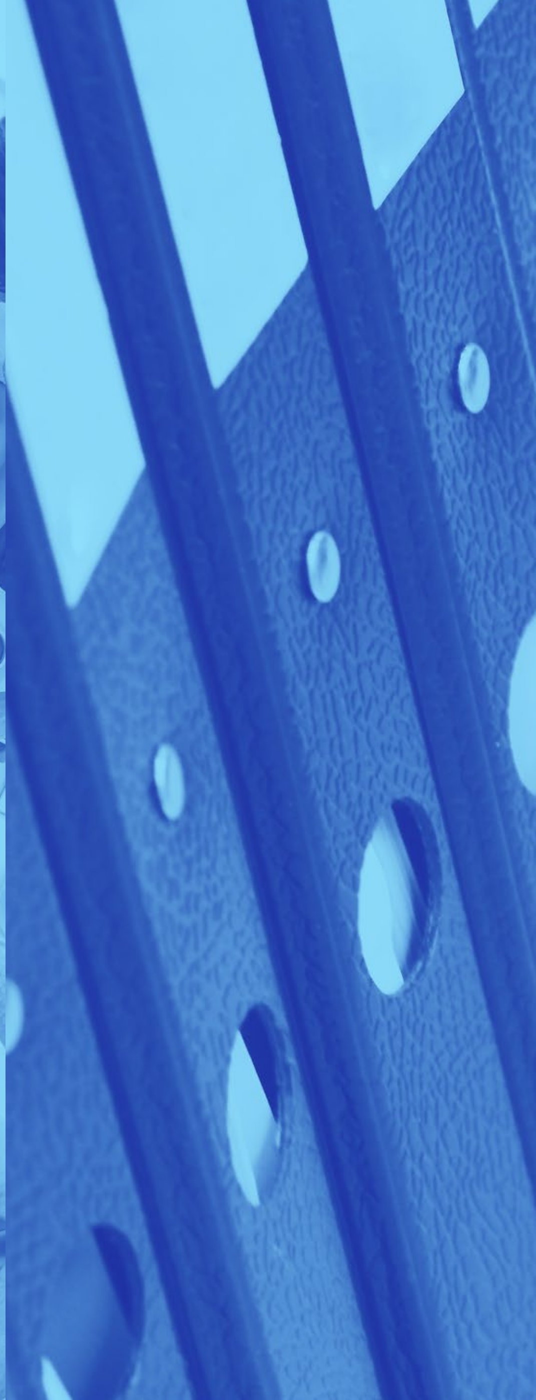

# annual report 2022

victoriabank

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# message of the management

## 2022 – A YEAR OF CHALLENGES AND ACCOMPLISHMENTS.

**Dear partners, customers and members of the Victoriabank team,**

The year 2022 was a year in which we were devastated by the war in Ukraine, the energy crisis, inflation and economic uncertainties.
The economy of Moldova faced very high inflation, with the decrease of the GDP and the tightening of the monetary policy, which led to the increase of financing costs for business and the population.
In an unprecedented situation, we consolidated our efforts to be with the community and our customers. We worked tirelessly with optimism and a creative spirit, even in difficult times. Some of our efforts include:

- Joining forces with the entire country to manage the crisis of over 600,000 refugees from Ukraine who sought refuge in Moldova.
- Launching an extensive social project called "Next to Moldova, next to everyone" with concrete actions to support the residents of Moldova. We offered almost 10 million lei in various campaigns and offers to Victoriabank customers from all over the country.

At the same time, we continued to invest in the digitization and modernization of products and services, developing new digital solutions aimed at contributing to the consolidation of the banking sector. The number of bank deposits established online, through VB24, has reached almost 70%.
Throughout the year, we continued our commitment to providing our customers with the highest quality standards. New digital products and services launched during last year:

- New product **Credit Express Online** - a 100% online credit dedicated to Victoriabank customers;
- Launch of 3 new electronic wallets **Apple Pay, Google Pay, and Xiaomi Pay;**
- Issuance of the new service for Victoriabank customers: **Send to friend** - which allows sending money to a friend without asking for their bank card number;

- Online update of the customer questionnaire (KYC) - an innovative solution in the field of Know Your Customer, fully automated, which allows the identification of customers using the latest biometric technologies, artificial intelligence, and RPA (Robotic Process Automation);
- **Digital Onboarding** service;
- The most revolutionary debit card **SALUT**.

Our results for the year 2022 are positive, despite the difficult business environment:

- The bank registered a **record level of net profit of 641.8 million lei**, increasing by over 130% compared to 2021;
- The Bank's assets amounted to **18,400 billion lei**, representing an increase of 11% compared to the end of 2021, managing to recover the exits from deposits caused by the war in Ukraine;
- By the end of 2022, **online deposits** opened by clients totaled **14,882**, representing **60%** of the total deposits established, indicating a preference for this type of deposit;
- The number of **active clients** continued to grow and reached **291,5 thousand**, and the number of **cards in circulation** reached **372 thousand**, both representing important increases compared to the previous periods.

In addition, in 2022, Victoriabank was an important employer in the Republic of Moldova, being among the top 20 employers in the country, with a total number of employees of 1,326 people.

We continued to modernize the Victoriabank network by reopening six out of 70 branches in a new format and procuring 100 new ATMs. In 2022, we started the negotiations for the potential acquisition of BCR Chisinau, which were finalized by signing the agreement in March 2023.

Although 2022 has been a year with many tough challenges, thanks to the strength and perseverance of each employee at Victoriabank, it has been also a year of achievements and successes.

Thank you for your interest and trust in Victoriabank!

Sincerely,

**Victor ȚURCAN**
*President of the Board of Directors*

**Levon KHANIKYAN**
*President of the Executive Committee*

# management of the bank

as at 31.12.2022

## MEMBERS OF THE BOARD OF DIRECTORS

Victor ȚURCAN – President of the Board of Directors

Thomas GRASSE – Independent member of the Board of Directors

Peter FRANKLIN – Independent member of the Board of Directors

Maris MANCINSKIS – Independent member of the Board of Directors

Tiberiu MOISĂ – Member of the Board of Directors

Mehmet Murat SABAZ – Independent member of the Board of Directors

Igor SPOIALĂ – Independent member of the Board of Directors

## MEMBERS OF THE EXECUTIVE COMMITTEE

Bogdan PLEȘUVESCU – President of the Executive Committee, CEO

Vasile DONICA – Vicepresident of the Executive Committee, CBO

Sorin ȘERBAN – Vicepresident of the Executive Committee, CRO

Elena-Ionela MALOȘ – Vicepresident of the Executive Committee, COO

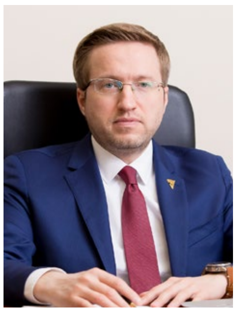
Vitalie CORNICIUC – Vicepresident of the Executive, CFO

** Mr. Levon Khanikyan was appointed as Chairman of the Executive Committee during the Board of Directors meeting on 22.09.2022, but began to exercise his functional duties on 12.01.2023, when he obtained the approval of the NBM.*

**Bogdan PLEȘUVESCU**
President of the Executive Committee, CEO

**Vasile DONICA**
Vicepresident of the Executive Committee, CBO

**Elena-Ionela MALOȘ**
Vicepresident of the Executive Committee, CRO



**Vitalie CORNICIUC**
Vicepresident of the Executive Committee, COO

**Sorin ȘERBAN**
Vicepresident of the Executive, CFO

# general data and shareholders structure

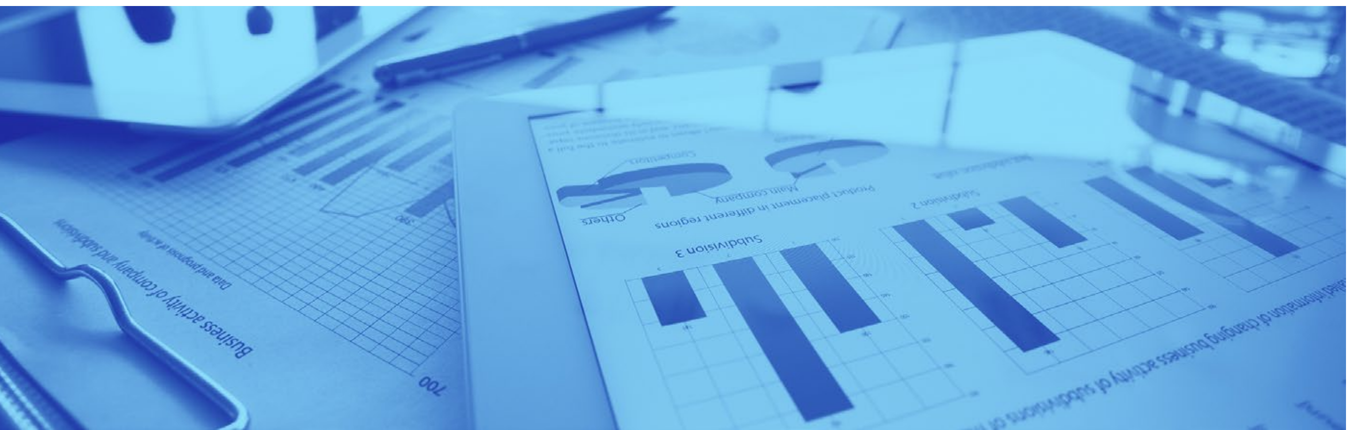
CB "Victoriabank" JSC is one of the leading systemic banks in the Republic of Moldova, providing a broad range of banking services and products tailored to meet the needs of individual and corporate clients across the country.

Established in 1989, Victoriabank is the first commercial bank in Moldova, and it has grown to become one of the largest banks in the country. Today, its largest shareholders are Banca Transilvania and the European Bank for Reconstruction and Development (EBRD), who jointly hold over 72% of the bank's share capital. This strategic partnership has played a key role in the bank's success and steady growth over the years.

Since becoming a part of the Banca Transilvania Financial Group, Victoriabank has undergone an extensive transformation process, including in the areas of corporate governance and business model. Today, Victoriabank is at the forefront of innovation and digital transformation, providing its customers and employees with high-performance solutions for a modern banking experience.

With assets of over 18 billion Moldovan lei, Victoriabank is among the largest banks in the Republic of Moldova, with more than 100 branches and agencies throughout the country. The bank provides a range of banking services for a diverse set of clients, including individuals, small and medium-sized enterprises, and large companies.

Victoriabank serves nearly 300,000 active clients, and has a team of about 1,100 employees who are dedicated to delivering quality services and meeting the evolving demands of the banking market.



## JOINT-STOCK COMPANY

| | |
|---|---|
| Name: | VICTORIABANK SA |
| IDNO: | 1002600001338 |
| Headquarters: | 141, 31 August 1989 str., MD-2004, Chișinău |

## CHARACTERISTICS OF SHARES ISSUED BY THE JOINT-STOCK COMPANY

| | |
|---|---|
| ISIN number: | MD14VCTB1004 |
| Type of shares | ordinary share |
| Country | Republica Moldova |
| Trading on the regulated market | Moldova Stock Exchange<br>16, Maria Cebotari str., MD-2012, Chișinău<br>Republic of Moldova<br>Tel: 022 277 592 |
| Par value of a share, lei: | 10 |
| Number of outstanding shares, units: | 25.000.091 |
| Treasury shares, units: | 0 |
| Total number of shares of the same class, units: | 25.000.091 |
| Total value of the issue, lei: | 250.000.910 |

## SHAREHOLDERS AS AT 31.12.2022

| | |
|---|---|
| Individuals from Moldova | 27,50% |
| Legal entities from Moldova | 0,06% |
| Non-resident individuals | 0,25% |
| Non-resident legal entities | 72,19% |
| Total | 100% |

## List of shareholders of Victoriabank and groups of persons acting in concert with qualified holdings

| Name, Last name/ Name of the entity | Country of residence | Holding in the share capital | Indirect and beneficial owners |
|---|---|---|---|
| 1. VB Investment Holding B.V. | The Netherlands | 72,19% | Indirect owners<br>• Banca Transilvania (România) – 61,82%<br>• BERD (UK) – 38,18%<br>*There are no beneficial owners* |
| 2. Țurcan Victor | Republic of Moldova | 10,76% | Țurcan Victor |
| 3. Țurcan Valentina | Republic of Moldova | 8,07% | Țurcan Valentina |
| 4. Artemenco Elena | Republic of Moldova | 4,95% | Artemenco Elena |
| 5. Proidisvet Galina | Republic of Moldova | 1,58% | Proidisvet Galina |

# management's report

## STRATEGIC OBJECTIVES OF THE BANK

Today's business environment is constantly changing and volatility, uncertainty, complexity, ambiguity are important characteristics of it. The structural evolution of consumer demand creates favorable conditions to implement new technologies. The high degree of acceptance of changes and technologies are defining features of our customers.

The year 2022 was the first of the 2022-2024 strategy, bringing probably the most digital releases to our customers, fully in line with our goals. The strategy is oriented towards the organic development of the bank, the reorganization of the business model and the launch of new digital products.

| Customer experience | Employees: our priority | Boosting the Retail and SME | Digital Initiatives | Operational efficiency |
|---|---|---|---|---|

The customer is the priority of every employee of the bank. We are convinced that the relationship with the customer, our proposal to maintain and develop partnerships in the medium and long term, to grow and develop together, is an important success factor for the next periods. Victoriabank is my bank, Victoriabank is my trusted partner, it represents the highest appreciation we get from customers.

Only People move things forward and contribute to the success of the bank. Employees create added value in the bank's activity, in the relationship with customers and partners. The bank's objective is to create an optimal environment for employees, their professional development and proper motivation.

The Retail and SME segments recorded good evolution in recent years, with higher volumes offered to customers and higher number of customers benefiting from them. It is worth mentioning the evolution of the loan portfolio, the number of cards and customers, deposits, etc.

The banking industry grows exponentially in terms of channels, techniques and methods of service. At the same time, the behavior of our consumers is in an accelerated change from the classic way of service to modern technologies, self-service, remote service. The implemented digital initiatives allow our customers to benefit from most products without physically going to the bank. Even more, individuals can become our customers online, the enrollment being ensured through digital onboarding. Nowadays, we can offer almost any product digitally.

As a commercial entity, operating efficiency and financial results are important for shareholders, customers, employees, the business environment and authorities. The centralization and automation of processes in the branches allow allocating time and focusing efforts on customer service.

For each of the five key areas, we have established main objectives, projects, activities to be done and success factors.

Our mission is to develop the business by offering quality, competitive, safe and innovative services and products. We aim to become the first choice for customers.

RESPECT for customer and employee. Everything starts and moves forward with respect for people and their aspirations. Through respect, we can influence things. We treat others, as we want to be treated ourselves. We appreciate the diversity of ideas, opinions and experiences.

PASSION for the growth of the bank's activity, for the relationship with customers and employees. We enjoy what we do and we are willing to help our customers to grow. We are a source of inspiration for others. We are proud to be part of the Victoriabank team, surrounded by colleagues who think like us and inspire a sense of ambition and respect in those around us.

