for the respective instrument, when it is considered that direct observations support additions.

The list of evaluation techniques used may contain, but is not limited to, the following:

- prices/quotations extracted from evaluation platforms such as Bloomberg or quotes received upon request from third parties;
- models based on prices of instruments with similar characteristics;
- models based on interest/price curves considered representative;
- calculation of updated cash flows;
- generally accepted economic methodologies.

Their hierarchy will take into account the specifications of IFRS 13, the choice of the alternative technique to be substantiated and approved by the competent committees.

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37. FAIR VALUE OF THE FINANCIAL INSTRUMENTS (CONTINUED)

The following table shows the fair value and fair value hierarchy for financial assets and liabilities as at 31 December 2023:

31 December 2023		Carrying			Fair value hierarchy	
In MDL thousand	Notes	amount	Fair value	Level 1	Level 2	Level 3
Financial assets						
Current accounts and placements with banks	5	1,769,324	1,769,324	-	1,769,324	-
Financial assets measured at amortized cost – debt instruments	6	5,845,593	5,910,609	-	5,910,609	-
Debt securities at fair value through other comprehensive income	6	14,423	14,423	-	14,423	-
Equity securities at fair value through other comprehensive	8	3,378	3,378	-	-	3,378
Loans to customers	7	5,981,588	6,172,231	-	-	6,172,231
Other financial assets	12	227,296	227,296	-	-	227,296
Total		**13,841,602**	**14,097,261**	-	**7,694,356**	**6,402,905**
Financial liabilities						
Deposits from banks	16	35,605	35,605	-	35,605	-
Deposits from customers	17	15,725,294	15,728,455	-	11,188,941	4,539,514
Other borrowings	15	512,482	512,482	-	-	512,482
Other financial liabilities	20	780,660	780,660	-	-	780,660
Total		**17,054,041**	**17,057,202**	-	**11,224,546**	**5,832,656**

For the financial assets and liabilities classified at level 2 and 3 the Bank considered that the highest and best use of these asset does not differs from their current use.

At level 2 in the fair value hierarchy, the Bank has classified the current accounts and placements in banks, debt instruments at amortized cost, debt instruments at FVOCI, as well as deposits from banks.

The fair value of sight deposits represents their carrying amount and these liabilities have been classified in level 2 of the fair value hierarchy.

The equity securities in the Bank's portfolio do not have an active market, so their fair value was classified at level 3. At Level 3 in the fair value hierarchy, the Bank has also classified the following financial assets: loans to customers and other financial assets. The fair value of the loans represents the value of future cash flows discounted at the market rate (published by the NBM). The market rate is the weighted average rate for new loans granted to similar products, maturity and currency at December 2023.

At Level 3 in the fair value hierarchy, the Bank has classified as financial liabilities: deposits from customers, other borrowings and other financial liabilities. The fair value of interest-bearing term deposits represents the present value of future cash flows at the market rate (published by the NBM) for liabilities with similar maturities.

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37. FAIR VALUE OF THE FINANCIAL INSTRUMENTS (CONTINUED)

The following table shows the fair value and fair value hierarchy for financial assets and liabilities as at 31 December 2022:

31 December 2022		Carrying		Fair value hierarchy		
In MDL thousand	Notes	amount	Fair value	Level 1	Level 2	Level 3
Financial assets						
Current accounts and placements with banks	5	1,101,283	1,101,283	-	1,101,283	-
Financial assets measured at amortized cost – debt instruments	6	4,437,111	4,454,469	-	4,454,469	-
Debt securities at fair value through other comprehensive income	6	16,516	16,516	-	16,516	-
Equity securities at fair value through other comprehensive	8	3,366	3,366	-	-	3,366
Loans to customers	7	5,104,759	5,002,252	-	-	5,002,252
Other financial assets	12	174,711	174,711	-	-	174,711
Total		**10,837,746**	**10,752,597**	**-**	**5,572,268**	**5,180,329**
Financial liabilities						
Deposits from banks	16	69,855	69,855	-	69,855	-
Deposits from customers	17	13,651,167	13,616,014	-	9,035,543	4,580,471
Other borrowings	15	196,838	196,838	-	-	196,838
Other financial liabilities	20	472,999	472,999	-	-	472,999
Total		**14,390,859**	**14,355,706**	**-**	**9,105,398**	**5,250,308**

No changes in valuation techniques used to determine fair value have been considered for 2023 and 2022 years.

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B.C. VICTORIABANK S.A.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS

38. RELATED PARTIES

The main shareholders of the Bank, holding individually more than 1% of the share capital, are disclosed in Note 22.
The Bank engages in transactions with shareholders, key management personnel and other related parties.

During 2023 banking transactions with related parties were conducted in the normal course of business. These include lending, deposit taking and making transactions in national and foreign currency. All these transactions were carried out under similar conditions, including the interest rates and terms on similar transactions with customers.

Transactions with other related parties include transactions with shareholders that have < 1% in total shares and key personnel family members and companies where they are shareholders and pursuing a relationship with the Bank. Key personnel relate to members of Board of Directros of the Bank and Executive Committee and their direct family members.
The balances, income and expenses resulting from related party transactions carried out during the year are presented below:

	2023					2022				
In MDL thousand	Parent Company	Shareholders > 1 %	Key-management personnel	Other related parties	Total	Parent Company	Shareholders > 1 %	Key-management personnel	Other related parties	Total
Balance										
Current accounts to banks	74,657	-	-	-	**74,657**	41,196	-	-	-	**41,196**
Loans to customers	-	-	281	218,740	**219,021**		-	188	233,663	**233,851**
Deposits from customers	572	17,716	5,529	32,127	**55,944**	4,677	10,812	7,291	35,903	**58,683**
Commitments										
Given loan commitments and financial guarantees	-	-	194	36,306	**36,500**		-	279	2,441	**2,720**
Income and expenses										
Interest income	3,083	-	23	13,713	**16,819**	383	-	42	6,704	**7,129**
Fee and commissions income	17	19	25	218	**279**	10	27	47	263	**347**
Interest expenses	(89)	(8,505)	(320)	(441)	**(9,355)**	(241)	(3,991)	(111)	(94)	**(4,437)**
Fee and commissions expenses	(636)	-	(1)	-	**(637)**	(418)	-	-	-	**(418)**

Remuneration of directors
The total amount of remuneration expenses for executive management was MDL'000 27,130 for the year 2023 (2022: MDL'000 26,986). The amount of expenses for the remuneration of the Board of Administration was MDL'000 10,343 for the year 2023 (2022: MDL'000 10,469).

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39. FINANCIAL RISK MANAGEMENT

The objective of B.C. Victoriabank S.A. in terms of risk management, is the integration of the average risk appetite assumed in the bank's decision-making process by promoting an appropriate alignment of assumed risks, available capital and performance targets, while taking into account tolerance to both financial and non-financial risks. In determining the risk appetite and tolerance, the Bank takes into account all the significant risks to which it is exposed, due to the specifics of its activity and the strategic and operational objectives, being mainly influenced by credit risk.

The risk management framework includes internal regulations, risk limits and control mechanisms that ensure the identification, assessment, monitoring, mitigation and reporting of risks related to the Bank's activities as a whole and, where appropriate, at the level of business lines (corporate customers, small and medium-sized enterprises, individuals and treasury activity).

The main risk categories to which the Bank is exposed are:

- credit and concentration risk,
- market risk,
- liquidity risk,
- the interest rate risk from activities other than those of the trading book,
- operational risk,
- compliance risk,
- risk associated with excessive use of leverage effect,
- reputational risk,
- strategic risk.

Risk management is an integral part of all decision-making and business processes within the Bank. The Board of Administration is responsible for defining and monitoring the general risk management framework for the Bank.

Victoriabank's risk management is carried out at 2 levels: (1) strategic level represented by the Board of Administration / Risk Management Committee and the Executive Management and (2) operational level represented by: Assets and Liabilities Management Committee (ALCO), Credit Commissions and Committees, the Bank's risk management structures which are responsible for defining and/or monitoring the risk management policies in their area of expertise. The Board of Administration shall periodically review the work of these committees.

The Board of Administration monitors compliance with the Bank's risk policies and the adequacy of the general risk management framework in relation to the risks to which the Bank is exposed.

The Risk Management Committee advises the Board of Administration on the risk appetite and the overall strategy for managing current and future risks and assists the Board of Administration in overseeing the implementation of the strategy by the Executive Management.

Risk management policies and systems are reviewed regularly (mainly annually) with the participation of management bodies and managers from the various departments involved, to reflect changes in market conditions, products and services provided.

The crisis simulation program is an integral part of the Bank's risk management framework and internal capital adequacy assessment process.

The Bank's Audit Committee reports to the Board of Administration and is responsible for monitoring the effectiveness of the internal controls systems, internal audit and the Bank's risk management procedures. The Audit Committee is assisted in these functions by the Internal Audit Department. The responsibility of the Internal Audit Department is to evaluate the efficiency and effectiveness of the process of developing the general risk management framework (Risk Appetite Framework), the internal coherence of the established model and to verify that the activities carried out correspond to the general risk management framework.

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit Risk

Credit risk is the risk of financial loss to the bank if a customer or counterparty fails to fulfill its contractual obligations to a financial instrument. The Bank is exposed to credit risk both in lending, holdings in current accounts (correspondent) and investment in banks, investment activities and the issuance of bank guarantees.

Credit risk associated with investment activities is reduced by selecting those counterparty's good credit ratings and monitoring their activities by using exposure limits.

The highest exposure to credit risk of the Bank derives its loans to customers by financing commitments and issue guarantees.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty exposure limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process aims to allow the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective actions.

Both in the case of securities and bank guarantees for investments, PD parameter is determined based on studies of Moody's rating companies, taking into account the estimated PD sites for both corporate and sovereign level estimates. Exposure to correspondent banks are restricted by the limits covering balance sheet or off-balance sheet exposures and daily delivery risk limits on trade items such as foreign exchange contracts. To determine the limits on counterparty valuations and rating agencies use Moody's, Standard & Poor's and IBCA assigned Fitch- counterparty or country resident financial situation, AML policies, transparency and competence shareholders Executive Board. The Bank monitors compliance with the limits daily balances on correspondent accounts registered.

39.1.1 Amounts arising from expected credit losses (ECL)

The references below show where the Bank's impairment assessment and measurement approach is set out in this report.

- The bank's definition and assessment of default and cure (Note 39.1.1.(a))
- The bank's definition, calculation and monitoring of probability of default, exposure at default and loss given default (Note 39.1.1.(b) and (d))
- When the bank considers there has been a significant increase in credit risk of an exposure (Note 39.1.1.(c))
- The details of the ECL calculations for Stage 1, Stage 2 and Stage 3 (Note 39.1.1.(e) and (f))

(a) Definition of default, impaired and cure

The Bank considers a financial instrument defaulted for ECL calculation in all cases when the borrowed becomes 91 days past due on its contractual payments. The Bank has aligned the definition of default for accounting purposes, to the European Banking Authority (EBA) definition (CRR Article 178).

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39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit Risk (continued)

39.1.1. Amounts arising from expected credit losses (ECL) (continued)

As part of a qualitative assessment of whether an exposure is credit-impaired, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculation of whether Stage 2 is appropriate. Such events include:

- an exposure is forborne or modified due to financial difficulties of the borrower (Forbearance non-performing);
- internal rating of the borrower indicating default or near-default;
- the bank has not received sufficient updated information on the Borrower's financial situation, of the person making a personal guarantee (surety),on the debt repayment sources, the justification for the use of credit according to the purpose specified in the credit contract, as well as other documents related to borrower's activity;
- the original guarantee is insufficient, getting worse or missing;
- a material decrease in the underlying collateral value, where the recovery of the loan is expected from the sale of collateral;
- a covenant breach not waived by the Bank;
- the exposure was subject to credit fraud.

