victoriabank® Grupul Banca Transilvania

Report

ON THE MANAGEMENT FRAMEWORK, OWN FUNDS AND CAPITAL REQUIREMENTS, CAPITAL BUFFERS

in accordance with the Regulation on the requirements for publication of information by banks, approved by the DEB of the NBM, No. 158 of 9 July 2020,
Chapter VII

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In accordance with Chapter VII of the Regulation on the requirements for publication of information by banks, approved by the Decision of the Executive Board No. 158 of 9 July 2020, we submit the Report of CB 'Victoriabank' JSC on the management framework, own funds and capital requirements, capital buffers, on 30 June 2021:

1. RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk management strategies and processes

The objective of CB 'Victoriabank' JSC (hereinafter 'the Bank') related to risk management is the integration of the assumed medium risk appetite in the decision-making process of the bank by promoting an adequate alignment of the assumed risks, the available capital and the performance targets, while taking into account the tolerance to both financial and non-financial risks. In determining the risk appetite and risk 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 the credit risk.

The Bank adopts a risk appetite in accordance with the risk management strategy, having due regard to its business strategy, own funds and risk management experience.

The general risk appetite of CB 'Victoriabank' JSC is medium, depending on the risk appetite established for each risk category, subject to the principle of contamination:

Types of risk	Established risk appetite
Credit and concentration risk	Medium
Market risk	Medium-Low
Liquidity risk	Medium-Low
Interest rate risk from non-trading book activities	Low
Operational risk	Medium
Compliance risk	Medium-Low
Risk of excessive leverage	Low
Reputational risk	Low
Strategic risk	Low

At CB 'Victoriabank' JSC, risk management is an integral part of all decision-making and business processes, and in this regard, the governing bodies of the Bank:

- Continuously assesses the risks to which the Bank's activity is or may be exposed, which may affect the achievement of its objectives, and take measures regarding any change of the conditions in which the Bank carries out its activity.
- Ensure an adequate activity management framework of the Bank, taking into account both internal factors (complexity of organizational structure, nature of activities carried out, business model, level of staff turnover) and external factors (macroeconomic factors, legislative amendments, changes related to competitive environment in the banking sector, technological advances).
- Identify risks: Exposure to business risks through day-to-day operations and transactions (including lending operations, money market operations and other specific activities) is identified and aggregated through the risk management infrastructure implemented within the Bank.
- Measure risks: The Bank assesses the identified risks through specific models and methods of calculation, such as a system of related indicators and limits, a methodology for assessing possible risk and loss-generating events, a provisioning methodology related to the credit risk, etc.
- Monitor and control risks: Policies and procedures implemented for effective risk management are able to mitigate business risks. The Bank has implemented procedures for supervision and approval of decision limits. These limits are monitored subject to the specifics and conduct of operations.

- Report risks: For significant risk categories, the Bank has put in place regular and transparent reporting mechanisms so that the governing bodies and all relevant units receive timely reports, and are able to exchange relevant information on identification, measurement or assessment and monitoring of risks.
- Calculate and evaluate the internal capital and the needs for internal capital: To assess the adequacy of the internal capital at risks, the Bank identifies and assesses all significant risks to which it is or may be exposed. The Bank continuously calculates and assesses the internal capital and the needs for internal capital, to cover the business needs and related risks of the Bank, including through stress tests.

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, natural persons and treasury activity).

Crisis simulations – a risk management tool

When using efficiently crisis simulations as a risk management tool, the Bank applies the following principles:

- Uses crisis simulations depending on the nature, extent and complexity of its activities, as well as depending on the risk profile of the Bank;
- Uses crisis simulations as a diagnostic tool to understand the risk profile and as an anticipatory tool in the internal capital adequacy assessment process (ICAAP);
- The crisis simulation program is an integral part of the risk management framework and of the internal capital adequacy assessment process;
- Determines all significant risks that may be subject to a crisis simulation, taking into account the analysis of the nature and structure of the Bank's portfolios and the analysis of the environment in which it operates;
- Establishes significant risk factors that will be used in crisis simulations based on the identified significant risks;
- Checks, at least annually, the degree of correspondence of crisis simulations (hypotheses) with the risk appetite and the environment in which the Bank operates;
- In the process of crisis simulations, historical scenarios or hypothetical scenarios will be taken into account, aiming for these simulations and scenarios used to be in line with the risk appetite established by the Bank, to have different degrees of severity and likelihood of materialization.

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.

a) Credit and concentration risk management

The Bank is exposed to credit risk both through lending, trading and investment activities, as well as in situations where it issues guarantees. The credit risk associated with trading and investment activities is mitigated by selecting counterparties with solid credit ratings, by monitoring their activity, using exposure limits and, where necessary, by requesting guarantees.

The risk appetite associated with the a priori established credit risk is medium, depending on the risk appetite established for each subcategory (by contamination), thus:

- The risk appetite related to credit risk and residual risk established a priori is medium;
- The risk appetite related to concentration risk established a priori is medium.

The credit risk profile as of 30 June 2021 is high.

As of 30 June 2021, the ratio of non-performing loans of the Bank makes up 13.70%, which is constantly decreasing (20.08% on 30 June 2020). Further reduction of the ratio of non-performing loans is one of the strategic objectives of the Bank.

A significant part of the Bank's exposure to credit risk comes from lending to customers. In this case, the exposure is represented by the book value of assets recognized in the statement of financial position. At the same time, the Bank is exposed to off-balance sheet credit risk through financing commitments and issuance of guarantees.

To minimize the risk, the Bank has developed certain procedures to assess customers prior to granting loans, which consist in monitoring their ability to repay the principal and related interest during the lending term, and setting exposure limits.

Moreover, the Bank has risk monitoring procedures at the level of the loan portfolio, has established concentration limits at the level of counterparties/concerted group of customers, products, business lines, economic sectors, types of guarantees, etc.

To ensure repayment of the credit facilities granted to customers, the Bank has guarantees in the form of deposits/funds, mortgages on real estate properties, pledges on tangible and intangible real estate, personal and financial guarantees, etc.

The Board of Directors has entrusted the responsibility for credit risk management to the Executive Committee, Credit Committees and Commissions. The Bank also has subdivisions involved in risk management (Credit Monitoring Directorate, Credit Risk Assessment Directorate (Underwriting), Guarantee Assessment Directorate, Risk Management Directorate), which report to the governing bodies and have duties related to:

a) Analysis, assessment and monitoring of specific risks within the lending activity;
b) Risk analysis for large loan/exposure portfolios;
c) Monitoring of the compliance with the internal regulations specific to the lending activity;
d) Elaboration of proposals for the reduction of specific risks, in order to maintain sound lending standards;
e) Monitoring of loans granted, depending on the customer's financial performance, type of loan, nature of collateral and debt service, according to internal lending rules;
f) Granting/changing the lending powers related to branches based on the selected quality/performance indicators, according to specific internal policies;
g) Regular review of acceptable risk levels;
h) Identification, monitoring and control of the credit risk at the level of the Bank's branches;
i) Risk analysis for new credit products/modifications of credit products, with recommendations to the subdivisions involved;
j) Regular analysis, and submission to the governing bodies, of reports on the evolution of the risks to which the Bank is exposed;
k) Development of the methodology for early detection of real or potential increases in credit risk (early warning signals);
l) Mechanisms for classification of conditional assets and liabilities, and the necessary reservation of calculated funds for reductions for losses of conditional assets and liabilities;
m) Establishing a system for identification and management of non-performing exposures;
n) Elaboration of systematically and consistently applied processes, in order to establish appropriate adjustments for loss in accordance with the applicable accounting regulations related to credit risk;
o) Carrying out crisis simulations, with scenarios adapted to the Bank's individual activities and market developments, analyzing their results and issuing recommendations.

The methodologies used to assess credit risk and to determine the level of adjustments for expected losses (ECL) according to the type of exposure aim in particular:

1. to include a robust process designed to increase the Bank's ability to identify the level, nature and determinants of credit risk at the time of initial recognition of credit exposure, and to ensure that subsequent changes of credit risk can be identified and estimated;
2. to include criteria that take due account of the impact of forward-looking information, including macroeconomic factors;
3. to include a process for assessing the adequacy of significant inputs and assumptions related to the chosen method of determining the level of ECL;
4. to take into account relevant internal and external factors that may affect ECL estimates;

5. to involve a process for assessing the overall adequacy of loss adjustments in accordance with relevant accounting regulations, including a regular review of ECL models.

The Bank performs crisis simulations in order to assess potential losses from depreciation of loans caused by credit quality changes (Likelihood of Default), respectively from the worsening of debtors' repayment ability. The simulations are based on the history of annual migrations of credit agreements at the level of risk stages, risk groups, these historical data being adjusted according to the Bank's scenarios to include the hypothesis of crisis conditions.

Credit risk is managed by:

a) Arranging its own relevant system of rules and procedures, able to create a regulatory framework that, being applied in the lending process, allows avoiding or minimizing the triggering of risks;
b) Developing/improving the credit risk management framework (strategy, policies, rules on credit risk management);
c) Constantly improving the credit approval/granting activity;
d) Maintaining an adequate process of management, control and monitoring of credits;
e) Having in the organizational structure of the Bank subdivisions and committees involved in supervising and managing the credit risk.

b) Market risk management

Market risk is the risk of incurring losses related to balance sheet and off-balance sheet positions due to adverse market fluctuations in the prices of financial instruments and equity securities held for trading, interest rates and the 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, subject to a proper management, consciously assumed and adapted to market and development conditions of the Bank, and last but not least in the context of the current regulatory framework.

For accounting purposes, the Bank values its trading book at fair value through other elements of the comprehensive income.

The Bank measures the fair value of financial instruments on the basis of the prices quoted on active markets related to identical financial assets, subject to the mark-to-market principle.

