B.C. „VICTORIABANK" S.A.

FINANCIAL STATEMENTS

prepared in accordance with
INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the financial year ended 31 December 2022

(free translation*)

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

CONTENTS

Statement of profit or loss and other comprehensive income
For the financial year ended 31 December

In MDL thousand	**Notes**	**2022**	**2021**
Interest income calculated using the effective interest method		1,307,577	597,726
Interest expenses		(250,726)	(154,818)
Net interest income	**23**	**1,056,851**	**442,908**
Fee and commission income		586,252	491,920
Fee and commission expense		(346,062)	(251,785)
Net fee and commission income	**24**	**240,190**	**240,135**
Net trading income	**25**	252,188	149,279
Other operating income	**26**	22,834	23,285
Revenue		**1,572,063**	**855,607**
Net impairment losses on financial assets and provisions for off-balance sheet commitments	**27**	(206,103)	(37,422)
Net impairment (losses) / release on non-financial assets	**28**	56,929	41,865
Net reversals related to provisions	**18**	-	98
Personnel expenses	**29**	(361,777)	(278,437)
Depreciation	**31**	(93,508)	(76,765)
Other operating expenses	**30**	(233,967)	(185,087)
Total expenses		**(838,426)**	**(535,748)**
Profit before income tax		**733,637**	**319,859**
Income tax expense	**32**	(91,860)	(41,628)
Profit for the year		**641,777**	**278,231**
Other comprehensive income			
Items that will not be reclassified to profit or loss, net of tax			
Equity investments at fair value through other comprehensive income – net change in fair value	**8**	147	44
The impact of exchange rate variations		6	(16)
Tax related to items that will not be classified to profit or loss		(18)	(38)
		135	**(10)**
Items that are or may be reclassified subsequently to profit or loss			
Debt investments at fair value through other comprehensive income – net change in fair value		(383)	(233)
Tax on items that can be classified as profit or loss		43	5
		(340)	**(228)**
Total comprehensive income		**641,572**	**277,993**
Earnings per share, MDL	**35**	**25.67**	**11.13**

The financial statements were approved by the Board of Administration on April 13, 2023.

The financial statements were signed by the Management of the Bank represented by:

Levon Khanikyan
Chief Executive Officer

Vitalie Corniciuc
Chief Financial Officer

Statement of financial position

For the financial year ended 31 December

In MDL thousand	Notes	31 December 2022	31 December 2021
ASSETS			
Cash and balances with National Bank of Moldova	4	7,056,788	4,294,953
Current accounts and placements with banks	5	1,101,283	2,214,905
Investment securities – debt instruments	6	4,453,627	4,631,735
Equity investment securities designated at fair value through other comprehensive income	8	3,366	3,207
Loans to customers	7	5,104,759	4,663,248
Other financial assets	12	174,711	341,148
Property and equipment	9	303,331	228,166
Intangible assets	10	74,312	79,445
Right-of-use assets	11	72,679	65,247
Deferred tax assets	19	742	432
Other assets	13	49,775	43,968
Total assets		**18,395,373**	**16,566,454**
LIABILITIES			
Deposits from banks	16	69,855	70,800
Deposits from customers	17	13,651,167	12,808,389
Other borrowings	15	196,838	144,372
Other financial liabilities	20	472,999	220,785
Provisions for other risks and loan commitments	18	37,175	18,024
Lease liabilities	11	72,860	63,910
Current tax liabilities	14	14,812	2,176
Other liabilities	21	18,201	18,104
Total liabilities		**14,533,907**	**13,346,560**
EQUITY			
Share capital	22	250,001	250,001
Share premium		10,250	10,250
Fair value reserves	22	258	462
Statutory reserves		25,000	25,000
Other reserves	22	94,610	448,925
Retained earnings		3,481,347	2,485,256
Total equity		**3,861,466**	**3,219,894**
Total liabilities and equity		**18,395,373**	**16,566,454**

The financial statements were approved by the Board of Administration on April 13, 2023.

The financial statements were signed by the Management of the Bank represented by:

Levon Khanikyan
Chief Executive Officer

Vitalie Corniciuc
Chief Financial Officer

Statement of changes in equity
For the financial year ended 31 December

In MDL thousand	Note	Share Capital	Share premium	Fair value reserve	Statutory reserves	Other reserves	Retained earnings	Total equity
Balance at 1st of January 2021		**250,001**	**10,250**	**700**	**25,000**	**563,827**	**2,092,124**	**2,941,902**
Statement of comprehensive income for the period								
Profit for the period		-	-	-	-	-	278,231	**278,231**
Other comprehensive income, net of income tax								
Financial assets at FVOCI – net change in fair value		-	-	(238)	-	-	-	**(238)**
Total comprehensive income for the period		-	-	**(238)**	**-**	**-**	**278,231**	**277,993**
Contributions and distributions of the shareholders								
Dividends distributed to shareholders		-	-	-	-	-	-	**-**
Transfer of gains on disposal of equity investments at fair value through other comprehensive income to retained earnings	**3.15**	-	-	-	-	-	-	**-**
Appropriation of reserves	**22b**	-	-	-	-	(114,902)	114,902	**-**
Total contributions and distributions of the shareholders		**-**	**-**	**-**	**-**	**(114,902)**	**114,902**	**-**
Balance at 31st of December 2021		**250,001**	**10,250**	**462**	**25,000**	**448,925**	**2,485,256**	**3,219,894**
Statement of comprehensive income for the period								
Profit for the period		-	-	-	-	-	641,777	**641,777**
Other comprehensive income, net of income tax								
Financial assets at FVOCI – net change in fair value		-	-	(204)	-	-	-	**(204)**
Total comprehensive income for the period		-	-	**(204)**	**-**	**-**	**641,777**	**641,573**
Contributions and distributions of the shareholders								
Dividends distributed to shareholders		-	-	-	-	-	-	**-**
Transfer of gains on disposal of equity investments at fair value through other comprehensive income to retained earnings	**3.15**	-	-	-	-	-	-	**-**
Appropriation of reserves	**22b**	-	-	-	-	(354,315)	354,315	**-**
Total contributions and distributions of the shareholders		-	-	-	-	**(354,315)**	**354,315**	**-**
Balance at 31st of December 2022		**250,001**	**10,250**	**258**	**25,000**	**94,610**	**3,481,347**	**3,861,466**

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

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

Statement of cash flows
For the financial year ended 31 December

In MDL thousand	Notes	2022	2021
Cash flows from operating activities			
Profit for the year		**641,777**	**278,231**
Adjustments for:			
Depreciation and amortization	**31**	93,508	76,765
Net impairment losses / (release) of financial assets and provisions for off-balance sheet commitments	**27**	233,862	79,469
Net impairment losses / (release) on non-financial assets	**28**	(56,929)	(41,865)
Net expenses / (reversals) related to provisions	**18**	-	(98)
Income tax expense	**32**	91,860	41,628
Interest income	**23**	(1,307,577)	(597,726)
Interest expense	**23**	250,727	154,818
(Income) / losses from the revaluation of foreign currency	**25**	(16,500)	(2,236)
Net profit adjusted with non-monetary elements		**(69,272)**	**(11,014)**
Changes in operating assets and liabilities			
Change in current account with National Bank of Moldova	**4**	(2,324,061)	(127,608)
Change in current accounts and placements with banks	**5**	120,551	129,445
Change in loans to customers	**7**	(641,999)	(579,671)
Change in other assets	**12,13**	200,084	66,022
Change in deposits from banks	**16**	(5,373)	(3,789)
Change in deposits from customers	**17**	719,924	1,000,741
Change in other liabilities	**20,21**	243,765	3,074
Change in provisions	**18**	-	17
		(1,687,109)	**488,231**
Interest received		842,627	371,362
Interest paid		(255,425)	(153,448)
Income tax paid		(81,000)	(4,713)
Net cash-flow from operating activities		**(1,250,179)**	**690,418**
Cash-flow used in investment activities			
Acquisitions of investment securities measured at amortized cost		(4,248,970)	(5,273,108)
Proceeds from the disposal of investment securities measured at amortized cost		4,370,744	4,113,055
Interest received for investment securities measured at amortized cost		598,463	239,090
Acquisitions of property and equipment	**9**	(124,538)	(62,372)
Proceeds from disposal of property and equipment	**9**	4,122	399
Acquisitions of intangible assets	**10**	(10,202)	(13,350)
Net cash-flow (used in) investment activities		**589,619**	**(996,286)**
Cash-flow from financing activities			
Gross proceeds from loans from other financial institutions	**15**	114,316	100,280
Gross payments from loans from other financial institutions	**15**	(65,907)	(21,883)
Repayment of the principal portion of the lease liabilities	**11**	(32,548)	(33,307)
Net cash-flow from / (used in) financing activities		**15,861**	**45,090**
Net increase/decrease (-) in cash and cash equivalents		**(644,699)**	**(260,778)**
Cash and cash equivalents at January 1		**3,862,134**	**4,122,750**
The impact of exchange rate variations on cash and cash equivalents		27,289	162
Cash and cash equivalents at December 31	**4**	**3,244,724**	**3,862,134**

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

Explanatory notes to the financial statements

1. GENERAL INFORMATION

BC Victoriabank SA (thereafter “the Bank”) was established in the Republic of Moldova on 22 December 1989. The Bank was re-incorporated as a joint-stock commercial bank on 26 August 1991, obtaining the license of the National Bank of Moldova.

On 29 November 2002 the Bank was re-registered as an open joint stock commercial bank and the shares became listed on Moldovan Stock Exchange.

The Head Office of the Bank is located at str. 31 August 1989, no. 141, MD-2004, Chisinau, Republic of Moldova.

The Bank operates through its head office located in Chisinau, 30 branches and 41 agencies (as at 31 December 2022), located throughout the country (30 branches and 45 agencies as at 31 December 2021).

The Bank’s number of active employees as at 31 December 2022 was of 1,097 (1,055 as at 31 December 2021).

The share capital of B.C. „VICTORIABANK” S.A. represents 250.000.910 lei, divided into 25.000.091 first class registered common shares entitled to vote, at par/face value of 10 lei/share. Registered common shares issued by the Bank (ISIN: MD14VCTB1004) are allowed for trading on the regulated market at the Stock Exchange of Moldova (**www.bvm.md**).

The shareholders’ structure and/ or groups of persons that act in concert and own significant share (i.e. greater than 1%) in the Bank’s share capital and final beneficiaries as at 31 December 2022 and 31 December 2021:

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

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

According to the Articles of Association of the Bank, the Board of Administration is made of 7 members appointed by the General Shareholders’ Meeting.

As at 31 December 2022, the composition of the Board of Administration of the Bank in exercise, selected at the ordinary General B.C.”Victoriabank” S.A. Shareholders’ Meeting as at the 24th of May 2019, is of the following members:

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

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

Explanatory notes to the financial statements

2. BASIS OF PREPARATION

2.1 Declaration of compliance

These financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS"). These financial statements were authorized for issue by the Board of Administration on April 13, 2023.

2.2 Basis of measurement

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

2.3 Functional and presentation currency

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

2.4 Use of estimates and judgements

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

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

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

a) Impairment losses on loans to customers

The Bank review its loan portfolio in order to assess the impairment thereof on a monthly basis. In determining whether an impairment loss should be recorded, the Bank make judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows related to a portfolio of loans, before such decrease can be identified with respect to an individual loan in that portfolio. For example, the observable data might be the unfavorable changes in the payment behavior of certain debtors within a group or in the economic, national or local circumstances, which correlate with default incidents affecting the debtors' group. When scheduling future cash flows, the management uses estimates based on the past experience related to losses from loans with similar risk characteristics.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any gaps between estimated losses and actual losses, also assessing the effects of the local financial market uncertainties on the valuation of assets and the debtors' operating environment. The loan loss estimation considers the visible effects of the current and future expected market conditions on the individual/collective assessment of expected credit losses on loans to customers. Hence, the Bank has estimated the expected credit losses for loans to customers based on the internal methodology and assessed that no further expected credit losses provisions are required except as already provided for in the financial statements.

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

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

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

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

More details about assumptions made, scenarios used, weights applied to each scenario is described in Note 39.1 Credit risk. The incorporation of forward-looking elements reflects the expectations of the Bank and involves the creation of scenarios, including an assessment of the probability for each scenario.

2. BASIS OF PREPARATION (CONTINUED)

2.4 Use of estimates and judgements (continued)

a) Impairment losses on loans to customers (continued)

A large part of the impact on the expected credit losses for 2022 year resulted from the effects of the economic turbulences (energy crisis, increase of interest rates, increase of inflation rate, supply chain disruption etc.) on the Bank's customers' activity. In this context, the Bank's management applied its own judgments, considering that a series of post-model adjustments, as well as individual analyzes, are necessary to reflect the context and its own expectations in credit risk modeling. Internal analyzes have assisted the Bank in determination of additional adjustments when indicators of increase in credit risk have been identified.

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

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

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

The application of the above mentioned post-model adjustments resulted in an increase in expected credit risk losses as at 31 December 2022 by MDL 107,904 thousand (31 December 2021: MDL 29,214 thousand).

b) Other significant litigations

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

Considering the nature of the case, current status of the investigation, legal limitations related to the investigation, the lawyers' analysis of the content of investigators case files, corroborated with the lawyer's legal opinion on the background facts and evidence provided by the prosecutors, the management of the Bank concluded that the disclosure of a contingent liability in the financial statements satisfies the requirements of IAS 37. The Bank will monitor the evolution of the topic at each reporting date, in accordance with the relevant provisions of the accounting standards and regulations.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Foreign currency transactions

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

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

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

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

Exchange rates of major currencies at the end of the year and the average exchange rates were:

	2022		2021	
	USD	**EUR**	**USD**	**EUR**
Average for the period	18.9032	19.8982	17.6816	20.9255
The end of the year	19.1579	20.3792	17.7452	20.0938

3.2 Financial assets and liabilities

(i) Recognition and initial evaluation

The Bank initially recognizes loans to customers, deposits at the date when they originated. All other financial assets and liabilities are initially recognized at the trade date, which is the date when the Bank becomes part to the contractual provisions of the instrument.

A financial asset or liability that is not measured at fair value through profit or loss is initially measured at fair value plus transaction costs directly attributable to the acquisition or issuance.

(ii) Classification

On initial recognition financial assets are classified as measured at:

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

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated at fair value through profit or loss:

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets and liabilities (continued)

(ii) Classification (continued)

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

(iii) Business model assessment

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

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

The Bank has no assets classified at FVTPL.

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

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

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

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

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

(iv) Derecognition

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets and liabilities (continued)

(iv) Derecognition (continued)

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

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

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

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

(v) Offsetting financial instruments

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

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

(vi) Modifications of financial instruments

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

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

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

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

The gain or loss from modification of financial assets was not significant for the years ended 31 December 2022 and 2021.

(vii) Fair value measurement

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets and liabilities (continued)

(vii) Fair value measurement (continued)

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

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

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

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

(viii) Impairment of financial assets

The Bank recognizes loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

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

No impairment loss is recognized on equity investments.