Assessing whether a borrower is facing financial difficulties would consider the following events:

- a delay to pay the debt services of more than 30 days in the past three months;
- the client's financial situation is deteriorated or may deteriorate, and the restructuring operation is required to place the client's payment effort with his current repayment capacity;
- the borrower (or any legal entity within the borrower's group) is filling for bankruptcy application / insolvency;
- the borrower is under the management of the Bank's Assets Recovery Directorate.

Once a financial instrument held by a borrower is classified in Stage 3/in Default, all financial instruments of this borrower will be classified in Stage 3.

It is the Bank's policy to consider a financial instrument as "cured" and therefore reclassified out of Stage 3 when none of the default criteria have been present for a certain period of time as presented below:

There is a specific treatment for Default loans, as it follows:

a) In case of exposures to which no restructuring operations have been applied, they will remain for a period of at least 6 months - the "quarantine period" in the Default loans group. The "quarantine period" (6 months) will be counted from the moment when none of Default criteria are present.

   At the end of the "quarantine period", if the customer service debt has not exceeded 30 days in the last 3 consecutive months, the loan will be included in the group to which it normally belongs, otherwise the "quarantine period" will be extended until the mentioned conditions are met.

b) In the case of Forbearance non-performing restructured exposures (Forbearance non-performing), they will remain for a period of at least 1 year (12 months) - the "quarantine period" from the date of the restructuring operation in the Default credit group. If the debtor has benefited from the grace period for principal and / or interest, the period of 1 year (12 months) is counted from the end of the grace period.

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39. FINANCIAL RISK MANAGEMENT (CONTINUED)
39.1 Credit Risk (continued)
39.1.1. Amounts arising from expected credit losses (ECL) (continued)

After the "quarantine period", for the transfer of exposures from the category of non-performing restructured exposures (stage 3) to the category of performing restructured exposures (stage 2), none of the conditions set out in the "Restructured loans exposure management Procedure under B.C. Victoriabank S.A." as presented below must be met:

- the debt service per client has exceeded 30 days in the last 12 consecutive months,
- a new restructuring has been made to the Borrower for any of its financial instruments;
- the debtor failed to pay at least 75% of the debt services due for the past 6 months;
- the debtor failed to pay at least 50% of the principal amount over a period of 12 months according to the repayments schedule prior to latest restructuring.

(b) The Bank's internal rating and PD estimation process

The Bank's internal rating is based on grouping the financial assets in key categories of financial instruments subject to impairment assessment.

Rating for treasury, trading and interbank relationships

The Bank's treasury, trading, interbank relationships and counterparties comprise financial services institutions, commercial banks, National Bank of Moldova. For these relationships, the Bank's credit risk department analysis publicly available information such as financial information and other external data, such as Moody's, and assigns the internal rating as shown in the table below:

Rating description	Moody's
Raw	Aaa
High grade	Aa1; Aa2, Aa3
Upper medium grade	A1; A2; A3
Lower medium grade	Baa1; Baa2' Baa3
Non-investment speculative grade	Ba1; Ba2; Ba3
Highly speculative	B1; B2; B3
Substantial risks	Caa1; Caa2; Caa3
Extremely speculative	Ca
Imminent default	Ca
In default	C

Corporate and SME lending

For corporate and small and medium loans, the borrowers are assessed by specialized credit risk employees of the Bank. The credit risk assessment of significant increase in credit risk is based on a credit scoring model that takes into account various historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realized and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. For benchmark analysis the borrowers are assessed at the level of six industries (Agriculture, Services, Trade, construction, Manufacturing and Transport and Logistics) and three specific industries (Finance and Insurance sectors, Real Estate, Government and Public administration).
- Any publicly available information on the clients from external parties. Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance, for exposures greater than 5 million MDL.
- The dynamics of days past due at the level of each loan granted by the Bank, including any available information regarding days past due history provided by the Credit Bureau Moldova.
- Specific credit rating indicators on basis of prudential requirements of the National Bank of Moldova.

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39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit Risk (continued)

39.1.1. Amounts arising from expected credit losses (ECL) (continued)

Consumer lending and retail mortgages

Consumer lending comprises unsecured personal loans, credit cards and overdrafts. These products along with retail mortgages and some of the less complex small business lending are rated by an automated scorecard tool primarily driven by days past due.

For reporting purposes the Bank is disclosing the information about the classification of financial assets according to internal credit risk ratings, developed on basis of prudential requirements of the National Bank of Moldova. See note 39.1.2.

(c) Significant increase of the credit risk

Each financial asset is monthly evaluated in order to determine whether the bank is experiencing a significant increase in credit risk (probability of default risk) relative to the original recognition date or whether that credit is impaired. The ultimate goal is to determine the applicable provisioning method (12 month ECL or Lifetime ECL).

In general, there will be a significant increase in credit risk before the financial asset is impaired as a result of credit risk or the occurrence of the non-fulfillment of the obligations.

For irrevocable credit commitments the Bank considers changes in the risk of non-compliance with the borrowing obligations associated with the lending commitment. In determining the expected credit loss, the Bank sets the expected percentage for the undrawn part to be used over the lifetime of the credit commitment when lifetime losses are estimated. Regarding contractual period, for credit commitments and financial guarantee contracts, the Bank will use the maximum contractual period during which the bank has the contractual obligation to grant the loan.

This model is based exclusively on credit risk assessment. Therefore, the aggregation of financial assets for impairment purposes takes into account the relevant indicators used by the bank in the current credit risk management system.

Classification of financial assets is done case-by-case. This means that a loan may be included in stage I and another loan held by the same client may be included in stage II, all depending on the outcome of the analysis between the risk elements existing at the initial recognition date and the situation at the reporting date. However, for stage III, the Bank applies the contamination principle, which means that all financial assets of the same customer will be included in this stage if impairment evidence is found for at least one of their assets.

Criteria for selecting the increase in the degree of risk

In **Stage 1** there are placed credit assets which have not decreased significantly the loan quality since the initial recognition or which have a low credit risk since the reporting date. The contracts which have not been qualified in any of the stages and have less than 31 days past due will be classified in Stage 1.

In **Stage 2** will be placed the credit assets which have recorded a significant risk increase from the initial recognition but which don't bring an objective impairment evidence. Therefore, the selection criteria are:

- delays to the planned payments which exceed 30 days but are less than 91 days;
- forbearance performing exposures in the probationary period of at least 2 (two) years will be included in stage 2 until the transfer conditions in the "High-performing exposures" category are met;
- the loan was classified according to National Bank of Moldova regulation in the "C" prudential category;

Several financial indicators are recorded, corresponding to the latest available financial statements, which indicate objective evidence of impairment.

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39. FINANCIAL RISK MANAGEMENT (CONTINUED)
39.1 Credit Risk (continued)
39.1.1. Amounts arising from expected credit losses (ECL) (continued)

Stage 3 (default): In order to update the Bank's procedures to the international standards requirements and the equalization of the "default" concept to the "non-performing exposures" is considered that a credit is determined as default when:

- has 91 days or more past due, being applied the process of contamination of all the exposures of a client if at least one of them becomes default;
- has 91 days or more past due, calculated based on the significant DPD counter;
- the Bank has started the recovery procedure by enforced execution;
- forbearance non-performing exposures will be classified in Stage 3;
- according to the NBM Regulation, the exposure was classified as "D" prudential category or lower;
- the sale-purchase contracts concluded with the debtor/ the pledge debtor of the pledged object connected to the exposures extinguished from the execution of this guarantee will be automatically classifies in Stage 3;
- stopping the calculation of interest - interest on credit obligations is no longer recognized in the profit or loss account of the Bank as a result of the decrease in the quality of the credit obligation;
- in the absence of guarantee (collateral) execution measures, the borrower is assessed as unlikely to fully honor his credit obligations to the Bank;
- the rating of the issuer/counterparty is set in the rating categories associated to the default;
- there was submitted a request for starting the insolvency/bankruptcy procedure against the debtor or applying other similar methods;
- the bank sells the loan obligation with a significant economic loss.
  The sale action is associated with the worsening of the credit quality, not being due to the change of the type of business of the Bank or the liquidity needs. The economic loss is defined as significant when
  L = (E−P)/E>5%, where:
  L - is the economic loss related to the sale of credit obligations;
  E - is the total remaining amount to be repaid of the obligations subject to the sale, including interest and commissions;
  P - is the agreed price for the loans sold.
- the exposure was subject to credit fraud.

Once a borrower's loan is registered in stage 3, all the debtor's loans will be classified in stage 3. If the risk signal(s) that included the asset in stage 3 is no longer found, then it will be re-classified in stage 1 or stage 2, as appropriate.
Loans classified in stage 3 will be reported as "impaired".

During 2023, the payments for 4 credits were restructured, the exposure of which, as of December 31, 2023 was worth MDL 4,149 thousand: Stage 1 – MDL 2,562 thousand, Stage 2 - MDL 1,437 thousand and Stage 3 - MDL 145 thousand.
During 2022, the payments for 5 credits were restructured, whose exposure as of December 31, 2022 was the total amount of MDL 2,414 thousand, all of which are exposures in Stage 3.

(d) Incorporating forward-looking information

IFRS 9 requires an estimation of expected impairment losses, which means that PD ratios should consider not only the current realities of the economy, but also the future development of economic conditions.

To achieve this level of anticipation, the Bank has performed historical analysis and identified the key economic variables which have impact on credit risk and expected credit losses for each portfolio. The expert opinion was also considered in this process. Key variables were forecasted for the next three years.

After three years, to project the economic variables out for the full remaining lifetime of each instrument, a median regression approach has been applied. The impact of these economic variables has been determined by performing statistical regression analysis.

In 2023, the Bank reviewed the forward-looking calculation model used in determining the PD rates, updating the relevant indicators used in estimating the forecasted default rates.