The objective of the valuation techniques is to determine the fair value, which should reflect the price that would be obtained in a transaction under normal market conditions for the financial instrument, at the date of preparation of the financial statements.

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

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

To ensure the proper management of the interest rate risk and the price risk, as part of the market risk, the following principles are applied:

a) Establishing the types of instruments and activities allowed for the Bank to manage its exposures to position risk, taking into account the types of investments, the quality and the acceptable quantity for each type of investments;
b) Establishing a set of limits for interest rate and price risk, corresponding to the size and complexity of the activity and risk appetite of the Bank;

c) Ensuring information systems based on which issues related to the Bank's market risk are reported in a timely manner to the governing bodies and specialized committees;
d) Establishing the methodologies used for crisis simulations based on the information related to the operations and appetite for market risk of the Bank to determine the influence of the hypothetical fluctuation of interest rates (change in returns) on the revenues and own funds of the Bank.

The market risk profile as of 30 June 2021 is low, therefore the Bank met the risk appetite assumed.

c) Liquidity risk management

Liquidity risk is the current or future risk of impairment of profits and capital, determined by the Bank's inability to fulfil its obligations upon maturity.

Liquidity risk has two main components: either difficulties in obtaining funds upon maturity, necessary 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 Bank is constantly concerned about counteracting this type of risk.

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

The Asset-Liability Committee (ALCO) of the Bank is responsible for analyzing from time to time liquidity indicators and establishing corrective measures for balance sheet structures, so as to eliminate deviations considered unacceptable from the perspective of liquidity risk management.

The a priori established liquidity risk appetite is medium-low, due to the relevant structural correlation of the Bank's assets and liabilities, the mix of instruments for the use of temporary excess liquidity, the share of stable resources, attracted from customers in total attracted resources, consciously and adapted to market conditions, as well as for the development of the Bank on a solid basis in the context of the current legislative framework, aiming to combine prudential requirements with profitability requirements.

In determining the types of instruments used by the treasury to take advantage of temporary excess liquidity, the fundamental principles are: holding a diversified investment portfolio, establishing minimum and/or maximum acceptable levels for significant investment categories, paying particular attention to liquid assets, easily liquidable assets or assets matching the quality of assets eligible for guarantee, without significantly affecting the initial return on investment, respectively their profitability.

To soundly manage liquidity risk, the Bank constantly seeks to attract liquidity through treasury operations, 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 trades.

The operative management of liquidity is carried out on several intraday horizons, daily and for longer periods of time, through a liquidity management policy that includes the management of assets in terms of liabilities, liquidity management as per major currencies, determination of daily monitored liquidity indicators, valuation of future cash flows and discrepancies between them and counterbalancing capacity, so as to ensure all settlements/payments assumed by the Bank, on its own behalf or on behalf of customers, in national currency or foreign currency, on account or in cash within internal, legal, binding limits.

As of 30 June 2021, the Bank achieved comfortable levels of liquidity indicators, thus showing a solid position.

To ensure efficient management of liquidity risk, the Bank applies the following principles regarding the quality, maturity, diversity and level of risk of the assets and liabilities of the Bank:

a) Combining prudential requirements with profitability requirements within the liquidity risk management;
b) Management of liquidity risk by the Bank for all assets and liabilities in national currency and foreign currency, from and off the balance sheet, taking into account all complementary risks;
c) Analysis of volatility of attracted funds, which also depends on the structure of the Bank's customers, including the analysis of its behavioural peculiarity;
d) Establishment and monitoring of indicators of liquidity risk management, in addition to prudential liquidity indicators, which provide information on the possibility of worsening or actual worsening of the Bank's ability to cover current and projected liquidity needs and financing needs.

The Bank carries out crisis simulations for liquidity risk that include crisis scenarios with different likelihoods and severities, taking into account specific situations that are characteristic to the Bank and to the market, based on which the Bank's liquidity vulnerabilities are analyzed, and potential negative effects and ways to avoid/solve them are determined.

The liquidity risk profile as of 30 June 2021 is low, therefore the Bank met the assumed risk appetite.

d) Management of interest rate risk arising from non-trading activities (IRRBB)

Interest rate risk is the current or future risk of impairment of profits and capital as a result of adverse changes in interest rates.

The main sources of interest rate risk are the imperfect correlations between the due date (for fixed interest rates) or the price update date (for variable interest rates) related to interest-bearing assets and liabilities, adverse evolution of the rate of return curve (non-parallel evolution of the return of interest rates of interest-bearing assets and liabilities).

Interest-bearing assets and liabilities management activities are carried out in the context of the Bank's exposure to interest rate fluctuations. Interest rate risk is managed mainly by monitoring the GAP (non-correlations), the potential change in the economic value as a result of changing interest rate levels and through a system of internally approved limits and indicators.

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

The risk appetite related to the interest rate risk from activities outside the a priori established trading book is low.

As of 30 June 2021, the risk profile is low, therefore the Bank met the assumed risk appetite.

To estimate the vulnerability of the economic value of the capital and the net interest income in the conditions of adverse changes in the interest rate, the Bank carries out crisis simulations with different likelihoods and severities.

e) Operational risk management

Operational risk is the current or future risk of impairment of profits and capital as a result of inadequate or failed internal processes or systems and/or of the action of external persons or events.

The objective of CB ‘Victoriabank’ JSC 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 own funds of the Bank, and to insure against such risks that are out of the Bank’s control.

For the purpose of identifying, assessing, monitoring and reducing the banking 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;
- as regards 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 CB ‘Victoriabank’ JSC, 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 CB ‘Victoriabank’ JSC, 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 Directorate aims to implement the strategy and methodology for identifying, measuring, supervising, controlling and reducing operational risk and provides information to the Executive Committee on issues, significant changes of the nature of operational risks and proposes risk mitigation measures.

The risk profile as of 30 June 2021 is medium, consequently the Bank was in line with the assumed risk appetite.

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.

f) Compliance risk management

In accordance with the provisions of the NBM Regulation on the bank activity management framework no. 322 of 20 December 2018, CB ‘Victoriabank’ JSC 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.

Ensuring efficient management of compliance risk is achieved by:

- establishing the exposure limits and monitoring the indicators, stipulated in the internal regulations of the Bank, which operatively reflect the internal processes/products exposed to the compliance risk;
- efficiently managing the actions of preventing and combating money laundering and terrorist financing/international sanctions, including by establishing know-your-customer mechanism, mechanisms for the monitoring of transactions, ensuring the risk-based approach regarding the Bank's customers;
- ensuring internal control activities and measures related to the management of conflicts of interests;
- ensuring the compliance of the internal regulations with the requirements of the national legislation and the internal regulatory framework of the Bank, in compliance with the standards and requirements of the BT Financial Group;
- raising employees' awareness through training on events that fall within the area of compliance risk so that the effect of this type of risk can be managed;
- developing and streamlining compliance risk management processes, including by optimizing and digitizing compliance function activities;
- regular internal audit of activities of the compliance function, which ensure control over the implementation of legislative requirements;
- implementing processes that lead to more efficient management of conflict of interest requirements.

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.

Compliance risk is managed within CB ‘Victoriabank’ JSC by the Compliance Directorate.

g) Management of the risk associated with excessive use of leverage

The objective of CB ‘Victoriabank’ JSC 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:

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

The a priori established risk appetite associated with excessive leverage at CB Victoriabank JSC is low.

The risk profile as of 30 June 2021 is low, consequently the Bank met the assumed risk appetite.

h) Reputational risk management

Reputational risk is the current or future risk of impairment of profits and capital or liquidity, determined by the unfavourable 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 disputes; 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.).

The risk profile as of 30 June 2021 is medium-low.

i) 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 unfavourable 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:

a) regular reassessment of the Bank's strategy/business plan;
b) 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;
c) performing a competitive analysis that reflects the highlighting of strategic risk factors;
d) establishing solid internal control mechanisms at the strategic level of corporate governance, which covers all aspects and processes of strategic decision-making;
e) 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.

The risk profile as of 30 June 2021 is medium-low.

Structure and organization of the risk management function

The risk management function at CB 'Victoriabank' JSC is independent of the operational functions, and is a central component within the Bank. It ensures that risks are properly identified, measured, monitored and reported.

The risk management function, coordinated by the Deputy President CRO (Chief Risk Officer), has an important role at the Bank, ensuring that it has effective risk management processes, by engaging in:

- elaboration and annual review of strategies and in making decisions (together with the operational units and governing bodies);
- elaboration of the risk assessment and management framework, as well as of risk measurement systems;

- implementation of appropriate policies and processes for significant risk assessment;
- measuring, assessing and monitoring of risks, following significant changes;
- analysis of trends and recognition of new or emerging risks arising from changing market and macroeconomic circumstances and conditions;
- monitoring the implementation of legislative requirements in internal regulations in the field of risk management;
- independent assessment and analysis of credit risk associated with credit exposures for customers natural and legal persons;
- elaboration of the methodology of calculation and management of the exposure limits for treasury operations and commercial operations in the relations of CB 'Victoriabank' JSC with other banks;
- monitoring the quality of the loan portfolio by analyzing early warning signals for debtors, legal persons, identifying and controlling exposures with potential to become problematic;
- evaluation and monitoring of collaterals for granted loans, in accordance with the legislation in force and the internal procedures of the Bank, etc.

The risk management function is provided at CB 'Victoriabank' JSC by the following subdivisions that report to the CRO (Chief Risk Officer):

- Risk Management Directorate;
- Credit Risk Assessment Directorate (Underwriting);
- Credit Monitoring Directorate;
- Guarantee Evaluation Directorate.

The Board of Directors (BoD) of the Bank has an overall responsibility for establishing and monitoring the general risk management framework. The BoD monitors the compliance of the Bank's risk policies and strategies, and the adequacy of the general risk management framework having due regard to the risks to which the Bank is exposed and the capital necessary to cover them.