Impairment according to IFRS 9 is based on expected losses and requires a timely recognition of the future expected losses.

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

As concerns the purchased or originated financial assets that are credit-impaired, the expected credit losses must be determined based on the credit-adjusted effective interest rate established upon the initial recognition.

Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or borrower;
- a breach of contract, such as a default or past-due event;
- the lender, based on economic or contractual reasons relating to the borrower’s financial difficulty, grants the borrower a concession that would not otherwise be considered;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for the financial asset because of financial difficulties; or
- the purchase or origination of a financial asset at a deep discount that reflects incurred credit losses.

A financial asset classified as impaired upon initial recognition will be maintained as such until its derecognition.

The Bank estimates the expected credit losses (‘ECL’) for debt instrument assets measured at amortized cost and fair value through other comprehensive income and for exposure from loan commitments and financial guarantee contracts. The Bank recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

IFRS 9 outlines a ‘three-stage’ model for impairment based on changes in credit quality since initial recognition as summarized below:

- A financial instrument that is not credit-impaired on initial recognition is classified in ‘Stage 1’ and has its credit risk continuously monitored by the Bank;

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets and liabilities (continued)

(viii) Impairment of financial assets (continued)

- if a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired;
- if the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3';
- financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of expected credit losses in the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis;
- a pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information;
- purchased or originated credit-impaired financial assets ("POCI") are those financial assets that are credit- impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

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

Write-off

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

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

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

The recovery horizon is calculated from the date of registration of the exposure in the non-performing category.

The Bank is not obliged, upon reaching these thresholds, to proceed with the write-off of exposures - these loans will be the subject of additional analyzes to estimate the chances of recovery in the next period.

b) for assets that have been guaranteed, and for a specific reason, at the moment, are no longer guaranteed;

c) for loans that are collateralized, but it is estimated that there are no reasonable chances of recovery (uncertain and expensive sources, which do not justify the Bank's effort compared to the expected value of recoveries). This category also includes exposures for which the exposure reduction is based entirely on sale of collateral, and, considering the background of a low degree of coverage, there is the possibility that procedural costs may absorb a significant part of the amounts resulting from sales of collaterals;

d) for the assets for which the Bank has stopped the recovery procedures or they have expired or those for which by a court decision they are no longer due by the debtor;

e) the bankruptcy procedure of the debtor was closed, and the Bank's exposure was not fully covered;

f) the exposure has been partially transferred to another entity (third party) and the remaining exposure has no chance of recovery.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets and liabilities (continued)

Write-off (continued)

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

3.3 Interest income and expense

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

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

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

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

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

3.4 Fee and commission income

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

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

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Bank recognizes revenue when it transfers control over a service to a customer.

Below is presented information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms and related revenue recognition policies.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Net trading income

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

3.6 Income tax expenses

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

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

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

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

3.7 Sale and repurchase agreements („REPO”)

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

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

3.8 Intangible assets

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

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

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

3.9 Property and equipment

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

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

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

The useful lives estimated by category are:

• Buildings	25-45 years
• Improvements to leased buildings	5 years
• Computers	3 years
• Furniture and equipment	2-15 years
• Vehicles	6-7 years

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Property and equipment (continued)

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

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

3.10 Leases

The Bank applies the requirements of this standard for all leasing contracts, including leasing contracts for assets related to the right-of-use within a sublease agreement. At the beginning of the operation, the Bank as a lessee recognizes an asset related to the right-of-use and a debt arising from the lease.

Exceptions from the requirements of this standard may be short-term contracts of up to 12 months or for contracts with a value of less than five thousand euros or the equivalent of five thousand euros at the date of recognition.

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

This policy is applied to contracts entered into (or changed) on or after 1 January 2019.

Bank acting as a lessee:

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

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

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

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

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

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

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

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

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to depreciation and are tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

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

3.12 Cash and cash equivalents

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

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

3.13 Loans and advances

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

The Bank does not hold loans and advances at FVTPL at 31 December 2022 and 2021.

3.14 Investment securities

Investment securities include:

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

The Bank does not hold debt investment securities at FVTPL at 31 December 2022 and 2021.

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

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

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

3.15 Equity investment securities

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 Borrowings

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

3.17 Customers' deposits and current accounts

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

3.18 Provisions

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

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

3.19 Financial guarantee contracts and loan commitments

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

Financial guarantees and loan commitments are initially recognized in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial measurement and the best estimate of the expenditure required to settle any financial obligation arising at the reporting date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management. Any increase in the liability relating to guarantees is recognized in the income statement.

3.20 Employee Benefits

(i) Short term benefits

The Bank, in the normal course of business makes payments to the Moldovan State funds on behalf of its employees for pension, health care and unemployment benefit. All employees of the Bank are members of the State pension plan.

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

(ii) Other benefits

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

The Board of Administration of the Bank decides in respect of the number of shadow shares to be granted as variable remuneration. The fair value upon the vesting date of share-based awards – shadow shares – to identified employees is recognized as personnel expenses over the period in which the employees become unconditionally entitled to the awards.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 Dividends

Dividends income is recognized in the result of the year to date is established the right to receive such dividends are likely to be collected. Dividends are reflected as a component of "Net trading income" in the statement of profit or loss. Dividends payment is treated as a distribution of profit for the period they are declared and approved by the General Meeting of Shareholders.

3.22 Repossessed collaterals

At 31 December 2022 and 2021, repossessed collaterals includes executed guaranties related to non-performing loans. They are evaluated at the amount lower of carrying amount and fair value minus sell cost.

3.23 Inventories

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

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

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

3.24 Investment property

Investment property are held either in order to earn rental income or capital gains or both in order, but not for sale in the ordinary course of business, use in production or services or for administrative purposes. These investment properties were acquired through the exercise of rights on pledged collateral from non-performing loans.

Investment property is initially measured at their cost. The cost comprises the expenditure directly attributable to the acquisition of the investment property. The subsequent measurement is at fair value with any change therein recognized in profit or loss within other income.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

The investment property is derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in profit or loss.

3.25 Contingent assets and liabilities

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

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

3.26 Earnings per share

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.27 Segment reporting

An operating segment is a component of the Bank:

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

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

3.28 Implementation of new or reviewed standards and interpretations

New or reviewed standards and interpretations applied for periods beginning on 1 January 2022

The following new standards, as well as updates to existing standards, are into force for annual periods beginning January 1, 2022. The Bank has analyzed these new or amended standards and concluded that their application did not result in a significant impact on the Bank's financial statements since their application.

Amendment to IAS 16 Property and equipment – Proceeds before Intended Use (Effective for annual periods beginning on or after 1 January 2022.)

The amendments to IAS 16 require that the proceeds from selling items produced while bringing an item of property and equipment to the location and condition necessary for it to be capable of operating in the manner intended must be recognized, together with the cost of those items, in profit or loss and that the entity must measure the cost of those items applying the measurement requirements of IAS 2.

The amendments must be applied retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The cumulative effect of initially applying the amendments will be recognized as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented (if necessary). The Bank concluded that the amendments, do not have a material impact on the financial statements for the year 2022.

Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets-Onerous Contracts – Cost of Fulfilling a Contract. (Effective for annual periods beginning on or after 1 January 2022)

In determining costs of fulfilling a contract, the amendments require an entity to include all costs that relate directly to a contract. Paragraph 68A clarifies that the cost of fulfilling a contract comprises both: the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.

An entity shall apply those amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). The entity shall not restate comparative information. Instead, the entity shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

The Bank concluded that the amendments, do not have a material impact on the financial statements for the year 2022.

3.29 New or reviewed standards and interpretations that will apply for periods beginning on or after 1 January 2023

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgments. (Effective for annual periods beginning on or after 1 January 2023 Early application is permitted)

The amendments to IAS 1 require companies to disclose their material accounting policy information rather than significant accounting policies. The Bank does not expect that the amendments, when initially applied, could have a material impact on its financial statements.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.29 New or reviewed standards and interpretations that will apply for periods beginning on or after 1 January 2023 (continued)

Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. (Effective for annual periods beginning on or after 1 January 2023 Early application is permitted)

The amendments introduced a definition of ‘accounting estimates’ and included other amendments to IAS 8 clarifying how to distinguish changes in accounting policies from changes in estimates. The distinction is important as changes in accounting policies are generally applied retrospectively while changes in estimates are accounted for in the period in which the change occurs.

The Bank does not expect that the amendments, when initially applied, could have a material impact on its financial statements.

Amendments to IAS 1 Presentation of Financial Statements Classification of Liabilities as Current or Non-current. (Effective for annual periods beginning on or after 1 January 2023 Early application is permitted)

The amendments clarify that the classification of liabilities as current or non-current shall be based solely on the entity’s right to defer settlement at the end of the reporting period. The entity’s right to defer settlement for at least 12 months from the reporting date need not be unconditional but must have substance. The classification is not affected by management’s intentions or expectations about whether and when the entity will exercise its right. The amendments also clarify the situations that are considered settlement of a liability. The Bank does not expect that the amendments, when initially applied, could have a material impact on its financial statements.

IFRS 17 Insurance Contracts

IFRS 17 replaces IFRS 4, which was introduced as an interim standard in 2004. IFRS 4 granted companies the exemption to continue accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches.

IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent way, benefiting both investors and insurance companies. Insurance liabilities will be accounted for using current values instead of historical cost.

The Bank expects that the new standard, when first applied, is unlikely to have a material impact on the financial statements.

Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture (Effective date deferred indefinitely. Available for optional adoption in full IFRS financial statements.)

The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:

- a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while
- a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The Bank does not expect that the amendments, when initially applied, could have a material impact on its financial statements.

Amendments to IAS 12 Income Taxes Deferred Tax related to Assets and Liabilities arising from a Single Transaction. (Effective for annual periods beginning on or after 1 January 2023. Early application is permitted)

The amendments narrow the scope of the initial recognition exemption (IRE) to exclude transactions that give rise to equal and offsetting temporary differences – e.g. leases and decomissioning liabilities.

For leases and decomissioning liabilities, the associated deferred tax assets and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented.

The entity accounts for deferred tax on leases and decommissioning liabilities applying the ‘integrally linked’ approach, resulting in a similar outcome to the amendments, except that the deferred tax impacts are presented net in the statement of financial position. Under the amendments, the entity will recognise a separate deferred tax asset and a deferred tax liability. There will be no impact on retained earnings on adoption of the amendments.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.29 New or reviewed standards and interpretations that will apply for periods beginning on or after 1 January 2023 (continued)

Amendments to IFRS 16 Leases, Lease Liability in a Sale and Leaseback (Effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively. Early application is permitted)

Amendments to IFRS 16 Leases impact how a seller-lessee accounts for variable lease payments in a sale-and-leaseback transaction. The amendments introduce a new accounting model for variable payments and will require seller-lessees to reassess and potentially restate sale-and-leaseback transactions entered into since 2019.

The amendments confirm the following:

- on initial recognition, the seller-lessee includes variable lease payments when it measures a lease liability arising from a sale-and-leaseback transaction;
- after initial recognition, the seller-lessee applies the general requirements for subsequent accounting of the lease liability such that it recognises no gain or loss relating to the right of use it retains.

A seller-lessee may adopt different approaches that satisfy the new requirements on subsequent measurement. These amendments do not change the accounting for leases other than those arising in a sale and leaseback transaction.

The Bank does not expect that the amendments, when initially applied, could have a material impact on its financial statements.

4. CASH AND BALANCES WITH THE NATIONAL BANK OF MOLDOVA

In MDL thousand	31 December 2022	31 December 2021
Cash on hand and other values	1,354,394	1,060,112
Current account with National Bank of Moldova	40,560	5,600
Minimum reserve requirement in MDL	3,039,254	1,693,123
Minimum reserve requirement in foreign currency	2,622,580	1,536,118
Cash and balances with National Bank of Moldova	**7,056,788**	**4,294,953**
Balances with National Bank of Moldova, out of which:		
Gross value	5,708,065	3,238,031
Expected credit loss allowances	(5,671)	(3,190)
Total	**5,702,394**	**3,234,841**

Current account and mandatory reserve

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

As at 31 December 2022 the reserving ratio from financial means attracted in MDL and NCC was 34.0%, and the reserving ratio from financial means attracted in FCC was 45.0% (31 December 2021: the reserving ratio from financial means attracted in MDL and NCC - 26%, attracted in FCC - 30.0%).

The Bank keeps the amount of required reserves attracted in MDL and NCC on bank's "Nostro" account opened with the National Bank. Banks' required reserves in USD and EUR are maintained in the "Nostro" accounts of the National Bank in USD and in EUR opened in foreign currencies. The Bank records and managing the required reserves in USD and EUR in its analytical accounts, separately for each currencies.

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

As at 31 December 2022, the balance of "Nostro" account at the NBM amounts to 3,042,258 MDL'000 (31 December 2021: 1,694,790 MDL'000), that included the amount of required reserves attracted in Moldovan lei and in non-convertible currencies. The balance of the required reserves' accounts in USD and EUR amount to 33,674 USD'000 and 97,161 EUR'000 respectively (31 December 2021: 21,609 USD'000 and 57,439 EUR'000).

The remuneration interest on mandatory reserves paid by the NBM during 2022 for reserves in MDL increased from 4.5% to 18%. The interest rate applied to the remuneration of foreign currency reserves was maintained at a level of 0.01%. (2021: the interest rate increased from 0.15% to 4.5% for reserves in MDL and was maintained at 0.01%, for reserves in foreign currency). At 31 December 2022 the accrued interest for reserves maintained in MDL was 40,600 MDL'000 and for those in convertible currencies: 18.7 MDL'000 (2021: 5,606 MDL'000 and 10 MDL'000).

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

In MDL thousand	Notes	31 December 2022	31 December 2021
Cash on hand and other values	4	1,354,394	1,060,112
Current account with the NBM	4	40,560	5,600
Current accounts with other banks and overnight placement	5	897,217	1,851,043
Term placements with banks with maturity up to 3 months	5	-	88,610
Certificates issued by the NBM	6	944,373	767,847
State Securities, initial maturity less than 3 months	6	8,180	88,922
Cash and cash equivalents in the cash flow statement		**3,244,724**	**3,862,134**

5. CURRENT ACCOUNTS AND PLACEMENTS WITH BANKS

In MDL thousand	31 December 2022	31 December 2021
Current accounts with other banks and overnight placements, out of which:	**897,217**	**1,851,043**
Gross value	897,873	1,852,497
Expected credit loss allowances	(656)	(1,454)
Term deposits-guarantees in banks, out of which:	**107,015**	**98,017**
Gross value	107,052	98,051
Expected credit loss allowances	(37)	(34)
Term placements with banks with maturity below 3 months, out of which (Note 4):	**-**	**88,610**
Gross value	-	88,743
Expected credit loss allowances	-	(133)
Term placements with banks due after 3 months, out of which:	**97,051**	**177,235**
Gross value	97,142	177,502
Expected credit loss allowances	(91)	(267)
Total	**1,101,283**	**2,214,905**

As at 31 December 2022 placements with banks include „NOSTRO" accounts and overnight deposits, which are included in the cash flow statement (Note 4), amounting to 897,217 MDL'000 (2021: 1,851,043 MDL'000).