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit Risk (continued)

39.1.1. Amounts arising from expected credit losses (ECL) (continued)

The table below lists the macroeconomic assumptions over the three-year period, used as an input into expected credit losses as at 31 December 2023:

	Q4 2023	2024	2025	2026
Baseline scenario				
Gross domestic product, %	8.51	10.24	7.51	6.55
Inflation, %	6.62	4.81	3.48	3.48
Unemployment rate, %	4.46	4.57	4.76	4.94
Price of construction assembly works (%)	10.43	8.01	11.09	10.32
Gross salary, nominal, %	16.52	15.86	12.07	12.07
Average monthly consumption expenditure per person (%, YoY)	10.20	11.12	10.27	11.00
Base rate, %	5.25	4.75	4.75	5.00
Interest rate on treasury bills, 1Y	5.47	5.30	4.67	5.30
Interest rate on new loans granted, national currency, %	10.94	8.68	7.48	7.04
Interest rate on new loans granted, foreign currency, %	6.86	6.88	6.50	6.28
Interest rate on newly attracted deposits, national currency, %	4.84	3.72	3.04	2.83
Interest rate on newly attracted deposits, foreign currency, %	1.89	1.81	1.93	1.89
Exchange rate USD/MDL	18.15	17.37	16.64	16.63
Exchange rate EUR/MDL	19.42	19.14	19.14	19.29
Optimistic scenario				
Gross domestic product, %	8.51	16.66	13.93	12.98
Inflation, %	6.62	3.44	2.10	2.10
Unemployment rate, %	4.46	2.95	3.13	3.31
Price of construction assembly works (%)	10.43	2.77	5.85	5.07
Gross salary, nominal, %	16.52	19.19	15.40	15.40
Average monthly consumption expenditure per person (%, YoY)	10.20	18.50	17.66	18.39
Base rate, %	5.25	2.64	2.64	2.89
Interest rate on treasury bills, 1Y	5.47	3.85	3.21	3.84
Interest rate on new loans granted, national currency, %	10.94	8.04	6.83	6.39
Interest rate on new loans granted, foreign currency, %	6.86	6.67	6.29	6.07
Interest rate on newly attracted deposits, national currency, %	4.84	2.97	2.29	2.08
Interest rate on newly attracted deposits, foreign currency, %	1.89	1.63	1.75	1.71
Exchange rate USD/MDL	18.15	14.59	13.86	13.85
Exchange rate EUR/MDL	19.42	17.20	17.19	17.34
Pessimistic scenario				
Gross domestic product, %	8.51	3.81	1.08	0.13
Inflation, %	6.62	7.57	6.23	6.23
Unemployment rate, %	4.46	6.20	6.38	6.56
Price of construction assembly works (%)	10.43	13.25	16.34	15.56
Gross salary, nominal, %	16.52	12.53	8.73	8.73
Average monthly consumption expenditure per person (%, YoY)	10.20	3.73	2.89	3.61
Base rate, %	5.25	8.97	8.97	9.22
Interest rate on treasury bills, 1Y	5.47	11.13	10.49	11.13
Interest rate on new loans granted, national currency, %	10.94	11.27	10.07	9.63
Interest rate on new loans granted, foreign currency, %	6.86	7.31	6.93	6.71
Interest rate on newly attracted deposits, national currency, %	4.84	6.72	6.04	5.83
Interest rate on newly attracted deposits, foreign currency, %	1.89	2.17	2.29	2.25
Exchange rate USD/MDL	18.15	20.15	19.42	19.41
Exchange rate EUR/MDL	19.42	21.09	21.09	21.24

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39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit Risk (continued)

39.1.1 Amounts arising from expected credit losses (ECL) (continued)

The table below lists the macroeconomic assumptions over the three-year period, used as an input into expected credit losses as at 31 December 2022:

	Q4 2022	2023	2024	2025
Baseline				
Gross domestic product, %	10.49	13.58	13.18	13.35
Average monthly consumption expenditure per person (%, YoY)	7.39	8.30	8.87	8.76
Gross salary, nominal, %	15.77	14.97	14.25	13.82
Unemployment rate, %	2.54	2.61	2.62	2.58
Inflation, %	32.09	15.86	10.84	9.87
Price of construction assembly works (%)	25.62	22.42	18.40	18.16
Interest rate on new loans granted, national currency, %	14.20	10.90	9.55	8.61
Interest rate on new loans granted, foreign currency, %	4.69	4.76	4.82	4.80
Interest rate on newly attracted deposits, national currency, %	13.06	8.68	6.79	5.61
Interest rate on newly attracted deposits, foreign currency, %	1.79	1.67	1.41	1.49
Base rate, %	21.06	14.38	11.25	9.25
Exchange rate USD/MDL	19.36	18.79	17.76	17.72
Exchange rate EUR/MDL	19.71	19.63	19.53	19.49
Interest rate on treasury bills, 1Y	21.54	15.34	11.88	9.71
Optimistic scenario				
Gross domestic product, %	17.05	20.15	19.75	19.92
Average monthly consumption expenditure per person (%, YoY)	13.77	14.68	15.25	15.14
Gross salary, nominal, %	18.65	17.85	17.13	16.70
Unemployment rate, %	0.87	0.94	0.95	0.92
Inflation, %	25.91	9.69	4.67	3.70
Price of construction assembly works (%)	21.07	17.87	13.86	13.61
Interest rate on new loans granted, national currency, %	12.89	9.59	8.25	7.30
Interest rate on new loans granted, foreign currency, %	4.47	4.54	4.60	4.57
Interest rate on newly attracted deposits, national currency, %	11.62	7.24	5.35	4.17
Interest rate on newly attracted deposits, foreign currency, %	1.60	1.48	1.22	1.30
Base rate, %	16.07	9.38	6.26	4.26
Exchange rate USD/MDL	16.54	15.97	14.94	14.90
Exchange rate EUR/MDL	17.69	17.61	17.51	17.47
Interest rate on treasury bills, 1Y	18.67	12.47	9.01	6.84
Pessimistic scenario				
Gross domestic product, %	3.92	7.01	6.61	6.78
Average monthly consumption expenditure per person (%, YoY)	1.01	1.92	2.49	2.38
Gross salary, nominal, %	12.89	12.10	11.38	10.95
Unemployment rate, %	4.20	4.28	4.29	4.25
Inflation, %	38.26	22.03	17.01	16.04
Price of construction assembly works (%)	30.17	26.97	22.95	22.71
Interest rate on new loans granted, national currency, %	16.81	13.51	12.16	11.22
Interest rate on new loans granted, foreign currency, %	5.13	5.20	5.27	5.24
Interest rate on newly attracted deposits, national currency, %	15.93	11.55	9.66	8.48
Interest rate on newly attracted deposits, foreign currency, %	2.16	2.04	1.78	1.86
Base rate, %	26.05	19.37	16.24	14.24
Exchange rate USD/MDL	22.18	21.61	20.58	20.54
Exchange rate EUR/MDL	21.73	21.65	21.55	21.51
Interest rate on treasury bills, 1Y	27.28	21.08	17.62	15.45

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39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit Risk (continued)

39.1.1 Amounts arising from expected credit losses (ECL) (continued)

The Bank uses three scenarios: base scenario (which is the most probable scenario of the economic environment), optimistic and pessimistic scenario (for these two scenarios, the probabilities are lower than for the base scenario). The scenario weightings are determined by a combination of statistical analysis and expert judgement, considering the range of possible representative outcomes for each chosen scenario.

The weights of the scenarios were set at another level of concretization (optimistic 5.0%, baseline 60.0%, pessimistic 35.0%), in determining the adjustments for depreciation on 31 December 2023 compared to 31 December 2022 (optimistic 2.5%, baseline 50.0%, pessimistic 47.5%).

The most important macroeconomic indicators used in the ECL calculation are:

For loans granted to individuals:

- Annual inflation rate;
- Gross domestic product;
- Gross salary, nominal, %;
- Unemployment rate;
- Interest rate on newly attracted deposits, national currency, %;
- Interest rate on newly attracted deposits, foreign currency, %.

For loans granted to legal entities:

- Average monthly consumption expenditure per person (%, YoY);
- Base rate;
- Interest rate on newly attracted deposits, foreign currency, %.

The table below illustrates the impact of setting maximum weights for each scenario as at 31 December 2023 :

Weight of scenarios	100% pessimistic	100% baseline	100% optimistic
Change in ECL, *MDL thousand*	808	(373)	(1,178)

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

(e) The determination of the expected loss of credit (ECL)

The EAD assessment methods depends on the financial asset determined stage and the type of the product it represents:

- The CCF parameter shall be estimated for calculating the EAD for revolving products which are not in default;
- The EAD for non-default credits is calculated from the contractual repayment schedule;
- The EAD for instruments which are already in default are equal to the current value of the balance sheet exposure.

For other financial assets the EAD parameter will be determined depending on the asset type:

- In case of T-bills / NBM certificates, the EAD parameter will be determined according to the value of the amortized cost of the associated exposure as at the reporting date.
- In case of placements to other banks and NOSTRO accounts, the EAD parameter is calculated by summing the principal and receivables attached reflected at the date of calculation of the impairment losses expected from impairment.
- Issued guarantees by the Bank – EAD parameter is calculated based on the value of the guarantee obligations related to the guarantee, reflected at the date of the calculation of the reductions for expected impairment losses, adjusted with the CCF parameter which is set at a value of 100%.

39.1 Credit Risk (continued)

39.1.1 Amounts arising from expected credit losses (ECL) (continued)

LGD parameter stands for the loan exposure non-coverage degree by the estimated recovery value at each reporting period. LGD parameter does not vary according to the loan stage.

With a view to estimate the recovery value of the collateral, it will be determined as the minimum of the liquidation value of the collateral and the market value with discount (Haircut statistic), based on the valuation report held by the Bank. In case of undetermined liquidation value of some objects, it will be applied a discount (Haircut statistic) to the market value to obtain an estimated liquidation value.

For over-collateralized exposures, the recoverable amount of collateral will be limited to the minimum value between recoverable amount and 98% of the exposure.

Also, if the guarantees are established in the form of a lower rank pledge and / or are future pledges, they will participate in the calculation of the LGD with a liquidation value of "0".

LGD in the case of debt securities, investments in other banks are calculated based on studies conducted by Moody's, based on recovery rates for a representative sample of issuers, by averaging the 4 hypotheses proposed for the analysis of the recovery rate.

PD, LGD and EAD value, as well as the effect of discounting reflect the expected life or period of exposure. Each of these components is calculated on a facility basis on a pool level approach for a series of annual time intervals until maturity to derive the lifetime ECL.

(f) Credit quality analysis depending on the class of financial assets

				31 December 2023
In MDL thousand	Stage 1	Stage 2	Stage 3	Total
Cash and Balances with National Bank of Moldova	7,323,669	-	-	7,323,669
Current accounts and placements with banks	1,774,213	-	-	1,774,213
Investment securities measured at amortized cost	5,890,957	-	-	5,890,957
Investment securities measured at FVOCI	14,423	-	-	14,423
Loans to customers	5,820,756	327,296	288,233	6,436,285
Other financial assets	221,503	-	29,877	251,380
Expected credit loss allowance for financial assets	*(290,713)*	*(33,238)*	*(211,558)*	*(535,509)*
Carrying amount	**20,754,808**	**294,058**	**106,552**	**21,155,418**

				31 December 2022
In MDL thousand	Stage 1	Stage 2	Stage 3	Total
Cash and Balances with National Bank of Moldova	7,062,459	-	-	7,062,459
Current accounts and placements with banks	1,102,067	-	-	1,102,067
Investment securities measured at amortized cost	4,479,836	-	-	4,479,836
Investment securities measured at FVOCI	16,516	-	-	16,516
Loans to customers	4,668,954	472,584	502,606	5,644,144
Other financial assets	167,540	-	36,599	204,139
Expected credit loss allowance for financial assets	*(221,303)*	*(39,736)*	*(357,156)*	*(618,195)*
Carrying amount	**17,276,069**	**432,848**	**182,049**	**17,890,966**

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39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit Risk (continued)

39.1.1 Amounts arising from expected credit losses (ECL) (continued)

The following table presents information about the overdue status of financial assets in Stages 1, 2 and 3:

31 December 2023 *In MDL thousand*	Stage 1	Stage 2	Stage 3	Total
Cash and Balances with National Bank of Moldova				
Current	7,323,669	-	-	7,323,669
Overdue ≤ 30 days	-	-	-	-
Overdue > 30 days ≤ 90 days	-	-	-	-
Overdue > 90 days	-	-	-	-
Loss allowance	(6,299)			(6,299)
Carrying amount	**7,317,370**	-	-	**7,317,370**
Current accounts and placements with banks				
Current	1,774,213	-	-	1,774,213
Overdue ≤ 30 days	-	-	-	-
Overdue > 30 days ≤ 90 days	-	-	-	-
Overdue > 90 days	-	-	-	-
Loss allowance	(4,889)			(4,889)
Carrying amount	**1,769,324**	-	-	**1,769,324**
Investment securities measured at amortized cost				
Current	5,890,957	-	-	5,890,957
Overdue ≤ 30 days	-	-	-	-
Overdue > 30 days ≤ 90 days	-	-	-	-
Overdue > 90 days	-	-	-	-
Loss allowance	(45,364)			(45,364)
Carrying amount	**5,845,593**	-	-	**5,845,593**
Investment securities measured at FVOCI				
Current	14,423	-	-	14,423
Overdue ≤ 30 days	-	-	-	-
Overdue > 30 days ≤ 90 days	-	-	-	-
Overdue > 90 days	-	-	-	-
Loss allowance	(176)			(176)
Carrying amount	**14,247**	-	-	**14,247**