AMBITION: The first choice of customers and employees. Providing high quality services and innovative products. Increasing the satisfaction of our customers by improving services, efficient use of benefits, differentiation from competitors.

The results convince us of the correctness of our established strategic objectives.

# ‣ VICTORIABANK'S FINANCIAL PERFORMANCE IN 2022

## MACRO-ECONOMIC CLIMATE

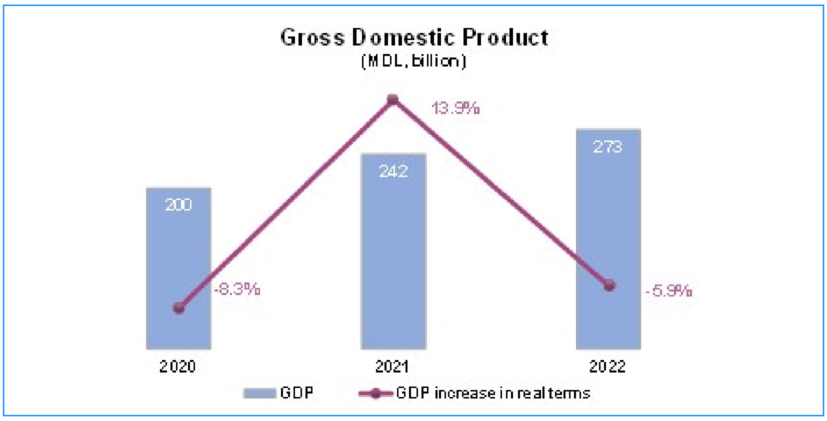
Global economic activity is experiencing a broad slowdown and high inflation. The cost of living crisis, monetary policy measures, the war in Ukraine and the COVID-19 pandemic all influence the medium-term outlook.

The national economy has been affected by the rapid rise in prices, the energy crisis, and the situation in Ukraine. The biggest challenge for the economy of the Republic of Moldova is the escalation of security risks in the region. In addition to the fact that trade with the Russian Federation, Belarus and Ukraine was strongly affected, the uncertainty significantly reduced investment appetite. At the same time, the tightening of monetary policy increased financing costs for business and the population, and adverse weather conditions affected agricultural production.

The Gross Domestic Product in 2022, according to preliminary data published by the National Bureau of Statistics, amounted to MDL 272.6 billion in current prices. Compared to 2021, in real terms, GDP decreased by 5.9%, after an economic growth of 13.9% recorded last year.

By categories of resources, the most affected activities that contributed to the decrease in GDP: agriculture, construction, real estate transactions, manufacturing industry, production and supply of electricity, heat, etc. On the other hand, with a positive contribution were financial and insurance activities, information and communications, wholesale and retail trade, accommodation and catering activities, etc. Net product taxes, with a weight of 14.0% in GDP formation, contributed to the GDP decrease.

By categories of uses, the adverse impact on GDP dynamics was generated by the evolution of the final consumption of households, gross fixed capital formation and the net export of goods and services. The final consumption of the public administration had a positive contribution.

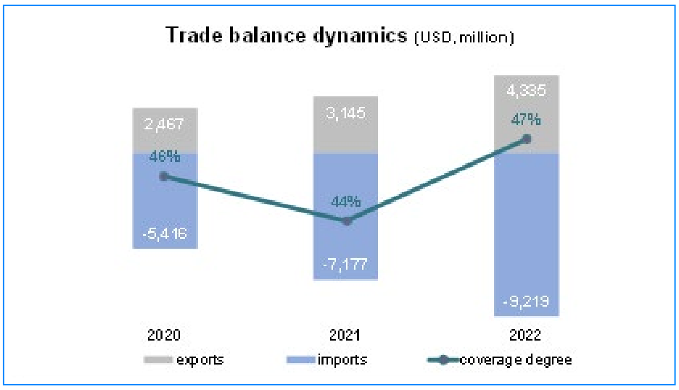



Global agricultural production in 2022 marked 70.2% (in comparable prices) compared to 2021, this after an increase of 57.9% in 2021. The decrease in global agricultural production was determined by the decrease of plant production by 36.8% and livestock production by 2.6 %.

Industrial production (gross series) decreased by 5.1%, due to the decrease in production in the extractive industry (-4.9%), in the manufacturing industry (-4.5%) and in the production and supply of electricity and thermal energy, gas, hot water (-8.4%).

According to preliminary data, in 2022 investments in fixed assets amount to MDL 31.2 billion, or by 11.6% less than the previous year (comparable prices). If investments in tangible assets decreased by 12.0% compared to the previous year, investments in intangible assets increased by 7.0%.

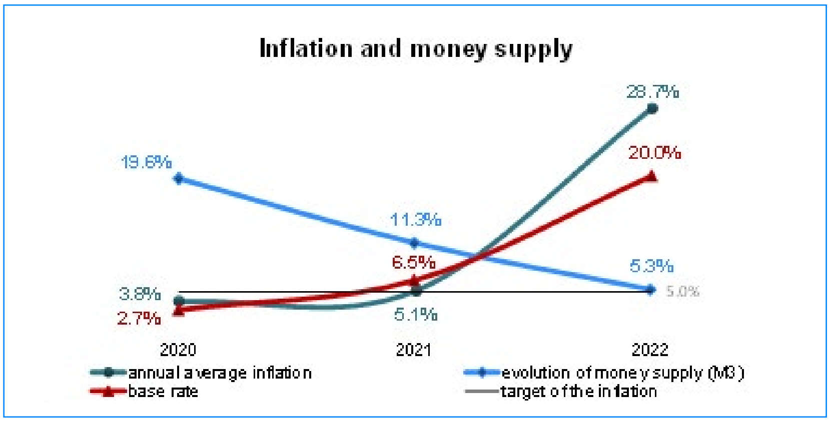
In 2022, exports of goods amounted to USD 4,335.1 million, a value higher by 37.9% compared to 2021. Imports of goods amounted to USD 9,219.1 million, higher than in 2021 by 28.5%. The gap between exports and imports of goods determined the accumulation in 2022 of a deficit of the trade balance in the amount of USD 4,884.0 million, by USD 851.7 million (+21.1%) more compared to 2021.



The money supply (M3) recorded a historical maximum of MDL 126.1 billion, increasing in 2022 by 5.3%. In the structure of the money supply, 27.3% belongs to money in circulation and 38.7% to demand deposits.

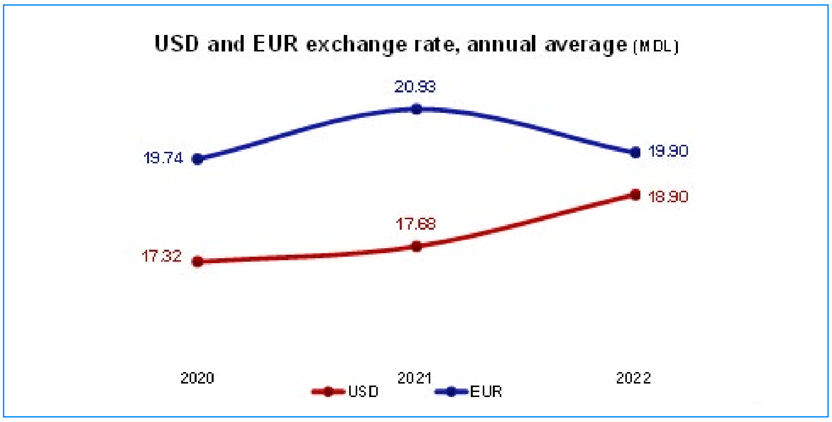
The annual inflation rate in December 2022 was placed well above the variation range associated with the inflation target (5% ± 1.5 p.p.), being at the level of 30.2%. This growth was driven by internal and external factors. On the one hand, the demand increased, influenced by the increase in the population's income, and on the other hand, prices on the local market were influenced by the increase in the price of services, food products and non-food goods. The annual inflation rate rose to 28.7% for 2022, compared to 5.1% during 2021.

Monetary policy measures were correlated with inflation dynamics and its expectations. During the year, the base rate applied to the main short-term monetary policy operations increased from 6.50% at the end of 2021 to 21.5% maintained during August-December, at the end of 2022 being set at the level of 20.0%. The rate on deposit and credit facility has been adjusted to fall within a symmetrical corridor of ±2 percentage points from the base rate. The rate of required reserves in Moldovan lei and foreign currency followed an upward trend up to 34% and 45% respectively at the end of 2022.




In 2022, the volume of money transfers from abroad made in favor of individuals, on a net basis, increased by 8.3% compared to 2021 and amounted to USD 1,746 million.

The MDL/USD exchange rate continued the slight depreciation trend, ranging between 17.7452 – 19.5984, and an annual average of 18.9032, up 6.9% compared to 2021. The official MDL/EUR exchange rate was determined by the evolution of the USD/EUR ratio on international market, registering an average level of 19.8982, down 4.9% compared to 2021.




The unemployment rate in the fourth quarter of 2022 (the share of the unemployed according to the criteria of the International Labor Office in the labor force) at the country level amounted to 4.6%, being higher compared to the fourth quarter of 2021 (2.6%).

The relaxation of monetary policy and the decrease of interest rates will have impact of relaunching economic activity. The biggest challenge visible now concerns the uncertainty of the evolution of the situation in the region and the war in Ukraine. The energy crisis of 2022 was the catalyst for the acceleration of several processes related to the diversification of electricity and natural gas markets and suppliers. The support of our western partners has helped us face the challenges and be optimistic about future.

## BANKING SECTOR IN 2022

The year 2022 was a favorable period for the banking sector, with significant increases in activity and profitability indices. The trend of increasing own funds, growth of assets, deposits and loan portfolio was maintained.

The number of banks operating in the Republic of Moldova remained the same: 11 banks licensed by the NBM, including 5 member banks of international financial groups. The share of foreign investments in the banks' equity is 88.9%.

Digitization and remote servicing have had an impact on the dynamics of the banks' territorial network. Thus, in 2022 the number of branches decreased by 4 units and the number of agencies decreased by 53 units. The number of employees increased by 222 people.

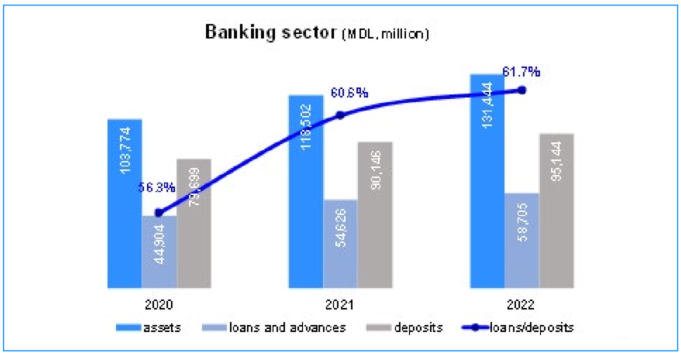
The increase in demand for banking products and the business environment had a positive impact on profitability, the financial result for 12 months 2022 being higher than the one recorded in the previous year, by 58.5%.

Total assets for banking sector amounted to MDL 131,443.7 million, increasing during the year by 10.9%. The first 4 banks managed 80.5% of total assets at sector level, increasing by 0.4 percentage points during the year.

The balance of deposits (base amount) increased by MDL 4,886.7 million or by 5.4%, amounting to MDL 94,968.6 million. Both the deposits of individuals and those of legal entities recorded upward dynamics. Of the total deposits, those of individuals represent 62.1%.

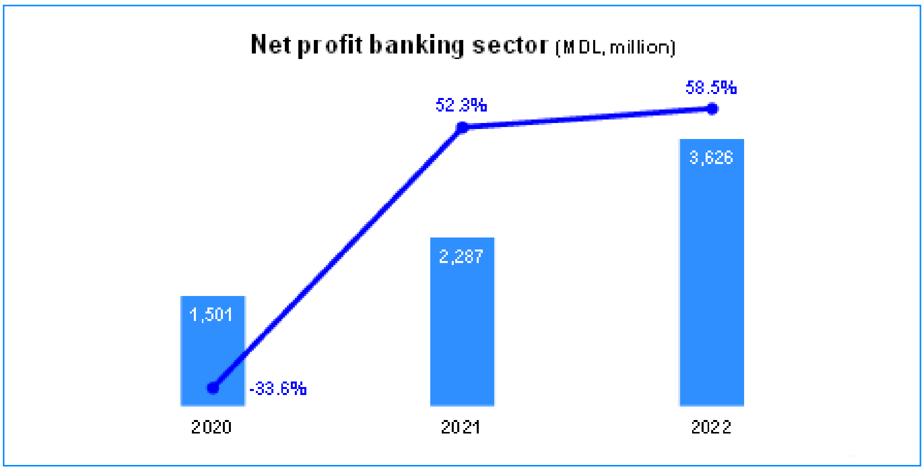
During the year, the balance of loans and advances increased by MDL 4,079.5 million or by 7.5%, up to MDL 58,705.0 million. Retail lending was influenced by monetary policy decisions, the increase in interest rates and new requirements imposed by the NBM. Thus, the evolution of the loan portfolio mainly is the result of the increase in loans of legal entities. The quality of the loan portfolio decreased, following the challenges of 2022. As of 31.12.2022, non-performing loans (prudential definition) amounted to 6.4% of the total portfolio compared to 6.1% at the beginning of the year.

The ratio of loans and advances to deposits amounted to 61.7%, increasing by 1.1 percentage points compared to the end of 2021, as a result of faster growth of the loans portfolio, compared to the growth of the deposits portfolio.

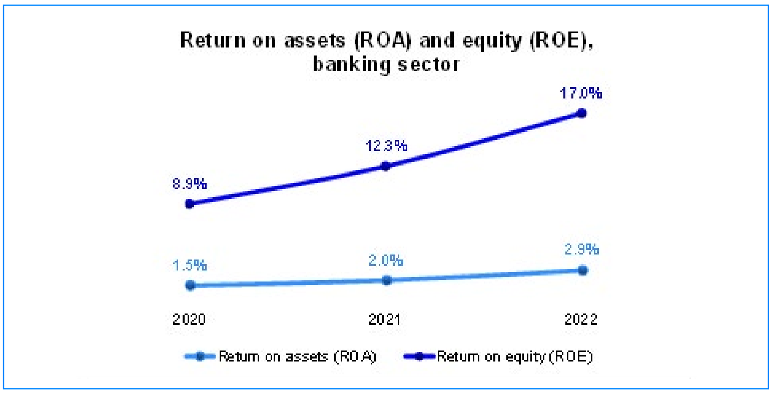



The activity of attracting/placing resources was favorably influenced by the upward trend of interest rates and the volume of available resources. During 2022, net interest income increased significantly, by 83.7% more than the previous year. The net interest margin increased by 2.58 percentage points to 6.67%. The trend of significant growth in commission expenses continued in 2022, increasing at a higher rate than commission income (income +19.1% and expenses +40.7%), net commission income increasing by 2.8% compared to 2021. Foreign exchange differences increased by 46.7%.