The amount of 980,427 MDL'000 (2021: 2,083,484 MDL'000) are placed in the banks from OECD member countries, the amount of 120,856 MDL'000 (2021: 131,421 MDL'000) are placed in non-OECD member countries.

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

In MDL thousand

Placements with banks	31 December 2022	31 December 2021
Rating from A to AA-	963,683	2,062,646
Rating from BBB to BBB+	137,600	93,615
Rating BBB- and lower	-	58,644
Total	**1,101,283**	**2,214,905**

6. INVESTMENT SECURITIES – DEBT INSTRUMENTS

In MDL thousand	31 December 2022	31 December 2021
Investment securities measured at amortized cost	4,437,111	4,613,811
Investment securities measured at FVOCI	16,516	17,924
Total	**4,453,627**	**4,631,735**

Investment securities measured at amortized cost – debt instruments

In MDL thousand	31 December 2022	31 December 2021
Certificates issued by the National Bank of Moldova	944,373	767,847
State securities included in cash and cash equivalents (Note 4)	8,180	88,922
State securities with initial maturity greater than three months	3,270,662	3,575,506
State securities issued by Romanian Government	213,896	181,536
Total	**4,437,111**	**4,613,811**
Gross value	4,479,836	4,660,255
Expected credit loss allowances	(42,725)	(46,444)

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

6. INVESTMENT SECURITIES – DEBT INSTRUMENTS (CONTINUED)

Investment securities measured at FVOCI – debt instruments

In MDL thousand	31 December 2022	31 December 2021
State securities	16,922	17,965
Changes in the fair value	(406)	(41)
Total	**16,516**	**17,924**

As at 31 December 2022, in the caption investment securities, the Bank holds debt instruments measured at amortized cost as treasury bills issued by the Government of Republic of Moldova, certificates issued by the National Bank of Moldova and state securities issued by Romanian Government. The amount invested in these debt instruments at 31 December 2022 has an amortized cost of 4,437,111 MDL'000 (2021: 4,613,811 MDL'000).

As at 31 December 2022 the Bank holds a portfolio of debt instruments issued by the Government of Republic of Moldova classified as "Financial assets at fair value through other comprehensive income" with a fair value amounting to 16,516 MDL'000 (2021: 17,924 MDL'000).

The state securities in the Bank's portfolio as at 31 December 2022 represent treasury bills issued by the Ministry of Finance of the Republic of Moldova in MDL with discount and redeemed at face value at maturity, with maturity between 91 and 364 days, the interest rate ranging between 9.88% and 22.01% (2021: 5.0% and 9.6%) and bonds issued by the Ministry of Finance of the Republic of Moldova in MDL nominal value or with a premium, for a period of 730-2557 days fixed or floating rate ranging between 5.65% and 24.39% (2021: 4.96% and 7.21%).

Certificates issued by the National Bank in the Bank's portfolio as at 31 December 2022 have an original maturity of 14 days at a rate of 20.0% (2021: 6.5%).

State securities issued by the Romanian Government in the Bank’s portfolio are issued by the Romanian Ministry of Public Finances, are denominated in EUR, have an initial maturity of 3 and 5 years, and pay a fixed interest rate of 1% and 1.6%.

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

In MDL thousand **Investment securities measured at amortized cost – debt instruments**	31 December 2022	31 December 2021
Rating BBB-	213,896	181,536
Rating B-	4,223,215	4,432,275
Total	**4,437,111**	**4,613,811**

As of 31 December 2022, state securities with an amortized cost in amount of 1,850,283 MDL’000 (31 December 2021: 1,850,283 MDL’000) are under seizure of Moldovan Authorities (please see Note 34).

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

7. LOANS TO CUSTOMERS

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

	31 December 2022			31 December 2021		
In MDL thousand	Gross value	Expected credit loss allowances	Carrying Amount	Gross value	Expected credit loss allowances	Carrying Amount
Corporate customers	2,858,326	(329,368)	2,528,958	2,385,907	(326,372)	2,059,535
Mortgage loans	1,377,552	(13,384)	1,364,168	1,360,080	(7,030)	1,353,050
Consumer loans	1,408,266	(196,633)	1,211,633	1,366,899	(116,236)	1,250,663
Total	**5,644,144**	**(539,385)**	**5,104,759**	**5,112,886**	**(449,638)**	**4,663,248**

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

Explanatory notes to the financial statements

7. LOANS TO CUSTOMERS (CONTINUED)

Analysis of loan portfolio by economic sector as at 31 December 2022 and 31 December 2021 is presented below:

Corporate customers *MDL thousand*	**31 December 2022**	**31 December 2021**
Production and trade	806,352	776,888
Real estate	173,665	136,877
Farming and food industry	692,627	570,180
Consumer loans	42,564	26,717
Transport and road construction	35,297	27,643
Energy sector	27,379	65
Government	92,023	135,921
Others	988,419	711,616
Total	**2,858,326**	**2,385,907**

Effect of expected credit loss allowances on loans to customers during 2022 and 2021 is presented in Note 39.1.

8. EQUITY INVESTMENT SECURITIES DESIGNATED AT FVOCI

The movement in the investment portfolio is presented below:

In MDL thousand	**2022**	**2021**
Balance as at 1 January	**3,207**	**3,200**
Changes in the fair value	147	44
Additions	-	-
Disposals	-	-
Exchange rate movements	12	(37)
Balance as at 31 December	**3,366**	**3,207**

As of 31 December 2022, within its portfolio, the Bank holds equity securities valued at fair value through other comprehensive income in local and foreign companies that are not listed.

Below is presented the analysis of equity securities at fair value through other comprehensive income as of 31 December 2022 and 31 December 2021:

In MDL thousand	**Scope of business**	**Owned share 2021, %**	**31 December 2022**	**Owned share 2020, %**	**31 December 2021**
Biroul de Credit SRL	Data processing	18.19	2,038	18.19	2,038
S.W.I.F.T SCRL	International transfer	0.01	889	0.01	730
Bursa de Valori	Stock exchange	7.69	439	7.69	439
Total			**3,366**		**3,207**

As of 31 December 2022 and 31 December 2021, the Bank's investment securities in Biroul de Credit SRL in the amount of 2,038 MDL'000 are under seizure of Moldovan Authorities (please see Note 34).

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

9. PROPERTY AND EQUIPMENT

In MDL thousand	Land and buildings	Furniture and equipment	Vehicles	Improvements of leased assets	Fixed assets under construction	Total
Cost						
Balance at 1 January 2021	**129,992**	**212,860**	**24,502**	**14,593**	**27,356**	**409,304**
Additions	-	5,224	-	10,829	46,319	**62,372**
Transfers	14,337	22,806	-	9,222	(46,365)	**-**
Reclassified as held for sale	-	(1,943)	-	-	-	(1,943)
Disposals (write-offs)	-	(12,624)	-	-	(305)	**(12,929)**
Balance at 31 December 2021	**144,329**	**226,323**	**24,502**	**34,644**	**27,005**	**456,803**
Balance at 1 January 2022	**144,329**	**226,323**	**24,502**	**34,644**	**27,005**	**456,803**
Additions	-	2,216	-	-	122,322	**124,538**
Transfers	1,568	102,913	-	11,612	(116,093)	**-**
Reclassified as held for sale	-	-	-	-	-	-
Disposals (write-offs)	-	(35,398)	-	(326)	(3,568)	**(39,291)**
Balance at 31 December 2022	**145,897**	**296,054**	**24,502**	**45,930**	**29,666**	**542,049**
Accumulated depreciation and impairment losses						
Balance at 1 January 2021	**52,808**	**134,915**	**11,063**	**12,766**	**-**	**211,553**
Depreciation for the year	3,932	21,768	2,821	3,037	-	**31,558**
Reclassified as held for sale	-	-	-	-	-	-
Disposals	-	(14,474)	-	-	-	**(14,474)**
Balance at 31 December 2021	**56,740**	**142,209**	**13,884**	**15,803**	**-**	**228,637**
Balance at 1 January 2022	**56,740**	**142,209**	**13,884**	**15,803**	**-**	**228,637**
Depreciation for the year	4,075	32,732	2,530	5,914	-	**45,250**
Reclassified as held for sale	-	-	-	-	-	**-**
Disposals	-	(34,843)	-	(326)	-	**(35,169)**
Balance at 31 December 2022	**60,815**	**140,098**	**16,414**	**21,391**	**-**	**238,718**
Carrying amounts						
Balance at 1 January 2021	**77,184**	**77,945**	**13,438**	**1,827**	**27,356**	**197,751**
Balance at 31 December 2021	**87,589**	**84,114**	**10,617**	**18,841**	**27,005**	**228,166**
Balance at 31 December 2022	**85,082**	**155,956**	**8,088**	**24,539**	**29,666**	**303,331**

As at 31 December 2022, the costs of property and equipment fully amortized and still used by the Bank amounted to 79,732 MDL’000 (31 December 2021: 100,832 MDL’000).
As at 31 December 2022 tangible assets in amount of 53,721 MDL’000 (31 December 2021 in amount of 57,152 MDL’000) are under seizure of Moldovan Authorities (please see Note 34).

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

10. INTANGIBLE ASSETS

In MDL thousand	Software	Intangible assets in execution	Total
Cost			
Balance at 1 January 2021	**146,251**	**16,529**	**162,780**
Additions	-	13,350	**13,350**
Transfers	22,467	(22,467)	**-**
Disposals	(2,321)	-	**(2,321)**
Balance at 31 December 2021	**166,397**	**7,412**	**173,809**
Balance at 1 January 2022	**166,397**	**7,412**	**173,809**
Additions	-	10,202	**10,202**
Transfers	17,296	(17,296)	**-**
Disposals	-	(318)	**(318)**
Balance at 31 December 2022	**183,693**	**-**	**183,693**
Accumulated depreciation			
Balance at 1 January 2021	**83,603**	**-**	**83,603**
Depreciation for the year	13,082	-	**13,082**
Disposals	(2,321)	-	**(2,321)**
Balance at 31 December 2021	**94,364**	**-**	**94,364**
Balance at 1 January 2022	**94,364**	**-**	**94,364**
Depreciation for the year	15,017	-	**15,017**
Disposals	-	-	**-**
Balance at 31 December 2022	**109,381**	**-**	**109,381**
Carrying amounts			
Balance at 1 January 2021	**62,648**	**16,529**	**79,177**
Balance at 31 December 2021	**72,033**	**7,412**	**79,445**
Balance at 31 December 2022	**74,312**	**-**	**74,312**

As at 31 December 2022, the cost of intangible assets fully amortized but still used by the Bank amounted to 27,416 MDL'000 (31 December 2021: 21,829 MDL'000). As at 31 December 2022 intangible assets have not been pledged as collateral.

11. LEASES

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

I. Right-of-use assets

In MDL thousand	2022	2021
Balance at 1 January	**122,965**	**90,156**
Additions	44,921	63,196
Disposals	(42,950)	(30,387)
Balance at 31 December	**124,936**	**122,965**
Accumulated depreciation		
Balance at 1 January	**57,718**	**43,998**
Depreciation charge for the year	33,241	32,124
Disposals	(38,702)	(18,404)
Balance at 31 December	**52,257**	**57,718**
Carrying amounts		
Balance at 1 January	**65,247**	**46,158**
Balance at 31 December	**72,679**	**65,247**

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

11. LEASES (CONTINUED)

Maturity analysis – Contractual undiscounted cash flows

In MDL thousand	**2022**	**2021**
Less than one year	4,816	4,946
Between one and three years	40,309	25,875
Between three and five years	28,070	27,274
More than five years	654	6,562
Total undiscounted lease liabilities at 31 December	**73,849**	**64,657**

II. Amounts recognized in profit or loss

In MDL thousand

Leases under IFRS 16	**Note**	**2022**	**2021**
Interest expense on lease liabilities (included in interest expenses)	**23**	654	635
Expense relating to leases of low-value assets (included in other operating expenses)	**30**	2,158	1,606

III. Amounts recognized in statement of cash flow

In MDL thousand	**2022**	**2021**
Lease liabilities	**72,860**	**63,910**
Total cash outflow for leases	33,075	33,307

12. OTHER FINANCIAL ASSETS

In MDL thousand	**31 December 2022**	**31 December 2021**
Receivables related to administrative proceedings in the USA*	-	233,776
Receivables from international payment systems	19,837	11,948
Receivables from Visa and Mastercard	128,329	60,580
Other financial assets	55,973	71,923
Expected credit loss allowance for other financial assets	(29,428)	(37,079)
Total financial assets	**174,711**	**341,148**

Other financial assets of the Bank consist of receivables related to operations with payment cards, transit and clearing amounts, receivables from sales of collaterals and other settlements with individuals and legal entities.

* As of December 31, 2021, the Bank held assets in the amount of USD 13,174 thousand, the equivalent of MDL 233,776 thousand, in the form of cash receivable from the United States Treasury. These funds were frozen from the Bank's Nostro account, following the decision of the court of the Charlotte Division, North Carolina, USA no. 3:12 cv 519 of February 12, 2016.

On February 24, 2022, checks in the amount of USD 13.174 thousand were issued in the name of the Bank, and on April 7, 2022, the respective amount was credited to the Nostro account held by the Bank at the Bank of New York Mellon, being at the disposal of the Bank and free from any restrictions.

The evolution of allowances for expected credit losses of other financial assets during 2022 and 2021 financial years, is presented in Note 39.1.

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

Explanatory notes to the financial statements

13. OTHER ASSETS

In MDL thousand	**31 December 2022**	**31 December 2021**
Repossessed collaterals	32,930	105,225
Inventories	7,339	9,310
Advances to suppliers	27,106	16,200
Prepaid expenses	14,415	14,741
Impairment allowance for other non-financial assets	(32,014)	(101,508)
Total other assets	**49,776**	**43,968**

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

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

In MDL thousand	**2022**	**2021**
Balance as at 1 January	**101,508**	**203,717**
Impairment charges / (release) (Note 28)	(57,247)	(41,865)
Disposals due to sales	(12,247)	(60,344)
Balance as at 31 December	**32,014**	**101,508**

14. CURRENT INCOME TAX ASSETS AND LIABILITIES

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

In MDL thousand	**31 December 2022**	**31 December 2021**
Current income tax assets	-	411
Current income tax liability	(14,812)	(2,587)
Current income tax assets / (liabilities), net	**(14,812)**	**(2,176)**

15. OTHER BORROWINGS

In MDL thousand	**31 December 2022**	**31 December 2021**
Loans from the Ministry of Finance	105,908	68,871
Loans from international finance organizations	90,930	75,501
Total	**196,838**	**144,372**

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

In MDL thousand	**2022**	**2021**
Balance as at 1 January	144,372	69,445
Proceeds received	114,316	100,280
Payments	(65,907)	(21,883)
Liability-related:		
Interest expense (Note 23)	7,102	3,708
Interest paid	(6,258)	(2,906)
The effect of changes in foreign exchange rates	3,213	(4,272)
Balance as at 31 December	**196,838**	**144,372**

The loans received from the International Finance Organizations are financed by the European Bank for Reconstruction and Development (EBRD), loans received from Ministry of Finance of the Republic of Moldova are financed by the International Fund for Agricultural Development (IFAD), the International Association for Development (AID), European Investment Bank (EIB), Government of the Polish Republic (Assistance Credit) and Council of Europe Bank (CEB).