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39. FINANCIAL RISK MANAGEMENT (CONTINUED)
39.1 Credit Risk (continued)
39.1.1 Amounts arising from expected credit losses (ECL) (continued)

31 December 2023

In MDL thousand	Stage 1	Stage 2	Stage 3	Total
Loans to customers				
Current	5,669,877	286,306	22,875	5,979,058
Overdue ≤ 30 days	150,878	12,970	18,592	182,440
Overdue > 30 days ≤ 90 days	-	28,021	41,123	69,144
Overdue > 90 days	-	-	205,643	205,643
Loss allowance	(229,003)	(33,238)	(192,456)	(454,697)
Carrying amount	**5,591,752**	**294,059**	**95,777**	**5,981,588**
Other financial assets				
Current	221,503	-	12,077	233,580
Overdue ≤ 30 days	-	-	-	-
Overdue > 30 days ≤ 90 days	-	-	-	-
Overdue > 90 days	-	-	17,800	17,800
Loss allowance	(4,981)	-	(19,103)	(24,084)
Carrying amount	**216,522**	-	**10,774**	**227,296**

31 December 2022

In MDL thousand	Stage 1	Stage 2	Stage 3	Total
Cash and Balances with National Bank of Moldova				
Current	7,062,459	-	-	7,062,459
Overdue ≤ 30 days	-	-	-	-
Overdue > 30 days ≤ 90 days	-	-	-	-
Overdue > 90 days	-	-	-	-
Loss allowance	(5,671)	-	-	(5,671)
Carrying amount	**7,056,788**	-	-	**7,056,788**
Current accounts and placements with banks				
Current	1,102,067	-	-	1,102,067
Overdue ≤ 30 days	-	-	-	-
Overdue > 30 days ≤ 90 days	-	-	-	-
Overdue > 90 days	-	-	-	-
Loss allowance	(784)	-	-	(784)
Carrying amount	**1,101,283**	-	-	**1,101,283**

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39. FINANCIAL RISK MANAGEMENT (CONTINUED)
39.1 Credit Risk (continued)
39.1.1 Amounts arising from expected credit losses (ECL) (continued)

31 December 2022 *In MDL thousand*	Stage 1	Stage 2	Stage 3	Total
Investment securities measured at amortized cost				
Current	4,479,836	-	-	4,479,836
Overdue ≤ 30 days	-	-	-	-
Overdue > 30 days ≤ 90 days	-	-	-	-
Overdue > 90 days	-	-	-	-
Loss allowance	(42,725)	-	-	(42,725)
Carrying amount	**4,437,111**	-	-	**4,437,111**
Investment securities measured at FVOCI				
Current	16,516	-	-	16,516
Overdue ≤ 30 days	-	-	-	-
Overdue > 30 days ≤ 90 days	-	-	-	-
Overdue > 90 days	-	-	-	-
Loss allowance	(201)	-	-	(201)
Carrying amount	**16,315**	-	-	**16,315**
Loans to customers				
Current	4,535,355	399,885	16,814	4,952,054
Overdue ≤ 30 days	133,599	36,353	22,286	192,238
Overdue > 30 days ≤ 90 days	-	36,345	27,418	63,763
Overdue > 90 days	-	-	436,089	436,089
Loss allowance	(167,214)	(39,735)	(332,436)	(539,385)
Carrying amount	**4,501,740**	**432,848**	**170,171**	**5,104,759**
Other financial assets				
Current	167,540	-	15,767	183,307
Overdue ≤ 30 days	-	-	-	-
Overdue > 30 days ≤ 90 days	-	-	-	-
Overdue > 90 days	-	-	20,832	20,832
Loss allowance	(4,707)	-	(24,721)	(29,428)
Carrying amount	**162,833**	**-**	**11,878**	**174,711**

The following table presents information about the classification of financial assets according to internal credit risk ratings, developed on basis of prudential requirements of the National Bank of Moldova:

31 December 2023 *In MDL thousand*	Stage 1	Stage 2	Stage 3	Total
Current accounts and placements with banks				
Standard	697,112	-	-	697,112
Supervised (Watch)	1,002,072	-	-	1,002,072
Substandard	74,657	-	-	74,657
Doubtful	372	-	-	372
Compromised (losses)	-	-	-	-
Loss allowance	(4,889)	-	-	(4,889)
Carrying amount	**1,769,324**	-	-	**1,769,324**

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39. FINANCIAL RISK MANAGEMENT (CONTINUED)
39.1 Credit Risk (continued)
39.1.1 Amounts arising from expected credit losses (ECL) (continued)

31 December 2023

In MDL thousand	Stage 1	Stage 2	Stage 3	Total
Investment securities measured at amortized cost				
Standard	5,545,178	-	-	5,545,178
Supervised (Watch)	345,779	-	-	345,779
Substandard	-	-	-	-
Doubtful	-	-	-	-
Compromised (losses)	-	-	-	-
Loss allowance	(45,364)	-	-	(45,364)
Carrying amount	**5,845,593**	-	-	**5,845,593**
Loans to customers				
Standard	2,761,437	11,528	19,974	2,792,939
Supervised (Watch)	3,058,580	288,578	28,903	3,376,061
Substandard	738	27,190	12,812	40,740
Doubtful	-	-	61,680	61,680
Compromised (losses)	-	-	164,865	164,865
Loss allowance	(229,003)	(33,238)	(192,456)	(454,697)
Carrying amount	**5,591,752**	**294,058**	**95,778**	**5,981,588**
Other financial assets				
Standard	221,483	-	-	221,483
Supervised (Watch)	-	-	-	-
Substandard	20	-	-	20
Doubtful	-	-	-	-
Compromised (losses)	-	-	29,877	29,877
Loss allowance	(4,981)	-	(19,103)	(24,084)
Carrying amount	**216,522**	-	**10,774**	**227,296**

31 December 2022

In MDL thousand	Stage 1	Stage 2	Stage 3	Total
Current accounts and placements with banks				
Standard	964,125	-	-	964,125
Supervised (Watch)	96,746	-	-	96,746
Substandard	41,196	-	-	41,196
Doubtful	-	-	-	-
Compromised (losses)	-	-	-	-
Loss allowance	(784)			(784)
Carrying amount	**1,101,283**	-	-	**1,101,283**

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39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit Risk (continued)

39.1.1 Amounts arising from expected credit losses (ECL) (continued)

31 December 2022

In MDL thousand	Stage 1	Stage 2	Stage 3	Total
Investment securities measured at amortized cost				
Standard	4,264,573	-	-	4,264,573
Supervised (Watch)	215,263	-	-	215,263
Substandard	-	-	-	-
Doubtful	-	-	-	-
Compromised (losses)	-	-	-	-
Loss allowance	(42,725)	-	-	(42,725)
Carrying amount	**4,437,111**	-	-	**4,437,111**
Loans to customers				
Standard	3,317,726	164,214	16,733	3,498,673
Supervised (Watch)	1,350,592	284,269	13,145	1,648,006
Substandard	636	24,101	11,694	36,431
Doubtful	-	-	27,087	27,087
Compromised (losses)	-	-	433,947	433,947
Loss allowance	(167,214)	(39,736)	(332,435)	(539,385)
Carrying amount	**4,501,740**	**433,087**	**170,171**	**5,104,759**
Other financial assets				
Standard	167,518	-	-	167,518
Supervised (Watch)	-	-	-	-
Substandard	22	-	-	22
Doubtful	-	-	1	1
Compromised (losses)			36,598	36,598
Loss allowance	(4,707)	-	(24,721)	(29,428)
Carrying amount	**162,833**	-	**11,878**	**174,711**

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39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit Risk (continued)

39.1.1 Amounts arising from expected credit losses (ECL) (continued)

The following tables show the effect of changing the expected loss allowances at the level of financial asset groups and contingent liabilities.

In MDL thousand	2023	2022
Cash and Balances with National Bank of Moldova		
Balance at 1 January	5,671	3,189
Net remeasurement of loss allowance	793	2,422
Other adjustments (including exchange rate influence)	(166)	60
Balance at 31 December	**6,298**	**5,671**
Current accounts and placements with banks		
Balance at 1 January	784	1,887
Net change due to changes without recognition	139	2,631
Increases due to initiation and acquisition	25,183	1,157
Decreases due to derecognition	(21,185)	(5,243)
Other adjustments (including exchange rate influence)	(32)	352
Balance at 31 December	**4,889**	**784**
Investment securities measured at amortized cost		
Balance at 1 January	42,725	46,444
Net change due to changes without recognition	6,120	8,136
Increases due to initiation and acquisition	153,739	56,676
Decreases due to derecognition	(157,141)	(68,552)
Other adjustments (including exchange rate influence)	(78)	21
Balance at 31 December	**45,364**	**42,725**
Investment securities measured at FVOCI		
Balance at 1 January	201	220
Net change due to changes without recognition	15	106
Increases due to initiation and acquisition	111	180
Decreases due to derecognition	(151)	(305)
Other adjustments (including exchange rate influence)	-	-
Balance at 31 December	**176**	**201**

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39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit Risk (continued)

39.1.1 Amounts arising from expected credit losses (ECL) (continued)

	31 December 2023				31 December 2022			
In MDL thousand	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortized cost								
Balance at 1 January	**167,214**	**39,736**	**332,435**	**539,385**	83,352	50,151	316,135	449,638
Transfer to Stage 1	30,207	(23,069)	(7,138)	-	10,591	(7,369)	(3,222)	-
Transfer to Stage 2	(6,455)	7,395	(940)	-	(2,853)	3,724	(871)	-
Transfer to Stage 3	(7,074)	(8,981)	16,055	-	(3,997)	(5,279)	9,276	-
Net remeasurement of loss allowance	(65,809)	21,514	136,185	91,890	28,214	3,271	152,719	184,204
New financial assets originated or purchased	150,702	-	-	150,702	72,736	-	-	72,736
Financial assets that have been derecognized	(38,016)	(3,114)	(27,405)	(68,535)	(21,092)	(5,105)	(17,999)	(44,196)
Write-offs	-	-	(251,482)	(251,482)	-	-	(127,361)	(127,361)
Foreign exchange and other movements	(1,766)	(243)	(5,254)	(7,263)	263	343	3,758	4,364
Balance at 31 December	**229,003**	**33,238**	**192,456**	**454,697**	**167,214**	**39,736**	**332,435**	**539,385**