On the other hand, operating expenses increased by 24.9%, as the result of higher staff expenses (+20.6%), administrative expenses (+21.1%) and other operating expenses. Impairment expenses and provisions for conditional commitments increased significantly compared to the previous year, amounting to MDL 1,423.3 million, compared to expenses of MDL 112.7 million in 2021. The net profit of the banking sector was MDL 3,625.6 million, by MDL 1,338.8 million or +58.5% more than in 2021.




Return on assets (ROA) reached 2.89% in 12 months 2022, increasing by 0.89 percentage points compared to 2021. Return on equity (ROE) amounted to 17.03% in 12 months 2022, being by 4.77 percentage points higher than in 2021.




Total equity for banking sector amounted to MDL 18,394.7 million, increasing during the year by 21.2%. The own funds ratio amounted to 29.5%, more by 3.6 percentage points than at the beginning of the year.

The decrease in interest rates will put pressure on the amount of interest income, but at the same time, will have a favorable impact on economic activity with a positive effect on lending and commission income.

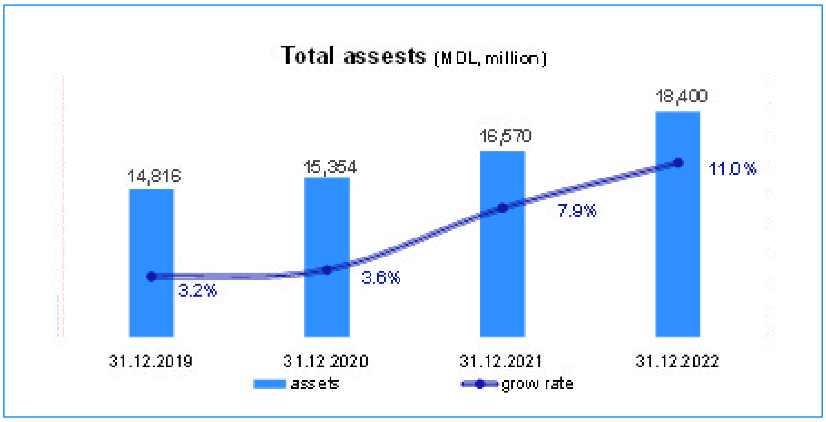
## EVOLUTION OF FINANCIAL RESULTS

The year 2022 was full of challenges, but record financial results and appreciable developments in key business area were recorded. Our customers enjoyed products and services according to their needs. We wided the bank's digital offer, implementing new products and services for the banking sector. The change management process supported the transformation towards the Banca Transilvania culture. We are proud to be part of a strong financial group that stands with us and helps us in the important moments of our evolution.

This year was efficient and strategic for Victoriabank, succeeding in the fulfilment of most objectives set for 2022. At the end of the year, the bank's assets amounted to MDL 18,400.0 million, increasing during the year by MDL 1,829.7 million or by 11.0%, the positive dynamics being conditioned by:

- increase of individuals deposits by MDL 490.8 million or by 6.4%;
- increase legal entities deposits by MDL 346.3 million or by 6.7%;
- increase of equtiy by MDL 641.6 million;

According to total assets at the end of 2022, the bank's market share amounted to 14.0%, up by 0.02 percentage points compared to the beginning of the year.




The evolution of customer deposits was influenced by the war in Ukraine, during January-April the balance decreased by MDL 1,254.3 million or by 9.8%, in the following 8 months increased by MDL 2,091.4 million. The bank operated under normal conditions, without restrictions on customer operations. We appreciate the balanced and reasonable behavior of our customers even during that uncertain period.

Lending activity developed dynamically during 2022 as well. If in recent years, we have recorded record developments in lending to individuals, the new NBM requirements in 2022 and the increase in interest rates on the market had an impact on the volumes of lending to individuals, especially in the 2nd half of the year. During the year, the individuals loan portfolio increased by MDL 49.3 million or by 1.8%. On the other hand, the legal entities loan portfolio increased by MDL 493.0 million or by 20.9%. The main growth engine is the SME loans portfolio. This evolution provides us with a balanced structure of the loan portfolio.

Thus, the balance of customer loans (principal) increased by MDL 542.3 million or by 10.7%, in absolute amount the portfolio increased more than during previous year. Qualitative loans are increasing, both according to the prudential approach and according to IFRS. The balance of Stage 1 and Stage 2 customer loans increased by MDL 629.3 million or by 13.9%.

The measures taken in recent periods are yielding results. The quality of loans has improved both due to decrease in the volume of non-performing loans and the increase in the volume of new granted qalitative loans. Thus, the balance of non-performing loans, IFRS approach, decreased by MDL 87.0 million or by 15.0% and the rate of non-performing loans decreased by 2.6 percentage points, to 8.6% at the end of the year.

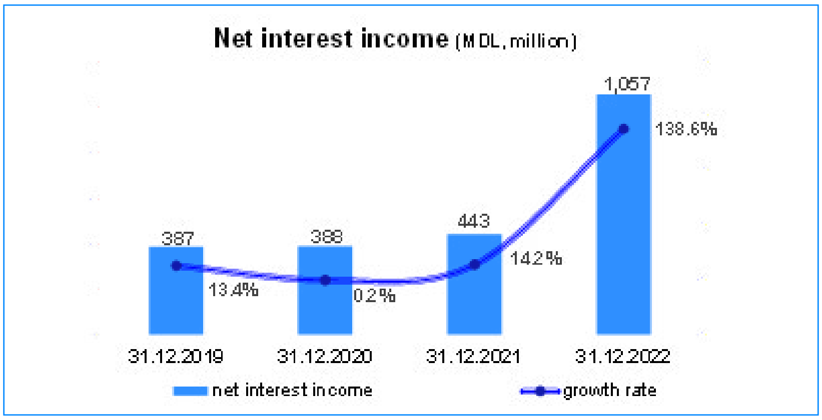
We managed the available resources to capitalize them according to the options available on the local and international market, in the context of the evolution of interest rates and the demand/offer of resources, investing in state securities, NBM certificates, bonds, etc. The debt securities portfolio amounted to MDL 4,453.6 million at the end of the period, decreasing by 3.8%. The share of debt securities in the bank's total assets recorded 24.2%.

The growing volumes of activity, the expansion of the spectrum of services and their delivery channels, the efficient management of assets and liabilities, had a positive impact on the bank's operating income, with all-important categories of income increasing:

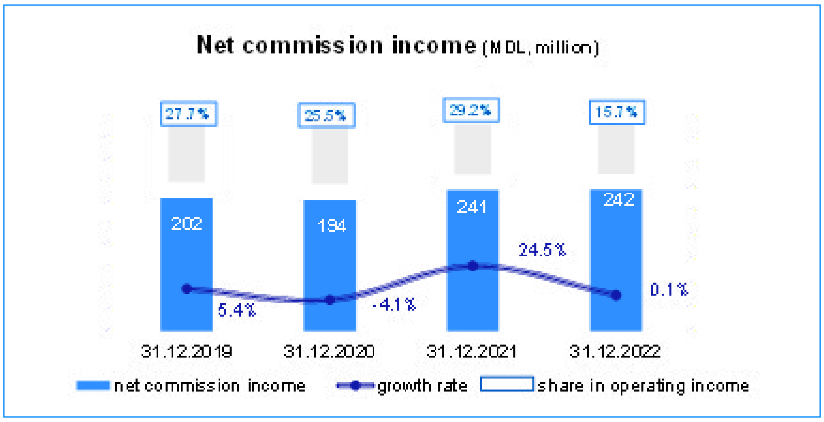
- net interest income amounted to MDL 1,056.9 million, by 138.6% more than last year;
- net commission income amounted to MDL 241.6 million, 0.1% more;

- foreign exchange differences amounted to MDL 251.3 million, by 69.2% more;

Interest income increased during the year by MDL 709.9 million, reaching MDL 1,307.6 million, increasing income from required reserves, income debt securities and income from customer loans. The interest expenses amounted to MDL 250.7 million, more by 61.9% or by MDL 95.9 million, the increase coming from time deposits of individuals, sight deposits of legal entities, sight deposits of individuals, borrowings, etc.




Commission income amounted to MDL 586.3 million, increasing by MDL 94.3 million compared to 2021. Commission expenses amounted to MDL 344.7 million. In 2022. Net commission income reached MDL 241.6 million, increasing by 0.1% compared to the previous year. In the structure of commission income, the main share refers to card transactions, followed by those related to the servicing of customer accounts.



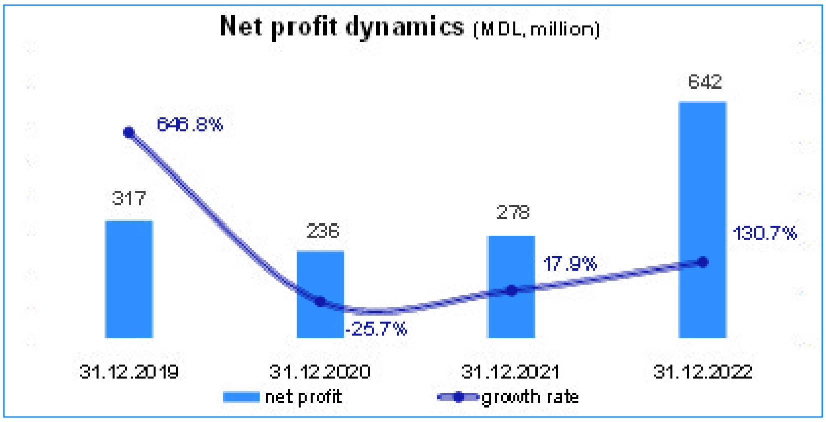

The bank operates with several money remittance systems for individuals. The revenues generated from these services in 2022 increased compared to the previous year by MDL 0.2 million. In the currency structure of remittances, the euro remains the predominant currency. Customers can receive transfers from abroad, free of charge directly to their card or account, without going to the bank's offices, using the Transfer Online (T2A) service: https://transfer.victoriabank.md/. Several promotions were organized for the bank's customers.

Foreign exchange differences increased during the year due to the evolution of activity volumes, the competitive rates offered to customers, the number of customers, but also the uncertain situation in the region following the war in Ukraine.

Operating expenses increased as a result of high inflation, on the rise being staff expenses, general and administrative expenses, other operating expenses. Investments in new technologies, implementation of new services, equipment of offices, etc. led do increase in depreciation expenses.

The increase of operating income in the amount and at a pace above operating expenses determined the increase in the bank's operating profit. Thus, the operating profit increased by MDL 567.2 million or by 179.9%, amounting to MDL 882.5 million. The cautious approach and the uncertain situation in the region led to an increase in expenses for provisions and cost of risk by MDL 153.3 million.

The net profit for 2022 amounted to MDL 641.8 million, increasing by MDL 363.5 million or 130.7% more than in 2021.




The significant increase of net profit led to positive dynamics of efficiency indicators. For 2022, the return on equity (ROE) is 18.0% and the return on assets (ROA) 3.7%, increasing compared to the previous year by 9.0 percentage points and by 2.1 percentage points, respectively.

At the end of the period, own funds amounted to MDL 2,881.9 million, an increase of 24.3% compared to 31.12.2021, as a result of higher retained earnings and the decrease in the amount of the adjustment of own funds due to prudential filters. The own funds ratio was 44.71% (regulated by the NBM ≥ 17.36%, including buffers regulated by the NBM), exceeding 2.6 times the minimum requirement imposed by the NBM and the average size at the banking sector level. During the year, the own funds ratio increased by 2.5 percentage points.

The 2022 was a period with many challenges, but also opportunities to increase revenues and develop the bank. We continued to invest in digital platforms and bring new and exclusive products to our customers. These advances would not have been possible without the know-how and help provided by colleagues from Banca Transilvania, the largest Romanian financial group.



# VICTORIABANK – A DIGITAL BANK

Our strategy for the coming years sets the goals to be achieved. Digital goals are an important part of the strategy. We aim to be a trendsetter in innovative services and digital products. We can contribute to making Banking simple, convenient, accessible and fast, only in this way.

What could be more convenient than being in constant contact with the bank and being able to benefit from products and services at any time you want? Maybe some lower fees than over the counter, more free services, exclusive services that cannot be offered over the counter and higher interest rates on deposits. This is Victoriabank's offer for the digital.

Replication of the business model of Banca Transilvania brings more positive results and beneficial changes for the bank, for customers and for the Moldovan business environment. In addition, our customers can benefit from intragroup products at very advantageous fees.

Victoriabank's digital offer is extensive and diversified, according to the preferences and requests of individuals, small entrepreneurs and corporate customers. More and more customers opt for and use our web and mobile banking services: here we refer to VB24 for individuals and VB24Business for legal entities. Out of the number of active customers, about 3/4 legal entities customers and 2/3 individual customers are active users of remote service systems.

For legal entities, we have also included in the current account packages (CPAG and Unlimited) the VB24Business internet banking service, which provides access to most products: payments in national currency and foreign currency, sale/purchase of foreign currency, Happy Hour business transactions, payment salaries within salary projects, withdrawal and payment of loans, opening term deposits, etc. Also for legal entities, the digital offer related to cards (POS-terminals, E-commerce, Tap2Phone, business card) optimizes cash needs by reducing related expenses, ensures immediate access to the amounts collected from sales, ensures mobility, optimizes service time, and creates new business opportunities. For example, for those who appreciate mobility and safety, what could be more convenient than Tap2Phone: accepting card payments by simply touching it with the smartphone, without any additional equipment? Star Card comes to support our customers who want to increase their sales in a light, fast and safe way.

For individuals, the digital offer is even more generous. The VB24 application is available in the web and mobile version. It provides customers with access to most of the digital products offered by Victoriabank such as: free opening of current accounts, opening cards, transfers (between own current accounts, between own current and card accounts, payments to other customers inside and outside the bank, SWIFT payment), payment of utilities using card account and current account, foreign currency exchange, Happy Hour transactions, permanent access to information about balances, inflows and outflows from accounts, setting and changing limits for transactions, term deposits in national currency and foreign currency, transfers from the account to other customers without having the recipient's payment requisites, cash by code, transfers from own accounts from other banks to one's own account in Victoriabank, payment of public services (MPay), cash withdrawals at ATMs. Installed modern ATMs allow making transactions without the use of a physical card, depositing cash into the account, withdrawing foreign currency from ATMs, free notifications for all transactions made, E-PIN, etc. Electronic wallets allow making transactions with the phone, smartwatch, eliminating the need for customers to have their card to carry out transactions. To the existing wallets (VBPay, GarminPay) we added Apple Pay, Xiaomi Pay and Google Pay in 2022. All digital opportunities are presented on the web page: www.victoriabank.md.

If 2 years ago, in the last month of the year, individuals made approximately 27 thousand transactions, in the same month of 2022 the number of digital transactions increased to almost 600 thousand transactions.

We launched the 100% Online credit: Victoriabank's Express loan can be accessed simply and quickly by Victoriabank customers with a qualified advanced electronic signature. It is not necessary for the customer to come to the bank offices for the loan application, signing the contract, or for withdrawing the money.