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

15. OTHER BORROWINGS (CONTINUED)

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

In 2022, 18 investment loans were granted from EBRD resources, within the EU4BUSINESS-EBRD CREDIT LINE project, in the amount of 5.9 million EUR, thus, the loan accessed in December 2021 being fully used.

In 2022, the interest rate experienced a significant fluctuation, due to rising inflation, as well as international indices such as EURIBOR and LIBOR, thus the interest related to the loans received varied between 11.9% - 17.1% for MDL, 3.5% - 6% for USD, 3.45 – 7.04% for EUR. The loans financed from the mentioned borrowings were granted for a period of up to 7 years for investment projects and up to 4 years for supplementing the current assets depending on the project.

As of 31 December 2022, the Bank did not fully meet the eligibility criteria set out in the Loan Agreements, signed with the Ministry of Finance and IP OMEAP (previously CLD): loans expired in the total the loan portfolio and non-performing loans in the total loan portfolio. These non-respected indicators represent some historical covenants, within the project granted from the Polish Credit sub-project. Failure to comply with the above indicators may result in the request for early repayment of both loans and related interest with prior notice from IP OMEAP. But considering that in 2022, the Bank improved its NPL indicator, we do not consider that we are exposed to the danger of being put in a situation of early payment of the funds granted under the Polish Credit sub-project.

On 31 December 2022 and until the date of issuance of the Financial Statements, the Bank did not receive any written notification from IP OMEAP regarding the early repayment of loans.The Bank shall take all possible measures to overcome the deficiencies. In disclosure of liquidity risk (Note 39.3) these amounts were presented in the 'less than 3 months' bucket .

16. DEPOSITS FROM BANKS

In MDL thousand	31 December 2022	31 December 2021
“Loro” accounts from banks	69,455	69,400
Overnight deposits	400	1,400
Total	**69,855**	**70,800**

17. DEPOSITS FROM CUSTOMERS

Deposits from customers can be analyzed as follows:

In MDL thousand

Legal entities	31 December 2022	31 December 2021
Current accounts	5,106,839	4,771,488
Term deposits	407,476	395,823
Total	**5,514,315**	**5,167,311**
Individuals	**31 December 2022**	**31 December 2021**
Current accounts	4,155,008	4,049,732
Term deposits	3,981,844	3,591,346
Total	**8,136,852**	**7,641,078**
Deposits from customers	**13,651,167**	**12,808,389**

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

17. DEPOSITS FROM CUSTOMERS (CONTINUED)

Analysis of the deposits from customers by economic sector as at 31 December 2022 and 31 December 2021 is presented below:

Legal entities, *MDL thousand*	**31 December 2022**	**31 December 2021**
Production and trade	1,871,884	1,638,100
Services	788,834	703,930
Manufacturing and processing	417,716	560,304
Constructions	313,889	474,756
Real estate	351,877	404,995
Transportation	365,284	298,702
Financial services	272,603	209,234
Health	277,663	250,571
Agriculture	69,200	92,172
Government/Public Administrations	9,538	10,391
Energy sector	1,875	1,257
Others	773,952	522,899
Total	**5,514,315**	**5,167,311**

18. PROVISIONS FOR OTHER RISKS AND LOAN COMMITMENTS

In MDL thousand	**31 December 2022**	**31 December 2021**
Provisions for loan commitments, financial guarantees	34,861	15,710
Litigation provisions	2,314	2,314
Total	**37,175**	**18,024**

The amount of MDL 2,314 thousand represents provisions formed for other litigations in which the Bank is involved as at December 31, 2022 and December 31, 2021.

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

	2022	**2021**
Balance at 1 January	**2,314**	**2,412**
Provisions made during the year	-	-
Provisions reversed during the year	-	(98)
Provisions used during the year	-	-
Foreign exchange losses	-	-
Balance at 31 December	**2,314**	**2,314**

19. DEFERRED TAX BALANCES

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

In MDL thousand	**31 December 2022**	**31 December 2021**
Deferred income tax assets	5,369	3,914
Deferred income tax liabilities	(4,627)	(3,483)
Deferred tax assets / (liabilities), net	**742**	**432**

19. DEFERRED TAX BALANCES (CONTINUED)

Movement in deferred tax balances is presented below:

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

In MDL thousand	31 December 2020	Recognized in profit and loss	Recognized in other items of comprehensive income	31 December 2021
Property and equipment	(3,470)	26	-	(3,445)
Provisions for litigations	289	(12)	-	278
Accrual for untaken holidays	1,410	(146)	-	1,264
Accrual for other employee benefits	2,275	93	-	2,368
Debt securities measured at FVOCI	-	-	5	5
Equity investment securities measured at FVOCI	-	-	(38)	(38)
Deferred tax assets / (liabilities)	**504**	**(39)**	**(33)**	**432**

20. OTHER FINANCIAL LIABILITIES

In MDL thousand	31 December 2022	31 December 2021
Amounts pending for customers instructions	182,988	72,681
Bank cards operations	22,264	19,365
Non-interest-bearing calculated expenses	44,209	19,298
Payments collected for transfer according to the destination	14,468	6,067
Suspense amounts	1,071	1,628
Settlements with the brokers	2,892	4,301
Accruals for untaken holidays	12,349	10,531
Accruals for other employee benefits	29,672	19,735
Creditors regarding documentary transactions	989	-
Settlements related to intangible assets	210	1,616
Other financial liabilities	161,887	65,563
Total	**472,999**	**220,785**

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

21. OTHER LIABILITIES

In MDL thousand	31 December 2022	31 December 2021
Other settlements with the state budget	11,947	8,640
Other non-financial liabilities	6,253	9,464
Total	**18,200**	**18,104**

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

22. CAPITAL AND RESERVES

a. Share capital

During the year 2022, there were no changes to the Bank's share capital amounting to MDL 250,000,910 as at 31 December 2022 and 31 December 2021, consisting of 25,000,091 ordinary nominative shares of class I, code ISIN MD14VCTB1004, with a nominal value MDL 10, with voting right, the right to receive dividends, issued in non-material form.

As at 31 December 2022 the Bank has a total of 183 shareholders - individuals and legal entities (31 December 2021: 177 shareholders), among which:

	31 December 2022	31 December 2021
Shareholders with a share equal to or above 1%, among which:	**5 persons**	**5 persons**
Legal entities	1	1
Individuals	4	4
Other shareholders, of which:	**178 persons**	**172 persons**
Legal entities	11	9
Individuals	167	163

	31 December 2022, %	31 December 2021, %
Shareholders with a share equal to or above 1%, among which:		
VB Investment Holding B.V.	72.19	72.19
Ţurcan Victor	10.76	10.76
Ţurcan Valentina	8.07	8.07
Artemenco Elena	4.95	4.95
Proidisvet Galina	1.58	1.58
Other shareholders	2.45	2.45
TOTAL	**100**	**100**

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

b. Other reserves

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

Starting with 2012, general reserves for bank risks were made up of the reported result.

On 31 December 2022, the above-mentioned difference decreased from the balance reflected in the general reserve account for bank risks of 31 December 2021. Thus, the amount of 354,315 MDL'000 was returned in the retained earnings.

c. Statutory reserves

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

d. Fair value reserve

The fair value reserve comprises:

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

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

23. NET INTEREST INCOME

In MDL thousand	2022	2021
Interest income calculated using the effective interest method		
Loans to customers*	543,217	360,414
Current accounts and placements held with NBM, other banks	325,105	22,067
Investment securities at amortized cost	437,403	214,003
Investment securities at FVOCI	1,852	1,242
Total interest income	**1,307,577**	**597,726**

*The interest income on impaired loans for the year ended 31 December 2022 amounted 41,693 MDL'000 (2021: 21,935 MDL'000).

In MDL thousand	2022	2021
Interest expense		
Deposits from customers	(239,325)	(144,261)
Current accounts with banks	(3,160)	(6,027)
Deposits from banks	(485)	(187)
Other borrowings	(7,102)	(3,708)
Operational leasing	(650)	(635)
Financial leasing	(4)	-
Total interest expense	**(250,726)**	**(154,818)**
Net interest income	**1,056,851**	**442,908**

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

In MDL thousand	2022	2021
Financial assets measured at amortized cost	1,305,725	596,484
Financial assets measured at FVOCI	1,852	1,242
Total	**1,307,577**	**597,726**
Financial liabilities measured at amortized cost	**(250,726)**	**(154,818)**

24. NET FEE AND COMMISSION INCOME

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

In MDL thousand	2022	2021 reclassified*
Fee and commissions income		
Bank cards operation	359,081	289,801
Transactions with customers	181,160	152,960
Clearing operations	24,919	24,684
Currency exchange operations	2,120	1,239
Commission for release of guarantees	2,540	3,521
Brokerage fees	956	479
Lending activity	434	726
Other commissions income	15,042	18,510
Total fee and commissions income	**586,252**	**491,920**

Explanatory notes to the financial statements

24. NET FEE AND COMMISSION INCOME (CONTINUED)

Fee and commissions expenses	**2022**	**2021**
Commissions for card services	(303,632)	(216,960)
Payment transactions	(15,635)	(11,585)
Commissions upon cash withdrawal and depositing	(26,640)	(23,121)
Other commissions related to borrowings	(155)	(119)
Total fee and commissions expenses	**(346,062)**	**(251,785)**
Net fee and commission income	**240,190**	**240,135**

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

25. NET TRADING INCOME

In MDL thousand	**2022**	**2021**
Net income from foreign exchange transactions	234,781	146,279
Losses from the revaluation of foreign currency assets and liabilities	16,500	2,236
Dividends on equity investments measured at FVOCI	472	541
Other financial income	435	223
Total	**252,188**	**149,279**

26. OTHER OPERATING INCOME

In MDL thousand	**2022**	**2021**
Other operating income	11,178	14,494
Fines and penalties received	2,582	3,184
Other income	9,074	5,606
Total	**22,834**	**23,284**

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

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

Additional information on impairment of financial assets during the financial years 2022 and 2021 are presented in Note 39.1. (I. Amounts arising from ECL).

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

In MDL thousand	**2022**	**2021**
Cash and balances with the National Bank of Moldova	(2,422)	(100)
Current accounts and placements with banks	1,455	(322)
Debt securities at amortized cost	3,740	(14,892)
Debt securities at FVOCI	19	(15)
Loans to customers at amortized cost	(185,017)	(24,097)
Receivables from sales of collaterals	(904)	5,311
Other financial assets	(3,964)	(4,242)
Loan commitments and financial guarantee contracts	(19,010)	935
Total	**(206,103)**	**(37,422)**

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

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

In MDL thousand	2022	2021
Repossessed collaterals	57,247	41,865
Intangible assets	(318)	-
Total	**56,929**	**41,865**

29. PERSONNEL EXPENSES

In MDL thousand	2022	2021
Salaries and bonuses	(258,910)	(206,869)
Social insurance and contributions	(66,581)	(51,624)
Net expenses with accruals for untaken holidays and other accruals	(12,010)	(2,743)
Other staff expenses (other payments, meal vouchers)	(24,276)	(17,200)
Total	**(361,777)**	**(278,437)**

The average monthly number of employees active in the Bank during 2022 was 1,063 people (in 2021 was 1,046).

The Bank's expenses related to the share-based payments are included in the salaries and bonuses and amounted to MDL 2,084 thousand in 2022 (2021: MDL 1,373 thousand). The related contributions were MDL 484 thousand in 2022 and MDL 330 thousand in 2021.

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

Vesting conditions for 2022 related to SSP 2021:

- Achievement of performance and prudential indicators during 2021;
- Compliance with certain individual eligibility and/or performance criteria, in accordance with the applicable remuneration policy and standard, related to the year for which shares are granted;
- Being an employee upon the granting of the SSP right and when exercising such right (starting from June 2022);

Contractual vesting period for the shares granted for the year 2022 through SSP:

- Release after 1 June 2022;
- Deferral period for the identified personnel – 3 - 5 years, subject to applicable restrictions, pursuant to internal regulations in force.

As at 31 December 2022 the Bank accrued MDL 1,744 thousand for SSP expected to vest in 2023 and MDL 418 thousand of related taxes and contributions (as 31 December 2021 MDL 1,480 thousand for SSP expected to vest in 2022 and MDL 71 thousand of related taxes and contributions).

The total deferred variable remuneration as 31 December 2022, for SSP expected to vest after 31 December 2023 is estimated at MDL 3,583 thousand and MDL 860 thousand of related contributions.

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

Explanatory notes to the financial statements

30. OTHER OPERATING EXPENSES

In MDL thousand	2022	2021
Utilities and rent	(12,480)	(7,685)
Repairs and maintenance expenses	(15,499)	(14,139)
Contribution to the Bank Deposit Guarantee Fund and Resolution Fund	(32,001)	(33,328)
Security and protection	(5,617)	(5,583)
Advertising, marketing, entertainment and sponsorship expenses	(20,719)	(13,107)
Expenses for maintaining intangible assets	(44,968)	(34,871)
Mail, telecommunication and SMS traffic expenses	(11,890)	(10,606)
Stationery and supplies	(3,034)	(2,543)
Audit, advisory and legal expenses	(16,622)	(18,576)
Training	(1,878)	(1,896)
Travel and transportation	(2,785)	(712)
Expenses related to the disposal of other assets	(5,780)	(1,892)
Taxes and penalties	(625)	(710)
Success fees for insolvency administrators	(2,873)	(2,882)
Other operating expenses	(57,196)	(36,556)
Total	**(233,967)**	**(185,086)**

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

Consulting, audit and lawyers' fees include the following amounts paid to auditors:

	2022	2021
Statutory audit services	1,635,027	1,468,351
Services non-audit	944,194	1,013,689

31. DEPRECIATION

In MDL thousand	2022	2021
Property and equipment (Note 9)	(45,250)	(31,559)
Right-of-use assets (Note 11)	(33,241)	(32,125)
Intangible assets (Note 10)	(15,017)	(13,082)
Total	**(93,508)**	**(76,765)**

32. INCOME TAX EXPENSES

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

Income tax recognized in profit and loss account

In MDL thousand	31 December 2022	31 December 2021
Current tax		
Current tax expenses	(92,145)	(41,589)
Deferred tax		
Deferred tax (expenses) / income	285	(39)
Total income tax expenses recognized during the year	**(91,860)**	**(41,628)**

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

32. INCOME TAX EXPENSES (CONTINUED)

Income tax expenses reconciles to profit before tax as follows:

In MDL thousand		2022		2021
Profit before tax		**733,636**		**319,859**
Tax using the Bank's domestic tax rate	12.00%	(88,036)	12.00%	(38,383)
Tax effect of non-deductible expenses	0.54%	(3,944)	1.04%	(3,335)
Tax-exempt income	(0.02%)	120	(0.03%)	90
Income tax expense recognized in profit and loss account	12.52%	**(91,860)**	13.01%	**(41,628)**

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

Income tax recognized in other comprehensive income

In MDL thousand	31 December 2022	31 December 2021
Current income tax		
Current tax	-	-
Deferred income tax		
Change in fair value of debt investment securities designated at FVOCI	43	5
Change in fair value of equity investments securities designated at FVOCI	(18)	(38)
Total income tax recognized in other comprehensive income	**25**	**(33)**

33. GUARANTEES AND OTHER FINANCIAL COMMITMENTS

The cumulated amounts of guarantees in balance and other off balance sheet elements as at 31 December 2022 and 2021:

In MDL thousand	31 December 2022	31 December 2021
Letters of credit	988	-
Issued guarantees	84,687	83,976
Commitments to issue guarantees	81,183	79,975
Loan commitments	724,922	533,010
Total	**891,780**	**696,961**

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

34. CONTINGENT LIABILITIES AND LITIGATIONS

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

Based on consultations with its lawyers and understanding the risks associated with the case, the Bank did not recognize any provision related to this dispute as of 31 December 2022 and as of 31 December 2021. The Bank will monitor the evolution of the topic at each reporting date, in accordance with the relevant provisions of the accounting standards and regulations.