	31 December 2023				31 December 2022			
In MDL thousand	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loans to retail customers								
Balance at 1 January	**97,179**	**9,051**	**103,787**	**210,017**	54,451	5,358	63,457	123,266
Transfer to Stage 1	9,292	(2,319)	(6,973)	-	4,311	(1,089)	(3,222)	-
Transfer to Stage 2	(1,100)	1,815	(715)	-	(643)	1,256	(613)	-
Transfer to Stage 3	(6,314)	(5,383)	11,697	-	(3,627)	(3,453)	7,080	-
Net remeasurement of loss allowance	(49,391)	6,255	51,494	8,358	22,177	7,704	68,061	97,942
New financial assets originated or purchased	84,761	-	-	84,761	34,218	-	-	34,218
Financial assets that have been derecognized	(28,185)	(1,229)	(9,638)	(39,052)	(13,708)	(725)	(6,693)	(21,126)
Write-offs	-	-	(46,591)	(46,591)	-	-	(24,283)	(24,283)
Foreign exchange and other movements	-	-	-	-	-	-	-	-
Balance at 31 December	**106,242**	**8,190**	**103,061**	**217,493**	**97,179**	**9,051**	**103,787**	**210,017**

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

39. FINANCIAL RISK MANAGEMENT (CONTINUED)
39.1 Credit Risk (continued)
39.1.1 Amounts arising from expected credit losses (ECL) (continued)

	31 December 2023				31 December 2022			
In MDL thousand	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loans to corporate customers								
Balance at 1 January	**70,036**	**30,685**	**228,648**	**329,368**	28,901	44,793	252,678	326,372
Transfer to Stage 1	20,916	(20,751)	(165)	-	6,280	(6,280)	-	-
Transfer to Stage 2	(5,355)	5,580	(225)	-	(2,211)	2,468	(258)	-
Transfer to Stage 3	(761)	(3,597)	4,358	-	(370)	(1,827)	2,197	-
Net remeasurement of loss allowance	(16,418)	15,259	84,691	83,532	6,038	(4,432)	84,657	86,261
New financial assets originated or purchased	65,942	-	-	65,942	38,519	-	-	38,519
Financial assets that have been derecognized	(9,831)	(1,885)	(17,768)	(29,484)	(7,384)	(4,380)	(11,306)	(23,070)
Write-offs	-	-	(204,892)	(204,892)	-	-	(103,078)	(103,078)
Foreign exchange and other movements	(1,768)	(243)	(5,252)	(7,263)	263	343	3,758	4,364
Balance at 31 December	**122,761**	**25,048**	**89,395**	**237,204**	**70,036**	**30,685**	**228,648**	**329,368**

	31 December 2023				31 December 2022			
In MDL thousand	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Other financial assets - receivables from sales of collaterals								
Balance at 1 January	**-**	**-**	10,944	10,944	**-**	**-**	20,305	20,305
Transfer to Stage 1	-	-	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-	-	-
Net remeasurement of loss allowance	-	-	(1,214)	(1,214)	-	-	5,908	5,908
New financial assets originated or purchased	**-**	**-**	**-**	**-**	-	-	-	-
Financial assets that have been derecognized			(10)	(10)			(5,004)	(5,004)
Write-offs	-	-	(1,261)	(1,261)	-	-	(10,264)	(10,264)
Foreign exchange and other movements			(148)	(148)			(1)	(1)
Balance at 31 December	-	-	**8,311**	**8,311**	-	-	**10,944**	**10,944**

The explanatory notes are an integral part of these financial statements.

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39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit Risk (continued)

39.1.1 Amounts arising from expected credit losses (ECL) (continued)

In MDL thousand	31 December 2023	31 December 2022
Other financial assets – other receivables		
Balance at 1 January	18,484	16,773
Net remeasurement of loss allowance	2,094	4,276
New financial assets originated or purchased	1,511	986
Financial assets that have been derecognized	(1,263)	(1,267)
Write-offs	(4,925)	(2,344)
Foreign exchange and other movements	(128)	60
Balance at 31 December	**15,773**	**18,484**

	31 December 2023			
In MDL thousand	Stage 1	Stage 2	Stage 3	Total
Loan commitments and financial guarantee contracts				
Balance at 1 January	**27,796**	**6,031**	**1,034**	**34,861**
Transfer to Stage 1	4,060	(3,862)	(198)	-
Transfer to Stage 2	(1,887)	1,888	(1)	-
Transfer to Stage 3	(72)	(16)	88	-
Net remeasurement of loss allowance	(14,020)	(976)	2,356	(12,640)
New financial assets originated or purchased	37,711	-	-	37,711
Financial assets that have been derecognized	(16,908)	(1,819)	(1,497)	(20,224)
Write-offs	-	-	-	-
Foreign exchange and other movements	(425)	(67)	-	(493)
Balance at 31 December	**36,255**	**1,179**	**1,782**	**39,216**

	31 December 2022			
In MDL thousand	Stage 1	Stage 2	Stage 3	Total
Loan commitments and financial guarantee contracts				
Balance at 1 January	10,470	4,484	756	15,710
Transfer to Stage 1	740	(457)	(283)	-
Transfer to Stage 2	(317)	323	(6)	-
Transfer to Stage 3	(5)	(5)	10	-
Net remeasurement of loss allowance	(6,707)	4,416	1,276	(1,015)
New financial assets originated or purchased	35,923	-	-	35,923
Financial assets that have been derecognized	(12,477)	(2,702)	(719)	(15,898)
Write-offs	-	-	-	-
Foreign exchange and other movements	168	(27)	-	141
Balance at 31 December	**27,796**	**6,031**	**1,034**	**34,861**

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39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit Risk (continued)

39.1.1 Amounts arising from expected credit losses (ECL) (continued)

The following table presents a reconciliation between:

- amounts shown in the above tables reconciling opening and closing balances of loss allowance per class of financial instruments; and
- the "Net impairment (losses) / release on financial assets" line item in the statement of profit or loss and other comprehensive income.

	2023								
In MDL thousand	Cash and Balances with National Bank of Moldova	Current accounts and placements with banks	Investment securities at amortized cost	Investment securities measured at FVOCI	Loans to customers at amortized cost	Other financial assets - Receivables from sales of collateral	Other financial assets – other receivables	Loan commitments and financial guarantee contracts	Total
Net remeasurement of loss allowance/provision	793	(21,046)	(151,021)	(136)	22,197	(1,224)	832	(32,864)	(182,469)
New financial assets originated or purchased	-	25,183	153,738	111	150,703	-	1,511	37,712	368,958
Total	**793**	**4,137**	**2,717**	**(25)**	**172,900**	**(1,224)**	**2,343**	**4,848**	**186,489**
Recoveries of amounts previously written-off	-	-	-	-	(70,560)	-	(292)	-	(70,852)
Total	**793**	**4,137**	**2,717**	**(25)**	**102,340**	**(1,224)**	**2,051**	**4,848**	**115,637**

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EXPLANATORY NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS

39. FINANCIAL RISK MANAGEMENT (CONTINUED)
39.1 Credit Risk (continued)
39.1.1 Amounts arising from expected credit losses (ECL) (continued)

	2022								
In MDL thousand	Cash and Balances with National Bank of Moldova	Current accounts and placements with banks	Investment securities at amortized cost	Investment securities measured at FVOCI	Loans to customers at amortized cost	Other financial assets - Receivables from sales of collateral	Other financial assets – other receivables	Loan commitments and financial guarantee contracts	Total
Net remeasurement of loss allowance/provision	2,422	(2,612)	(60,416)	(199)	140,009	904	3,009	(16,913)	66,204
New financial assets originated or purchased	-	1,157	56,676	180	72,736	-	986	35,923	167,658
Total	**2,422**	**(1,455)**	**(3,740)**	**(19)**	**212,745**	**904**	**3,995**	**19,010**	**233,862**
Recoveries of amounts previously written off	-	-	-	-	(27,728)	-	(31)	-	(27,759)
Total	**2,422**	**(1,455)**	**(3,740)**	**(19)**	**185,017**	**904**	**3,964**	**19,010**	**206,103**

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39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit Risk (continued)

39.1.1 Amounts arising from expected credit losses (ECL) (continued)

Collateral held

The Bank holds collateral against loans to customers in the form of mortgages over land and buildings, pledges on equipment and inventories and other guarantees. The estimates of fair value are based on the collateral value assessed on the loan granting date and periodically updated afterwards.

"Property" includes land, residential and commercial buildings, "Security interests in movable property" includes pledges on movable assets (cars, equipment, inventories etc.).

Retail customers

The analysis of the fair value by types of guarantees for loans granted to individuals is presented below:

In MDL thousand	31 December 2023	31 December 2022
Property	2,374,161	2,325,474
Security interests in movable property	-	805
Total	**2,374,161**	**2,326,279**

Mortgage lending

The following tables determine the credit exposures from mortgage loans to retail customers by ranges of loan-to-value (LTV) ratio. The LTV is calculated as the ratio between the gross value of the loan and the fair value of the collateral at the reporting date. The fair value of the collateral for residential mortgages is based on the fair value originally discounted based on changes in housing price indices.

In MDL thousand

LTV ratio	Note	31 December 2023	31 December 2022
Less than 50%		226,453	188,726
51-70%		207,807	211,553
71-90%		251,774	284,844
91-100%		35,092	27,974
More than 100%		560,522	664,455
Total	**7**	**1,281,648**	**1,377,552**

* The gross value of mortgage loans in the amount of MDL'000 558,758 with an LTV ratio higher than 100% (2022: MDL'000 663,650) represent loans granted under the state program "First House". The amount of collateral for these loans is considered to be only 50% of the value. The other 50% of the credit exposure are covered by state guarantees.

Corporate customers

In MDL thousand	Note	31 December 2023		31 December 2022	
		Gross value	Collateral amount	Gross value	Collateral amount
Stages 1 and 2		3,233,140	7,899,284	2,478,727	6,393,785
Stages 3		154,457	502,002	379,599	1,075,659
Total	**7**	**3,387,597**	**8,401,286**	**2,858,326**	**7,469,444**

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39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit Risk (continued)

39.1.2 Concentration of credit risk

The Bank monitors concentrations of credit risk by sector and by geographic location and industrial sectors.
The analysis of the exposure to credit risk related to financial assets by geographical regions and industrial sectors at 31 December 2023 and 31 December 2022 are presented below:

Concentration of credit risk by geographic location

31 December 2023

In MDL thousand	Moldova	OECD countries	Non-OECD countries	Total
Current accounts and placements with banks	356	1,601,898	167,070	1,769,324
Investment securities – debt instruments	5,516,433	-	343,583	5,860,016
Equity investment securities designated as at FVOCI	2,477	901	-	3,378
Loans to customers	5,981,588	-	-	5,981,588
Other financial assets	227,296	-	-	227,296
Total	**11,728,150**	**1,602,799**	**510,653**	**13,841,602**

31 December 2022

In MDL thousand	Moldova	OECD countries	Non-OECD countries	Total
Current accounts and placements with banks	-	980,427	120,856	1,101,283
Investment securities – debt instruments	4,239,731	-	213,896	4,453,627
Equity investment securities designated as at FVOCI	2,477	889	-	3,366
Loans to customers	5,104,759	-	-	5,104,759
Other financial assets	174,711	-	-	174,711
Total	**9,521,678**	**981,316**	**334,752**	**10,837,746**

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EXPLANATORY NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS

39. FINANCIAL RISK MANAGEMENT (CONTINUED)
39.1 Credit Risk (continued)
39.1.2 Concentration of credit risk (continued)

Concentration of credit risk by sector

31 December 2023 *In MDL thousand*	Financial institutions	Government/ Public Administration	Farming and food industry	Production and trade	Real estate	Transport and road construction	Energy sector	Mortgage loans	Consumer loans	Others	Total
Current accounts and placements with banks	1,769,324	-	-	-	-	-	-	-	-	-	1,769,324
Investment securities – debt instruments	-	5,860,016	-	-	-	-	-	-	-	-	5,860,016
Equity investment securities designated as at FVOCI	-	-	-	-	-	-	-	-	-	3,378	3,378
Loans to customers:											
Retail	-	-	-	-	-	-	-	1,266,595	1,564,600	-	2,831,195
Corporate	-	45,523	599,156	1,239,641	58,959	129,272	76,602	-	58,696	942,544	3,150,393
Other financial assets	-	-	-	-	-	-	-	-	-	227,296	227,296
Total	**1,769,324**	**5,905,539**	**599,156**	**1,239,641**	**58,959**	**129,272**	**76,602**	**1,266,595**	**1,623,296**	**1,173,218**	**13,841,602**

31 December 2022 *In MDL thousand*	Financial institutions	Government/ Public Administration	Farming and food industry	Production and trade	Real estate	Transport and road construction	Energy sector	Mortgage loans	Consumer loans	Others	Total
Current accounts and placements with banks	1,101,283	-	-	-	-	-	-	-	-	-	1,101,283
Investment securities – debt instruments	-	4,453,627	-	-	-	-	-	-	-	-	4,453,627
Equity investment securities designated as at FVOCI	-	-	-	-	-	-	-	-	-	3,366	3,366
Loans to customers:											
Retail	-	-	-	-	-	-	-	1,364,168	1,211,633	-	2,575,801
Corporate	-	87,229	536,922	768,361	134,004	33,451	22,999	-	38,407	907,585	2,528,958
Other financial assets	-	-	-	-	-	-	-	-	-	174,711	174,711
Total	**1,101,283**	**4,453,627**	**536,922**	**768,361**	**134,004**	**33,451**	**22,999**	**1,364,168**	**1,250,040**	**1,085,662**	**10,837,746**

The explanatory notes are an integral part of these financial statements.