To manage the risks, the BoD has set up a specialized committee that reports directly to the BoD, which is the Risk Management Committee (RMC). The RMC is an advisory, standing and independent committee that issues competent and independent opinions on risk management policies and practices, capital adequacy to risk, risk appetite of the Bank and exercises its powers entrusted by the Board in this area of activity.

The executive body of the Bank is the Executive Committee which organizes, manages and is responsible for the current activity, efficiently and prudently manages the Bank's activity consistently with the Bank's strategy and management framework approved by the BoD.

Scope and type of risk reporting and measurement systems

For risk identification and measurement, CB 'Victoriabank' JSC has developed forward-looking tools (such as crisis simulations) and backward-looking tools (such as regular risk management reports).

The Bank establishes and maintains control systems and mechanisms enough to provide prudent and reliable estimates of the risks to which the Bank is exposed.

For significant risk categories, the Bank has established regular and transparent reporting mechanisms so that the governing bodies and all relevant units receive timely reports, and are able to exchange relevant information on identification, measurement, assessment and monitoring of risks.

The Board of Directors (BoD) and the Risk Management Committee (RMC) determine the nature, volume, format and frequency of the information on the risks to be received.

Flow of information on risks to the governing bodies

It is the responsibility of the Risk Management Directorate to regularly monitor the Bank's activity within the approved risk limits, in such a way that the risks deriving from the Bank's activity take into account the risk appetite assumed by the Bank.

As for the indicators at the level of the Executive Committee and the Risk Management Committee, depending on the materialized risk, the deviation is reported to the competent committee (ALCO in case of limits related to the treasury activity, to the Executive Committee in case of limits related to lending and other risks), at the meeting immediately following the identification of the deviation.

In case of deviations from/exceedance of the limits set for the indicators that determine the matching by the Bank of the risk appetite, the monitoring of such exceedance is performed by ALCO/SC and is reported (weekly/monthly – as appropriate) together with taken measures to the BoD/RMC at the meeting of the month following the month in which the exceedance was found.

The monitoring of risk indicators and their compliance with the limits/appetite established according to the risk strategy is formalized in the report on monitoring, control and risk management, prepared by the Risk Management Directorate and presented monthly to the Executive Committee and from time to time, at least quarterly, to the BoD and/or the Risk Management Committee.

Declaration approved by the Board of the Bank regarding the adequacy of the risk management framework of the Bank

We hereby confirm that the existing risk management systems within CB ‘Victoriabank’ JSC are appropriate taking into account the profile and strategy of the Bank.

The report on the publication requirements was prepared in accordance with the Regulation on the requirements for publication of information by banks, approved by the DEB of the NBM No. 158 of 09 July 2020 and the Instruction on the publication of information about the activity of CB ‘Victoriabank’ JSC.

The risk statement, approved by the Board of the Bank, which briefly describes the overall risk profile of the Bank associated with the business strategy

In the 2020 Annual Report of CB ‘Victoriabank’ JSC, which also includes the Management Report, published on the Bank's website, contains information on the overall risk profile of the Bank, associated with the business strategy, including key indicators and data, to provide holders of external interests with a comprehensive overview of how the Bank manages its risks, including how the Bank's risk profile interacts with the risk tolerance established by the governing bodies.

2. MANAGEMENT FRAMEWORK

The number of positions, according to Art. 43(12), (13) and (14) of Law No. 202/2017, effectively held for each member of the governing body, regardless of whether the function is held, in an entity that pursues or does not pursue a business objective;

BoD member	***Number of functions***
Țurcan Victor	1
Spoială Igor	2
Moisă Tiberiu	9
Sabaz Mehmet Murat	2
Grasse Thomas	6
Peter Franklin	3
Maris Mancinkis	4

SC Member	***Number of functions***
Pleșuvescu Bogdan	5
Donica Vasile	1
Șerban Sorin	2
Corniciuc Vitalie	1
Maloș Elena-Ionela	1

The policy of selecting the members of the governing body, their knowledge, qualifications and actual experience

The members of the governing body are selected according to the Policy of Appointments approved by the Board of Directors on 29 January 2021.

The members of the governing body are evaluated annually taking into account the regulatory acts of the NBM and the internal regulations in the field.

Following the evaluation, it was found that, at collective level, the members of the governing body of CB 'Victoriabank' JSC meet the adequacy requirements, have considerable experience in the financial sector and, as a whole, a high level of competence. They show an appropriate structure of expertise, which make possible diversified debates as well as an efficient decision-making process.

No weaknesses or critical situations were identified during the evaluation. The members of the governing body have, both individually and collectively, the knowledge, experience and skills necessary to hold their functions. The specializations of the members, in the evaluated membership of the governing body, ensure its healthy functioning.

The policy of diversity in selection of members of the governing body, objectives and any relevant targets set out in that policy, as well as the extent to which those objectives and targets have been achieved;

In order to achieve a sustainable and balanced development, CB 'Victoriabank' JSC perceives the increase of diversity at the level of the governing body as an essential element in supporting the achievement of its strategic objectives. In designing the structure of the governing body, taking into account the considerations of diversity, gender, age, cultural and educational profiles, ethnicity, professional experience, skills, knowledge and seniority were taken into account, inter alia,.

All appointments to the governing bodies are based on meritocracy, and candidates are considered on the basis of objective criteria, taking into account the benefits of the diversity of the body concerned.

In selecting a candidate, the Appointment Committee assesses as a priority the skills, national and international experience or cultural profile that would complement the existing governing body, acknowledging that the Bank's activities and operations are diverse and national in nature and have a global impact.

Reflecting the global nature of the banking activity, the members of the governing bodies of CB 'Victoriabank' JSC can be citizens of the Republic of Moldova, as well as citizens and residents of other states. Most members of the governing body come from domestic and international banking backgrounds. The current members of the governing body of CB 'Victoriabank' JSC must have held management positions in various organizations or within the Banca Transilvania Group, showing their ability to exercise management powers related to top management positions. They should preferably have experience in prestigious international institutions, where they had developed their skills and experience in strategy and business development, innovation, operations, brand management, finance, compliance, decision making and risk management.

CB 'Victoriabank' JSC also encourages female members in the governing body to ensure balance and high performance of the company. However, CB 'Victoriabank' JSC considers that appointment of a member to the governing body cannot be made solely on the basis of gender, given that such practices lead to discrediting its competence and independence.

Meetings of the Risk Management Committee

The Risk Management Committee consists of 3 persons. The Committee usually meets once a month. All materials related to risk management shall be examined by the Risk Committee and then submitted for final approval to the Board of Directors.

3. REMUNERATION POLICY

General objectives

Victoriabank main remuneration objectives are based on providing equal opportunities for promotion and remuneration for all bank employees; focusing on performance by evaluating and rewarding employees in accordance with their performance, taking into account the business strategy, culture and corporate values. The policy is developed in accordance with the medium and long-term strategic development objectives of the Bank, aiming at both staff loyalty and achieving the profitability criteria of the Bank.

The remuneration system of the Bank consists of the policy, processes and practical measures put in place in it and focused on the remuneration of the Bank's staff in accordance with the functions performed, the contribution, the skills and the market cost.

General principles of remuneration

The purpose of the remuneration policy is to encourage the performance of employees (both individually and collectively), to acknowledge and use the contribution of each to the results of the Bank.
The principles of the Remuneration Policy concern both the fixed and variable parts of the remuneration of all staff. The evaluation criteria refer to both individual and collective performance, specifically for a period of time long enough to indicate the actual performance, not only in terms of measurable financial criteria but also in terms of qualitative criteria, including knowledge of the field of activity, management skills, efficiency and general professional attitude, level of commitment and compliance with the Bank’s policies.

Fixed and variable remuneration

The remuneration system of CB ‘Victoriabank’ JSC includes Fixed Remuneration, determined according to the level of assumed responsibility, which is a relevant part of the Total Remuneration, and the Variable Remuneration, calculated for the achievement of previously established objectives and prudent risk management. It is based on the design of incentives tailored to the long-term interests of CB ‘Victoriabank’ JSC.
<u>Remuneration is fixed</u> when the conditions for granting it and its value are based on pre-determined criteria; are non-discretionary, transparent, constant and non-revocable; cannot be reduced, suspended or cancelled by the Bank and do not depend on performance.
<u>Remuneration is variable</u> when it does not meet the conditions mentioned above regarding the classification in the category of fixed remuneration.
The variable part is paid in compliance with the following principles:

- **Proportional principle:** the annual variable component may not exceed 100% of the fixed component of the total annual remuneration;
- **Principle of management performance**: when measuring the performance of the indicators related to management positions in order to establish the remuneration, both individual management aspects and the objectives of the unit and of the Bank are taken into account;
- **Principle of compliance**: compliance with regulations related to liquidity risk management, etc.

- **Multi-annual principle**: performance evaluation is carried out in a multi-annual framework, to ensure that the evaluation process is based on long-term performance and that the effective payment of performance-based remuneration components cover a period that takes into account the business cycle of the Bank and the risks specific to its activity;

CB ‘Victoriabank’ JSC regularly updates and improves its internal rules and standards to promote the best practices in staff remuneration.
The policy of CB Victoriabank JSC is subject to the principles of the Remuneration Policy of Banca Transilvania Financial Group. Any changes and derogations from the policy fall within the competence of the Victoriabank Board of Directors and comply with the provisions of the Remuneration Policy at the level of Banca Transilvania Financial Group.

Principles of remuneration of control functions

The remuneration of directors in charge of: risk management, compliance and audit is approved by the Board of Directors based on the proposal from the Remuneration Committee.
The remuneration of independent control functions is mainly fixed. If variable remuneration is paid, it is intended to comply with the principles of remuneration policy, without its level being related to the Bank's budgetary objectives or performance of activities that the supervisory function monitors and controls, but to the achievement of the objectives of that function (individual KPIs).