We have very good results for online opened deposits. Our customers prefer to open deposits online rather than coming to the counter. We, in turn, offer higher interest rates for most deposits opened online. The share of deposits opened online in total opened deposits online and at the counter increased nicely in 2022: if at the end of 2021 we recorded a monthly rate of 20%, in December 2022 that share exceeded 60%.

From 2022, our customers can enjoy a new facility: the online update of the customer questionnaire (KYC - Know Your Customer) without going to the bank's subdivisions, a fully automated solution that allows the identification of customers with the help of the latest biometric technologies and artificial intelligence.

We take great pleasure and pride in our customers who value time and convenience. They avoid going to the bank's subdivisions for services that they can access much more quickly and advantageously using the mobile or web application, electronic wallets, the network of ATMs and POS-terminals, etc. We want to be closer to all citizens of the Republic of Moldova and allow them to become our customers without going to the bank. For this purpose, for the first time, we developed the digital onboarding platform: the person who wants to become a customer of the bank can do it exclusively online with zero commissions and zero route to the bank.

For the first for the Republic of Moldova, we launched the Salut card, which is the new debit card linked to the current account, with many advantages and zero costs.

The number of users of remote service systems is increasing, through web banking increasing by 23.2% and through mobile banking by 42.9%. The total number of operations increased by 12.9%, for individuals recorded increase is of 13.4% and for legal entities increase of 11.4%. If the number of payments for both web banking and mobile banking increased for legal entities, individuals partially migrated from web banking to mobile banking. The total volume of payments is decreasing as a result of the evolution from legal entities, for individuals it is increasing by 53.2%.

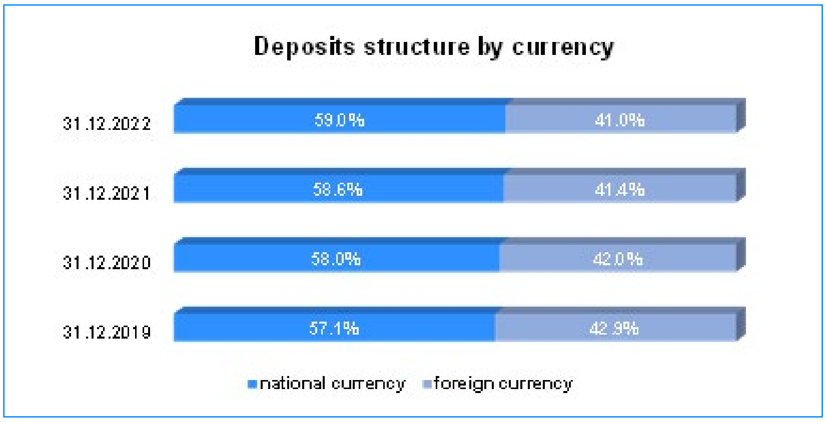
All our customers are important, the goal being to offer financial advice and assistance, to identify the most suitable financial solutions and make the most suitable decisions. We grow and develop together, learn new things and enjoy the advantages and comfort offered by current technologies.

## ACTIVITY ON ATTRACTING DEPOSITS

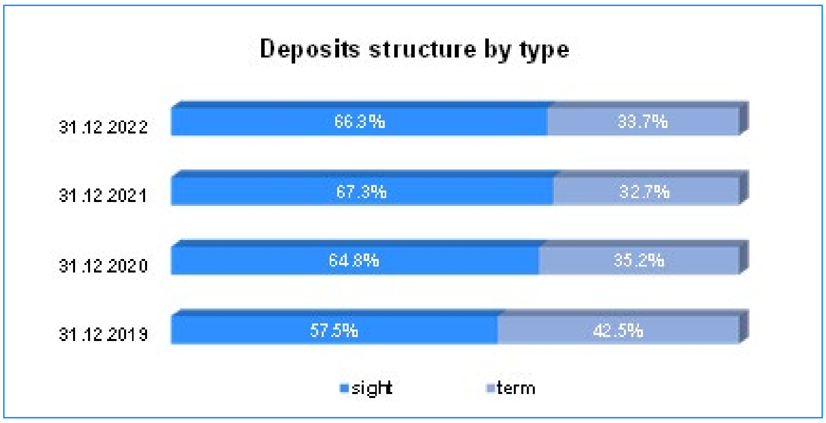
The increase in the number of customers, their turnovers and the income of the population are the factors that positively influence the dynamics of deposits. The main source of asset financing are deposits from individual and legal entity customers. In the structure of customer deposits, the weight of individual deposits is 59.6% and of legal entities 40.4%, the assurance of a balanced portfolio growth contributes to the stability of the portfolio structure.

At the end of the year, the deposits of individuals amounted to MDL 8,120.8 million, more by MDL 490.8 million or by 6.4% than at the beginning of the year. The biggest increase was recorded for term deposits in national currency, also as a result of the upward trend in interest rates, correlated with products that are appreciated by our customers.

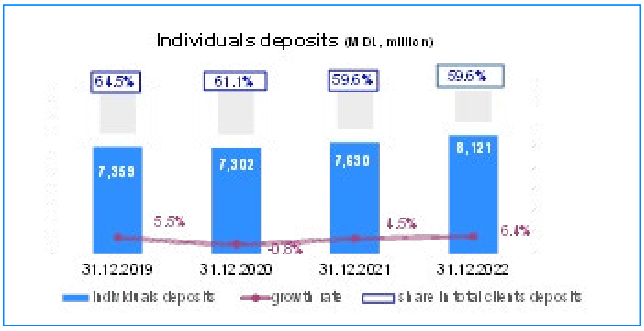
The legal entities deposit portfolio at the end of the year amounted to MDL 5,513.1 million, increasing by MDL 346.3 million or by 6.7% compared to the beginning of the year, in nominal terms increasing those in foreign currency. By customer segment, we recorded a balanced growth, both for the SME segment and for Companies.

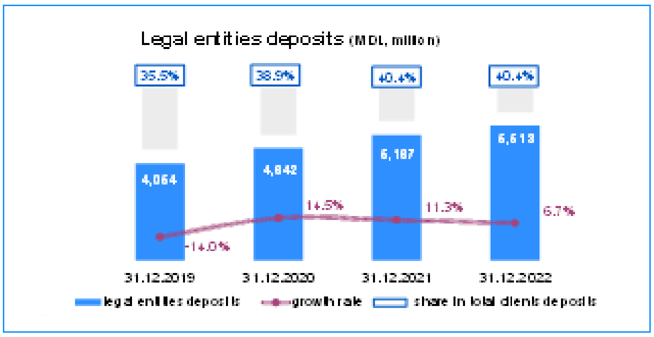



According to the structure by currencies, as in previous years, the preference for deposits in national currency is growing and it is higher than for deposits in foreign currency, with a total portfolio weight of 59.0%. Among foreign currencies, the largest balances are recorded in Euros, followed by those in US dollars. Both the balance of deposits in Euros and those in US dollars increased during the year, the more accelerated increase in those in US dollars.



The structure of deposits according to their term is different for individuals and legal entities. Individuals use savings products more, while the vast majority of legal entities deposits are made up of demand resources. If in the case of individuals it is a balanced structure of about 50%, for legal entities, the share of term deposits is 11%.




Expenses related to interest on customer deposits amounted to MDL 239.3 million, 65.9% more compared to the previous year, expenses related to deposits from individuals increasing by 71.9% and those for legal entities by 46.8%. In the structure of expenses by type of customer, 78.7% represents expenses related to deposits from individuals, a share that increased during 2022 by 2.8 percentage points.

Interest rates on attracted deposits, both in national currency and in foreign currency, registered an upward trend, being correlated with the demand and supply of resources, the dynamics of the exchange rate, the evolution of inflation and monetary policy rates.

# LENDING ACTIVITY

The function of loan in the economy and society is important, ensuring premises for sustainable economic growth and a comfortable life. In 2022, the relaunch of lending activity continued at a faster pace for the segment of legal entities. The main growth engine is the loans granted to the SME segment. New financing opportunities have been made available to customers.

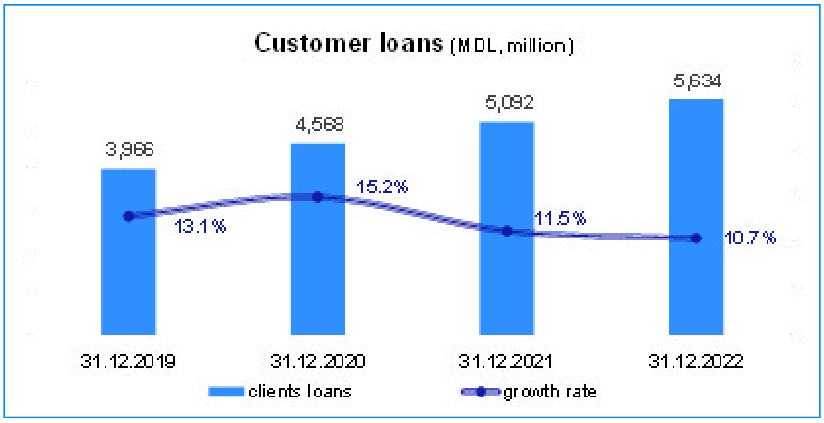
The growth of the customers' loan portfolio was determined by the positive evolution in all business segments, with the increase in loans of individuals, SME loans and Corporate loans. The main factors:

- the significant increase in the balance of SME loans as a result of the actions undertaken by the bank regarding the support of small business and optimization of lending processes;
- increase in the balance of Corporate loans;
- increase in the balance of real estate loans;
- increase in the balance of consumption loans.

During the year, Victoriabank consolidated its market position, ranking fourth in the sector, with a portfolio of loans to individuals and legal entities of MDL 5,634.4 million. During this period, the loan portfolio (principal) increased by MDL 542.3 million, more than the increase in 2021. In relative terms, the portfolio grew by 10.7%, faster than the average level for the banking sector.

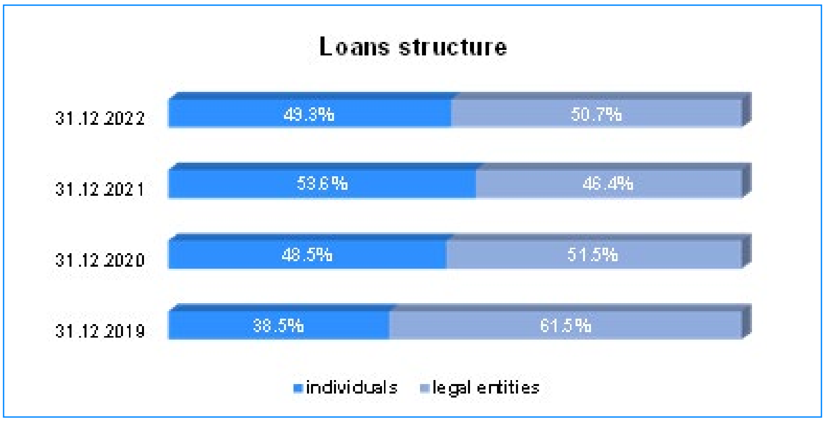
Due to the effectiveness of the taken measures, the quality of assets has improved, both as a result of the decrease in the volume of non-performing loans (prudential approach) and the increase in the volume of newly granted ones. In this context, the balance of non-performing loans decreased by MDL 98.1 million, amounting to MDL 486.7 million at the end of the year, which represents the minimum value in the last 6 years. The rate of non-performing loans decreased by 2.8 percentage points, constituting 8.5% at the end of the year.

According to the IFRS approach, the balance of Stage 3 loans (principal) recorded MDL 492.4 million, decreasing during the year by MDL 87.0 million. The share of Stage 3 loans in total customer loans is 8.7%, compared to 11.4% at the beginning of the year.



The growth of the loan portfolio was positively influenced by the promotional campaigns, the launch of new products, the optimization and automation of internal processes, etc. For the safety and convenience of customers, individuals can apply online for loans, simply and quickly, without going to the bank. We launched the 100% online credit for individuals.

Victoriabank is the first bank in Moldova that applied a distinct approach to the interest rate on the granted loans, which is linked to a reference index of the market plus the bank's fixed margin.

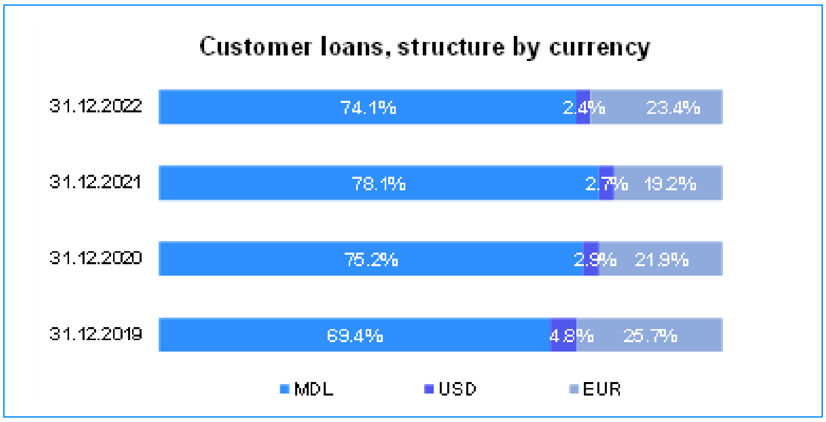



The management of the lending activity allowed us to register a balanced structure of the portfolio between individuals and legal entities. If at the beginning of the year the largest share was held by the loans of individuals, then at the end of the period, the majority share is held by the loans of legal entities, which during the year exceeded the share of loans to individuals.

The balance of loans to individuals amounted to MDL 2,778.6 million, increasing in 2022 by MDL 49.3 million. In terms of structure, the largest share belongs to real estate loans (50% of total individual loans), followed by consumer loans and card loans. A balanced structure of loans to individuals is ensured, similar to the one recorded previously.

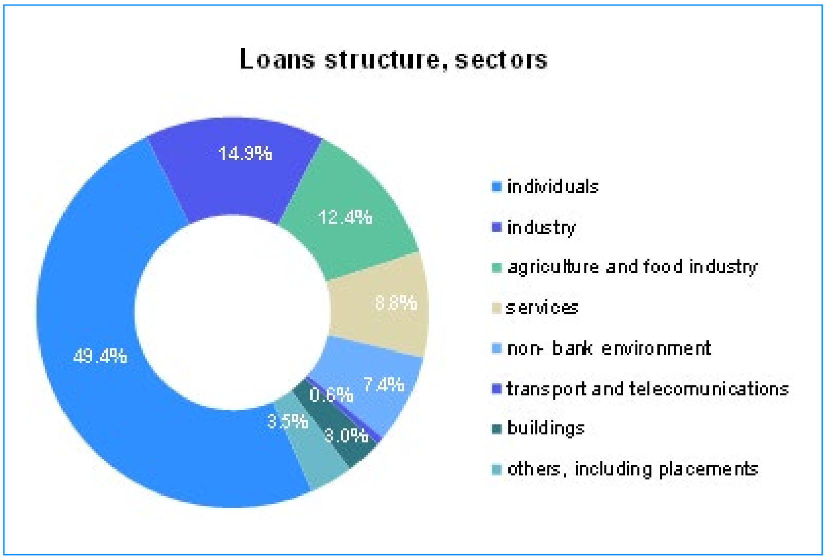
During the year, we ensured competitive conditions, new products and more benefits for customers. The installment-shopping card – STAR Card is a product appreciated by our customers, a card through which individuals have access to several advantages offered by the bank and partners. More and more customers request this product to pay off purchases in installments without interest, to receive cash-back and star points. We launched STAR Card Platinum in 2022.