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39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.2 Market risk

Market risk, the risk of loss related to balance sheet and off-balance sheet due to unfavorable fluctuations in the market price of the financial instrument held for trading equities, interest rates and exchange rate.

The main purpose of market risk management is to establish the main elements related to market risk management, in order to obtain the expected return of the trading book, under the conditions of proper management, consciously assumed and adapted to market and development conditions of the Bank, and not least in the context of the current regulatory framework.

In order to ensure proper management of interest rate risk as part of market risk, the following principles are applied:

- Establishing the types of instruments and activities permitted for the Bank to manage its position risk exposures, taking into account the types of investments, the quality and the acceptable quantity for each type of investment;
- Establishing a set of interest rate risk limits that correspond to the size and complexity of the Bank's business and the Bank's risk appetite;
- Ensuring information systems based on which issues related to the bank's market risk are reported in a timely manner to management bodies and specialized committees;
- Establishing methodologies used for crisis simulations based on information related to the Bank's operations and appetite for market risk to determine the influence of the hypothetical fluctuation of interest rates (change in yields) on the Bank's revenues and own funds.

For accounting purposes, the Bank measures its trading portfolio at fair value through other comprehensive income.
The Bank measures the fair value of financial instruments on the basis of the prices quoted on the active markets for identical financial assets, in accordance with the market-price principle (mark-to-market).
The objective of valuation techniques is to determine the fair value that reflects the price that would be obtained from a transaction under normal market conditions for the financial instrument at the date of preparation of the financial statements.

Monitoring and management of market risk indicators is performed on two levels, namely at Board of Administration / Executive Committee and at Assets and Liabilities Management Committee (ALCO).

For each type of market risk simulation exercises are conducted periodically (monthly stress testing).

39.2.1 Currency risk

The management of currency risk as a component of market risk is performed according to the following principles:

- Combining prudential requirements with profitability requirements in currency risk management;
- Establishing a set of limits for currency risk, corresponding to the size and complexity of the Bank's activity, operations performed and the Bank's risk appetite;
- Establishing the methodologies used for the purpose of crisis simulations based on information related to the Bank's operations and appetite for market risk to determine the influence of exchange rates (depreciation/appreciation) on the Bank's revenues and own funds.

Foreign currency exposure is limited by NBM and the Bank has set internal limits (falling within NBM) for the sum of ratios of open foreign exchange positions aiming to identify early risk of increasing rates.

The tables below shows the Bank's exposure to currency risk at 31 December 2023 and 31 December 2022. The Bank's financial assets and liabilities are stated at carrying amounts, categorized by currency.

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39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.2 Market risk (continued)

39.2.1 Currency risk (continued)

31 December 2023

In MDL thousand	Notes	MDL	EUR	USD	Other currencies*	Total
Financial assets						
Cash and Balances with National Bank of Moldova	4	4,440,379	2,116,981	730,463	29,547	7,317,370
Current accounts and placements with banks	5	-	1,024,372	727,502	17,450	1,769,324
Investment securities measured at amortized cost	6	5,502,009	343,584	-	-	5,845,593
Investment securities measured at FVOCI	6	14,423	-	-	-	14,423
Equity investment securities designated as at FVOCI	8	2,477	901	-	-	3,378
Loans to customers	7	4,684,928	1,137,487	159,173	-	5,981,588
Other financial assets	12	173,465	31,325	22,487	19	227,296
Total financial assets		**14,817,681**	**4,654,650**	**1,639,625**	**47,016**	**21,158,972**
Financial liabilities						
Deposits from banks	16	1,064	764	33,612	165	35,605
Deposits from customers	17	10,139,198	4,065,043	1,482,144	38,909	15,725,294
Other borrowings	15	120,553	391,929	-	-	512,482
Lease liabilities	11	5,621	73,962	-	-	79,583
Other financial liabilities	20	553,014	132,329	89,344	5,973	780,660
Total financial liabilities		**10,819,450**	**4,664,027**	**1,605,100**	**45,047**	**17,133,624**
Net currency position		**3,998,231**	**(9,377)**	**34,525**	**1,969**	**4,025,348**

* Other currencies mainly include the Ukrainian hryvnia, the Romanian leu and Russian ruble.

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39. FINANCIAL RISK MANAGEMENT (CONTINUED)
39.2 Market risk (continued)
39.2.1 Currency risk (continued)

31 December 2022

In MDL thousand	Notes	MDL	EUR	USD	Other currencies*	Total
Financial assets						
Cash and Balances with National Bank of Moldova	4	3,617,849	2,568,312	848,218	22,409	7,056,788
Current accounts and placements with banks	5	-	391,242	692,333	17,708	1,101,283
Investment securities measured at amortized cost	6	4,223,216	213,895	-	-	4,437,111
Investment securities measured at FVOCI	6	16,516	-	-	-	16,516
Equity investment securities designated as at FVOCI	8	2,476	890	-	-	3,366
Loans to customers	7	3,817,614	1,166,191	120,954	-	5,104,759
Other financial assets	12	122,946	24,901	26,854	9	174,711
Total financial assets		**11,800,617**	**4,365,432**	**1,688,359**	**40,126**	**17,894,534**
Financial liabilities						
Deposits from banks	16	1,237	6,306	62,263	49	69,855
Deposits from customers	17	8,054,771	4,040,746	1,521,252	34,398	13,651,167
Other Borrowings	15	25,747	170,787	304	-	196,838
Lease liabilities	11	6,374	66,356	130	-	72,860
Other financial liabilities	20	325,091	84,939	62,055	914	472,999
Total financial liabilities		**8,413,220**	**4,369,134**	**1,646,004**	**35,361**	**14,463,719**
Net currency position		**3,387,397**	**(3,702)**	**42,355**	**4,765**	**3,430,815**

* Other currencies mainly include the Ukrainian hryvnia, the Romanian leu and Russian ruble.

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39. FINANCIAL RISK MANAGEMENT (CONTINUED)
39.2 Market risk (continued)
39.2.1 Currency risk (continued)

The table below presents the Profit or Loss sensitivity in the event of potential changes of the exchange rates applicable at 31st of December 2023 and 31st of December 2022 in relation to the functional currency of the Bank, considering that all the other variables remain constant:

	Impact on Profit or Loss	
In MDL thousand	2023	2022
EUR increase by up to 10%	(878)	(674)
EUR decrease by up to 10%	878	674
USD increase by up to 10%	3,051	3,826
USD decrease by up to 10%	(3,051)	(3,826)

39.2.2 Interest rate risk from the banking book (IRRBB)

Interest rate risk is the current or future risk of adverse outcome on Bank's earnings and capital due to adverse changes in interest rates.

The main source of interest rate risk are the mismatches between the maturity dates (for fixed rate instruments) or dates of re-pricing (for variable interest rates instruments) for interest-bearing assets and liabilities, adverse development of yield curve (non-parallel evolution of yield curves for interest-bearing assets and liabilities).

The management of interest-bearing asset and liabilities is performed in the context of the Bank's exposure to interest rate fluctuations. Interest rate risk is managed by monitoring of the interest rate GAP (mismatch), of the potential change in economic value as a result of changing interest rate levels and through a system of approved internal limits and indicators.

Interest rate risk is managed in a way that ensures a favorable and stable interest margin over time, and the profitability and value of the Bank's capital does not change significantly, as a result of unexpected changes in interest rates depending on the cash-flow characteristics generated by the Bank's assets and liabilities. In this regard, ALCO fulfills a number of assignments and responsibilities in the area of managing assets and liabilities, managing interest rate risk and other related risks and areas.

In the sensitivity analysis regarding interest rate variation, the Bank has calculated the impact of potential market interest rate changes on the interest margin for the future financial periods, by taking into consideration the interest rate resetting / re-fixing date with respect to the balance sheet assets and liabilities.

The potential change of the Bank's economic value due to changes:

In MDL thousand	31 December 2023	31 December 2022
Own funds	3,564,443	2,881,905
Potential decline in economic value +/- 200bp		
Absolute value	59,625	16,193
Impact on own funds	1.67%	0.56%

The tables on the next pages show the Bank's exposure to interest rate risk as at 31 December 2023 and 31 December 2022. The tables include financial assets and liabilities of the Bank at their carrying amounts, classified based on the earliest date between repricing and maturity dates.

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39. FINANCIAL RISK MANAGEMENT (CONTINUED)
39.2 Market risk (continued)
39.2.2 Interest rate risk from the banking book (continued)

31 December 2023

In MDL thousand	Notes	Carrying amount	Less than 6 months	6 months – 1 year	1 – 5 years	More than 5 years	Non-interest bearing
Financial assets							
Cash and Balances with National Bank of Moldova	4	7,317,370	4,941,292	-	-	-	2,376,078
Current accounts and placements with banks	5	1,769,324	1,648,598	-	-	-	120,726
Investment securities measured at amortized cost	6	5,845,593	4,251,738	1,035,153	555,839	2,863	-
Investment securities measured at FVOCI	6	14,423	6,309	3,112	4,890	112	-
Loans to customers	7	5,981,588	5,092,434	111,901	744,786	2,086	30,381
Other financial assets	12	227,296	2,120	-	-	-	225,176
Total financial assets		**21,155,594**	**15,942,491**	**1,150,166**	**1,305,515**	**5,061**	**2,752,361**
Financial liabilities							
Deposits from banks	16	35,605	35,605	-	-	-	-
Deposits from customers	17	15,725,294	14,511,407	1,013,874	123,008		77,005
Other Borrowings	15	512,482	512,482	-	-	-	-
Lease liabilities	11	79,583	-	-	-	-	79,583
Other financial liabilities	20	780,660	-	-	-	-	780,660
Total financial liabilities		**17,133,624**	**15,059,494**	**1,013,874**	**123,008**	**-**	**937,248**
Interest gap			**882,997**	**136,292**	**1,182,507**	**5,061**	**1,815,113**
Cumulative interest gap			**882,997**	**1,019,289**	**2,201,796**	**2,206,857**	**4,021,970**