Principles of remuneration of Identified Personnel

In remuneration terms, the persons whose professional activities have a significant impact on the risk profile are called ‘Identified Personnel’, and they are identified subject to the provisions of the NBM regulatory acts and Regulation 604/2014 of the European Commission.
The list of ‘Identified Personnel’ is revised annually or whenever a new position is created which, according to the qualitative and/or quantitative criteria provided for in Regulation 604/2014 of the European Commission and/or the NBM regulations, has a significant impact on the risk profile of the Bank.

Principles of remuneration of members of the Board of Directors

The members of the Board of Directors benefit from fixed remuneration only, in cash.
The level of fixed remuneration of the members of the Board of Directors is established at least once a year by the Decision of the General Meeting of Shareholders and endorsed by the Remuneration and Nomination Committee of Banca Transilvania. The remuneration of the BoD members is certainly paid to them without conditions or decreases/increases of the level of remuneration as a direct result of the performance achieved by the directors at individual level or by the Bank, in a particular period of time.

Principles of remuneration of members of the Executive Committee of the Bank

The remuneration policy of members of the Executive Committee corresponds to the size and organization of the Bank, as well as to the nature, area and complexity of the business activities.
By applying the remuneration policy, the Bank envisages the retention and development of an executive governing body with the highest professional level, qualities that generate added value for the Bank, motivating and encouraging its own staff, so as to optimize work performance, individually and collectively, to strengthen a culture based on the objective evaluation of the contribution of each one and on the reward of the performance, ensuring the coherence between the remuneration and the business strategy, the risk policy, the values and the long-term objectives of the Bank.
The remuneration of members of the Executive Committee of the Bank is established and supervised by the Board of Directors of the Bank and endorsed by the Remuneration and Nomination Committee of Banca Transilvania.

4. SCOPE OF THE REQUIREMENTS IN THE CONTEXT OF PRUDENTIAL CONSOLIDATION

The requirements in the context of **prudential consolidation** are not applicable to CB ‘Victoriabank’ JSC.

5. OWN FUNDS

The own funds of the Bank, according to the legal regulations in force regarding capital requirements, are made up of the basic tier 1 own funds.

The basic tier 1 own funds of the Bank include share capital, capital premiums, retained income, other accrued items of comprehensive income, other reserves and deductions provided for by applicable law (Regulation No. 109/2018).

Form on the main characteristics of own funds instruments

1.	Issuer	**CB ‘Victoriabank’ JSC**
2.	Unique identifier	ISIN: MD14VCTB1004, are admitted to trading on the regulated market of Moldova Stock Exchange
3.	Legislation applicable to the instrument	NBM Regulation on the own funds of banks and capital requirements No. 109 of 24 May 2018 Law on banks’ activity No. 202/06.10.2017
1.	***Regulation***	
4.	Treatment of regulated own funds	Basic level 1 own funds
5.	Eligible at individual/consolidated/individual and consolidated level	Individual
6.	Type of instrument	Registered common shares issued by CB ‘Victoriabank’ JSC (according to p.10(1) of the Regulation No.109 of 24.05.2018)
7.	Recognized value under regulated capital (currency in millions at the most recent reporting date)	250.00 MDL
8.	Nominal value of the instrument (in millions MDL)	250.00 MDL (10 MDL/share)
9.	Issue price (in millions MDL)	260.25 MDL (the share issues from 1997 and 1999 were priced at 15 MDL/share)
10.	Redemption price (in millions MDL)	250.00 MDL
11.	Accounting classification	Shareholders’ capital
12.	Initial date of issue	December 1991
13.	Perpetual or of definite duration	Perpetual
14.	Initial due date	No due date

15.	Option to buy by the issuer subject to prior approval by the NBM	no
16.	Optional date of exercise of call option, dates of exercise of conditional call options and redemption value	n/a
17.	Subsequent dates of the exercise of the call option, as appropriate	n/a
3.	***Coupons/dividends***	
18.	Fixed or variable dividend/coupon	Variable dividend
19.	Coupon rate and any related index	n/a
20.	Existence of a ‘dividend stopper’ mechanism (prohibition of the payment of dividends)	nu
21.	Fully discretionary, partly discretionary or mandatory (in terms of timing)	n/a
22.	Fully discretionary, partly discretionary or mandatory (in terms of amount)	n/a
23.	Existence of a step-up or other redemption incentive	n/a
24.	Non-cumulative or cumulative	non-cumulative
25.	Convertible or non-convertible	non-convertible
26.	Convertible - the factor(s) that trigger conversion	n/a
27.	Convertible - in whole or in part	n/a
28.	Convertible - the conversion rate	n/a
29.	Convertible - mandatory or optional conversion	n/a
30.	Convertible, the type of instrument into which it can be converted will be specified	n/a
31.	Convertible, the issuer of the instrument into which it is converted will be specified	n/a
32.	Features of reduction of the book value	no
33.	In the event of a reduction in the book value, the factor(s) that trigger it	n/a
34.	In the event of a reduction in the book value, in full or in part	n/a
35.	In the event of a reduction in the book value, constant or temporary reduction	n/a
36.	In case of a temporary reduction of the book value, description of the mechanism of increase of the book value	n/a
37.	Position in the subordination hierarchy in case of liquidation (specify the type of instrument of the next higher level)	n/a

Reconciliation of items of own funds with the statement of financial position

In MDL

Own funds	**30/06/2021**
Own funds according to the situation of the financial position of the Bank	2,941,400,257

Adjustments to basic tier 1 own funds due to prudential filters	(583,142,788)
Intangible assets	(80,126,349)
Basic tier 1 own funds	**2,278,131,120**
Tier 1 own funds	**2,278,131,120**
Tier 2 own funds	**-**
Total Own funds	**2,278,131,120**

Statement of financial position

In MDL

ASSETS	**30/06/2021**
Cash and accounts at the National Bank of Moldova	4,486,974,437
Current accounts and investments in banks	2,111,535,703
Securities – debt instruments	5,083,673,178
Own funds measured at fair value through other comprehensive income	3,236,194
Loans granted to customers	4,261,451,239
Tangible fixed assets	206,222,703
Assets related to the right of use	64,358,048
Intangible assets	80,126,349
Other assets	158,798,189
Total assets	**16,456,376,038**

LIABILITIES	**30/06/2021**
Deposits from banks	75,184,377
Deposits from customers	12,908,929,390
Other loans	75,791,573
Provisions for other risks and credit commitments	22,184,481
Debts from leasing contracts	67,121,557
Other debts	257,478,720
Total liabilities	**13,406,690,097**

EQUITY	**30/06/2021**
Share Capital	250,000,910
Capital premium	10,250,000
Reserve from revaluation of financial assets at fair value through other comprehensive income	734,745
Other reservations	588,826,618
Reported income	2,092,123,733
Net profit as of 30.06.2021	107,749,934
Total equity	**3,049,685,941**
Total debts and equity	**16,456,376,039**

Form for publication of information on own funds

In MDL

#	Indicator	Value
1.	Capital instruments and issue premium accounts	260,250,910
2.	Reported income	2,092,123,733
3.	Other accumulated items of the comprehensive income and other reserves	589,025,613
4.	Minority interests (amount that can be included in consolidated basic tier 1 own funds)	-
5.	Interim profits verified independently, after deducting any foreseeable liabilities or dividends	-
6.	**Basic own funds (CET 1) before regulated adjustments**	**2,941,400,257**
Basic tier 1 own funds (CET 1): additional adjustments		
7.	Additional value adjustments *(negative value)*	-583,142,788
8.	Intangible assets, excluding related tax liabilities *(negative value)*	-80,126,349
9.	Deferred tax assets based on future profitability, excluding those arising from temporary holdings (excluding tax liabilities) *(negative value)*	-
10.	Reserves resulting from measurement at fair value, representing gains or losses generated by cash flow hedges	-
11.	Negative amounts resulting from the calculation of expected loss values	X
12.	Any increase in equity resulting from securitized assets *(negative value)*	X
13.	Gains or losses from measurement at fair value of debts and resulting from a change in the Bank's credit risk	-
14.	Assets of the pension fund with determined benefits *(negative value)*	-
15.	Direct and indirect holdings of basic tier 1 own funds instruments of the Bank *(negative value)*	-
16.	Direct, indirect and synthetic holdings of basic tier 1 own funds/equity instruments of financial sector entities, if these entities and the bank have mutual holdings intended to artificially increase the own funds of the bank *(negative value)*	-
17.	Direct, indirect and synthetic holdings by the Bank of basic tier 1 own funds/equity instruments of financial sector entities in which the Bank does not hold a significant investment (significant investment - value above the 10% threshold and excluding eligible short positions) *(negative value)*	-

18.	Direct, indirect and synthetic holdings by the Bank of basic tier 1 own funds/equity instruments of financial sector entities in which the bank holds a significant investment (value above the 10% threshold and excluding eligible short positions) *(negative value)*	-
19.	The value of the exposure related to the following items, which qualifies for a risk weight of 1000%, when the Bank chooses the deduction alternative. Including:	-
20.	- securitization positions; *(negative value)*	X
21.	- incomplete transactions; *(negative value)*	-
22.	Deferred tax assets resulting from temporary holdings (value above the 10% threshold with deduction of tax obligations when the conditions from p.40 of Regulation 109/2018 are met) *(negative value)*	-
23.	Value above the 15% threshold *(negative value)*	-
24.	**-** of which: direct and indirect holdings by the Bank of basic tier 1 own funds/equity instruments of financial sector entities in which the Bank holds a significant investment	-
25.	**-** of which: deferred tax assets arising from temporary differences	-
26.	Losses for the current financial year *(negative value)*	-
27.	Predictable taxes related to the basic Tier 1 capital items *(negative value)*	-
28.	Eligible deductions from additional tier 1 own funds (AT 1) that exceed the Bank's additional tier 1 own funds *(negative value)*	-
29.	**Total regulated adjustments to the basic tier 1 own funds (CET 1)**	**-663,269,137**
30.	**Basic tier 1 own funds (CET 1)**	**2,278,131,120**
Additional tier 1 own funds (TA 1): instruments		
31.	Capital instruments and related issue premium accounts	-
32.	- of which: classified as equity in accordance with the applicable accounting standards	-
33.	- of which: classified as liabilities in accordance with applicable accounting standards	-
34.	Eligible basic tier 1 own funds included in additional consolidated tier 1 own funds (including minority interests not included in row 4) issued by subsidiaries and held by third parties	-
35.	**Additional tier 1 own funds (AT1) before regulatory adjustments**	**-**
Additional tier 1 own funds (AT1): regulatory adjustments		
36.	Direct and indirect holdings by the Bank of additional tier 1 own funds instruments *(negative value)*	-