The Bank is also involved as defendant in a number of other litigations as at 31 December 2022 and 31 December 2021, emerged from normal banking activities.

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

35. BASIC EARNINGS PER SHARE

MDL thousand	**31 December 2022**	**31 December 2021**
Profit for the year	641,777	278,231
The number of ordinary shares	25,000,091	25,000,091
Basic earnings per share	**25.67**	**11.13**

The basic earnings per share is calculated by dividing the net profit for the year attributable to the holders of ordinary equity by the average weighted number of ordinary shares issued during the year. The calculation of the basic earnings per share as at 31 December 2022 and as at 31 December 2021 was based on the number of outstanding shares during the period, this number being unmodified – 25,000,091 – since 2011.

As at 31 December 2022 and 2021 there were no diluted equity instruments issued by the Bank.

36. SEGMENT REPORTING

The Bank's segment reporting is presented in accordance with the internal requirements of the Management. The operational segments correspond to the internal reports to the Executive Management and the Board of Administration.

All assets and liabilities, income and expenses presented are allocated to operating segments either directly or on the basis of criteria established by Management.

The Bank's operating segments are set out below:

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

SME customers: legal entities with an annual turnover (sales revenue) up to MDL 50 million according to the financial statements presented, Non-compliant entities in the criteria of Corporate Client, including the entities for which it is not possible to identify the turnover.

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

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

Others: The Bank includes in this category cash, tangible and intangible assets, assets related to the right of use and other assets that cannot be directly identified.

As of December 31, 2022 and December 31, 2021, no customer generated more than 10% of total revenue for the Bank.

Explanatory notes to the financial statements

36. SEGMENT REPORTING (CONTINUED)

We present below segmented financial information on the statement of financial position and operating profit before income tax expenses, net expenses for expected losses from impairment of loans and advances to customers and conditional commitment provisions and litigations as of December 31, 2022 and comparative data for 2021:

Reportable segments as of December 31, 2022

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

Reportable segments as of December 31, 2021

MDL thousand	Corporate	SME	Individuals	Treasury	Others	Total
Loans to customers	1,766,213	619,743	2,726,930	-	-	**5,112,886**
Expected credit loss allowances	*(293,250)*	*(33,122)*	*(123,266)*	-	-	*(449,638)*
Current accounts and placements with NBM and banks	-	-	-	5,449,746	-	**5,449,746**
Debt and equity instruments	-	-	-	4,634,942	-	**4,634,942**
Other assets	13,720	5,377	1,260	-	1,798,161	**1,818,518**
Total assets	**1,486,683**	**591,999**	**2,604,923**	**10,084,688**	**1,798,161**	**16,566,454**
Deposits from banks	-	-	-	70,800	-	**70,800**
Deposits from customers	2,811,326	2,355,985	7,641,078	-	-	**12,808,389**
Other borrowings	75,501	68,871	-	-	-	**144,372**
Provisions for other risks and loan commitments	10,637	3,114	1,959	-	2,314	**18,024**
Other liabilities	-	-	-	-	304,975	**304,975**
Total liabilities	**2,897,463**	**2,427,970**	**7,643,037**	**70,800**	**307,289**	**13,346,560**
Equity	-	-	-	-	3,219,894	**3,219,894**
Total liabilities and equity	**2,897,463**	**2,427,970**	**7,643,037**	**70,800**	**3,527,183**	**16,566,454**

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

Explanatory notes to the financial statements

36. SEGMENT REPORTING (CONTINUED)

Reportable segments as of December 31, 2022

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

Reportable segments as of December 31, 2021

MDL thousand	Corporate	SME	Individuals	Treasury	Total
Net interest income	66,935	49,209	190,327	136,437	**442,908**
Net commission income	37,517	41,533	155,941	5,144	**240,135**
Net trading income	28,371	21,078	16,925	82,906	**149,279**
Other operating income	2,458	3,963	14,670	2,193	**23,284**
Total income	**135,281**	**115,783**	**377,863**	**226,680**	**855,607**
Personnel expenses	42,370	47,966	151,192	36,909	**278,437**
Other operating expenses	40,469	44,294	147,218	29,871	**261,851**
Total expenses	**82,839**	**92,260**	**298,410**	**66,780**	**540,289**
Operating income before net impairment expenses, provisions for contingent liabilities/litigation and income tax	**52,442**	**23,523**	**79,453**	**159,900**	**315,318**

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

37. FAIR VALUE OF THE FINANCIAL INSTRUMENTS

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

Level 1 in the fair value hierarchy

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

Level 2 in the fair value hierarchy

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

Level 3 in the fair value hierarchy

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

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

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

37. FAIR VALUE OF THE FINANCIAL INSTRUMENTS (CONTINUED)

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

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

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

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

The equity securities in the Bank's portfolio do not have an active market, so their fair value was classified at level 3. At Level 3 in the fair value hierarchy, the Bank has also classified the following financial assets: loans to customers and other financial assets. The fair value of the loans represents the value of future cash flows updated at the market rate (published by the NBM) as to determine their fair value.

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

37. FAIR VALUE OF THE FINANCIAL INSTRUMENTS (CONTINUED)

The following table shows the fair value and fair value hierarchy for financial assets and liabilities as at 31 December 2021:

31 December 2021		**Carrying**			**Fair value hierarchy**	
In MDL thousand	**Notes**	**amount**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Financial assets						
Current accounts and placements with banks	**5**	2,214,905	2,214,905	-	2,214,905	-
Financial assets measured at amortized cost – debt instruments	**6**	4,613,811	4,605,847	-	4,605,847	-
Debt securities at fair value through other comprehensive income	**6**	17,924	17,924	-	17,924	-
Equity securities at fair value through other comprehensive	**8**	3,207	3,207	-	-	3,207
Loans to customers	**7**	4,663,248	4,376,333	-	-	4,376,333
Other financial assets	**12**	341,148	341,148	-	-	341,148
Total		**11,854,243**	**11,559,364**	**-**	**6,838,676**	**4,720,688**
Financial liabilities						
Deposits from banks	**16**	70,800	70,800	-	70,800	-
Deposits from customers	**17**	12,808,389	12,783,085	-	8,607,157	4,175,928
Other borrowings	**15**	144,372	144,372	-	-	144,372
Other financial liabilities	**20**	220,785	220,785	-	-	220,785
Total		**13,244,346**	**13,219,042**	**-**	**8,677,957**	**4,541,085**

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

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

The equity securities in the Bank's portfolio do not have an active market, so their fair value was classified at level 3.

At Level 3 in the fair value hierarchy, the Bank has also classified the following financial assets: frozen Nostro account, loans to customers and other financial assets. The fair value of the loans represents the value of future cash flows updated at the market rate (published by the NBM) as to determine their fair value.

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

38. RELATED PARTIES

The main shareholders of the Bank, holding individually more than 1% of the share capital, are disclosed in Note 22.

The Bank engages in transactions with shareholders, key management personnel and other related parties.

During 2022 banking transactions with related parties were conducted in the normal course of business. These include lending, deposit taking and making transactions in national and foreign currency. All these transactions were carried out under similar conditions, including the interest rates and terms on similar transactions with customers.

Transactions with other related parties include transactions with shareholders and key personnel family members and companies where they are shareholders and pursuing a relationship with the Bank.

The balances, income and expenses resulting from related party transactions carried out during the year are presented below:

			2022				2021	
In MDL thousand	**Shareholders > 1 %**	**Key-management personnel**	**Other related parties**	**Total**	**Shareholders > 1 %**	**Key-management personnel**	**Other related parties**	**Total**
Balance								
Current accounts to banks	41,196	-	-	**41,196**	36,506	-	-	**36,506**
Loans to customers	-	188	233,663	**233,851**	-	1,685	105,100	**106,785**
Deposits from customers	15,489	7,291	35,903	**58,683**	13,126	4,869	29,781	**47,776**
Commitments								
Given loan commitments and financial guarantees	-	279	2,441	**2,720**	-	260	45	**305**
Income and expenses								
Interest income	383	42	6,704	**7,129**	46	108	2,545	**2,699**
Fee and commissions income	37	47	263	**347**	41	21	237	**299**
Interest expenses	(4,232)	(111)	(94)	**(4,437)**	(2,565)	(14)	(16)	**(2,595)**
Fee and commissions expenses	(418)	-	-	**(418)**	(213)	-	-	**(213)**

Remuneration of directors

The total amount of remuneration expenses for executive management was MDL’000 26,986 for the year 2022 (2021: MDL’000 21,977). The amount of expenses for the remuneration of the Board of Administration was MDL’000 10,469 for the year 2022 (2021: MDL’000 7,584).

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

39. FINANCIAL RISK MANAGEMENT

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

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

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

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

39.1 Credit Risk

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

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

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

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

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

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

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

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

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

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

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

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit Risk (continued)

To minimize credit risk, the Bank has internal acts and laws designed to assess the financial condition of customers before granting loans, to monitor their ability to repay principal and interest on loans during the development and set exposure limits.

Both in the case of securities and bank guarantees for investments, PD parameter is determined based on studies of Moody's rating companies, taking into account the estimated PD sites for both corporate and sovereign level estimates.

Exposure to correspondent banks are restricted by the limits covering balance sheet or off-balance sheet exposures and daily delivery risk limits on trade items such as foreign exchange contracts. To determine the limits on counterparty valuations and rating agencies use Moody's, Standard & Poor's and IBCA assigned Fitch- counterparty or country resident financial situation, AML policies, transparency and competence shareholders Executive Board. The Bank monitors compliance with the limits daily balances on correspondent accounts registered.

I. Amounts arising from expected credit losses (ECL)

Significant increase of the credit risk

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

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

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

The Bank defines three risk stages:

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

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

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

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

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

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

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

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit Risk (continued)

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

Criteria for selecting the increase in the degree of risk

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

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

- Delays to the planned payments which exceed 30 days but are less than 91 days;
- Forbearance performing exposures in the probationary period of at least 2 (two) years will be included in stage 2 until the transfer conditions in the “High-performing exposures” category are met;
- The loan was classified according to National Bank of Moldova regulation in the “C” prudential category;
- The absence of significant cash flow operations for the last 45 days (at least 1000 MDL).

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

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

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

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

a) In case of exposures to which no restructuring operations have been applied, they will remain for a period of at least 6 months - the "quarantine period" in the Default loans group. The “quarantine period” (6 months) will be counted from the moment when no Default criteria are met.

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

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit Risk (continued)

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

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

After the “quarantine period”, for the transfer of exposures from the category of non-performing restructured exposures (stage 3) to the category of performing restructured exposures (stage 2), the conditions set out in the “Restructured loans exposure management Procedure under B.C. Victoriabank S.A.” must be met.

During 2022, the payments for 5 credits were restructured, whose exposure to the situation as of December 31, 2022 is the total amount of MDL 2,414 thousand, all of which are exposures in Stage 3.
During 2021, the payments for 7 credits were restructured, whose exposure to the situation as of December 31, 2021 is the total amount of MDL 13,923 thousand, of which the amount of MDL 13,100 thousand are exposures in Stage 3.

Incorporating forward-looking information

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

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

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

In 2022, the Bank reviewed the forward-looking calculation model used in determining the PD rates, updating the relevant indicators used in estimating the forecasted default rates.

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

Baseline scenario	**Q4 2022**	**2023**	**2024**	**2025**
Gross domestic product, %	10.49	13.58	13.18	13.35
Average monthly consumption expenditure per person (%, YoY)	7.39	8.30	8.87	8.76
Gross salary, nominal, %	15.77	14.97	14.25	13.82
Unemployment rate, %	2.54	2.61	2.62	2.58
Inflation, %	32.09	15.86	10.84	9.87
Price of construction assembly works (%)	25.62	22.42	18.40	18.16
Interest rate on new loans granted, national currency, %	14.20	10.90	9.55	8.61
Interest rate on new loans granted, foreign currency, %	4.69	4.76	4.82	4.80
Interest rate on newly attracted deposits, national currency, %	13.06	8.68	6.79	5.61
Interest rate on newly attracted deposits, foreign currency, %	1.79	1.67	1.41	1.49
Base rate, %	21.06	14.38	11.25	9.25
Exchange rate USD/MDL	19.36	18.79	17.76	17.72
Exchange rate EUR/MDL	19.71	19.63	19.53	19.49
Interest rate on treasury bills, 1Y	21.54	15.34	11.88	9.71

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

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit Risk (continued)

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

Optimistic scenario	**Q4 2022**	**2023**	**2024**	**2025**
Gross domestic product, %	17.05	20.15	19.75	19.92
Average monthly consumption expenditure per person (%, YoY)	13.77	14.68	15.25	15.14
Gross salary, nominal, %	18.65	17.85	17.13	16.70
Unemployment rate, %	0.87	0.94	0.95	0.92
Inflation, %	25.91	9.69	4.67	3.70
Price of construction assembly works (%)	21.07	17.87	13.86	13.61
Interest rate on new loans granted, national currency, %	12.89	9.59	8.25	7.30
Interest rate on new loans granted, foreign currency, %	4.47	4.54	4.60	4.57
Interest rate on newly attracted deposits, national currency, %	11.62	7.24	5.35	4.17
Interest rate on newly attracted deposits, foreign currency, %	1.60	1.48	1.22	1.30
Base rate, %	16.07	9.38	6.26	4.26
Exchange rate USD/MDL	16.54	15.97	14.94	14.90
Exchange rate EUR/MDL	17.69	17.61	17.51	17.47
Interest rate on treasury bills, 1Y	18.67	12.47	9.01	6.84