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

39. FINANCIAL RISK MANAGEMENT (CONTINUED)
39.2 Market risk (continued)
39.2.2 Interest rate risk from the banking book (continued)

31 December 2022

In MDL thousand	Notes	Carrying amount	Less than 6 months	6 months – 1 year	1 – 5 years	More than 5 years	Non-interest bearing
Financial assets							
Cash and Balances with National Bank of Moldova	4	7,056,788	4,888,761	-	-	-	2,168,027
Current accounts and placements with banks	5	1,101,283	994,269	-			107,014
Investment securities measured at amortized cost	6	4,437,111	3,049,929	1,125,597	258,722	2,863	-
Investment securities measured at FVOCI	6	16,516	8,749	3,058	4,608	101	-
Loans to customers	7	5,104,759	5,063,126	1,521	9,103	2,461	28,548
Other financial assets	12	174,711	2,258	-	-	-	172,453
Total financial assets		**17,891,168**	**14,007,092**	**1,130,176**	**272,433**	**5,425**	**2,476,042**
Financial liabilities							
Deposits from banks	16	69,855	69,855	-	-	-	-
Deposits from customers	17	13,651,167	12,259,521	1,323,005	2,526	-	66,115
Other borrowings	15	196,838	196,838	-	-	-	-
Lease liabilities	11	72,860	-	-	-	-	72,860
Other financial liabilities	20	472,999	-	-	-	-	472,999
Total financial liabilities		**14,463,719**	**12,526,214**	**1,323,005**	**2,526**	**-**	**611,974**
Interest gap			**1,480,878**	**(192,829)**	**269,907**	**5,425**	**1,864,068**
Cumulative interest gap			**1,480,878**	**1,288,049**	**1,557,956**	**1,563,381**	**3,427,449**

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39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.3 Liquidity risk

Liquidity risk is the current or future risk that the profit and capital may be negatively affected as a result of the Bank's inability to fulfill its obligations when they are due.

Liquidity risk has 2 main components: the difficulty in procuring funds at maturity in order to refinance current assets or the inability to convert an asset into liquidity at a value close to its fair value, within a reasonable period of time.

The purpose of liquidity risk management is to obtain the expected returns on assets through capitalization of temporary excess liquidity and the efficient allocation of resources attracted from clients, in the context of appropriate management, current legislative framework and established objectives.

The Bank has access to diversified funding sources. Funds are attracted through a range of instruments such as: deposits from customers or partner banks, loans on the interbank market (NBM, commercial banks), loans from financial institutions, etc. Access to various sources of funding improves the flexibility of fundraising, limits reliance on a single type of funding and one type of partner, and leads to a general decrease in the costs involved in raising funds. The Bank tries to maintain a balance between continuity and flexibility in raising funds, by contracting debts with different maturities and in different currencies.

The Assets and Liabilities Management Committee (ALCO) of the Bank is responsible for the periodic review of liquidity indicators and with the establishment of corrective measures regarding balance sheet figures, so as to eliminate unacceptable deviations in terms of liquidity risk.

In liquidity management, the Bank applies a series of principles regarding the quality, maturity, diversity and degree of asset risk, while establishing sets of carefully monitored limits to ensure compliance with the principles and the desired returns.

In order to soundly manage liquidity risk, the Bank constantly seeks to attract liquidity through treasury operations, external fundings, capital markets, etc., taking into account various factors such as the issuer's rating, maturity and size of the issue, the markets on which it is traded.

The operative management (intraday) of liquidity is carried out through all the operations performed by the involved components of the Bank, so as to ensure all settlements/payments assumed by the Bank on its own behalf or on behalf of customers, in national or foreign currency, on account or in cash within the internal, legal, mandatory limits.
The Bank also takes into account a liquidity reserve, with the aim of covering the additional need for liquidity that may arise over a short period of time, under stress conditions, periodically tested based on different crisis scenarios with different probabilities and severities.

The tables below present an analysis of maturities of assets, liabilities and contingent liabilities of the Bank into relevant maturity groups based on the remaining period at balance sheet date to the contractual maturity date, as of 31 December 2023 and 31 December 2022.

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

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EXPLANATORY NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS

39. FINANCIAL RISK MANAGEMENT (CONTINUED)
39.3 Liquidity risk (continued)

31 December 2023

In MDL thousand	Notes	Carrying amount	Less than 3 months	3 months - 1 year	1 – 5 years	More than 5 years	No maturity
Financial assets							
Cash and Balances with National Bank of Moldova	4	7,317,370	7,317,370	-	-	-	-
Current accounts and placements with banks	5	1,769,324	1,453,962	196,570	-	118,792	-
Investment securities measured at amortized cost	6	5,845,593	3,099,018	2,175,451	568,261	2,863	-
Investment securities measured at FVOCI	6	14,423	2,366	6,542	5,402	113	-
Equity investment securities designated as at FVOCI	8	3,378	-	-	-	-	3,378
Loans to customers	7	5,981,588	592,900	1,296,421	3,006,578	1,085,689	-
Other financial assets	12	227,296	225,965	1,331	-	-	-
Total financial assets		**21,158,972**	**12,691,581**	**3,676,315**	**3,580,241**	**1,207,457**	**3,378**
Financial liabilities							
Deposits from banks	16	35,605	35,605	-	-	-	-
Deposits from customers	17	15,725,294	12,972,749	2,298,469	434,227	19,849	-
Other borrowings	15	512,482	28,199	86,438	382,764	15,081	-
Lease liabilities	11	79,583	8,469	23,070	47,738	306	-
Other financial liabilities	20	780,660	780,660	-	-	-	-
Total financial liabilities		**17,133,624**	**13,825,682**	**2,407,977**	**864,729**	**35,236**	**-**
Net balance sheet position		**4,025,348**	**(1,134,101)**	**1,268,338**	**2,715,512**	**1,172,221**	**3,378**
Loan commitments and financial guarantee contracts	33	822,656	822,656	-	-	-	-
Total off-balance sheet		**822,656**	**822,656**	-	-	-	-
Total net on- and off-balance sheet position		**4,848,004**	**(311,445)***	**1,268,338**	**2,715,512**	**1,172,221**	**3,378**

* The evolution of current accounts and short-term deposits indicates a growing trend and a pattern of constant renewal. In addition, the liquidity gap for the band "1-3 months" is easily managed, if necessary, by using debt securities from other liquidity bands for REPO transactions.

The explanatory notes are an integral part of these financial statements.

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EXPLANATORY NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS

39. FINANCIAL RISK MANAGEMENT (CONTINUED)
39.3 Liquidity risk (continued)

31 December 2022

In MDL thousand	Notes	Carrying amount	1-3 months	3 months - 1 year	1 – 5 years	More than 5 years	No maturity
Financial assets							
Cash and Balances with National Bank of Moldova	4	7,056,788	7,056,788	-	-	-	-
Current accounts and placements with banks	5	1,101,283	897,217	97,051	-	107,015	-
Investment securities measured at amortized cost	6	4,437,111	1,814,722	2,328,357	291,169	2,863	-
Investment securities measured at FVOCI	6	16,516	3,562	6,751	6,103	100	-
Equity investment securities designated as at FVOCI	8	3,366	-	-	-	-	3,366
Loans to customers	7	5,104,759	574,832	891,294	2,438,376	1,200,257	-
Other financial assets	12	174,711	173,343	-	1,368	-	-
Total financial assets		**17,894,534**	**10,520,464**	**3,323,453**	**2,737,016**	**1,310,235**	**3,366**
Financial liabilities							
Deposits from banks	16	69,855	69,855	-	-	-	-
Deposits from customers	17	13,651,167	10,499,119	2,545,138	585,693	21,217	-
Other borrowings	15	196,838	18,301	55,365	110,009	13,163	-
Lease liabilities	11	72,860	346	4,432	68,082	-	-
Other financial liabilities	20	472,999	472,999	-	-	-	-
Total financial liabilities		**14,463,719**	**11,060,620**	**2,604,935**	**763,784**	**34,380**	**-**
Net balance sheet position		**3,430,815**	**(540,156)**	**718,518**	**1,973,232**	**1,275,855**	**3,366**
Loan commitments and financial guarantee contracts	33	809,609	809,609	-	-	-	-
Total off-balance sheet		**809,609**	**809,609**	-	-	-	-
Total net on- and off-balance sheet position		**4,240,424**	**269,453**	**718,518**	**1,973,232**	**1,275,855**	**3,366**

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39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.3 Liquidity risk (continued)

The tables below set out the remaining contractual maturities of the Bank's financial liabilities as at 31 December 2023 and 31 December 2022:

31 December 2023

In MDL thousand	Note	Carrying amount	Gross value (outflow)	Less than 3 months	3 months - 1 year	1 - 5 years	More than 5 years
Financial liabilities							
Deposits from banks	16	35,605	(35,605)	(35,605)	-	-	-
Deposits from customers	17	15,725,294	(15,807,469)	(12,997,665)	(2,343,503)	(446,316)	(19,985)
Other borrowings	15	512,482	(592,604)	(32,179)	(106,982)	(437,512)	(15,931)
Lease liabilities	11	79,583	(81,656)	(8,630)	(23,549)	(49,158)	(319)
Other financial liabilities	20	780,660	(780,660)	(780,660)	-	-	-
Loan commitments and financial guarantee contracts	33	-	(822,656)	(822,656)	-	-	-
Total financial liabilities		**17,133,624**	**(18,120,650)**	**(14,677,395)**	**(2,474,034)**	**(932,986)**	**(36,235)**

31 December 2022

In MDL thousand	Note	Carrying amount	Gross value (outflow)	Less than 3 months	3 months- 1 year	1 - 5 years	More than 5 years
Financial liabilities							
Deposits from banks	16	69,855	(69,855)	(69,855)	-	-	-
Deposits from customers	17	13,651,167	(13,873,332)	(10,561,931)	(2,684,277)	(605,056)	(22,068)
Other borrowings	15	196,838	(212,791)	(18,792)	(61,410)	(118,957)	(13,632)
Lease liabilities	11	72,860	(72,860)	(346)	(4,432)	(68,082)	-
Other financial liabilities	20	472,999	(472,999)	(472,999)	-	-	-
Loan commitments and financial guarantee contracts	33	-	(809,609)	(809,609)	-	-	-
Total financial liabilities		**14,463,719**	**(15,511,446)**	**(11,933,532)**	**(2,750,119)**	**(792,095)**	**(35,700)**

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39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.4 Capital management

Capital management – compliance with capital requirements

National Bank monitors capital requirements and own funds are should be maintained at a minimum:

- 5.5 % for core tier 1 own funds;
- 7.5 % for tier 1 own funds;
- 10 % for total own funds.

Likewise, Bank maintains the capital buffers required by the National Bank of Moldova:

- a capital preservation buffer of 2.5% of the total value of the risk-weighted exposures;
- a systemic risk buffer of 1% of the total value of the risk-weighted exposures;
- other companies enhanced systemic level in buffer of 1% of the total weighted exposure.

The National Bank of Moldova, following the results examination of the supervision process ("SREP Methodology"), determined the capital requirement rates at a minimum level of:

- 7.01 % for the basic level 1 own funds rate;
- 9.56 % for the level 1 own funds rate;
- 12.74 % for the total own funds rate.

Own funds adequacy

To determine the own funds of regulatory requirements the Bank uses the following calculation methods:

- Credit risk: standardized method;
- Market risk: for calculating own funds requirements related to currency risk and trading - standard method is used;
- Operational risk: for the calculation of own funds requirements for operational risk, the Basic indicator method is used.