As a result of the moderation in the growth of loans to individuals and the high demand for loans in foreign currency, the share of loans in euro increased by 4.2 percentage points during the year.




The portfolio of legal entities loans registered MDL 2,855.8 million, increasing by 20.9% or MDL 493.0 million more.

In the structure of the portfolio of loans to legal entities, the largest share belongs to credits granted to industry and commerce, followed by those granted to agriculture and the food industry, as well as those in the field of service delivery.



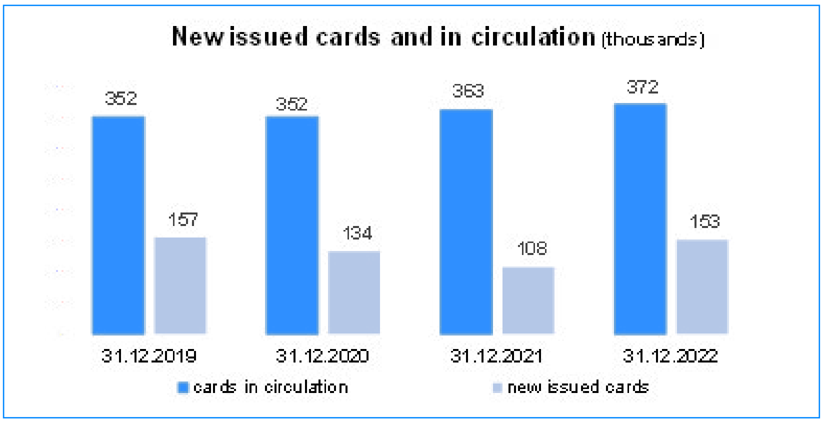

Interest rates on new loans evolved during the year according to market trends, towards the end of the period they were above the level of the rates of a year ago. The rate dynamics were influenced by the demand and supply of resources and the monetary policy decisions of the NBM.

The increase in the portfolio of qualitative loans and the upward trend of interest rates generated interest income from loans in amount of MDL 543.1 million, higher than in 2021 by 50.8%, thus contributing to the increase in net interest income, which recorded MDL 1,056.9 million, 2.4 times more than in the previous year.

## BANK CARD ACTIVITY

The activity with bank cards is in dynamic development and is of increased interest for the bank and society, considering the advantages it offers primarily to our customers, both individuals and legal entities. At the same time, the decrease of the volume of cash in circulation generates beneficial effects for the national economy and a positive impact on the environment. Digitization and card activity are closely interconnected.

The number of cards in circulation at the end of 2022 reached 372 thousand units, increasing during the year by 9.2 thousand cards. During the year, 152.8 thousand cards were issued, 44.9 thousand cards more than the previous year.

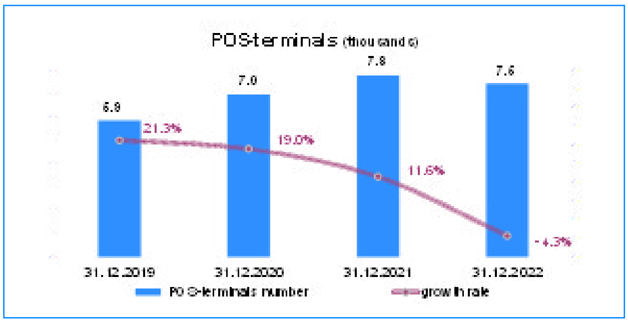


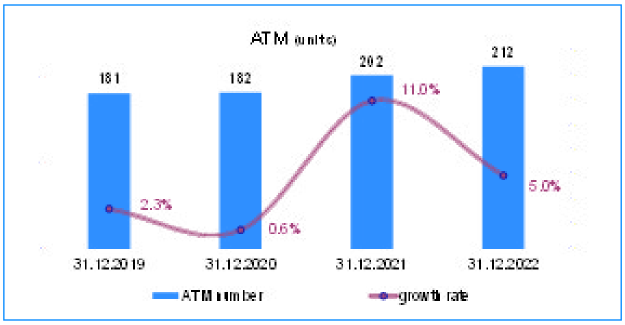

We are glad that advanced technologies are entering the lives of our customers, who are increasingly opting for cashless operations: card payments at merchants, P2P transfers, payment for services, currency exchange, etc.

The structure of cards in circulation is correlated with customer demand: salary cards, followed by those issued under general conditions and social cards. The bank's customers can enjoy the facilities offered by lunch tickets, companies providing an additional benefit to their own employees.

To ensure the service of growing volumes of activity, we constantly invest and modernize the network of POS-terminals and ATMs, develop new products and facilities for our customers. We purchased 100 new generation ATMs, unique on the market in the Republic of Moldova, designed to meet efficiently the ever-growing demands of consumers. These ATMs represent much more than a source of cash, their functionality will be extended to possibilities such as opening of accounts, supply of deposits, authentication with biometric data, two-way video functionalities, etc. In the reporting year, we invested to have the most modern card personalization equipment, the only one in the country that also allows the issuance of ecological cards. We are constantly renewing the network of POS terminals to provide customers with ergonomic, modern and reliable equipment.

At the end of 2022, the number of POS terminals recorded 7.5 thousand units and the number of ATMs: 212 units.




The efficiency of customer service processes continues to be one of our priority objectives, a fact that generates added value and advantages for all parties participating in the transaction: customers, beneficiaries and the bank.

The safety of the services is a priority for us. The made efforts were appreciated internationally by validating compliance with Visa's PIN security program, the bank being included in the Global Registry of Visa Service Providers.

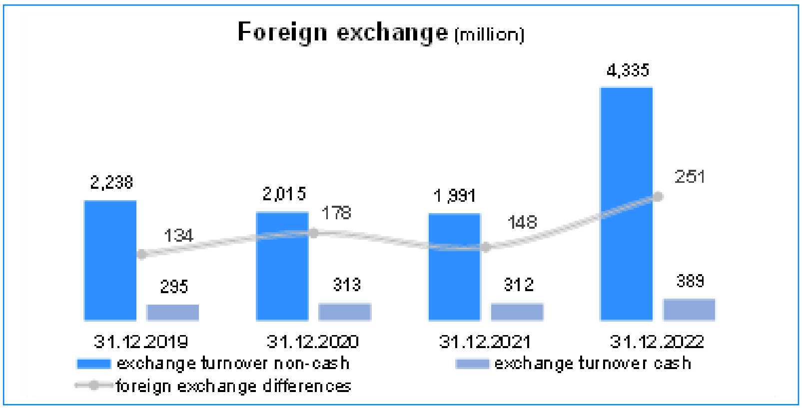
## FOREIGN EXCHANGE ACTIVITY

As of December 30, 2022, official reserve assets amounted to USD 4,474 million, an increase of USD 401 million compared to December 31, 2021, when they amounted to USD 4,073 million.

After the COVID-19 pandemic and the robust economic recovery in 2021, Moldova's economic prospects have been compromised by the war in Ukraine and rapidly rising inflation. At the same time, the year 2022 was marked by a severe drought, which affected a good part of plant production, with implicit effects on the zoo technical sector, consumer prices, exports, the supply of raw materials to the food industry, etc.

In 2022, Victoriabank continued to deepen correspondence with well-known banks in the West and in the USA, such as: Bank of New York Mellon, New York, DZ Bank AG, Frankfurt, Raiffeisenbank International AG, Vienna, Intesa San-Paolo, Milan. It is worth to mention the special correspondence relationship with Banca Transilvania, which allowed, on the background of very low commissions applied to commercial payments, the attraction of numerous clients, importers or exporters, interested in the development of cross-border relations between Moldova and Romania.

The volume of the Bank's turnover in intra-bank exchange transactions increased by 117.73%. The volume of the Bank's turnover for transactions at points of foreign exchange currency in cash increased by 24.68%.

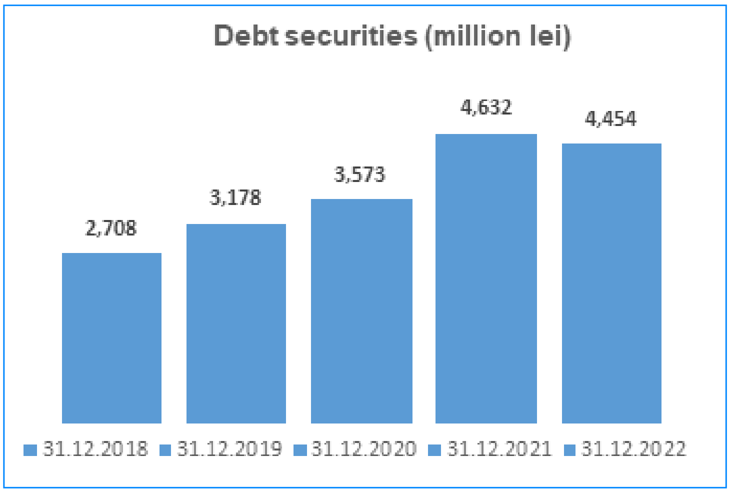



The evolution of activity volumes and transaction margins had an impact on revenues. In 2022, foreign exchange differences amounted to MDL 251.3 million.

## ACTIVITY ON THE STATE SECURITIES MARKET

The evolution of the state securities market was impacted by the high level of the inflation rate in 2022, as well as by the NBM's monetary policy measures to combat inflation. Thus, during the year, the NBM increased the base rate from 8.50% to 21.50%, the rate of mandatory reserves in MDL from 28% to 40%, and, in this context, the VMS rates with a maturity of 1 year increased from 9.88% to 21.85% in November 2022. Starting from December, the NBM reversed the direction of the market by reducing the base rate and the reserve requirement in MDL.

High interest rates for VMS attracted the investments of many clients - individuals and legal entities, who benefited from the Bank's services as a primary dealer. According to the evaluation carried out by the Ministry of Finance for the year 2022, the Bank maintained its position no. 1 in the ranking of primary dealers, occupying this position since 2018.




## CAPITAL MARKET ACTIVITY

Victoriabank, as an Investment Company, actively participates in the Moldovan capital market. The bank is licensed by the National Financial Market Commission to offer a wide range of investment services and activities to clients.

In 2022, Victoriabank carried out 130 sales-purchase transactions on behalf of investors, both within and outside the regulated market of the Moldova Stock Exchange. This earned the bank a top ranking among MSE members.

Additionally, in 2021, Victoriabank became the first bank-investment company to broker the first issues of municipal bonds in Moldova. Two local authorities issued these bonds as part of the project "Local government bonds - a measure to increase local autonomy". Throughout 2022, the issuers of these bonds fulfilled their obligations according to the commitments made, with Victoriabank acting as paying agent and making the quarterly/semi-annual payments of interest amounts.

At the beginning of 2023, one of the issuers received consent from all investors and redeemed the municipal bonds in advance. This process was assisted and managed by Victoriabank.

# CORPORATE GOVERNANCE

## DUTIES AND ACTIVITY OF GOVERNING BODIES

Victoriabank has established a corporate governance system that meets the highest industry standards, ensuring transparency, protection of all stakeholders' interests, and efficient operation in the banking market. Our system adheres to the most stringent regulations and standards, and we constantly strive to adapt to the changing market demands.

Clear demarcation of powers and competencies between the management and executive bodies, as well as effective interaction between them, are essential for appropriate corporate governance practices. You can view the complete organizational structure of the Bank on our official website, www.victoriabank.md, under the About Us section and the Corporate Governance subsection.

The General Shareholders Meeting (GSM) is the supreme authority for shareholders to exercise their right to vote on issues of great importance for the bank and participate in the election of the Bank's management bodies.

The Board of Directors and the Executive Committee are the two governing bodies of the bank that enjoy adequate independence in their activities. The Board of Directors is responsible for ensuring the proper functioning of the bank and overseeing its operations. It consists of 7 members appointed by the GSM, who are responsible for managing the bank in the interests of shareholders and other stakeholders.

The Executive Committee, on the other hand, is responsible for the day-to-day management of the bank and implementing development objectives and business planning. It consists of 6 members appointed by the Board of Directors and is responsible for informing the BoD about all significant aspects of the bank's activities, including the status of risk management and internal control.

## GENERAL SHAREHOLDERS MEETING

The General Meeting of Shareholders plays an important role in influencing the policies and management of Victoriabank. The bank respects the principle of equality in treating all its shareholders and encourages active participation in decision-making processes within the General Assembly.

The bank uses all available resources to prepare for meetings with responsibility and diligence, and shareholders can use information technologies to participate in debates and vote on issues without being physically present. The bank publishes information regarding decisions taken by the Assembly according to national legislation, within 7 days after the meeting.

Shareholders can also receive answers to their questions from the Corporate Governance Department and through various communication channels provided by the bank.

In 2022, Victoriabank held two General Meetings of Shareholders, both by correspondence. The annual ordinary General Meeting was held on April 28, 2022, where shareholders approved the bank's annual financial report for 2021, the report of the Bank's Board of Directors, and appointed an audit entity to conduct the external audit. They also examined issues related to the distribution of the annual profit.

At the extraordinary General Shareholders Meeting held on December 21, 2022, shareholders approved the modification of the bank's statute to increase the number of members in the Executive Committee from 5 to 6.

## BOARD OF DIRECTORS

The Board of Directors of CB Victoriabank JSC operates in accordance with the applicable legal framework: Law on the activity of banks no.202 of 06.10.2017, Regulation on the framework for the administration of the activity of banks approved by the Decision of NBM no.322 of 20.12.2018, Corporate Governance Code approved by the Decision of the National Commission for Financial Market no.67/10 of 24.12.2015 and the Bank's internal regulatory framework.

The Board of Directors has seven members elected by the General Shareholders Meeting, for a period of four years, with the possibility of being re-elected for a new term.

| | | Start of the mandate (NBM approval) |
|---|---|---|
| President | Victor ȚURCAN | 24.12.1993 |
| Vice-president | Thomas GRASSE | 25.09.2018 |
| Members | Igor SPOIALĂ | 27.02.2014 |
| | Mehmet Murat SABAZ | 09.08.2018 |
| | Tiberiu MOISĂ | 26.07.2018 |
| | Peter FRANKLIN | 05.12.2019 |
| | Maris MANCINSKIS | 20.02.2020 |

In order to ensure solid and efficient corporate governance, the Board of Directors of Victoriabank is supported in its work by specialized Committees. These Committees are made up exclusively of members of the Board of Directors, with specific duties, functions and responsibilities established in the normative acts of the National Bank of Moldova and in the Bank's internal regulations.