Pessimistic scenario	**Q4 2022**	**2023**	**2024**	**2025**
Gross domestic product, %	3.92	7.01	6.61	6.78
Average monthly consumption expenditure per person (%, YoY)	1.01	1.92	2.49	2.38
Gross salary, nominal, %	12.89	12.10	11.38	10.95
Unemployment rate, %	4.20	4.28	4.29	4.25
Inflation, %	38.26	22.03	17.01	16.04
Price of construction assembly works (%)	30.17	26.97	22.95	22.71
Interest rate on new loans granted, national currency, %	16.81	13.51	12.16	11.22
Interest rate on new loans granted, foreign currency, %	5.13	5.20	5.27	5.24
Interest rate on newly attracted deposits, national currency, %	15.93	11.55	9.66	8.48
Interest rate on newly attracted deposits, foreign currency, %	2.16	2.04	1.78	1.86
Base rate, %	26.05	19.37	16.24	14.24
Exchange rate USD/MDL	22.18	21.61	20.58	20.54
Exchange rate EUR/MDL	21.73	21.65	21.55	21.51
Interest rate on treasury bills, 1Y	27.28	21.08	17.62	15.45

The table below lists the macroeconomic assumptions over the three-year period, used as an input into expected credit losses as at 31 December 2021:

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

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit Risk (continued)

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

Baseline	Q4 2021	2022	2023	2024
Gross domestic product, %	17.0	14.7	10.1	10.6
Average monthly consumption expenditure per person (%, YoY)	20.7	12.6	8.9	9.9
Gross salary, nominal, %	18.7	8.8	10.4	10.0
Unemployment rate, %	3.4	3.5	3.4	3.3
Inflation, %	9.2	10.6	4.1	5.4
Price of construction assembly works (%)	19.0	13.0	6.6	6.6
Interest rate on new loans granted, national currency, %	7.0	8.8	8.3	7.8
Interest rate on new loans granted, foreign currency, %	3.9	4.1	4.2	4.6
Interest rate on newly attracted deposits, national currency, %	3.3	5.1	4.6	4.1
Interest rate on newly attracted deposits, foreign currency, %	0.4	0.7	0.7	0.9
Base rate, %	5.6	7.3	5.1	5.0
Exchange rate USD/MDL	17.63	17.65	17.18	16.41
Exchange rate EUR/MDL	20.34	20.46	19.90	19.36
Interest rate on treasury bills, 1Y	6.3	6.6	5.4	5.2

Optimistic scenario	Q4 2021	2022	2023	2024
Gross domestic product, %	29.8	18.2	13.7	14.4
Average monthly consumption expenditure per person (%, YoY)	21.9	17.3	13.9	15.5
Gross salary, nominal, %	18.4	9.5	11.5	11.8
Unemployment rate, %	2.8	3.4	3.2	3.1
Inflation, %	7.3	10.2	3.9	5.2
Price of construction assembly works (%)	25.8	15.1	7.7	7.9
Interest rate on new loans granted, national currency, %	6.0	6.0	8.3	6.4
Interest rate on new loans granted, foreign currency, %	3.4	3.4	3.7	3.6
Interest rate on newly attracted deposits, national currency, %	2.6	2.6	4.5	2.9
Interest rate on newly attracted deposits, foreign currency, %	0.2	0.2	0.5	0.3
Base rate, %	5.6	6.5	4.3	4.0
Exchange rate USD/MDL	17.07	17.19	16.42	16.37
Exchange rate EUR/MDL	19.70	19.92	19.03	19.32
Interest rate on treasury bills, 1Y	6.0	5.3	2.4	3.9

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit Risk (continued)

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

Pessimistic scenario	Q4 2021	2022	2023	2024
Gross domestic product, %	7.3	11.2	6.3	6.5
Average monthly consumption expenditure per person (%, YoY)	13.3	3.4	(2.8)	(4.6)
Gross salary, nominal, %	11.6	5.5	8.0	7.7
Unemployment rate, %	4.8	4.1	4.0	3.8
Inflation, %	10.7	14.1	6.6	6.3
Price of construction assembly works (%)	16.6	11.8	6.1	6.2
Interest rate on new loans granted, national currency, %	8.0	9.0	11.0	8.4
Interest rate on new loans granted, foreign currency, %	4.9	4.5	4.7	4.6
Interest rate on newly attracted deposits, national currency, %	4.1	5.2	6.9	4.1
Interest rate on newly attracted deposits, foreign currency, %	0.7	1.0	1.3	1.1
Base rate, %	6.5	7.6	7.7	7.0
Exchange rate USD/MDL	18.35	18.60	18.95	19.01
Exchange rate EUR/MDL	21.00	21.56	21.96	22.44
Interest rate on treasury bills, 1Y	7.8	8.5	6.2	5.7

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

The weights of the scenarios were set at another level of concretization (optimistic 2.5%, baseline 50.0%, pessimistic 47.5%), in determining the adjustments for depreciation on 31 December 2022 compared to 31 December 2021.

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

For loans granted to individuals:

- Annual inflation rate;
- Gross domestic product;
- Base rate;
- Unemployment rate;
- Interest rate on new loans granted, foreign currency;
- Interest rate on newly attracted deposits, foreign currency.

For loans granted to legal entities:

- Annual inflation rate;
- Base rate;
- Interest rate on new loans granted, foreign currency.

The table below illustrates the impact of setting maximum weights for each scenario as at 31 December 2022 :

Weight of scenarios	100% pessimistic	100% baseline	100% optimistic
Change in ECL, *MDL thousand*	1,640	(1,299)	(5,170)

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

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

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit Risk (continued)

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

The determination of the expected loss of credit (ECL)

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

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

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

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

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

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

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

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

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

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

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit Risk (continued)

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

Credit quality analysis depending on the class of financial assets

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

				31 December 2021
In MDL thousand	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and Balances with National Bank of Moldova	4,298,142	-	-	4,298,142
Current accounts and placements with banks	2,216,793	-	-	2,216,793
Investment securities measured at amortized cost	4,660,255	-	-	4,660,255
Investment securities measured at FVOCI	17,924	-	-	17,924
Loans to customers	3,702,480	801,131	609,275	5,112,886
Other financial assets	324,337	-	53,890	378,227
Expected credit loss allowance for financial assets	*(138,647)*	*(50,151)*	*(349,660)*	*(538,458)*
Carrying amount	**15,081,284**	**750,980**	**313,505**	**16,145,769**

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

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit Risk (continued)

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

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

31 December 2022

In MDL thousand	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and Balances with National Bank of Moldova				
Current	7,062,459	-	-	7,062,459
Overdue ≤ 30 days	-	-	-	-
Overdue > 30 days ≤ 90 days	-	-	-	-
Overdue > 90 days	-	-	-	-
Loss allowance	(5,671)	-	-	(5,671)
Carrying amount	**7,056,788**	-	-	**7,056,788**
Current accounts and placements with banks				
Current	1,102,067	-	-	1,102,067
Overdue ≤ 30 days	-	-	-	-
Overdue > 30 days ≤ 90 days	-	-	-	-
Overdue > 90 days	-	-	-	-
Loss allowance	(784)	-	-	(784)
Carrying amount	**1,101,283**	-	-	**1,101,283**
Investment securities measured at amortized cost				
Current	4,479,836	-	-	4,479,836
Overdue ≤ 30 days	-	-	-	-
Overdue > 30 days ≤ 90 days	-	-	-	-
Overdue > 90 days	-	-	-	-
Loss allowance	(42,725)	-	-	(42,725)
Carrying amount	**4,437,111**	-	-	**4,437,111**
Investment securities measured at FVOCI				
Current	16,516	-	-	16,516
Overdue ≤ 30 days	-	-	-	-
Overdue > 30 days ≤ 90 days	-	-	-	-
Overdue > 90 days	-	-	-	-
Loss allowance	(201)	-	-	(201)
Carrying amount	**16,315**	-	-	**16,315**

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

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit Risk (continued)

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

31 December 2022

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

31 December 2021

In MDL thousand	Stage 1	Stage 2	Stage 3	Total
Cash and Balances with National Bank of Moldova				
Current	4,298,143	-	-	4,298,143
Overdue ≤ 30 days	-	-	-	-
Overdue > 30 days ≤ 90 days	-	-	-	-
Overdue > 90 days	-	-	-	-
Loss allowance	(3,190)	-	-	(3,190)
Carrying amount	**4,294,953**	-	-	**4,294,953**
Current accounts and placements with banks				
Current	2,216,793	-	-	2,216,793
Overdue ≤ 30 days	-	-	-	-
Overdue > 30 days ≤ 90 days	-	-	-	-
Overdue > 90 days	-	-	-	-
Loss allowance	(1,888)	-	-	(1,888)
Carrying amount	**2,214,905**	-	-	**2,214,905**

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

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit Risk (continued)

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

31 December 2021

In MDL thousand	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Investment securities measured at amortized cost				
Current	4,660,255	-	-	4,660,255
Overdue ≤ 30 days	-	-	-	-
Overdue > 30 days ≤ 90 days	-	-	-	-
Overdue > 90 days	-	-	-	-
Loss allowance	(46,444)	-	-	(46,444)
Carrying amount	**4,613,811**	-	-	**4,613,811**
Investment securities measured at FVOCI				
Current	17,924	-	-	17,924
Overdue ≤ 30 days	-	-	-	-
Overdue > 30 days ≤ 90 days	-	-	-	-
Overdue > 90 days	-	-	-	-
Loss allowance	(220)	-	-	(220)
Carrying amount	**17,704**	-	-	**17,704**
Loans to customers				
Current	3,606,590	765,624	20,386	4,392,600
Overdue ≤ 30 days	95,885	13,578	5,911	115,374
Overdue > 30 days ≤ 90 days	5	21,929	11,790	33,724
Overdue > 90 days	-	-	571,188	571,188
Loss allowance	(83,352)	(50,151)	(316,135)	(449,638)
Carrying amount	**3,619,128**	**750,980**	**293,140**	**4,663,248**
Other financial assets				
Current	324,336	-	15,706	340,042
Overdue ≤ 30 days	-	-	-	-
Overdue > 30 days ≤ 90 days	-	-	-	-
Overdue > 90 days	-	-	38,185	38,185
Loss allowance	(3,553)		(33,526)	(37,079)
Carrying amount	**320,783**	**-**	**20,365**	**341,148**

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

31 December 2022

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

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

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit Risk (continued)

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

31 December 2022

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

31 December 2021

In MDL thousand	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Current accounts and placements with banks				
Standard	2,063,671	-	-	2,063,671
Supervised (Watch)	93,844	-	-	93,844
Substandard	56,497	-	-	56,497
Doubtful	2,781	-	-	2,781
Compromised (losses)	-	-	-	-
Loss allowance	(1,888)			(1,888)
Carrying amount	**2,214,905**	-	-	**2,214,905**

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

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit Risk (continued)

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

31 December 2021

In MDL thousand	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Investment securities measured at amortized cost				
Standard	4,477,560	-	-	4,477,560
Supervised (Watch)	182,695	-	-	182,695
Substandard	-	-	-	-
Doubtful	-	-	-	-
Compromised (losses)	-	-	-	-
Loss allowance	(46,444)			(46,444)
Carrying amount	**4,613,811**	-	-	**4,613,811**
Loans to customers				
Standard	3,110,828	169,376	5,942	3,286,146
Supervised (Watch)	591,074	610,513	9,898	1,211,485
Substandard	552	21,003	8,726	30,281
Doubtful	26	239	29,378	29,643
Compromised (losses)	-	-	555,331	555,331
Loss allowance	(83,352)	(50,151)	(316,135)	(449,638)
Carrying amount	**3,619,128**	**750,980**	**293,140**	**4,663,248**
Other financial assets				
Standard	322,863	-	-	322,863
Supervised (Watch)	1,471	-	-	1,471
Substandard	3	-	212	214
Doubtful	-	-	9	9
Compromised (losses)	-	-	53,670	53,670
Loss allowance	(3,554)		(33,526)	(37,079)
Carrying amount	**320,783**	-	**20,365**	**341,148**

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

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit Risk (continued)

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

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

In MDL thousand	2022	2021
Cash and Balances with National Bank of Moldova		
Balance at 1 January	3,189	3,130
Net remeasurement of loss allowance	2,422	100
Other adjustments (including exchange rate influence)	60	(41)
Balance at 31 December	**5,671**	**3,189**
Current accounts and placements with banks		
Balance at 1 January	1,887	1,597
Net change due to changes without recognition	2,631	590
Increases due to initiation and acquisition	1,157	852
Decreases due to derecognition	(5,243)	(1,120)
Other adjustments (including exchange rate influence)	352	(32)
Balance at 31 December	**784**	**1,887**
Investment securities measured at amortized cost		
Balance at 1 January	46,444	31,616
Net change due to changes without recognition	8,136	2,497
Increases due to initiation and acquisition	56,676	73,160
Decreases due to derecognition	(68,552)	(60,766)
Other adjustments (including exchange rate influence)	21	(63)
Balance at 31 December	**42,725**	**46,444**
Investment securities measured at FVOCI		
Balance at 1 January	220	206
Net change due to changes without recognition	106	(502)
Increases due to initiation and acquisition	180	935
Decreases due to derecognition	(305)	(418)
Other adjustments (including exchange rate influence)	-	-
Balance at 31 December	**201**	**220**

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit Risk (continued)

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

	31 December 2022				31 December 2021			
In MDL thousand	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost								
Balance at 1 January	83,352	50,151	316,135	449,638	65,919	40,284	295,132	401,335
Transfer to Stage 1	10,591	(7,369)	(3,222)	-	11,812	(4,081)	(7,731)	-
Transfer to Stage 2	(2,853)	3,724	(871)	-	(3,672)	4,617	(945)	-
Transfer to Stage 3	(3,997)	(5,279)	9,276	-	(1,244)	(2,230)	3,474	-
Net remeasurement of loss allowance	28,214	3,271	152,719	184,204	(45,742)	16,662	48,391	19,311
New financial assets originated or purchased	72,736	-	-	72,736	68,311	-	-	68,311
Financial assets that have been derecognized	(21,092)	(5,105)	(17,999)	(44,196)	(11,534)	(3,746)	(6,198)	(21,478)
Write-offs	-	-	(127,361)	(127,361)	-	-	(11,177)	(11,177)
Foreign exchange and other movements	263	343	3,758	4,364	(498)	(1,356)	(4,811)	(6,664)
Balance at 31 December	**167,214**	**39,736**	**332,435**	**539,385**	**83,352**	**50,151**	**316,135**	**449,638**

	31 December 2022				31 December 2021			
In MDL thousand	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to retail customers								
Balance at 1 January	54,451	5,358	63,457	123,266	30,657	3,937	61,219	95,813
Transfer to Stage 1	4,311	(1,089)	(3,222)	-	9,072	(1,564)	(7,508)	-
Transfer to Stage 2	(643)	1,256	(613)	-	(339)	1,141	(802)	-
Transfer to Stage 3	(3,627)	(3,453)	7,080	-	(1,103)	(1,589)	2,692	-
Net remeasurement of loss allowance	22,177	7,704	68,061	97,942	(8,218)	3,760	24,772	20,314
New financial assets originated or purchased	34,218	-	-	34,218	33,245	-	-	33,245
Financial assets that have been derecognized	(13,708)	(725)	(6,693)	(21,126)	(8,824)	(327)	(5,916)	(15,067)
Write-offs	-	-	(24,283)	(24,283)	-	-	(11,175)	(11,175)
Foreign exchange and other movements	-	-	-	-	(39)	-	175	136
Balance at 31 December	**97,179**	**9,051**	**103,787**	**210,017**	**54,451**	**5,358**	**63,457**	**123,266**