37.	Direct, indirect and synthetic holdings of additional tier 1 own funds instruments of financial sector entities, if these entities and the institution have mutual holdings intended to artificially increase the institution's own funds *(negative value)*	-
38.	Direct, indirect and synthetic holdings of additional tier 1 own funds instruments of financial sector entities in which the Bank does not have a significant investment (value above the 10% threshold and excluding eligible short positions) *(negative value)*	-
39.	Direct, indirect and synthetic holdings of the institution of additional tier 1 own funds instruments of financial sector entities in which the institution holds a significant investment (excluding eligible short positions) *(negative value)*	-
40.	Eligible deductions from tier 2 own funds in excess of tier 2 own funds of the bank *(negative value)*	-
41.	**Regulatory adjustments to additional tier 1 own funds (AT1)**	**-**
42.	**Additional tier 1 own funds (AT1)**	**-**
43.	**Level own funds 1 (T1=CET1+AT1)**	**2,278,131,120**
Tier 2 (T2) own funds: instruments and provisions		
44.	Equity instruments and related issue premium accounts	-
45.	Eligible own funds instruments included in consolidated tier 2 own funds (including minority interests not included in row 4) issued by subsidiaries and held by third parties	-
46.	Credit risk adjustments	-
47.	**Tier 2 (T2) own funds before regulated adjustments**	**-**
Tier 2 (T2) own funds: regulatory adjustments		
48.	Direct and indirect holdings by the Bank of tier 2 own funds instruments and subordinated loans *(negative value)*	-
49.	Tier 2 own funds holdings and subordinated loans of financial sector entities, if these entities and the Bank have mutual holdings intended to artificially increase the own funds of the Bank *(negative value)*	-
50.	Direct and indirect holdings of tier 2 own funds instruments and subordinated loans of financial sector entities in which the Bank does not have a significant investment (value above the 10% threshold and excluding eligible short positions) *(negative value)*	-
51.	Direct and indirect holdings by the Bank of tier 2 own funds instruments and subordinated loans of financial sector entities in which the Bank holds a significant investment (excluding eligible short positions) *(negative value)*	-

52.	**Total regulatory adjustments to tier 2 own funds (T2)**	**-**
53.	**Tier 2 own funds (T2)**	**-**
54.	**Total own funds (TC = T1 + T2)**	**2,278,131,120**
55.	**Total risk weighted assets**	**4,941,181,968**
Instalments and amortization of own funds		
56.	Basic tier 1 own funds (as a percentage of total risk exposure)	**46.10%**
57.	Tier 1 own funds (as a percentage of total risk exposure)	**46.10%**
58.	Total own funds (as a percentage of total risk exposure)	**46.10%**
59.	Bank-specific buffer requirement (basic tier 1 own funds requirement in accordance with p.130(1) plus capital conservation buffer and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important corporation buffer expressed as a percentage of the value of the risk exposure)	494,118,197
60.	- of which: capital conservation buffer requirement	123,529,549
61.	- of which: countercyclical buffer requirement	-
62.	- of which: systemic buffer requirement	49,411,820
63.	- of which: buffer for systemically important institutions (O-SII)	49,411,820
64.	Basic tier 1 own funds available to meet buffer requirements (as a percentage of the value of the risk exposure)	1,784,012,923
Amounts below the deduction thresholds (before risk weighting))		
65.	Direct and indirect capital holdings of financial sector entities in which the Bank does not hold a significant investment (value below the 10% threshold and excluding eligible short positions)	**-**
66.	Direct and indirect holdings by the bank of basic tier 1 own funds instruments of financial sector entities in which the Bank holds a significant investment (value below the 10% threshold and excluding eligible short positions)	**-**
67.	Deferred tax assets resulting from temporary differences (value below the 10% threshold, excluding related tax obligations when the conditions set in p.40 of Regulation 109/2018 are met)	**-**
Applicable ceilings for the inclusion of provisions in tier 2 own funds		
68.	Credit risk adjustments included in tier 2 own funds, taking into account exposures subject to the standardized approach (before the ceiling is applied)	**-**
69.	Ceiling on the inclusion of credit risk adjustments in tier 2 own funds under the standardized approach	**-**

6. OWN FUNDS REQUIREMENTS

The internal process of assessing the adequacy of capital at risks within CB 'Victoriabank' JSC is a component of the Bank's management and administration process, its decision-making culture, which aims to ensure that the governing bodies adequately identify, measure, control and monitor the Bank's risks, and hold an appropriate internal capital for the risk profile, use and development of sound risk management systems.

To assess the need for regulated capital, the Bank uses the following calculation methods:

a) **credit risk:** the risk-weighted assets for the purpose of calculating the own funds requirement are determined on the basis of the standardized approach;

b) **market risk:** for the calculation of the capital requirement related to the currency risk and the position risk related to the traded debt instruments, the standardized approach is used;

c) **operational risk:** the basic approach is used to calculate the capital requirement to cover the operational risk.

The Bank dynamically manages its capital base, by monitoring regulated own funds ratios, anticipating the appropriate changes necessary to achieve its objectives, as well as optimizing the composition of assets and own funds.

Planning and monitoring take into account, on the one hand, total own funds (basic tier 1 own funds, additional tier 1 own funds and tier 2 own funds) and, on the other hand, risk-weighted exposures (RWA).

As of 30 June 2021 CB ‘Victoriabank’ JSC has the following structure of risk exposures (RWA) and minimum capital requirements (Pillar 1):

Amount of risk weighted exposures (RWA)

according to Annex No. 11 to the Regulation on the requirements for publication of information by banks

#		Amount of Risk Weighted Exposure (RWA), MDL		Minimum capital requirements, MDL
		Reporting quarter, 30 June 2021	The quarter preceding the reporting quarter, 31 March 2021	Reporting quarter, 30 June 2021
1.	**Credit risk** (excluding counterparty credit risk)	3,841,917,168	3,695,100,042	384,191,717
2.	Of which: standardized approach	3,841,917,168	3,695,100,042	384,191,717
3.	Of which: foundation IRB approach (FIRB)	x	x	x
4.	Of which: advanced IRB approach (AIRB)	x	x	x
5.	Of which: capital securities from the IRB approach according to the simple risk weighted approach or AMI	x	x	x
6.	**Counterparty credit risk**	0	0	0
7.	Of which: mark-to-market method	0	0	0
8.	Of which: initial exposure method	0	0	0
9.	Of which: standardized method	0	0	0
10.	Of which: internal model method (IMM)	x	x	x
11.	Of which: value of the risk exposure for contributions to the CPC Guarantee Fund	x	x	x
12.	Of which: credit value adjustment (CVA)	0	0	0
13.	**Settlement risk**	0	0	0
14.	Securitization exposures in the banking book (by ceiling)	x	x	x
15.	Of which: IRB approach	x	x	x
16.	Of which: supervisory formula approach of IRB (SFA)	x	x	x

#		Amount of Risk Weighted Exposure (RWA), MDL		Minimum capital requirements, MDL
		Reporting quarter, 30 June 2021	The quarter preceding the reporting quarter, 31 March 2021	Reporting quarter, 30 June 2021
17.	Of which: internal assessment approach (IAA)	x	x	x
18.	Of which: standardized approach	0	0	0
19.	**Market risk**	0	0	0
20.	Of which: standardized approach	0	0	0
21.	Of which: AMI	x	x	x
22.	**Operational risk**	1,099,264,800	1,099,264,800	109,926,480
23.	Of which: basic approach	1,099,264,800	1,099,264,800	109,926,480
24.	Of which: standardized approach	0	0	0
25.	Of which: advanced evaluation approach	x	x	x
26.	Values below the deduction thresholds (which are subject to a 250% risk weight) after applying the 250% risk weight.	0	0	0
27.	**Total**	**4,941,181,968**	**4,794,364,842**	**494,118,197**

Capital requirement for credit risk

CB 'Victoriabank' JSC calculates the risk weighted amount of credit risk exposures using the standardized approach, in accordance with the Regulation on the treatment of credit risk for banks according to the standardized approach no. 111 from 24.05.2018.

Exposures to credit risk are included in the following exposure classes as of 30 June 2021:

Risk weighted amounts of credit risk exposures

#	Exposure class	Risk exposure (RWA), MDL
Standardized approach		**3,841,917,168**
1	Central administrations or central banks	99,980,599
2	Regional administrations or local authorities	29,124,636
3	Public sector entities	12,654,831
4	Multilateral development banks	0
5	International organizations	0
6	Banks	435,859,436
7	Investment companies	1,044,007,086
8	Retail	992,121,528
9	Exposures guaranteed with real-estate mortgages	579,834,849
10	Non-refundable exposures	59,278,222
11	Elements associated with an extremely high risk	83,053,679
12	Guaranteed bonds	x
13	Receivables from institutions and companies with a short-term credit assessment	0
14	Collective investment undertakings (CIU)	0
15	Capital securities	0
16	Other items	506,002,302

Use of ECAI

CB ‘Victoriabank’ JSC uses the external credit assessment in determining risk-weighted exposures in accordance with the Regulation on the treatment of credit risk for banks according to the standardized approach No. 111 from 24.05.2018.