The specialized committees have the role of providing an expert analysis in their specific fields and of developing recommendations for the decisions of the Board of Directors. Currently, there are four active specialized committees at the level of the Board of Directors:

- The Audit Committee - assists the Board of Directors in fulfilling its duties in the field of accounting policies, audit and internal control as part of corporate governance.
- The Risk Management Committee - issues competent and independent opinions on risk management policies and practices, the adequacy of capital to risks, the Bank's risk appetite.
- The Remuneration Committee - assists the Board of Directors in the field of remuneration at the Bank level.
- Nomination Committee - assists the Board of Directors in nomination process at the Bank level.

During the reported period, the Board of Directors held 25 meetings, including ordinary monthly meetings and special ad hoc meetings. Out of these, three meetings were held in person, eight were held by videoconference, and 14 were conducted in absentia. In these meetings, 204 issues were discussed and decisions were made.

The members of the Board of Directors closely monitored the implementation of the bank's strategic objectives, priority directions of activity, risk management strategy, and management framework, including the Corporate Governance Code. They also ensured that performance standards were maintained in accordance with long-term financial interests and compliance with capital requirements approved the annual business plan, its amendments, the income and expenditure budget, and the internal regulations.

During the 25 meetings held in 2022, several topics were subjected to the scrutiny of the members on a regular basis:

- the approval of financial reports (monthly),
- presentation of the loan portfolio evolution (monthly) ,
- business activity reports (monthly),
- information on risk monitoring and management (quarterly),
- activity reports of the compliance and audit functions (quarterly),
- presentation of transactions with affiliated persons (quarterly),
- approval of primary internal regulations,
- credit applications, that fall under the competence of the BoD,
- optimization of the territorial network.

In the midst of major challenges in the banking market, Victoriabank made the strategic decision to acquire Banca Comercială Română Chișinău SA. The acquisition project was initiated in the second half of 2022, and efforts were intensified in the first months of the current year. The acquisition of BCR Chisinau is an important move to strengthen Victoriabank's position on the Moldovan market. The transaction is to be completed after the fulfillment of legal procedures and contractual conditions. Until the date of this report, BC Victoriabank SA had not received all the approvals for the acquisition of control according to IFRS 3.

The Board of Directors of Victoriabank carefully followed the acquisition process and was involved in all stages of this important transaction. They guided the executive management and the stakeholders involved in the acquisition process to ensure the success of this transaction and obtain maximum benefits for Victoriabank and its shareholders.

## AUDIT COMMITTEE

The Audit Committee supervises the financial reporting process including the appointment and remuneration of external auditors as well as the implementation of appropriate accounting policies and practices ensuring the integrity and accuracy of Victoriabank's financial condition. It oversees the preparation of the Bank's financial statements and is responsible for the assessment of the performance, objectivity and independence of the external auditors and its Senior Partners engaged in the audit process and the delivery of a quality audit. Furthermore, the Audit Committee helps the Board of Directors to oversee and carry out supervisory responsibilities in relation to internal audit, internal control and risk management systems, compliance with regulatory requirements and non-audit services of the Victoriabank. The Committee acts independently of management to fulfil its fiduciary duty to shareholders and ensure their interests are properly protected by effective internal controls, financial reporting, compliance with regulatory requirements and appropriate relationship with external auditors. The Committee has the right to make recommendations on the effectiveness of the Internal Audit Division's performance and on the remuneration of the Head of Division to the Board of Directors.

The members of the Audit Committee meet regularly with the external auditor of the Bank to discuss any issues related to the auditing activities, as well as the Bank's executive management answers. The Committee monitors the compliance with the legal provisions in Republic of Moldova regarding the financial statements and accounting principles, compliance with the provisions of the National Bank of Moldova, assesses the external auditor's report including key audit matters and audit opinion on the financial consolidated statements (IFRS), reviews and pre-approves the financial consolidated statements (IFRS) of the Bank.

During 2022, the Audit Committee had the following membership:

- Thomas Grasse - president;
- Igor Spoială - member;
- Maris Mancinskis - member.

During 2022, the Audit Committee met in 11 formal meetings in presentia and in 3 meetings by correspondence. The Lead Engagement Partner and Manager of the independent external auditor of the bank (KPMG) reported in 5 Audit Committee meetings about the audit work and submitted KPMG's Auditor's report on Bank's financial statements. Additionally, in line with good governance practice, the Audit Committee held one meeting with KPMG Lead Audit Partner without Executive Management's presence.

The CEO, CRO, CFO and, upon invitation by the Committee, the external auditors attend the Audit Committee meetings. In a dynamic environment, over the past year, the Committee has maintained a hybrid meeting schedule – 9 out of 11 meetings were conducted on-line. The Committee is satisfied that this did not impair the quality and effectiveness of its work and interaction.

In 2022, the Audit Committee focused on the following activities:

- Review of interim and year-end IFRS Financial results;
- Comprehensive review of the annual and interim financial statements, reporting process and going concern assumptions, ensuring that all statutory requirements and applicable International Financial Reporting Standards are met, disclosures are clear and adequate, all areas of significant accounting judgement are fully considered and that they give a fair, balanced and understandable financial position of the bank;
- 2022 External Audit Plan, review of the 2021 full-year external auditors' report, findings and recommendations issued by KPMG in its Management Letter from the 2021 audit, the external auditors' half-year 2022 review findings and discussed management's responses to it.
- Monitoring and ensuring that the measures and actions outlined in the Action Plan, following NBM control in 2021, are carried out;
- Review and assessment of the external auditors' effectiveness, recommendation to re-appoint KPMG as external auditor for the financial year 2022 and the approval of their remuneration, subject to shareholder approval at the 2022 GMS; appointment and remuneration of non-audit services;
- Continued oversight and evaluation of the performance and independence of the internal audit function including review and approval of the 2022 Internal Audit Plan and budget, review of 2022 Internal Audit reports, and any remedial action plans, review of the Internal Audit Manual;
- Conducting an independent External Quality Assessment of the Internal Audit function in compliance with The Institute of Internal Auditors standard 1312. This first EQA for Victoriabank's Internal Audit function acknowledged a high conformity with IIA standards, a key milestone in the Bank's multi-annual project 'Building a strong Internal Audit func-

tion' aimed at meeting industry best practice, supervised by the Audit Committee.

- Reviewing deficiencies and effectiveness of the Internal financial controls and other internal controls systems, and – in conjunction with the Risk Management Committee of the Board of Directors – assessing and monitoring the Bank's internal control, risk management and compliance functions;
- Analysing Bank's most important correspondence with NBM and monitoring implementation of recommendations communicated to the company by the regulatory authority.

During 2022, the Head of Internal Audit Division continued functionally to report directly to the Board of Directors, which was assured about the organizational independence of this function.

In the reporting period, the Audit Committee met with the Bank's external auditor, held planning meetings with KPMG for the effectiveness of the external audit process, asked for auditor's annual independence assurance and issued its recommendations to the Board of Directors regarding approval of the audited financial results. The work of the Committee continued to focus on overseeing the implementation of IFRS 9 accounting standards, related Expected Credit Loss models and its independent validation. The Committee has also considered the risk of executive override of controls as required by ISA240 standard and discussed with KPMG its mandatory assessment of this significant audit risk. From its review of KPMG's management letter from 2021 audit and bank's management responses the Audit Committee concluded that there are no significant issues raised in it.

The Audit Committee also examined the robustness of the Bank's internal controls, working with the internal auditor to closely monitor any deficiencies identified in the internal control and to observe the follow-up of such deficiencies by careful analysis of their remediation.

During this period, the Audit Committee paid special attention to the Internal Control and Compliance Risk Management section activities reports, overseeing, in co-operation with the Risk Management Committee, organizational and operational measures taken by the Bank to further develop and strengthen its activities in the field of KYC, AML/CFT and information security management.

## RISK MANAGEMENT COMMITTEE

The Risk Management Committee (RMC) is a body subordinated to the Board of Directors, responsible for the independent review, evaluation and recommendation of actions related to the Bank's Risk Strategy, profile, risk appetite and tolerance, risk management system, risk policies and the adequacy of the capital to the assumed risks.

The composition of the Risk Management Committee in 2022 was as follows:

- Thomas Grasse – president;
- Mehmet Murat Sabaz - member;
- Tiberiu Moisă - member.

During all of its meetings, the RMC monitored compliance with key risk indicators and established key risk limits for credit, market, liquidity, operational, and strategic risks, as reported by the Chief Risk Officer (CRO). The Committee also monitored compliance with regulations from the National Bank of Moldova and recommendations from the regulatory activity related to risk management and compliance functions within the bank.

In 2022, 16 meetings of the Risk Management Committee took place, of which 12 meetings were formal in person, and 4 – by correspondence.

During the meetings, the activity of the Risk Management Committee focused on the following aspects:

- Reviewing and evaluating the robustness, adequacy and effectiveness of the risk management system in the Bank, with a focus on the risk strategies and policies for the year 2020, based on reports prepared by the functions responsible for risk management within the Bank.
- Supervising and issuing recommendations regarding the Risk Management Strategy for 2022.
- Reviewing the framework of risk management policies, methodologies and processes, and assessing their impact on the Bank's financial statements.
- Revising periodic risk reports on a monthly and quarterly basis.
- Analyzing reports related to credit, market, liquidity, operational, compliance and strategic risk management.
- Cooperating closely with other specialized committees of the Board of Directors to ensure that primary internal regulations are consistent with the Bank's strategy and promote sound and efficient risk management.

- Supervising compliance with internal capital allocation principles (ICAAP) and liquidity adequacy assessment (ILAAP).
- Monitoring the recovery process of non-performing exposures.
- Approving exposures that fall within the powers of the Board of Directors.
- Supervising, evaluating and issuing recommendations regarding the remodeling of risk management and compliance functions, with special attention paid to strengthening the second line of internal control by creating a separate subdivision within the Compliance Division.
- Monitoring the evaluation process of the compliance function and the fulfillment of recommendations issued by external consultants.
- Monitoring the implementation of the project related to the improvement of the Bank's information security.

The Risk Management Committee closely monitored and assessed the quality of the asset portfolio, clients financial conditions and operations, due to the high level of uncertainty arising from changes in the business environment and regional geopolitical instability.

The RMC conducted a thorough review of the capital allocation process, the Bank's risk profile, and ensured strict adherence to prudential limits under various macroeconomic scenarios. Periodic reviews, discussions, and evaluations of crisis simulations and stress tests were conducted, in order to assess resilience and regulatory compliance with the National Bank of Moldova's minimum standards.

The members of the RMC also analyzed the impact of key initiatives relevant to risk management on the bank's capital position and performance.

Throughout 2022, the Risk Management Committee continued its efforts towards effective risk management and compliance ecosystem, aiming to assist the Board in the decision-making process.

## NOMINATION COMMITTEE

The Nomination Committee is a permanent and independent committee that advises the Board of Directors on candidate suitability and appointments in key positions.

The Committee aims to help the Board fulfill its responsibilities with respect to appointment and to maintain the best corporate governance practices.

The Nomination Committee in 2022 had the following composition:

- Victor Țurcan – president;
- Peter Franklin - member;
- Maris Mancinskis - member.

During 2022, the Committee met in 6 meetings. At the meeting of September 14th, 2022, Mr. Levon Khanikyan was approved for the position of President of the Executive Committee.

Throughout 2022, the Committee addressed the following topics:

- Appointment of new Executive Committee members, including the CEO.
- Approval of the individual re-evaluation of an Executive Committee member related to the extension of his mandate.
- Collective re-evaluation of Executive Committee members.
- Collective re-evaluation of Board of Directors members.
- Nomination and evaluation of two persons with key functions.
- Approval of the succession plan for the Executive Committee members and staff with key functions.

## REMUNERATION COMMITTEE

The Remuneration Committee is a permanent, independent advisory committee that supports the Board of Directors in matters related to remuneration at the Bank level. Its primary objective is to help the Board of Directors maintain and develop the best corporate governance practices concerning remuneration.

During 2022, the Remuneration Committee had the following composition:

- Mehmet Murat Sabaz - president;
- Peter Franklin - member;
- Tiberiu Moisă - member.

The Chairman of the Risk Management Committee is invited to the meetings of the Remuneration Committee, to ensure that the Bank's remuneration policies and incentives are consistent with the prudent risk-taking assumption.

During the reporting period, the Committee met in 9 meetings, 3 of them being carried out in the formal presence of the members, 6 – by correspondence. Following items were subjected to the scrutiny of the members:

- Approval of decisions concerning the remuneration of executive members and employees holding key positions.
- Prior examination of the bank's remuneration policy, other internal regulations related to remuneration, before approval by the Board of Directors.
- Monitoring of the bank's remuneration policies, practices, and processes, particularly with regards to the fixed-to-variable remuneration ratio.
- Evaluation of the fulfillment of performance objectives and decision-making regarding the granting of annual bonuses to the bank's employees.
- Other topics related to the remuneration of the bank's staff.

The Remuneration Committee plays central role in ensuring that the Bank's remuneration policies align with the best corporate governance practices and are consistent with prudent risk-taking assumptions. The Committee's efforts help the Bank maintain a strong and competitive remuneration system that motivates employees to improve their performance constantly.

The minutes of the meetings of the specialized Committees were presented in the meetings of the Board of Directors, and the presidents of each Committee informed the members of the Board of Directors about the approved decisions and recommendations in their areas of responsibility.

In 2022, the Bank's committees performed their duties with utmost diligence on observing the interests of Victoriabank and its customers.

## EXECUTIVE COMMITTEE

The Management Committee is the collegial executive body of the Bank that organizes, directs and is responsible for the Bank's current activity, effectively and prudently manages the Bank's activity, in accordance with the Bank's strategy and management framework approved by the Board of Directors.

The main attributions of the Management Committee reside in the implementation of the decisions of the General Meeting of Shareholders and the decisions of the Board of Directors, as well as in promoting certain policies aimed at increasing the competitiveness of the Bank, ensuring its sustainable financial and economic position, in order to protect the rights of shareholders and investors.

Subsequently, the following priorities are included in the list of the ExCo competencies:

a) implementation of strategic objectives, internal control systems, risk management strategy and the Bank's activity management framework, approved by the Board of Directors;
b) the development of an adequate and transparent organizational structure for the Bank that ensures the separation of functional responsibilities;
c) adequate monitoring of subordinate staff;
d) assigning the tasks and responsibilities of the Bank's staff;
e) the quarterly presentation to the Board of Directors of the report on the results of its activity;
f) other duties provided for in the Statute and internal regulations.

The Management Committee is subordinated to the Board , which is a subordinate body. The members of the Steering Committee are elected for a term of four years, with the possibility of being appointed for a new term.

During 2022, the Management Committee had the following composition:

| | | Start of the mandate (NBM approval) |
|---|---|---|
| President (CEO) | Bogdan PLEȘUVESCU | 03.03.2018 |
| Vice-president (CBO) | Vasile DONICA | 03.03.2018 |
| Vice-president (CRO) | Sorin ȘERBAN | 04.05.2018 |
| Vice-president (CFO) | Vitalie CORNICIUC | 18.06.2020 |
| Vice-president (COO) | Elena-Ionela MALOȘ | 24.06.2021 |

* Mr. Levon Khanikyan was appointed as Chairman of the Executive Committee during the Board of Directors meeting on 22.09.2022, but began to exercise his functional duties on 12.01.2023, when he obtained the approval of the NBM.