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

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit Risk (continued)

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

	31 December 2022				31 December 2021			
In MDL thousand	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to corporate customers								
Balance at 1 January	28,901	44,793	252,678	326,372	35,261	36,346	233,915	305,522
Transfer to Stage 1	6,280	(6,280)	-	-	2,740	(2,517)	(223)	-
Transfer to Stage 2	(2,211)	2,468	(258)	-	(3,333)	3,476	(143)	-
Transfer to Stage 3	(370)	(1,827)	2,197	-	(141)	(641)	782	-
Net remeasurement of loss allowance	6,038	(4,432)	84,657	86,261	(37,525)	12,902	23,617	(1,006)
New financial assets originated or purchased	38,519	-	-	38,519	35,067	-	-	35,067
Financial assets that have been derecognized	(7,384)	(4,380)	(11,306)	(23,070)	(2,710)	(3,418)	(282)	(6,410)
Write-offs	-	-	(103,078)	(103,078)	-	-	(2)	(2)
Foreign exchange and other movements	263	343	3,758	4,364	(458)	(1,355)	(4,986)	(6,799)
Balance at 31 December	**70,036**	**30,685**	**228,648**	**329,368**	**28,901**	**44,793**	**252,678**	**326,372**

	31 December 2022				31 December 2021			
In MDL thousand	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Other financial assets - receivables from sales of collaterals								
Balance at 1 January	-	-	20,305	20,305	12	-	30,780	30,792
Transfer to Stage 1	-	-	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	(12)	-	12	-
Net remeasurement of loss allowance	-	-	5,908	5,908	-	40	(3,669)	(3,629)
New financial assets originated or purchased	-	-	-	-	-	-	-	-
Financial assets that have been derecognized			(5,004)	(5,004)	-	(16)	(1,666)	(1,682)
Write-offs	-	-	(10,264)	(10,264)	-	(24)	(4,746)	(4,770)
Foreign exchange and other movements			(1)	(1)	-	-	(405)	(405)
Balance at 31 December	-	-	**10,944**	**10,944**	-	-	**20,305**	**20,305**

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

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit Risk (continued)

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

In MDL thousand	31 December 2022	31 December 2021
Other financial assets – other receivables		
Balance at 1 January	16,773	12,985
Net remeasurement of loss allowance	4,276	5,428
New financial assets originated or purchased	986	3,539
Financial assets that have been derecognized	(1,267)	(4,704)
Write-offs	(2,344)	(411)
Foreign exchange and other movements	60	(66)
Balance at 31 December	**18,484**	**16,773**

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

				31 December 2021
In MDL thousand	**Stadiu 1**	**Stadiu 2**	**Stadiu 3**	**Total**
Loan commitments and financial guarantee contracts				
Balance at 1 January	7,103	8,958	707	16,768
Transfer to Stage 1	378	(132)	(246)	-
Transfer to Stage 2	(558)	591	(33)	-
Transfer to Stage 3	(2)	-	2	-
Net remeasurement of loss allowance	(18,420)	(4,085)	781	(21,724)
New financial assets originated or purchased	29,313	-	-	29,213
Financial assets that have been derecognized	(7,225)	(829)	(469)	(8,523)
Write-offs	-	-	-	-
Foreign exchange and other movements	(119)	(19)	14	(124)
Balance at 31 December	**10,470**	**4,484**	**756**	**15,710**

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

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit Risk (continued)

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

The following table presents a reconciliation between:

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

2022

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

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

B.C. VICTORIABANK S.A.

Explanatory notes to the financial statements

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit Risk (continued)

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

	2021								
In MDL thousand	**Cash and Balances with National Bank of Moldova**	**Current accounts and placements with banks**	**Investment securities at amortized cost**	**Investment securities measured at FVOCI**	**Loans to customers at amortized cost**	**Other financial assets - Receivables from sales of collateral**	**Other financial assets – other receivables**	**Loan commitments and financial guarantee contracts**	**Total**
Net remeasurement of loss allowance	100	(530)	(58,268)	(920)	(2,167)	(5,311)	723	(30,248)	(96,621)
New financial assets originated or purchased	-	852	73,160	935	68,311	-	3,539	29,313	176,110
Total	**100**	**322**	**14,892**	**15**	**66,144**	**(5,311)**	**4,262**	**(935)**	**79,489**
Recoveries of amounts previously written off	-	-	-	-	(42,047)	-	(20)	-	(42,067)
Total	**100**	**322**	**14,892**	**15**	**24,097**	**(5,311)**	**4,242**	**(935)**	**37,422**

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

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit Risk (continued)

II. **Collateral held**

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

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

Retail customers

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

In MDL thousand	31 December 2022	31 December 2021
Property	2,325,474	2,236,829
Security interests in movable property	805	1,862
Total	**2,326,279**	**2,238,691**

Mortgage lending

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

In MDL thousand

LTV ratio	Note	31 December 2022	31 December 2021
Less than 50%		188,726	164,554
51-70%		211,553	212,425
71-90%		284,844	261,363
91-100%		27,974	19,113
More than 100%		664,455	702,626
Total	**7**	**1,377,552**	**1,360,080**

* The gross value of mortgage loans in the amount of MDL’000 663,650 with an LTV ratio higher than 100% (2021: MDL’000 702,626) represent loans granted under the state program "First House". The amount of collateral for these loans is considered to be only 50% of the value. The other 50% of the credit exposure are covered by state guarantees.

Corporate customers

In MDL thousand	Note	31 December 2022		31 December 2021	
		Gross value	Collateral amount	Gross value	Collateral amount
Stages 1 and 2		2,478,727	6,393,785	1,849,533	5,982,712
Stages 3		379,599	1,075,659	536,374	1,617,150
Total	**7**	**2,858,326**	**7,469,444**	**2,385,907**	**7,599,861**

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

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit Risk (continued)

III. Concentration of credit risk

The Bank monitors concentrations of credit risk by sector and by geographic location and industrial sectors.

The analysis of the exposure to credit risk related to financial assets by geographical regions and industrial sectors at 31 December 2022 and 31 December 2021 are presented below:

Concentration of credit risk by geographic location

31 December 2022

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

31 December 2021

In MDL thousand	**Moldova**	**OECD countries**	**Non-OECD countries**	**Total**
Current accounts and placements with banks	1	2,083,484	131,420	2,214,905
Investment securities – debt instruments	4,450,200	-	181,535	4,631,735
Equity investment securities designated as at FVOCI	2,477	730	-	3,207
Loans to customers	4,663,248	-	-	4,663,248
Other financial assets	107,372	233,776	-	341,148
Total	**9,223,298**	**2,317,990**	**312,955**	**11,854,243**

B.C. VICTORIABANK S.A.

Explanatory notes to the financial statements

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit Risk (continued)

III. Concentration of credit risk (continued)

Concentration of credit risk by sector

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

31 December 2021 *In MDL thousand*	**Financial institutions**	**Government/ Public Administration**	**Farming and food industry**	**Production and trade**	**Real estate**	**Transport and road construction**	**Energy sector**	**Mortgage loans**	**Consumer loans**	**Others**	**Total**
Current accounts and placements with banks	2,214,905	-	-	-	-	-	-	-	-	-	2,214,905
Investment securities – debt instruments	-	4,631,735	-	-	-	-	-	-	-	-	4,631,735
Equity investment securities designated as at FVOCI	-	-	-	-	-	-	-	-	-	3,207	3,207
Loans to customers:											
Retail	-	-	-	-	-	-	-	1,353,050	1,250,663	-	2,603,713
Corporate	-	129,857	435,671	733,780	98,149	25,872	62	-	25,170	610,974	2,059,535
Other financial assets	233,776	-	-	-	-	-	-	-	-	107,372	341,148
Total	**2,448,681**	**4,761,592**	**435,671**	**733,780**	**98,149**	**25,872**	**62**	**1,353,050**	**1,275,833**	**721,553**	**11,854,243**

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

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.2 Market risk

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

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

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

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

For accounting purposes, the Bank measures its trading portfolio at fair value through other comprehensive income.

The Bank measures the fair value of financial instruments on the basis of the prices quoted on the active markets for identical financial assets, in accordance with the market-price principle (mark-to-market).

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

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

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

39.2.1 Currency risk

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

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

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

The tables below shows the Bank's exposure to currency risk at 31 December 2022 and 31 December 2021. The Bank's financial assets and liabilities are stated at carrying amounts, categorized by currency.

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

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.2 Market risk (continued)

39.2.1 Currency risk (continued)

31 December 2022

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

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

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

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.2 Market risk (continued)

39.2.1 Currency risk (continued)

31 December 2021

In MDL thousand	Notes	MDL	EUR	USD	Other currencies*	Total
Financial assets						
Cash and Balances with National Bank of Moldova	**4**	2,275,121	1,548,108	445,301	26,423	4,294,953
Current accounts and placements with banks	**5**	-	1,556,573	624,820	33,512	2,214,905
Investment securities measured at amortized cost	**6**	4,432,275	181,536	-	-	4,613,811
Investment securities measured at FVOCI	**6**	17,924	-	-	-	17,924
Equity investment securities designated as at FVOCI	**8**	2,477	730	-	-	3,207
Loans to customers	**7**	3,732,318	822,711	108,219	-	4,663,248
Other financial assets	**12**	78,577	14,779	247,504	288	341,148
Total financial assets		**10,538,692**	**4,124,437**	**1,425,844**	**60,223**	**16,149,196**
Financial liabilities						
Deposits from banks	**16**	4,732	8,211	57,855	2	70,800
Deposits from customers	**17**	7,515,793	3,937,915	1,295,131	59,548	12,808,389
Other Borrowings	**15**	47,793	96,098	481	-	144,372
Lease liabilities	**11**	2,770	60,936	204	-	63,910
Other financial liabilities	**20**	167,429	29,404	22,678	1,274	220,785
Total financial liabilities		**7,738,517**	**4,132,564**	**1,376,349**	**60,824**	**13,308,256**
Net currency position		**2,800,175**	**(8,127)**	**49,495**	**(601)**	**2,840,940**

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

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.2 Market risk (continued)

39.2.1 Currency risk (continued)

The table below presents the Profit or Loss sensitivity in the event of potential changes of the exchange rates applicable at 31st of December 2022 and 31st of December 2021 in relation to the functional currency of the Bank, considering that all the other variables remain constant:

	Impact on Profit or Loss	
In MDL thousand	**2022**	**2021**
EUR increase by up to 10%	(674)	(184)
EUR decrease by up to 10%	674	184
USD increase by up to 10%	3,826	4,859
USD decrease by up to 10%	(3,826)	(4,859)

39.2.2 Interest rate risk from the banking book (IRRBB)

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

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

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

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

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

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

In MDL thousand	**31 December 2022**	**31 December 2021**
Own funds	2,881,905	2,319,038
Potential decline in economic value +/- 200bp		
Absolute value	16,193	34,138
Impact on own funds	0.56%	1.47%

The tables on the next pages show the Bank's exposure to interest rate risk as at 31 December 2022 and 31 December 2021. The tables include financial assets and liabilities of the Bank at their carrying amounts, classified based on the earliest date between repricing and maturity dates.

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.2 Market risk (continued)

39.2.2 Interest rate risk from the banking book (continued)

31 December 2022

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

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

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.2 Market risk (continued)

39.2.2 Interest rate risk from the banking book (continued)

31 December 2021

In MDL thousand	Notes	Carrying amount	Less than 6 months	6 months – 1 year	1 – 5 years	More than 5 years	Non-interest bearing
Financial assets							
Cash and Balances with National Bank of Moldova	**4**	4,294,953	2,747,959	-	-	-	1,546,994
Current accounts and placements with banks	**5**	2,214,905	2,214,905	-	-	-	-
Investment securities measured at amortized cost	**6**	4,613,811	3,259,216	718,502	636,093	-	-
Investment securities measured at FVOCI	**6**	17,924	9,892	3,315	4,717	-	-
Loans to customers	**7**	4,663,248	4,646,283	2,356	11,515	3,094	-
Other financial assets	**12**	341,148	9,983	-	-	-	331,165
Total financial assets		**16,145,989**	**12,888,238**	**724,173**	**652,325**	**3,094**	**1,878,159**
Financial liabilities							
Deposits from banks	**16**	70,800	70,800	-	-	-	-
Deposits from customers	**17**	12,808,389	12,242,110	381,923	147,665	-	36,691
Other borrowings	**15**	144,372	144,372	-	-	-	-
Lease liabilities	**11**	63,910	-	-	-	-	63,910
Other financial liabilities	**20**	220,785	-	-	-	-	220,785
Total financial liabilities		**13,308,256**	**12,457,282**	**381,923**	**147,665**	**-**	**321,386**
Interest gap			**430,956**	**342,250**	**504,660**	**3,094**	**1,556,773**
Cumulative interest gap			**430,956**	**773,206**	**1,277,866**	**1,280,960**	**2,837,733**

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

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.3 Liquidity risk

Liquidity risk represents the current or future risk that the profit and capital may be negatively affected as a result of the Bank's incapacity to pay its due and payable debts when they become due.

Liquidity risk has 2 components: the difficulty in procuring funds at maturity in order to refinance current liabilities or the inability to convert an asset into cash at a value near its fair value in a reasonable period of time.

The Bank is continuously acting to manage this type of risk.

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

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

In 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.

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:

- Combining prudential requirements with profitability requirements within the liquidity risk management;
- 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;
- Analysis of volatility of attracted funds, which also depends on the structure of the Bank's customers, including the analysis of its behavioural peculiarity;
- 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 tables below present an analysis of maturities of assets, liabilities and contingent liabilities of the Bank into relevant maturity groups based on the remaining period at balance sheet date to the contractual maturity date, as of 31 December 2022 and 31 December 2021. Payments that are subject to contracts in breach are immediately treated as payable on demand.