An external credit assessment may be used only if it has been carried out by an external credit assessment institution (ECAI) included in the ECAI list recognized as eligible according to Annex No. 3 to that Regulation.

CB ‘Victoriabank’ JSC uses available credit assessments, performed by the following external credit assessment institutions (ECAIs)):

a) Fitch Ratings;

b) Moody's Investors Service;

c) Standard & Poor's Ratings Services.

The designation of the credit assessment of an exposure, respectively selection of an assessment/ECAI from several available ones, is carried out in accordance with the requirements stipulated in Chapter VII of the Regulation on credit risk treatment for banks according to the standardized approach No. 111 from 24.05.2018.

The matching of the credit quality level with the external rating assigned by each ECAI is carried out in accordance with Annex No. 4 to that Regulation.

The exposure classes, respectively the values of the Bank's risk exposures, for which the external credit assessment was used as of 30 June 2021 are presented as follows:

#	Exposure class	Exposure value (after taking into account the credit risk mitigation effect), MDL	Risk exposure (RWA), MDL	*of which: with a credit assessment carried out by a designated ECAI*	*of which: with a credit assessment derived from the central government*
1	Central administrations or central banks	8,466,405,411	99,980,599	93,098,806	0
2	Regional administrations or local authorities	145,623,181	29,124,636	0	0
3	Public sector entities	63,274,153	12,654,831	0	0
4	Multilateral development banks	0	0	0	0
5	International organizations	0	0	0	0
6	Banks	1,901,083,875	435,859,436	434,775,539	1,083,898
7	Investment companies	1,054,816,546	1,044,007,086	0	0
8	Retail	1,378,244,956	992,121,528	0	0
9	Exposures guaranteed with real-estate mortgages	1,082,566,097	579,834,849	0	0
10	Non-refundable exposures	53,748,220	59,278,222	0	0
11	Elements associated with an extremely high risk	55,369,120	83,053,679	0	0
12	Guaranteed bonds	x	x	0	0
13	Receivables from institutions and companies with a short-term credit assessment	0	0	0	0
14	Collective investment undertakings (CIU)	0	0	0	0
15	Capital securities	0	0	0	0
16	Other items	1,944,353,629	506,002,302	0	0
Total		**16,145,485,188**	**3,841,917,168**	**527,874,345**	**1,083,898**

Capital requirement for market risk

a) Position risk

As of 30 June 2021 CB 'Victoriabank' JSC holds a trading book of 17.74 million MDL, which represents 0.11% of the Bank's assets.

Given that the volume of balance sheet and off-balance sheet transactions related to the trading book accounts for less than 5% of total assets and never exceeds 6% of total assets, the Bank replaces the capital requirement for position risk with a capital requirement calculated in accordance with the regulatory acts of the National Bank of Moldova related to the treatment of credit risk for banks according to the standardized approach, regarding the trading book activities.

b) Currency risk

The Bank calculates the own funds requirement for foreign exchange risk if the value of the Bank's total net position in foreign currency and gold, calculated according to the procedure provided for in the Regulation of the National Bank of Moldova on market risk treatment according to the standardized approach No. 114 of 24.05.2018, points 113 - 120, exceeds 2% of the total own funds. The own funds requirement for foreign exchange risk is equal to the sum of the total net position in foreign currency and the total net position in gold in the reporting currency, multiplied by 8%.

Considering that on 30 June 2021, the value of the Bank's total net position in foreign currency made up 0.68% of the own funds of the Bank (<2%), the Bank did not calculate the capital requirement for foreign exchange risk.

Respectively, the Bank did not calculate on 30 June 2021 capital requirements for position risk and currency risk under the standardized approach.

Capital requirement for operational risk

CB 'Victoriabank' JSC calculates the own funds requirements for operational risk using the basic approach, in accordance with the NBM Regulation on the treatment of operational risk for banks according to the basic and standardized approach.

As of 30 June 2021, CB 'Victoriabank' JSC has a total own funds ratio of 46.10%, which is a comfortable level above the OCR (Overall Capital Requirement) ratio determined in accordance with the internal methodology, as part of the internal process of assessing the adequacy of internal capital.

Corresponding to having an internal capital appropriate to the risk profile and risk management system, the Bank has internal capital that covers, in addition to the regulated capital requirement (Pillar 1), an unregulated capital requirement (Pillar 2) determined based on the internal methods for hedging with capital all the significant risks identified by the Bank.

7. THE BANK'S EXPOSURE TO THE COUNTERPARTY'S CREDIT RISK

Establishing credit limits for counterparty credit risk exposures

In its activities, CB 'Victoriabank' JSC is exposed to other banks in the Republic of Moldova or from abroad through treasury and commercial operations, in national or foreign currency, within exposure limits.

Exposure limits are calculated and managed for two types of operations: treasury and commercial, and are the maximum exposures of CB 'Victoriabank' JSC to a partner bank.

Treasury operations are divided according to the type of transaction, the foreign exchange market (operational risk) or the money market (credit risk), and according to the settlement date and the maturity date, accordingly. Exposure limits depending on the settlement date and the maturity date are not cumulative but exclusive.

The method of determining the exposure limit uses the comparative principle between the individual financial indicators calculated for the partner bank and the average indicators calculated for the group of banks in which it falls. Finally, the financial indicators are weighted with the quality indicators, the indicators regarding the Bank's control and the country rating.

The data underlying the determination of the exposure limit for partner banks are: financial indicators, quality indicators, the Bank control indicators and the country rating.

Own funds requirement for counterparty credit risk

The own funds requirements for hedging the counterparty's credit risk, and namely in the case of derivative financial instruments, long-term settlement transactions, as well as for the trading book items, shall be calculated in accordance with the Regulation on the management of the counterparty's credit risk for banks No. 102 from 16.04.2020.

As of 30 June 2021, CB 'Victoriabank' JSC did not record exposures/transactions subject to the counterparty credit risk, respectively did not calculate the requirement for hedging the counterparty credit risk.

The own funds requirements for credit valuation adjustment risk (CVA) for derivative financial instruments shall be calculated in accordance with the Regulation on the treatment of credit valuation adjustment risk for banks No. 103 from 16.04.2020.

CB 'Victoriabank' JSC did not make transactions with derivative instruments, exposures subject to the credit valuation adjustment risk (CVA), or did not calculate the requirement to adjust the credit valuation.

8. RISK MITIGATION TECHNIQUES

Credit risk mitigation techniques

CB 'Victoriabank' JSC has sound and appropriate policies and procedures on credit risk mitigation techniques to control residual risk, which mainly include the following:

a) The internal procedure of residual risk management, aimed at complying with the prudential principle in order to mitigate the Bank's risk when accepting goods as collateral;

b) Lending policies and procedures for both legal and natural persons, which require the existence of a legal opinion as an integral part of the credit documentation to mitigate the legal risk of collateral.

CB 'Victoriabank' JSC reviews on a regular basis, but at least annually, the adequacy, effectiveness and operation of these policies and procedures.

The Guarantee Valuation Directorate, organized at the level of the risk management function, ensures the valuation of the guarantees for granted loans in accordance with the legislation in force and the internal procedures of the Bank, determines the conformity characteristics of collaterals, supervises and maintains an adequate process of monitoring the values of provided guarantees.

For the identification, assessment, monitoring and control of residual risk, CB 'Victoriabank' JSC considers the following:

- The guarantee method used by the Bank is customized according to the customer's risk profile, type of loan or other particularities, according to the specifications of the lending procedures.
- The determination of the value of valuable assets proposed as a guarantee for the requested loans is carried out by valuation based on expertise performed mainly by external appraisers authorized and

approved by the Bank, by specific approval procedures and recorded in the valuation reports attached to the credit documentation. The valuation reports shall provide the market value of the assets, the replacement value and the liquidation value.

- The control of the eligibility of guarantees within the Bank provides general eligibility requirements established by the relevant internal regulations.
- During the loans, the collaterals in the Bank's portfolio will be revaluated with a certain frequency set in the internal procedure regarding the residual risk management.

The main types of collaterals accepted by the Bank

The Bank accepts the following types of collateral:

a) **Mortgage on real estate:** constructions/residential rooms, commercial/administrative real estate, industrial production real estate, parking lots/garages, agricultural constructions, lands (without construction), etc.;

Depending on their destination, the constructions can be residential and non-residential (commercial).

b) **Pledge on tangible movable property**: machinery, equipment, means of transport/motor vehicles/special vehicles, stocks (universality), etc.

c) **Pledge on intangible movable property**: money – pawn shop, bank deposit, pledge by control over money, patrimonial rights, securities, etc.

Any tangible or intangible movable property, which has an economic value and which may be transferred to the Bank or to a third party in the event of execution of pledge, may be the subject of pledge on movable property.

CB 'Victoriabank' JSC does not use balance sheet and off-balance sheet netting as a credit risk mitigation technique.

The Bank has not made transactions with credit derivative financial instruments, i.e. does not use credit derivative financial instruments as eligible credit protection.

Risk mitigation operations are focused on hedging the credit risk.