The Executive Committee reports regularly to the Board of Directors on situations that may influence the bank's strategy and / or management framework, the Bank's financial performance, breach of risk limits or compliance rules, internal control system deficiencies.

In order to carry out its activity in certain specialized fields, the Executive Committee creates and coordinates specialized committees:

- Loan Committees – in charge of issues regarding the Bank's lending activity, except for those falling within the competence of the BoD and the EC. These committees shall take decisions on granting/ extending/ renegotiating loan requests.
- Workout Committee - is a committee of analysis, which has responsibilities and rights in the segment of non-performing loans recovery.
- Asset-Liability Committee (ALCO) - analyzes and adopts decisions relating to the management of interest rate risk, currency risk, liquidity risk, price risk and associated areas for the proper management of the Bank's assets and liabilities, and ensures the development of an optimal structure of the Bank's balance sheet in accordance with the Bank's strategic documents.
- Procurement Committee - is an analysis and decision-making commit-

tee, which has competencies in the field of procurement of goods and services within the Bank.

- Product Committee - is an advisory committee, which proposes to the Executive Committee the approval of new products and changes in existing products, as well as approves promotional campaigns.

During 2022, the members of the Executive Committee met in 90 meetings, 57 being held formally in person, while 33 – by correspondence, where they discussed and voted on 808 issues.

## GOVERNANCE CODE AND ITS OBSERVANCE

We understand the importance of adhering to high standards of corporate governance to ensure sustainable business development and to protect the legal rights and interests of shareholders. To this end, we have defined a set of key approaches and milestones in our Corporate Governance Code, which serves as the foundation of our corporate governance system.

Our Governance Code is a public document that contains a set of principles and standards that are based on recommendations from the Basel Committee's "Consideration of Corporate Governance for Financial Institutions" and in compliance with the legislation of the Republic of Moldova. The document outlines the main working methods, rights, and responsibilities of the Bank's management and supervisory structures, as well as its shareholders, employees, and customers.

Detailed procedures and internal rules are established and regulated by the Statute and corresponding internal documents of the Bank. The Governance Code and other relevant documents that regulate internal management processes are accessible on the Bank's official website.

Corporate governance is an evolving process that is based on good practices and the results achieved. With this in mind, the Governance Code has been adjusted and changes have been approved by the Board of Directors on 10.10.2022. The main change is the clear stipulation that the Vice-President of the Steering Committee (CRO) and subordinate departments will be responsible for the risk management function.

The Governance Code aims to increase trust among all stakeholders involved in the management and administration of the Bank, while providing investors with insight into the corporate culture and values of Victoriabank. This is achieved by:

- Respecting the rights and fair treatment of shareholders;
- Providing investors with access to information through periodic publication of relevant financial and operational information in a fair and transparent manner;
- Recognizing the role and rights of stakeholders other than shareholders;
- Establishing the responsibilities of the Board of Directors towards the Bank and shareholders, and outlining the framework for its interaction with the Management Committee;
- Encouraging integrity and ethical behavior.
- In compliance with the Governance Code and the relevant legislation, the Bank publishes a governance statement (Annex 1)

The bank is committed to continuously and consistently improving its corporate governance system, with a priority focus on the interests of shareholders, investors, customers, and other interested parties.

## RISK MANAGEMENT AND COMPLIANCE

The objective of Victoriabank regarding risk management is to integrate the average risk appetite undertaken into the decision-making process by promoting an appropriate alignment of the risks undertaken, available capital and performance targets, while taking into account the tolerance of both financial and non-financial risks. In determining risk appetite and tolerance, the Bank takes into account all the risks to which it is exposed due to the specific nature of its business, with appetite being predominantly influenced by credit risk.

Within the Bank, risk management is an integral part of all decision-making and business processes. In this respect, the governing bodies:

- Continuously assess the risks to which the Bank's business is or may be exposed that may affect the achievement of its objectives and take action on any changes in the conditions under which it operates;
- Identify and assess significant risks, taking into account both internal factors (complexity of the organizational structure, nature of activities carried out, quality of staff and level of staff turnover) and external factors (legislative changes, changes related to the competitive environment in the banking sector, technological progress).
- The risk management framework includes internal regulations, limits and control mechanisms that ensure the identification, assessment, monitoring, mitigation and reporting of risks related to the Bank's activities at the overall level and where appropriate at the business line level (Corporate, SME, Retail);
- Identify risks: the exposure to risks inherent in the business through day-to-day operations and transactions (including credit operations, dealing, asset management and other specific activities) is identified and aggregated through the risk management infrastructure in place;
- Assess/measure risks: an assessment of the identified risks is carried out through specific models and calculation methods, such as a system of key risk indicators and related limits, a methodology for assessing possible loss-generating risk events, a methodology for credit risk provisioning, estimates of future asset value developments, etc.;
- Monitor and control risks: policies and procedures implemented for effective risk management have the ability to temper the risks inherent in the business. Procedures are implemented to control and approve decision and trading limits. These limits are monitored on a daily/weekly/monthly basis, depending on the specifics and conduct of operations;
- Report risks: for specific risk categories, regular and transparent reporting mechanisms have been established so that management and all relevant units benefit from timely, accurate, concise, understandable and meaningful reports and are able to exchange relevant information on risk identification, measurement or assessment and monitoring.

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

- Credit risk;
- Market risk;
- Liquidity risk;
- Interest rate risk from activities outside the banking book;
- Operational risk;
- Risk associated with excessive leverage;
- Reputational risk;
- Strategic risk;
- Compliance risk.

## CREDIT RISK

The credit risk management framework is regularly updated and improved. It is designed to cover all credit exposures in the bank's business and comprises the following basic components:

- A risk assessment system for new credit products/significant changes of some existing products;
- A credit granting methodology that ensures the creation of a healthy credit portfolio;
- Integrated IT systems for clients relationship management for credit to both legal entities and individuals;
- An effective active credit portfolio management process, including an adequate reporting system;
- Limits of concentration by client/client group/by product/economic sector/type of guarantees;
- Methodology for early detection of actual or potential increases in credit risk (early warning signals);
- Processes applied regularly and consistently to establish appropriate loss adjustments in accordance with applicable credit risk accounting regulations.

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

- include a robust process designed to provide the Bank with the ability to identify the level, nature and determinants of credit risk at the time of initial recognition of the credit exposure and to ensure that subsequent changes in credit risk can be identified and quantified;
- include criteria that take appropriate account of the impact of forward-looking information, including macroeconomic factors;
- include a process for assessing the appropriateness of significant inputs and assumptions related to the chosen method for determining the level of expected credit losses;
- consider relevant internal and external factors that may affect the expected credit loss estimates;
- ensure that expected credit loss estimates appropriately incorporate forward-looking information, including macroeconomic factors, not already taken into account in the calculation of loss adjustments measured at the individual exposure level;
- involve a process for assessing the overall adequacy of loss adjustments in accordance with relevant accounting regulations, including a periodic review of expected credit loss patterns.

Credit risk management at the Bank's level is carried out by:

- Organization of an own system of rules and procedures in the field, able to create the regulatory framework that applied in the credit process allows to avoid or minimize the triggering of risks; development/improvement of the procedural framework for credit risk management (strategy, policies, procedures on credit risk management); continuous improvement of credit approval/granting activity;
- Maintaining an adequate credit management, control and monitoring process;
- In the Bank's organizational structure - there are directorates and committees with a role in credit risk supervision and management.

## MARKET RISK

Market risk is the risk of recording losses on balance sheet and off-balance sheet positions due to adverse market movements in the prices of financial instruments and equity securities held for trading, interest rates and foreign exchange rates.

In the management of market risk, the Bank applies a number of rules, including stress tests, through which the impact of possible sudden and unexpected changes in interest rates and/or market fluctuations in foreign exchange rates on own funds is assessed and incorporated in the regular reports to the Asset-Liability Committee (ALCO).

In order to mitigate the market risk inherent in the conduct of operations, the Bank has adopted a prudent approach to protect the Bank's profit from market movements in prices, interest rates, foreign exchange rates, which are all exogenous, external, independent factors. The Bank applies a number of principles relating to the quality, maturity, diversity and riskiness of its components.

The analysis of market risk is carried out based on the subcategories of risk mentioned below, with the aim of combining prudential requirements with profitability requirements:

- Interest rate and price risk. The management of this risk is adapted and adjusted to the conditions of the financial-banking market in the Republic of Moldova and internationally, as well as to the general economic and political context.
- Currency risk. The risk of incurring losses on on-balance sheet and off-balance sheet positions due to adverse market movements in exchange rates. The Bank applies a series of rules and limits concerning transactions/positions sensitive to exchange rate fluctuations, the manner in which they are carried out, recorded and the impact of exchange rates on the Bank's assets and liabilities.

## LIQUIDITY RISK

The aim of liquidity risk management is to obtain the expected return on assets by exploiting temporary cash surpluses and efficiently allocating resources attracted from clients, in the context of appropriate management, consciously assumed and adapted to market conditions and the current legislative framework. The liquidity management is carried out centrally and aims to combine prudential requirements with profitability requirements.

In liquidity risk management, the Bank applies a series of principles concerning the quality, diversity, maturity and riskiness of assets, while establishing sets of limits that are carefully monitored to ensure compliance with the principles and desired returns.

The liquidity stress tests are a component of liquidity risk management, for which different probabilities and severities are established, based on which the Bank's potential vulnerabilities related to its liquidity position are analysed, potential negative effects and ways to avoid/resolve them are determined.

The liquidity risk management, as an element of the Bank's strategy, is the responsibility of the Asset-Liability Committee (ALCO).

In order to manage liquidity risk soundly, the Bank continuously seeks to attract liquidity through treasury operations, external financing, etc.

The operational liquidity management is also carried out intraday, so as to ensure all settlements/payments undertaken by the Bank, in its own name or on behalf of clients, in national or foreign currency, on account or in cash within the internal, legal, mandatory limits.

The Bank also holds a liquidity reserve to cover additional liquidity needs that may arise over a short period under stress conditions, which are periodically tested against various stress scenarios.

During the year 2022, the Bank recorded comfortable levels of liquidity indicators thus demonstrating a strong position.

## INTEREST RATE RISK FROM ACTIVITIES OUTSIDE THE BANKING BOOK

The Bank has established a set of strict principles for managing and monitoring interest rate risk from activities outside the banking book, based on a risk management process that keeps interest rates within prudent limits. The aim of interest rate risk management is to minimize the possible negative impact on net income as well as the economic value of capital under adverse movements in interest rates.

The Bank applies management tools such as static GAP analysis as well as economic value of capital, interest rate movement forecasts, recommended and regularly updated limits in interest rate risk management.

## OPERATIONAL RISK

The operational risk is the current or future risk of damage to profits and capital resulting from inadequate or failed internal processes or systems and/or from the actions of external persons or events.

In order to identify, assess, monitor and mitigate operational risk, the Bank assesses new processes, products and services as well as significant changes to existing ones.

In order to mitigate the risks inherent in the Bank's operational activities, the controls implemented at various levels are carried out and monitored on an ongoing basis, their effectiveness is assessed, and methods are introduced that contribute to reducing the potential impacts of operational risk events through the implementation of preventive action plans.

The Bank's strategy for reducing exposure to operational risk is based mainly on the continuous compliance of internal regulations with legal and market conditions, staff training, efficiency of internal control systems (organization and operation), continuous improvement of IT solutions and strengthening of the Bank's information security systems, use of complementary means of risk mitigation (conclusion of specific risk insurance policies, application of measures to limit and reduce the effects of identified operational risk incidences such as standardization of current activity, assessing products, processes and systems to determine which are significant in terms of inherent operational risk), using recommendations and conclusions resulting from controls carried out by internal and external control bodies in the field of operational risks, updating continuity plans and regularly assessing and testing them.

The operational risk assessment process is closely linked to the global process of risks management. Its result is an integral part of the operational risks monitoring, control processes, and is continuously compared with the risk appetite established by the risks management strategy.





## RISK ASSOCIATED WITH EXCESSIVE USE OF LEVERAGE EFFECT

The objective of managing excessive leverage risk is to balance the structure of the Bank's assets and liabilities in order to achieve the expected profitability indicators under controlled risk conditions, ensuring both the continuity of the Bank's business on a sound basis and the protection of shareholders' and clients' interests.

The concept of "leverage effect" means the relative size of the Bank's assets, off-balance sheet obligations and contingent obligations to pay or provide or secure real guarantees, including obligations arising from financing received, commitments entered into, derivatives or repo agreements, but excluding obligations that can only be enforced during the liquidation of the Bank, compared to the Bank's own funds.

## REPUTATIONAL RISK

The reputational risk is the current or future risk of damage to profits and capital or liquidity caused by the adverse perception of the Bank's image by counterparties, shareholders, investors or supervisors. The management of reputational risk is achieved by taking steps to attract the best partners, both in terms of clients and suppliers, recruiting and retaining the best employees, minimizing litigation, rigorously regulating activity, preventing crisis situations, i.e. constantly strengthening the Bank's credibility and the confidence of shareholders, constantly improving relations with shareholders, creating an environment that is as favourable as possible for investment and access to capital, and communicating continuously and openly with stakeholders (shareholders, media, clients, partners, employees, authorities, etc.).

## STRATEGIC RISK

The strategic risk is the current or future risk of damage to profits and capital caused by changes in the business environment or unfavourable business decisions, inadequate implementation of decisions or failure to react to changes in the business environment.

A detailed analysis of the significant risks identified by the Bank is available in the Report of the Victoriabank on the management framework, own funds and capital requirements, capital buffers, in accordance with the Regulation on information disclosure requirements by banks, approved by Decision of NBM No. 158 of 09.07.2020.

## CAPITAL ADEQUACY

The Internal Capital Adequacy Assessment Process (ICAAP) within the Victoriabank is a component of the bank's management and governance process, its decision-making culture, which aims to ensure that the management bodies adequately identify, measure, aggregate and monitor the bank's risks, hold adequate internal capital to the risk profile and use and develop sound risk management systems.

The bank shall ensure that it maintains a level of own funds that is at all times at least at the level of the capital requirements set out in the NBM Regulation on banks' own funds and capital requirements. The Bank shall also ensure that its internal capital requirements are consistent with its risk appetite and the environment in which it operates.

The Bank uses the following calculation methods to assess its capital needs:

a. For the determination of capital needs in order to cover credit risk - standardized approach;
b. For the determination of capital needs in respect of position risks related to traded debt instruments - the standardized approach;
c. For the determination of capital needs in order to cover foreign exchange risk - relating to the whole business - standardized approach;
d. For the determination of capital needs in order to cover operational risk - the basic approach.