The Bank complied with the above regulations, the level of the risk capital adequacy indicator, exceeding the minimum limits imposed by legislation: at 31 December 2023 the level was 43.88% (at 31 December 2022 the level was 44.71%).

The level and the requirements of own funds as at 31 December 2023 and 31 December 2022 are as follow:

In MDL thousand	31 December 2023	31 December 2022
Tier 1 own funds	3,564,443	2,881,905
Tier 2 own funds	-	-
Total own funds	**3,564,443**	**2,881,905**
Credit risk exposure	6,034,484	4,841,363
Market risk, currency risk, delivery risk exposure	-	-
Operational risk exposure	2,089,193	1,604,911
Total risk exposure	**8,123,677**	**6,446,274**
Capital adequacy ratio (%)	**43.88**	**44.71**

The capital adequacy ratio (CAR) is calculated as a ratio between own funds and total risk-weighted assets.
The Board of Administration decides on the directions to be followed in the capital adequacy process, establishes the main projects in the field to be carried out as well as the main objectives to be met in order to better control the correlation of risks to which the Bank is exposed and necessary equity to cover them and the development of sound risk management systems.

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39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.5 Operational risk

Operational risk is the current or future risk of impairment of profits and capital that results from inadequate or failed internal processes or systems and / or from the action of external persons or events.

The objective of B.C. Victoriabank S.A. concerning the operational risk management is to ensure the mitigation of effects of operational risk events that are encountered in the Bank's activity, to maintain at a low level the losses from incidents of operational risk and the share of these losses in the Bank's own funds, and to insure against such risks that are out of the Bank's control.

In order to identify, evaluate, monitor and reduce operational risk, the Bank:

- constantly assesses exposures to operational risk, based on historical data and on each event, managing the database of the operational risk events;
- evaluates new products, processes and services, as well as significant changes of the existing ones and performance of exceptional transactions, in order to determine the associated risk levels and the measures to eliminate/reduce them to accepted levels;
- regarding the information technology (ICT) risks, it has mechanisms and controls in place to ensure that all risks are identified, analyzed, measured, monitored, managed, reported and maintained within the limits of risk appetite.

To reduce the risks inherent to the operational activities of B.C. Victoriabank S.A., a general framework to manage these risks has been developed in accordance with the established business objectives, the assumed risk appetite, as well as the rules and regulations in force, at national and international level, a framework consisting of policies, procedures for operational risk management that are part of the corporate governance.

The strategy of B.C. Victoriabank S.A., which is consistent with the strategy of Banca Transilvania Group, to reduce its exposure to operational risk, is mainly based on:

- constant conformity of internal regulations with legal and regulatory acts and adequacy to market conditions;
- staff training;
- efficiency of internal control systems (organization and exercise);
- implementation of IT developments and consolidation of the security systems of the Bank;
- use of complementary means of risk mitigation: insurance against risks, outsourcing of activities;
- taking measures to limit, reduce the effects of identified operational risk incidents, such as: standardization of current activity, automation of as many processes as possible with constantly monitored control points;
- using recommendations and conclusions resulting from the operational risk controls;
- updating continuity plans, evaluating and testing them regularly, especially in case of systems that support critical operational processes for the Bank;
- evaluating products, processes and systems in order to determine the significant ones in terms of the inherent operational risk.

The Bank implements policies and processes to assess and manage the exposure to operational risk, including ICT risks, which include low-frequency events and potentially major negative impacts.

The Risk Management Department aims to implement the strategy and methodology for identifying, measuring, supervising, controlling and reducing operational risk and provides information to the Executive Management issues, significant changes of the nature of operational risks and proposes risk mitigation measures.

From time to time (annually) the Bank carries out crisis simulations by designing scenarios based on exceptional but plausible events in order to test the Bank's ability to cope with a crisis situation.

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39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.6 Compliance risk management

The Bank ensured the creation and efficient functioning of the compliance function, for which it approved a framework for sustainable, constant and efficient compliance risk management.
Thus, the compliance function, synergistically included in the internal control system of the Bank, helped the governing bodies in identifying, assessing, monitoring and reporting the compliance risk, associated with the Bank's activities, regarding the compliance of the activity with the provisions of the regulatory framework, rules and its own standards and the Code of Conduct. Through the involvement and support of the compliance function, the possible impact of any amendments to the legal and regulatory framework on the Bank's activities was continuously assessed.
The Bank has adopted a unitary approach to compliance risk management as part of the Bank's overall risk management strategy.

The Bank applies the principle of a risk-based approach to compliance risk, in particular by ensuring constant monitoring of risk indicators, identification and analysis of causes that may lead to compliance risk events. Also, to prevent and/or mitigate the compliance risk related to the Bank's activities, it has identified and regulated continuous risk control measures.

The compliance function ensures that reports are submitted on the activities carried out both individually (for events with medium or high compliance risk) and cumulatively (in regular reporting of the activities of the function), in which it provides the results of the evaluation of the effectiveness of prevention/or risk mitigation measures.

39.7 Management of the risk associated with excessive use of leverage

The Bank's objective of the management of risk of excessive leverage is to balance the structure of the Bank's assets and liabilities so as to achieve the expected profitability indicators in controlled risk conditions, which ensure both continuity in the Bank's activity on a sound basis and protection of interests of shareholders and customers.
Quantitative methods of assessment and mitigation are used for the risk of excessive leverage.
The leverage risk management framework is based on the following principles:

- Protection of financial stability: the Bank controls the risk to limit the impact of potential adverse events on capital and income;
- Limiting excessive risk-taking: the Bank's risk appetite shall be consistent with its financial resources;
- Ensuring a solid and sustainable capital and financing base;
- Diversifying the portfolio to avoid concentration risks;
- Limiting the concentrations and volatility of income sources.

The concept of 'leverage' means the relative size of an institution's assets, off-balance sheet liabilities and contingent obligations to pay, to provide a benefit or a collateral, including obligations arising from financing received, commitments assumed, derivative financial instruments or repo agreements, except for obligations that can be fulfilled only during the liquidation of an institution, in relation to the own funds of that institution.

39.8 Reputational risk management

Reputational risk is the current or future risk of impairment of profits and capital or liquidity, determined by the unfavorable perception of the Bank's image by counterparties, shareholders, investors or supervisory authorities.
The purpose of monitoring and managing reputational risk is to minimize potential losses, maintain a positive business reputation for customers and third parties, and shareholders and financial market participants in order to ensure compliance with the Bank's strategy and values.

Reputational risk is managed by: taking steps to attract the best partners, in terms of both customers and suppliers; recruiting and retaining the best employees; minimizing litigations; strict regulation of the activity; prevention of crisis situations; respectively constant consolidation of the Bank's credibility and the shareholders' trust; constant and open communication with stakeholders (shareholders, media, customers, partners, employees, authorities, etc.).

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39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.9 Strategic risk management

Strategic risk is the current or future risk of impairment of profits and capital caused by changes in the business environment or unfavorable business decisions, inadequate implementation of decisions or lack of response to business environment changes.

The general principles applied to ensure sound strategic risk management are:

- regular reassessment of the Bank's strategy/business plan;
- drawing up plans for the introduction of new business lines, addition of new products and services, extension of existing services, as well as consolidation of infrastructure;
- performing a competitive analysis that reflects the highlighting of strategic risk factors;
- establishing solid internal control mechanisms at the strategic level of corporate governance, which covers all aspects and processes of strategic decision-making;
- establishing a set of limits for key strategic risk indicators, corresponding to the size and complexity of the activity and risk appetite of the Bank.

39.10 Climate Risk

Climate change can have a significant impact on the financial stability and profitability of companies in the financial and banking system, and hence on the economy as a whole. It can affect both economic activities and the natural environment through rising sea levels, severe storms, floods, droughts and other extreme weather events. These events can cause significant damage to businesses, customers and communities, with significant economic and social costs. In addition, climate change risks can affect revenue and expenditure flows and influence investment decisions.

The Bank is aware that assessing climate change risks and implementing appropriate mitigation measures are important elements in the risk management process. We are therefore in the process of implementing measures that will include assessing the loan and investment portfolio to identify climate change risks, developing risk management tools and promoting sustainable investments.

Climate change risks will be assessed from two perspectives:

a) at client level, as part of the environmental and social risk analysis, where the impact of climate change risks on the company's business and the extent to which its business affects the environment (emissions to water, air, soil) will be analyzed;
b) at portfolio level, based on a mapping reflecting the environmental, social and governance risks associated with the sectoral distribution of the loan portfolio, the exposure of the portfolio to these risks will be analyzed.

For the management of climate risks, the Bank implemented the Sustainability Policy, which includes a list of sectoral exclusions aligned with EBRD and Banca Transilvania Financial Group recommendations.

The Bank is in the process of implementing the analysis of environmental risk factors according to internal models, adapted to the transaction value and risk level of the sector.

Following the analysis of environmental and social risks (including climate risk), an E&S risk level will be associated to the exposure.

The Bank will undertake mapping of the entire financing and investment portfolio against environmental, social and governance risks for each business sector (such as agriculture, construction, transport, etc.) to identify the necessary measures to mitigate the potential negative impacts of climate change on outstanding loans. This mapping can contribute to the adoption of measures in the lending business so that the negative environmental impact is mitigated and the positive impact on the environment, but also on society and the communities we are part of, is enhanced.

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B.C. VICTORIABANK S.A.

EXPLANATORY NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS

40. SUBSEQUENT EVENTS

At the Annual Ordinary General Shareholders Meeting (GSM) on April 28, 2023, the new composition of the Bank's Board of Administration was re-elected. According to the GSM decision, the old composition of the Board of Administration (including the members of the Board of Administration who were not re-elected in the new composition) continued to exercise their mandate until the National Bank of Moldova (NBM) approved at least one new member of the Board of Administration.

Thus, following the approval by the NBM (Decision of the Executive Committee of the NBM no. 5 of 04.01.2024) of Mrs. Ludmila Costin as a member of the Bank's Board of Administration, the composition of the Board of Administration of BC "Victoriabank" S.A., starting from 04.01.2024 is the following:

- Thomas GRASSE, President of the Board of Administration
- Peter FRANKLIN, Member of the Board of Administration
- Maris MANCINSKIS, Member of the Board of Administration
- Murat Mehmet Sabaz, Member of the Board of Administration
- Tiberiu MOISA, Member of the Board of Administration
- Ludmila Costin, Member of the Board of Administration

On January 22, 2024, based on the Decision of the Executive Committee of the National Bank of Moldova, Mihai-Mircea Aursulesei was approved for the position of member of the Bank's Executive Management. The updated composition of the Bank's Executive Management:

- Levon Khanikyan, Member, President of the Executive Management, CEO
- Sorin Șerban, Member, Vice-president of the Executive Management, CRO
- Vitalie Corniciuc, Member, Vice-president of the Executive Management, CFO
- Elena-Ionela Maloș, Member, Vice-president of the Executive Management, COO
- Mihai-Mircea Aursulesei, Member, Vice-president of the Executive Management, Retail.

On January 15, 2024, the Bank acquired 100% of the shares in BCR Chisinau SA, after receiving all the necessary approvals from the National Bank of Moldova, as well as other responsible institutions. The agreement to sell the shares held by Banca Comercială Română to BCR Chisinau was announced at the end of March 2023.

Based on the decision of the Bank's Board of Administration (PV no. 181 of 12.01.2024), starting from January 15, 2024, the mandate of Vasile Donica, member of the Bank's Executive Management, who was appointed President of the Executive Management at BCR Chisinau SA, was suspended.

Except the above mentioned, no other significant subsequent events have been identified since the date of the statement of financial position.

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