Credit risk mitigation techniques used by the Bank, in accordance with the Regulation on credit risk mitigation techniques used by banks no. 112 of 24.05.2018, for the purpose of calculating the risk exposure (RWA) for the situation as of 30 June 2021 is presented in the following table:

Name	Exposure without value adjustments and without provisions, MDL
Credit risk mitigation techniques with a substitution effect on exposure:	
of which: **Unfunded credit protection** (adjusted values) – Guarantees	405,065,686
of which: **Unfunded credit protection** (adjusted values) – Credit derivative financial instruments	0
Credit risk mitigation techniques that affect the amount of exposure. The extended method of financial guarantees:	
of which: **Funded credit protection** – Adjusted value of the financial guarantee	61,903,028

9. COUNTERCYCLICAL CAPITAL BUFFERS

As of 30.06.2021, the Bank did not calculate the countercyclical capital buffer.

Note: The NBM established that for the relevant exposures in the Republic of Moldova the countercyclical capital buffer rate makes up 0%.

10. CREDIT RISK ADJUSTMENTS

Definition for accounting purposes of the terms ‘outstanding’ and ‘impaired’

Financial assets are considered ‘outstanding’ when there is an amount representing the principal, interest or commission that was not paid on the due date. Outstanding exposures are reported at the level of total book value of the exposure.

As defined in IFRS 9, a ‘financial asset impaired as a result of credit risk’ is considered as such when one or more events have occurred that have a harmful impact on the estimated future cash flows of that financial asset.

Evidence that a financial asset is impaired as a result of credit risk includes observable data on the following events:

- Significant financial difficulty of the issuer or the debtor;
- A breach of contract, such as a breach of obligations or an arrear;
- The debtor's lender, for economic or contractual reasons related to the debtor's financial difficulties, grants the debtor a concession that the lender would not otherwise take into account;
- It becomes likely that the debtor will go bankrupt or take some other form of financial reorganization;
- The disappearance of an active market for that financial asset due to financial difficulties;
- The purchase or issue of a financial asset with a significant reduction that reflects the credit losses incurred.

Description of approaches and methods applied to determine specific and general credit risk adjustments

Impairment adjustments

The Bank assesses, based on future scenarios, the expected credit losses (‘ECL’) associated with the assets in the form of debt instruments, accounted for at amortized cost.

The Bank recognizes a provision for such losses at each reporting date. The ECL measurement reflects:

- Impartial value, weighted by likelihoods, which is determined by evaluating a range of possible outcomes;
- The time value of money;
- Reasonable and justifiable information, which is available at no cost or undue effort at the reporting date, on past events, current conditions and forecasts of future economic conditions.

Measuring the provision for expected credit losses (ECL)

The measurement of the provision for expected credit losses related to financial assets measured at amortized cost is an area that requires the use of complex models and significant scenarios on future economic conditions and credit behaviour (e.g. likelihood of default of customers and resulting losses).

A number of significant professional judgments are also required in applying the accounting requirements for ECL measurement, such as:

- Establishing the criteria for the significant increase of the credit risk;
- Choosing the appropriate models and hypotheses for measuring ECL;
- Establishing the number and relative weights of future scenarios for ECL;
- Establishing the groups of similar financial assets for the purpose of measuring ECL.

IFRS 9 is a three-stage impairment model based on changes in credit quality since initial recognition, presented below:

1) A financial instrument that is not impaired upon initial recognition is classified in ‘Stage 1’ and has a credit risk continuously monitored by the Bank.
2) If a significant increase in credit risk (‘SICR’) has been identified since the initial recognition, the financial instrument is classified in ‘Stage 2’, but is not yet considered impaired as a result of the credit risk.
3) If the financial instrument is impaired as a result of the credit risk, it will be classified in ‘Stage 3’.

The ‘Stage 1’ financial instruments have ECL calculated at a value equal to the portion of the expected credit losses over the entire lifetime resulting from possible default events in the next 12 months. ‘Stage 2 or 3’ instruments have ECL calculated based on expected credit losses over their lifetime.

A general approach in calculating ECLs under IFRS 9 requires consideration of information of the future.

The ECL calculation includes information on macroeconomic indicators. The Bank conducted historical analyzes and identified key economic variables with an impact on credit risk and expected credit losses for each portfolio.

Financial assets impaired as a result of credit risk, purchased or initiated ones, are those financial assets that are initially recognized as assets impaired as a result of credit risk. The ECL related to them is always calculated over the entire lifetime.

Change in credit quality since initial recognition

Each financial asset of the Bank is valued on a monthly basis in order to determine whether the Bank faces a significant increase in credit risk (likelihood or risk of default on obligations, SICR criterion) compared to the date of initial recognition or whether that credit is depreciated. The ultimate purpose is to determine the applicable provisioning method (12 months 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 the credit risk.

To determine whether a significant increase in credit risk has occurred since the initial recognition, the Bank shall consider reasonable and sustainable information that is relevant and can be obtained without undue costs and efforts.

The Bank considers that a financial instrument shows a significant increase in credit risk when one or more of the quantitative and/or qualitative criteria set out in the relevant national regulations are met. To ensure the consistency of the criteria used to identify the SICR, they are monitored and reviewed by the Bank on a regular basis.

Stage 1 includes credit assets that were not deteriorated significantly in terms of credit quality since initial recognition or that present a low credit risk at the reporting date. Contracts that have not been classified in any of Stages 2 or 3 and have arrears of payments of less than 31 days will be classified in Stage 1.

Stage 2 will include credit assets that have experienced a significant increase in credit risk since initial recognition, but that do not have objective evidence of a credit loss event.

Stage 3 of risk (default) includes financial assets for which impairment indices were found at the reporting date.

Definition of defaulted assets and impaired assets as a result of credit risk

To adapt the Bank's procedures to the requirements of international standards and to equate the concept of 'defaulted' with that of 'non-performing exposures', it is considered that a loan is determined as a defaulted one when:

a) It has arrears of 91 days or more, while also applying the process of contamination of all exposures of a customer in case of deflation of at least one of them;

b) The Bank initiated the recovery procedure by enforcement;

c) Records restructurings of the payment schedule;

d) The sale-purchase contracts concluded with the debtor/pledger of the pledged object related to the extinguished exposure from the execution of this guarantee object, will be automatically classified in Stage 3;

e) The rating related to the issuer/counterparty is classified in the category of ratings associated with the default;

f) A claim has been lodged requesting initiation of insolvency proceedings against the debtor or the application of a similar measure;

Once a loan held by a debtor is classified in Stage 3, all loans of that debtor will be classified in Stage 3.

The loans classified in the risk Stage 3 will be reported as 'impaired'.

There is a specific treatment for defaulted loans as follows: they will remain for a 'quarantine' period in the group of Defaulted loans. After the 'quarantine' period, in the absence of Default criteria, the loan will be included in the group to which it normally belongs, otherwise the 'quarantine' period will be extended.

The total value of exposures without taking into account the effects of credit risk mitigation techniques, broken down by exposure classes

MDL

#	Exposure class	Exposure without value adjustments and without provisions as of 30 June 2021	Exposure without value adjustments and without provisions average for the period (6 months 2021)
1	Central administrations or central banks	8,085,730,500	7,832,913,027
2	Regional administrations or local authorities	147,043,733	152,136,620
3	Public sector entities	67,261,575	75,275,331
4	Multilateral development banks	0	0
5	International organizations	0	0
6	Banks	1,901,083,875	1,955,623,673
7	Investment companies	1,201,081,526	1,101,158,968
8	Retail	1,878,669,405	1,816,198,358
9	Exposures guaranteed with real-estate mortgages	1,111,652,926	1,095,632,069
10	Non-refundable exposures	54,944,655	61,182,624
11	Elements associated with an extremely high risk	65,389,856	66,865,242
12	Guaranteed bonds	x	x
13	Receivables from institutions and companies with a short-term credit assessment	0	0
14	Collective investment undertakings (CIU)	0	0
15	Capital securities	0	0
16	Other items	1,944,353,629	1,871,318,020
Total		**16,457,211,679**	**16,028,303,932**

Geographical distribution of exposures

thousands MDL

#	Exposure class	Exposure without value adjustments and without provisions as of 30 June 2021						
		Republic of Moldova	Germany	Austria	U.S.	Romania	Italy	Other countries
1	Central administrations or central banks	7,899,533	0	0	0	186,198	0	0
2	Regional administrations or local authorities	147,044	0	0	0	0	0	0
3	Public sector entities	67,262	0	0	0	0	0	0
4	Multilateral development banks	0	0	0	0	0	0	0
5	International organizations	0	0	0	0	0	0	0
6	Banks	8	1,179,083	280,381	171,804	22,830	97,181	149,797
7	Investment companies	1,201,032	0	0	0	49	0	0
8	Retail	1,878,641	0	0	0	0	0	28
9	Exposures guaranteed with real-estate mortgages	1,111,653	0	0	0	0	0	0
10	Non-refundable exposures	54,945	0	0	0	0	0	0
11	Elements associated with an extremely high risk	64,646	0	0	0	0	0	744
12	Guaranteed bonds	x	x	x	x	x	x	x
13	Receivables from institutions and companies with a short-term credit assessment	0	0	0	0	0	0	0
14	Collective investment undertakings (CIU)	0	0	0	0	0	0	0
15	Capital securities	0	0	0	0	0	0	0
16	Other items	1,848,784	1	0	94,724	42	498	305
Total		**14,273,547**	**1,179,084**	**280,381**	**266,528**	**209,119**	**97,679**	**150,874**

Amount of impaired exposures and outstanding exposures broken down by significant geographical areas

Thousands MDL

No.	Geographical region	Initial exposure before applying conversion factors	from which: *impaired exposures*	*outstanding exposures*	Specific adjustments for credit risk	Adjustments due to prudential filters	Exposure without value adjustments and without provisions 6 = 1 - 4 -5
A	*B*	*1*	*2*	*3*	*4*	*5*	*6*
1	Republic of Moldova	15,324,973	713,083	902,668	640,325	411,101	14,273,547
2	Germany	1,179,497	0	0	413	0	1,179,084
3	Austria	280,713	0	0	331	0	280,381
4	U.S.	408,696	0	0	82	142,086	266,528
5	Romania	228,955	0	0	1,789	18,048	209,119
6	Italy	102,832	13	13	263	4,891	97,679
7	Other countries	158,063	35	37	1,286	5,903	150,874
Total		**17,683,729**	**713,131**	**902,717**	**644,490**	**582,028**	**16,457,212**