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

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.3 Liquidity risk (continued)

31 December 2022

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

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

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.3 Liquidity risk (continued)

31 December 2021

In MDL thousand	Notes	Carrying amount	1-3 months	3 months - 1 year	1 – 5 years	More than 5 years	No maturity
Financial assets							
Cash and Balances with National Bank of Moldova	4	4,294,953	4,294,953	-	-	-	-
Current accounts and placements with banks	5	2,214,905	2,028,275	88,613	-	98,017	-
Investment securities measured at amortized cost	6	4,613,811	2,000,711	1,951,034	662,066	-	-
Investment securities measured at FVOCI	6	17,924	4,976	7,052	5,896	-	-
Equity investment securities designated as at FVOCI	8	3,207	-	-	-	-	3,207
Loans to customers	7	4,663,248	566,051	976,433	1,942,464	1,178,300	-
Other financial assets	12	341,148	338,672	-	2,476	-	-
Total financial assets		**16,149,196**	**9,233,638**	**3,023,132**	**2,612,902**	**1,276,317**	**3,207**
Financial liabilities							
Deposits from banks	16	70,800	70,800	-	-	-	-
Deposits from customers	17	12,808,389	9,932,248	1,874,254	994,522	7,365	-
Other borrowings	15	144,372	8,013	48,385	86,117	1,857	-
Lease liabilities	11	63,910	579	4,354	52,536	6,441	-
Other financial liabilities	20	220,785	220,785	-	-	-	-
Total financial liabilities		**13,308,256**	**10,232,425**	**1,926,993**	**1,133,175**	**15,663**	**-**
Net balance sheet position		**2,840,940**	**(998,787)**	**1,096,139**	**1,479,727**	**1,260,654**	**3,207**
Loan commitments and financial guarantee contracts	33	616,986	616,986	-	-	-	-
Total off-balance sheet		**616,986**	**616,986**	-	-	-	-
Total net on- and off-balance sheet position		**3,457,926**	**(381,801)***	**1,096,139**	**1,479,727**	**1,260,654**	**3,207**

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

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.3 Liquidity risk (continued)

The tables below set out the remaining contractual maturities of the Bank's financial liabilities as at 31 December 2022 and 31 December 2021:

31 December 2022

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

31 December 2021

In MDL thousand	Note	Carrying amount	Gross value (outflow)	Less than 3 months	3 months- 1 year	1 - 5 years	More than 5 years
Financial liabilities							
Deposits from banks	**16**	70,800	(70,800)	(70,800)	-	-	-
Deposits from customers	**17**	12,808,389	(12,897,394)	(9,944,942)	(1,917,529)	(1,025,919)	(9,004)
Other borrowings	**15**	144,372	(157,069)	(8,551)	(54,302)	(92,240)	(1,976)
Lease liabilities	**11**	63,910	(63,910)	(579)	(4,354)	(52,536)	(6,441)
Other financial liabilities	**20**	220,785	(220,785)	(220,785)	-	-	-
Loan commitments and financial guarantee contracts	**33**	-	(616,986)	(616,986)	-	-	-
Total financial liabilities		**13,308,256**	**(14,026,944)**	**(10,862,643)**	**(1,976,185)**	**(1,170,695)**	**(17,421)**

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

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.4 Capital management

Capital management – compliance with capital requirements

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

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

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

- a capital preservation buffer of 2.5% of the total value of the risk-weighted exposures;
- a systemic risk buffer of 1% of the total value of the risk-weighted exposures;

The National Bank of Moldova has additionally established the systemic risk buffer rate of 2% for banks' exposures to credit risk related to resident individuals;

- other companies enhanced systemic level in buffer of 1% of the total weighted exposure.

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

- 7.13 % for the basic level 1 own funds rate;
- 9.73 % for the level 1 own funds rate;
- 12.97 % for the total own funds rate.

Own funds adequacy

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

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

The Bank complied with the above regulations, the level of the risk capital adequacy indicator, exceeding the minimum limits imposed by legislation: at 31 December 2022 the level was 44.71% (at 31 December 2021 the level was 42.21%).

The level and the requirements of own funds as at 31 December 2022 and 31 December 2021 are as follow:

In MDL thousand	31 December 2022	31 December 2021
Tier 1 own funds	2,881,905	2,319,038
Tier 2 own funds	-	-
Total own funds	**2,881,905**	**2,319,038**
Credit risk exposure	4,841,363	4,304,177
Market risk, currency risk, delivery risk exposure	-	-
Operational risk exposure	1,604,911	1,189,636
Total risk exposure	**6,446,274**	**5,493,813**
Capital adequacy ratio (%)	**44.71**	**42.21**

The capital adequacy ratio (CAR) is calculated as a ratio between own funds and total risk-weighted assets.

The Board of Administration decides on the directions to be followed in the capital adequacy process, establishes the main projects in the field to be carried out as well as the main objectives to be met in order to better control the correlation of risks to which the Bank is exposed and necessary equity to cover them and the development of sound risk management systems.

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

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.5 Operational risk

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

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

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

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

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

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

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

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

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

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

39.6 Compliance risk management

The Bank ensured the creation and efficient functioning of the compliance function, for which it approved a framework for sustainable, constant and efficient compliance risk management.

Thus, the compliance function, synergistically included in the internal control system of the Bank, helped the governing bodies in identifying, assessing, monitoring and reporting the compliance risk, associated with the Bank's activities, regarding the compliance of the activity with the provisions of the regulatory framework, rules and its own standards and the Code of Conduct. Through the involvement and support of the compliance function, the possible impact of any amendments to the legal and regulatory framework on the Bank's activities was continuously assessed.

The Bank has adopted a unitary approach to compliance risk management as part of the Bank's overall risk management strategy.

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.6 Compliance risk management (continued)

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

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

39.7 Management of the risk associated with excessive use of leverage

The Bank's objective of the management of risk of excessive leverage is to balance the structure of the Bank's assets and liabilities so as to achieve the expected profitability indicators in controlled risk conditions, which ensure both continuity in the Bank's activity on a sound basis and protection of interests of shareholders and customers.

Quantitative methods of assessment and mitigation are used for the risk of excessive leverage.

The leverage risk management framework is based on the following principles:

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

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

39.8 Reputational risk management

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

39.9 Strategic risk management

Strategic risk is the current or future risk of impairment of profits and capital caused by changes in the business environment or 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:

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

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.10 Climate Risk

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

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

Climate change risks will be assessed from two perspectives:

a) at client level, as part of the environmental and social risk analysis, where the impact of climate change risks on the company's business and the extent to which its business affects the environment (emissions to water, air, soil) will be analysed;

b) at portfolio level, based on a mapping reflecting the environmental, social and governance risks associated with the sectoral distribution of the loan portfolio, the exposure of the portfolio to these risks will be analysed.

For the management of climate risks, the Bank will implement a list of sector exclusions aligned with EBRD and Banca Transilvania Financial Group recommendations.

The Bank plans to implement the analysis of environmental risk factors following internal models, adapted to the transaction value and risk level of the sector.

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

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

40. SUBSEQUENT EVENTS

On March 22, 2023, the Board of Directors of BC Victoriabank SA approved the completion of the transaction for the purchase of the shares held by Banca Comercială Română SA (Romania) in the share capital of Banca Comercială Română Chișinău SA (Republic of Moldova), the signing of the contract taking place in March 29, 2023.

In the transaction, BC Victoriabank S.A. will acquire all the shares in the share capital of Banca Comercială Română Chișinău SA. The transaction is to be completed after the fulfillment of legal procedures and contractual conditions. Until the date of approval and publication of the financial statements, BC Victoriabank SA had not received all the approvals for the acquisition of control according to IFRS 3, and the present financial statements were not impacted by this transaction.

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

external audit report

ICS KPMG Moldova S.R.L.
171/1 Stefan cel Mare Avenue
8th floor, MD-2004
Chisinau
Republic of Moldova

Tel: +373 (22) 580 580
Fax: +373 (22) 540 499
www.kpmg.md

Independent Auditors' Report (free translation[1])

To the Shareholders of Banca Comerciala "VICTORIABANK" S.A.

141, 31 August 1989 street, mun. Chisinau, Republic of Moldova
Unique registration code: 1002600001338

Opinion

1. We have audited the accompanying financial statements of Banca Comerciala "VICTORIABANK" S.A. ("the Bank"), which comprise the statement of financial position as at 31 December 2022, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

2. The financial statements as at and for the year ended 31 December 2022 are identified as follows:

• Total equity:	MDL 3,861,466 thousand
• Net profit for the year:	MDL 641,777 thousand

3. In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS).

Basis for Opinion

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

1 TRANSLATOR'S EXPLANATORY NOTE: The above translation of the auditors' report is provided as a free translation from Romanian which is the official and binding version and refers to the Romanian official and binding version of the financial statements which were subject to our audit.

Key Audit Matters

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

Allowances for expected credit losses from loans and advances to customers

As at 31 December 2022, gross loans to customers: MDL 5,644,144 thousand, related expected credit losses: MDL 539,385 thousand and net impairment losses in the statement of profit or loss for the year then ended: MDL 185,017 thousand (31 December 2021: gross loans to customers: MDL 5,112,886 thousand, expected credit losses: MDL 449,638 thousand and net impairment losses in the statement of profit or loss for the year then ended: MDL 24,097 thousand).

See Notes 2.4 (a) *Basis of preparation – Use of estimates and judgements – Impairment losses on loans to customers,* 3.2 (viii) *Significant accounting policies - Financial assets and liabilities - Impairment of financial assets*, 7 *Loans to customers*, 27 *Net impairment losses on financial assets and provisions for off-balance sheet commitments*, and 39.1 *Financial risk management – Credit risk* to the financial statements.

The key audit matter	How the matter was addressed in our audit
As described in the notes to the financial statements, the expected credit losses ("ECLs") have been determined based on the requirements of IFRS 9 Financial Instruments ("IFRS 9" or "the Standard"). Impairment allowances represent management's best estimate of the expected credit losses within loans to customers (collectively, "loans", "exposures") at amortized cost at the reporting date. We focused on this area as the measurement of impairment allowances requires management to make complex and subjective judgements over the amount of any such impairment. Impairment allowances for the performing exposures (stage 1 and stage 2 in the IFRS 9 hierarchy), as well as non-performing exposures (stage 3) with amounts not exceeding certain pre-determined thresholds individually, are determined by modelling techniques, relying on key parameters such as the probability of default ("PD"), exposure at default ("EAD") and loss given default ("LGD"), taking into account historical experience, identification of exposures with a significant increase in credit risk ("SICR"), forward-looking information and management judgment (together "collective impairment allowance"). Impairment allowances for non-performing (stage 3) exposures in excess of certain thresholds, are determined on an individual	Our audit procedures, performed, where relevant, with the assistance from our own financial risk management, valuation and information technology ("IT") specialists, included, among other things: • We have inspected the Bank's ECL impairment methods and models and assessing their compliance with the relevant requirements of the financial reporting standards. This included evaluating the models' conceptual soundness, against the requirements of IFRS 9 and industry practice and challenging management on whether the level of the methodology's sophistication is appropriate based on an assessment of the entity-level and portfolio-level factors. • We have tested the design, implementation, and operating effectiveness of selected controls within the ECL process. This included testing the controls over (i) completeness and accuracy of relevant data inputs (mainly for amount granted, interest rates, maturity date, collateral amount), (ii) approval of loans granting and restructuring operations, (iii) system configuration for debt service and payment allocation and (iv) IT environment for data security and access. • We have assessed whether the definition of default, assessment of SICR and the staging criteria were consistently applied and are appropriate by reference to the standard. As part of this procedure, for a sample of loans classified stage 1 and stage 2, we critically assessed, by reference to the underlying loan files and through inquiries of responsible loan officers and credit risk management personnel, the existence of any triggers for classification to stage 2 or stage 3. • For expected credit losses determined on a collective basis: - We have challenged the macroeconomic forecasts used in the ECL models in terms of their relevance and source accuracy by comparing them to publicly available data. As part of the procedure, we challenged the consideration of the economic uncertainties relating to the increase in energy and other

1 TRANSLATOR'S EXPLANATORY NOTE: The above translation of the auditors' report is provided as a free translation from Romanian which is the official and binding version and refers to the Romanian official and binding version of the financial statements which were subject to our audit.

basis by means of a discounted cash flows analysis. The process relies on a number of complex assumptions, in particular those in respect of the recovery scenarios and the expected proceeds from the sale of the related collateral and estimated period for collateral disposal. In the wake of the geopolitical volatility following the outbreak of the Russia-Ukraine war, and given the adverse macroeconomic effects of the increase in the energy and other commodity prices, resulting inflationary pressures and disruptions in the global supply chains, as well as of the rise in interest rates, measurement of collective impairment allowance was associated with additional complexities and an increased estimation uncertainty. Among other things, the application of post-model adjustments was required from management in arriving at the year-end estimate of impairment losses. In the light of the above factors, we considered measurement of expected credit losses on loans to customers to be associated with a significant risk of material misstatement in the financial statements. Therefore, the area required our increased attention in the audit and as such was determined to be a key audit matter.	commodity prices and resulting inflationary pressures and disruptions in the global supply chains, as well as the rise in interest rates, by inspection of publicly available information; - We have tested, on a sample basis, the accuracy of the data used in the process of calculating the PD, EAD and LGD parameters used in collective ECL model, by reference to supporting documentation such as, as applicable, repayment schedules, historical and current debt service, restructuring operations, collateral values used etc. - We have challenged significant post-model adjustments, by evaluating key underlying assumptions, inspecting the calculation methods and tracing a sample of data used back to source data; - Based on the outcome of the preceding procedures, we have recomputed the collective ECL as at reporting date; • For impairment allowances calculated individually: - For a sample of loans, we have challenged key underlying assumptions considered in the estimates of future cash flows used within the ECL measurement, with main focus on the recovery period and collateral value, primarily by reference to valuation reports by experts engaged by the management, whose competence, experience and objectivity we independently assessed; - We have recomputed the individual ECL as at reporting date. • Assessing the accuracy, completeness and relevance of the ECL-related financial statement disclosures against the requirements of the relevant financial reporting standards.

Other Information – Annual Report

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

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

   In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement in the other information, we are required to report that fact. We have nothing to report in this regard.

   Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Moldova Related to Other Information

   With respect to the Management's Report we read and report whether the Management's Report is prepared, in all material respects, in accordance with the requirements of Law no. 287/2017 on Accounting and Financial Reporting, article 23, paragraphs 2 – 8.

1 TRANSLATOR'S EXPLANATORY NOTE: The above translation of the auditors' report is provided as a free translation from Romanian which is the official and binding version and refers to the Romanian official and binding version of the financial statements which were subject to our audit.

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

a) The information given in the Management's Report for the financial year for which the financial statements are prepared is consistent with the financial statements;

b) The Management's Report has been prepared in accordance with the requirements of Law no. 287/2017 on Accounting and Financial Reporting, article 23; paragraphs 2 – 8.

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

1 TRANSLATOR'S EXPLANATORY NOTE: The above translation of the auditors' report is provided as a free translation from Romanian which is the official and binding version and refers to the Romanian official and binding version of the financial statements which were subject to our audit.

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

12. We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
13. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, actions taken to eliminate threats or safeguards applied.

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

The engagement partners on the audit resulting in this independent auditors' report are Cezar Furtuna and Nicoleta Rusu.

13 April 2023

For and on behalf of ICS KPMG Moldova S.R.L.:

Nicoleta Rusu

Refer to the original signed Romanian version

registered in the electronic public register
of financial auditors under No.0802064

Auditor for general audits
Certificate of audit qualification
Series AG, No.000064

Auditor of financial institutions
Certificate of audit qualification of financial institutions
Series AIF, No.0007

Administrator of ICS KPMG Moldova S.R.L.

Cezar Furtuna

Refer to the original signed Romanian version

Partner

ICS KPMG Moldova S.R.L.

171/1 Stefan cel Mare Avenue, 8th floor
MD-2004, Chisinau,
Republic of Moldova

registered in the electronic public register
of audit firms under No.1903038

CF

1 TRANSLATOR'S EXPLANATORY NOTE: The above translation of the auditors' report is provided as a free translation from Romanian which is the official and binding version and refers to the Romanian official and binding version of the financial statements which were subject to our audit.