Concentration of exposures depending on sector of activity or counterparty types

thousands MDL

#	Exposure class	Exposure without value adjustments and without provisions as of 30 June 2021				
		Central Banks	Central Administrations	Regional administrations and local authorities	Public sector entities	Banks
A	*B*	*1*	*2*	*3*	*4*	*5*
1	Central administrations or central banks	4,258,707	3,827,024	0	0	0
2	Regional administrations or local authorities	0	0	147,044	0	0
3	Public sector entities	0	0	0	67,262	0
4	Multilateral development banks	0	0	0	0	0
5	International organizations	0	0	0	0	0
6	Banks	0	0	0	0	1,901,084
7	Investment companies	0	0	0	0	0
8	Retail	0	0	0	0	0
9	Exposures guaranteed with real-estate mortgages	0	0	0	0	0
10	Non-refundable exposures	0	0	0	0	0
11	Elements associated with an extremely high risk	0	0	0	0	0
12	Guaranteed bonds	x	x	x	x	x
13	Receivables from institutions and companies with a short-term credit assessment	0	0	0	0	0
14	Collective investment undertakings (CIU)	0	0	0	0	0
15	Capital securities	0	0	0	0	0
16	Other items	0	0	0	0	0
Total		**4,258,707**	**3,827,024**	**147,044**	**67,262**	**1,901,084**

thousands MDL

#	Exposure class	Exposure without value adjustments and without provisions as of 30 June 2021				
		Corporate customers	Individuals	SMEs	Others	Total
A	*B*	*6*	*7*	*8*	*9*	*10*
1	Central administrations or central banks	0	0	0	0	8,085,730
2	Regional administrations or local authorities	0	0	0	0	147,044
3	Public sector entities	0	0	0	0	67,262
4	Multilateral development banks	0	0	0	0	0
5	International organizations	0	0	0	0	0
6	Banks	0	0	0	0	1,901,084
7	Investment companies	650,285	8,631	542,166	0	1,201,082
8	Retail	0	1,576,613	302,056	0	1,878,669

#	Exposure class	Exposure without value adjustments and without provisions as of 30 June 2021				
		Corporate customers	Individuals	SMEs	Others	Total
A	*B*	*6*	*7*	*8*	*9*	*10*
9	Exposures guaranteed with real-estate mortgages	181,749	828,746	101,158	0	1,111,653
10	Non-refundable exposures	41,166	5,511	8,267	0	54,945
11	Elements associated with an extremely high risk	8,200	0	57,190	0	65,390
12	Guaranteed bonds	x	x	x	x	x
13	Receivables from institutions and companies with a short-term credit assessment	0	0	0	0	0
14	Collective investment undertakings (CIU)	0	0	0	0	0
15	Capital securities	0	0	0	0	0
16	Other items	0	0	0	1,944,354	1,944,354
Total		**881,400**	**2,419,501**	**1,010,838**	**1,944,354**	**16,457,212**

Exposure quality by type of counterparty

thousands MDL

#	Counterparty type	Initial exposure before applying conversion factors	of which:		Expenditure with specific adjustments for credit risk during the period	Specific adjustments for credit risk	Adjustments due to prudential filters	Exposure without value adjustments and without provisions 7 = (1 - 5- 6)
			impaired exposures	*outstanding exposures*				
A	*B*	*1*	*2*	*3*	*4*	*5*	*6*	*7*
1	Central banks	4,262,913	0	0	157	4,206	0	4,258,707
2	Central administrations	3,880,535	0	0	14,070	44,956	8,555	3,827,024
3	Regional administrations and local authorities	156,352	0	0	-659	9,221	87	147,044
4	Public sector entities	71,618	0	0	-796	4,105	252	67,262
5	Banks	1,923,326	0	0	255	1,997	20,245	1,901,084
6	Corporate customers	1,446,453	549,849	555,403	-10,066	284,539	280,514	881,400
7	Natural persons	2,573,533	84,620	207,419	12,484	111,085	42,947	2,419,501
8	SMEs	1,140,319	78,663	139,895	-6,666	47,799	81,682	1,010,838
9	Other	2,228,680	0	0	590	136,581	147,745	1,944,354
Total		**17,683,729**	**713,131**	**902,717**	**9,369**	**644,490**	**582,028**	**16,457,212**

Maturity of exposures

The breakdown of exposures (without taking into account the effects of credit risk mitigation techniques) by residual maturity, broken down by exposure classes, is shown in the following table:

#	Exposure class	Exposure without value adjustments and without provisions, MDL					
		Upon request	≤1 year	(1 - 5 years]	>5 years	No declared maturity	Total
1	Central administrations or central banks	3,010,071,497	4,348,710,643	683,213,334	0	43,735,026	8,085,730,500
2	Regional administrations or local authorities	0	294,829	146,748,904	0	0	147,043,733
3	Public sector entities	0	4,841,580	62,419,995	0	0	67,261,575
4	Multilateral development banks	0	0	0	0	0	0
5	International organizations	0	0	0	0	0	0
6	Banks	1,309,196,787	490,529,839	101,357,249	0	0	1,901,083,875
7	Investment companies	0	522,608,648	366,756,762	311,716,115	0	1,201,081,526
8	Retail	0	215,519,491	1,080,353,170	582,796,744	0	1,878,669,405
9	Exposures guaranteed with real-estate mortgages	0	98,691,900	162,574,564	850,386,462	0	1,111,652,926
10	Non-refundable exposures	0	5,961,430	44,994,524	3,988,701	0	54,944,655
11	Elements associated with an extremely high risk	0	26,617,777	28,002,427	7,598,183	3,171,470	65,389,856
12	Guaranteed bonds	x	x	x	x	x	x
13	Receivables from institutions and companies with a short-term credit assessment	0	0	0	0	0	0
14	Collective investment undertakings (CIU)	0	0	0	0	0	0
15	Capital securities	0	0	0	0	0	0
16	Other items	0	0	0	0	1,944,353,629	1,944,353,629
Total		**4,319,268,284**	**5,713,776,136**	**2,676,420,928**	**1,756,486,206**	**1,991,260,124**	**16,457,211,679**

Stock changes of specific and general adjustments for credit risk during the period 01.01.2021 - 30.06.2021

	Specific credit risk adjustments	General credit risk adjustments
Opening balance	498,428,837	0
Increases due to initiation and acquisition	88,875,097	0
Decreases due to de-recognition	-46,610,222	0
Variations due to changes in credit risk (net)	0	0
Variations due to changes without de-recognition (net)	-20,689,483	0
Variations due to updated institution estimation methodology (net)	0	0
Reduction of the impairment adjustment account due to removals from the balance sheet	-1,712,615	0
Other adjustments	3,322,371	0
Closing balance	521,613,985	0
Recoveries of amounts previously removed from the balance sheet, recorded directly in the statement of profit or loss	-12,206,410	0

Amounts taken directly removed from the profit or loss statement	0	0

11. INFORMATION ON EXPOSURES FROM CAPITAL SECURITIES NOT INCLUDED IN THE TRADING BOOK

CB 'Victoriabank' JSC has exposures from capital securities not included in the trading book in total net amount as of 30 June 2021 of 3.236 thousand MDL.

thousands MDL

CB 'Victoriabank' JSC	Gross value	Net balance sheet value	Accounting method
Total shares and shareholdings	**3,236**	**3,236**	
Not traded	3,236	3,236	market value
Traded on the Stock Exchange	-	-	-

12. EXPOSURE TO INTEREST RATE RISK ON POSITIONS NOT INCLUDED IN THE TRADING BOOK

CB 'Victoriabank' JSC assumes the interest rate risk resulting from:

- Fund attraction and placement activities (interest rate risk arising from banking activities - IRRBB). The main sources of interest rate risk are imperfect correlations between the maturity date (for fixed interest rates) or the price update date (for variable interest rates) related to interest-bearing assets and liabilities, the adverse evolution of the return rate curve (non-parallel evolution of return interest rates on interest-bearing assets and liabilities). Interest-bearing assets and liabilities management activities are carried out in the context of the Bank's exposure to interest rate fluctuations.
- Activities of trading in financial instruments (interest rate risk arising from trading activities).

Interest rate risk from non-trading book activities (IRRBB) is managed primarily by monitoring the GAP (non-correlations) on the interest rate and through a system of limits and indicators approved on interest rate bands (time intervals).

The Risk Management Directorate reports monthly on key interest rate risk indicators to the Executive Committee and the Asset-Liability Committee, and at least quarterly to the Board of Directors and/or the Risk Management Committee.

The management of interest rate risk from non-trading book activities is carried out based on the calculation of the potential change in the economic value of capital as a result of changes in interest rate levels. The standard interest rate shock is 200 basis points in both directions, regardless of currency.

The Bank measures the interest rate risk from non-trading book activities by calculating a series of key risk indicators on a monthly basis:

- The interest rate gap related to own funds;
- The impact of the potential change in the economic value in own funds, as a result of the application of standard shocks of 200 basis points on the level of interest rates;
- Net interest margin.

The result of the calculation of the potential change in the economic value (EVE) of the Bank as of 30 June 2021 is presented in the following table:

Potential change in economic value (EVE)	Value, MDL
Own funds	2,278,131,120
The economic value of the Bank, as a result of the application of standard shocks of +/- 200 b.p.:	
Absolute value	53,068,614
Impact on own funds	2.33%

We confirm that the information provided in this Report has been drawn up in accordance with internal control processes and the provisions of the NBM Regulation on the requirements for disclosure of information by banks (Chapter VII).