The planning and monitoring of risk capital adequacy takes into account the Bank's total own funds on the one hand and the Bank's risk-weighted assets on the other hand.

During 2022, the total own funds rate which represents the Bank's own funds expressed as a percentage of the total amount of risk exposure (risk-weighted assets) was within the established prudential limits and at a comfortable level.

## INTERNAL LIQUIDITY ADEQUACY

The Internal Liquidity Adequacy Assessment Process (ILAAP) is an important component of the overall assessment process within "Victoriabank" S.A. that helps the bank manage its liquidity and financing risks. It ensures that the bank has a solid and specific framework regarding liquidity and financing risk management, including a process for identifying, quantifying, and monitoring the level of liquidity and its management process.

One of the primary objectives of the ILAAP is to help the bank plan and maintain an adequate amount of liquidity and liquid assets to support its business operations and achieve its set objectives. This process involves a comprehensive analysis of the bank's liquidity profile, funding structure, and risk management strategies to identify potential liquidity gaps and develop contingency plans to address them.

To support the implementation of the ILAAP, the bank has a Funding Plan that outlines its funding sources and strategies for funding in normal and emergency situations. The Funding Plan also includes a plan for emergency situations that describes the responsibilities, strategies, and instruments used to cover liquidity deficits in emergency situations.

The ILAAP is an ongoing process that is reviewed and updated regularly to ensure that the bank's liquidity and financing risk management framework remains robust and effective. In 2022, the bank recorded favorable values of liquidity indicators, indicating a more than comfortable level of liquidity despite a generally fragile economic context.

## COMPLIANCE RISK

The compliance risk is the current or future risk of damage to profits and capital, which may lead to fines, damages and/or termination of contracts or which may damage the Bank's reputation as a result of violations of or non-compliance with regulations, agreements, recommended practices or ethical standards.

The Bank has established and maintains a mechanism for the ongoing and effective management of compliance risk, as required by applicable normative acts. The Compliance function, during 2021, assisted the Bank's governing bodies - the Board of Directors and the Executive Committee - in identifying, assessing, monitoring and reporting the risk associated with the activities carried out by the Bank, providing support on the compliance of the activities carried out with the provisions of the regulatory framework, its own rules and standards, the Code of Conduct, including by providing information related to developments in this field.

To ensure a prudent management of compliance risk, the Bank has adopted the following methods: ongoing monitoring and adjustment of exposure limits and monitoring of indicators, set in the Bank's internal regulations, that reflect internal processes/products exposed to compliance risk;

- effective management of the field related to the prevention and combating of money laundering and terrorist financing/international terrorism financing, including by establishing know-your-client mechanisms, monitoring transactions, ensuring a risk-based approach to the Bank's clients;
- ensuring internal control activities and measures related to the management of conflicts of interest;
- ensuring compliance of internal regulations with the requirements of national legislation and the Bank's internal regulatory framework, in compliance with BT Financial Group's standards and requirements;
- promoting a "compliance culture" through continuous training/consulting on non-compliance events, including those related to corporate ethics, so that compliance risk can be effectively managed;
- developing and streamlining of compliance risk management processes, including by optimizing and digitizing the activities of the compliance function;
- regular internal auditing of the compliance function's activities, ensuring control over the effectiveness of the implementation of legislative requirements.

The Bank has applied the principle of a risk-based approach towards compliance risk, with the compliance function ensuring continuous monitoring of risk indicators, identification and analysis of causes that may lead to the occurrence of events of a compliance risk nature. Moreover, in order to prevent and/or mitigate compliance risk related to the Bank's activities, the compliance function has undertaken continuous risk control measures.

# HUMAN RESOURCES MANAGEMENT

## STAFF STRUCTURE

In 2022, Victoriabank, like many other companies in the Republic of Moldova, focused on prioritizing the health and safety of its employees and their families due to the pandemic and the conflict in the neighboring country. To achieve this, safety measures such as social distancing, wearing masks, and regular hand hygiene were maintained until the national prevention measures were lifted.

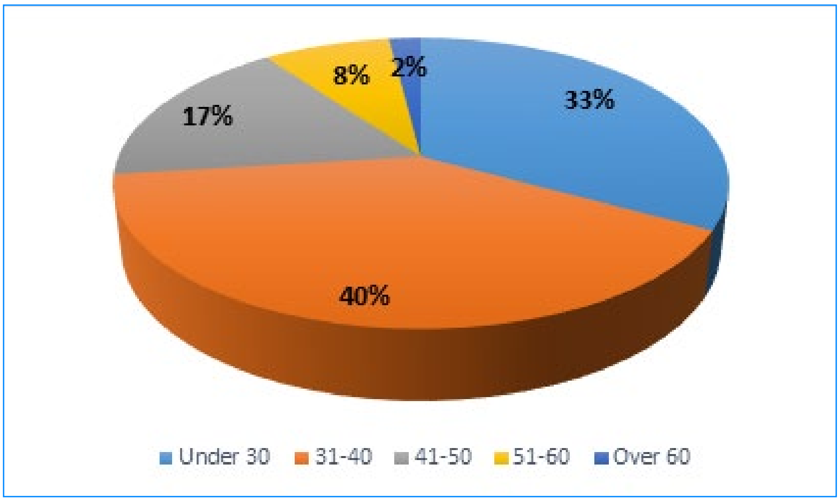
Attracting and retaining employees is important in an uncertain business environment, so Victoriabank made quality and timely selection and recruitment a priority to ensure suitable employees were hired for key roles. To stay competitive, employees need to constantly develop and improve their skills and competencies. Victoriabank emphasized the professional and personal development of its employees through training, coaching, mentoring sessions, and online learning opportunities.

To retain top talent, Victoriabank provided customized development plans, learning opportunities, and management and leadership skills development for all management levels. Leaders need to be able to manage change, inspire and motivate their teams, and in response, Victoriabank offered training and leadership development programs and online learning opportunities to develop these skills.

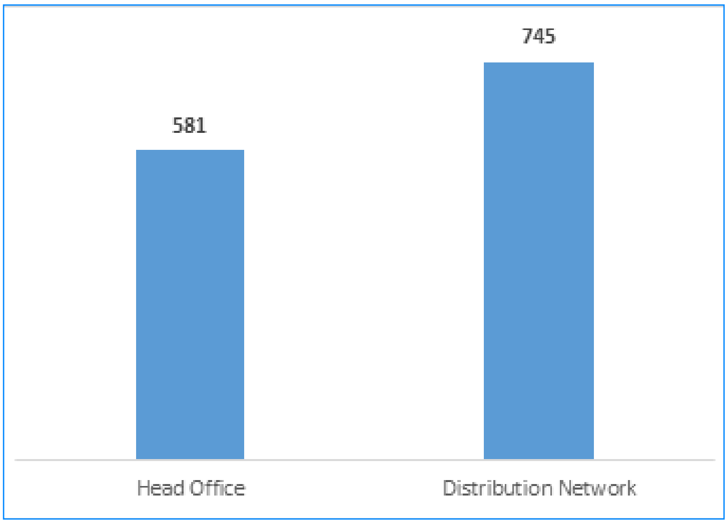
On December 31, 2022, Victoriabank had a total of 1,326 employees, with 745 working in the Distribution Network and 581 in the Head Office.

The bank had 1,096 active employees, and 230 (17.35%) are on maternity and childcare leave. The average age of the bank's employees as at December 31, 2022, was 36 years.

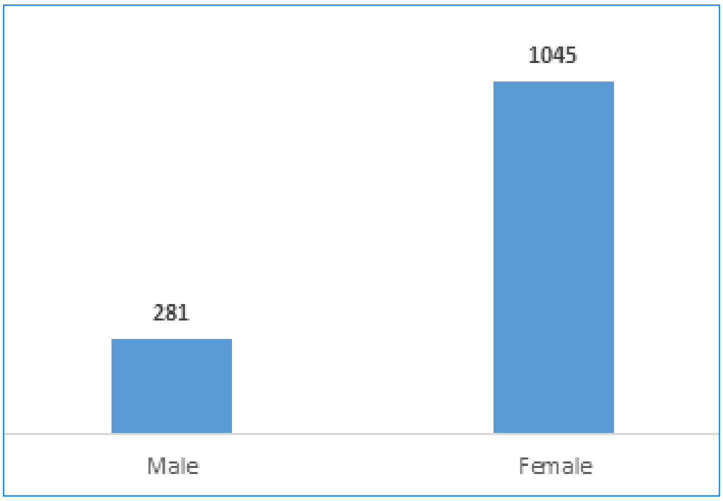
Staff structure by age:




VB employees: Head Office vs Distribution Network




Staff structure by gender



## RECRUITMENT

At Victoriabank, we prioritize transparency in all aspects of our recruitment process. Job openings are posted on various platforms, including social media channels like Facebook and LinkedIn, our official website https://www.victoriabank.md/cariere, and at special employment platforms and career fairs.

In 2022, we conducted a total of 287 recruitment activities.

In addition, we used a human resources tool called the "Reference Program" to aid in our recruitment efforts. This program provides an informal benefit to employees and allows them to increase their income by recommending friends, neighbors, or others to work at the bank. Recommendations are an effective way to promote our employer brand and attract motivated, trained employees who can help support our strategic goals. Through this program, we were able to recruit 82 new employees from 242 recommended candidates.

To ensure a smooth transition for new hires, we continued our Onboarding digital program || RPA in an online format in 2022. However, we also relaunched offline training. The purpose of this program is to introduce new employees to the history and culture of Victoriabank and the Banca Transilvania Group, our mission, vision, and values, career opportunities and management, internal communication, benefits and remuneration, training and development, safety and health at work, information security, and anti-money laundering practices, among other topics.

To address our need for new colleagues in specific fields and to better market opportunities at Victoriabank, we have adapted our recruitment strategy to widen our candidate pool. In November 2022, we relaunched the 4.0 edition of our financial education project Zoom in Banking || Paid Internships from Victoriabank in collaboration with the European Business Association (EBA), the Academy of Economic Studies of Moldova (ASEM), the State University of Moldova (USM), and the Technical University of Moldova (UTM).

The 4.0 edition for 2021-2022 has been expanded to include a new partner, the Technical University of Moldova, in addition to our existing partners. The program's objective is to train and solidify practical skills related to banking among students and teaching staff through the involvement of banking specialists and international experts. The program will focus on strengthening aspects of financial reporting, cash flow, accounting, tax administration, and risk management.

The Zoom in banking program has multiple objectives such as:

- Developing the skills and knowledge of local young people, making them more employable in the banking sector;
- Adjusting the educational offer according to the requirements of the banking sector
- Supporting talented young people and training future specialists among young graduates who want to pursue a career in the banking system
- Guiding students in identifying the right field and workplace within the bank for the development of professional skills.
- Dissemination of good practices, counseling and career guidance of students
- Motivating and rewarding the most active, responsible and ambitious young people.

The program is designed for all aspirants, including students and teachers, and is conducted online.

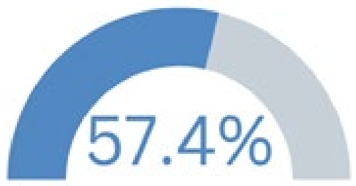
The trainers and employees from Victoriabank, along with partners EBA, ASEM, USM, and UTM, set practical topics for the training. The program also provides payed internships for students.

In 2022, Victoriabank launched an internal blog project called People from Victoriabank. The project involved posting articles about colleagues from both the network and Head Office, which gained significant visibility on social media. The bank plans to continue the People from the bank project, and promote front office and head office colleagues through short articles and interviews on Facebook, LinkedIn, and the bank's website under the section about People from Victoriabank.

## PERFORMANCE EVALUATION

During the performance evaluation exercise, employees had the opportunity to evaluate their achievements for the previous year, as well as the fulfillment of Smart Objectives set for each individual employee.

In 2022, we continued to conduct EEI (Employee Experience Index) sessions, an exercise through which employees can evaluate their line managers, as well as eNPS, through which we evaluate the level of employee satisfaction in the workplace. In 2022, two editions of the EEI & eNPS exercise were conducted (editions 8 and 9).




*e-NPS recorded in December 2022*

In the 9th edition, the highest eNPS score since the beginning of the project was recorded, namely 57.4%.

## BENEFITS AND REMUNERATION

Our employees' well-being remained our top priority in 2022, and the safety and health of our employees are essential to Victoriabank. That's why we included the Medical Investigation Benefit at Medpark in our compensation and benefits package from May 1, 2022, to May 1, 2023, which is fully paid by the employer. Additionally, we've been able to ensure business continuity by allowing many activities to be done from home without diminishing the efficiency or quality of work.

Furthermore, we continued the special program "Internship for the Children of Victoriabank Employees" for colleagues' children who are studying in Romania. Students and master's degree candidates in economics, IT, marketing, and other fields have the opportunity to learn everything about banking from the Banca Transilvania team.

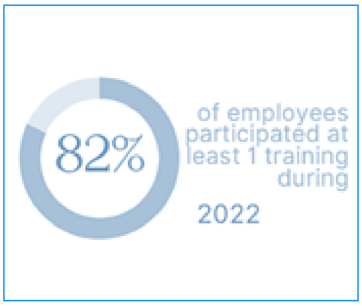
Throughout 2022, we also continued our internal communication campaign through the new project "VB Brain Zone." VB Brain Zone sessions are a series of webinars that bring us closer to everything that is beautiful, useful and trendy. The webinar guests are specialists in the fields of art, communication, health, and more.

# PROFESSIONAL DEVELOPMENT

The year 2022 was marked by a strong focus on human resource development processes. Throughout the year 2022, training programs were organized, including:

- Managerial and leadership skills development sessions attended by 95 employees
- Effective communication and feedback courses with the participation of 516 employees
- Wellness promotion and knowledge sharing events with 640 employee participants
- Technical training on banking products, services, and applications with the participation of 250 employees

In 2022, training sessions returned to the classroom. The "Sales Academy" training project was launched for employees involved in the sales process of Victoriabank's services and products. The project includes classroom training sessions, micro-learning elements, coaching sessions, and a qualified mentoring program. Throughout 2022, 63 training sessions were organized within the "Sales Academy", with 216 employees participating.




Throughout the year 2022, 82% of Victoriabank employees participated in at least one classroom training session, which is a 20% increase compared to 2021.


The number of internal training sessions has increased four times, thanks to the consolidation of the Victoriabank team, which consists of 4 permanent trainers and 17 occasional trainers - specialists from various fields who are involved in training and developing other colleagues.


The overall satisfaction level of employees who participated in training sessions, which includes the evaluation of criteria such as how useful, practical, and interactive the training sessions were, is 91%.

The e-learning platform continues to be popular among Victoriabank employees, which includes a catalog of 629 courses covering diverse topics such as communication, sales, negotiation, human resources, as well as technical subjects such as MS Office, project management, English language, etc.


Every employee has completed at least one e-learning course, and on average each employee has passed 12 online courses on the e-learning platform, with the most popular courses being in the areas of leadership, communication and sales skills, work-life balance, and Microsoft Office.

# non-financial statement

## VICTORIABANK – A TRUSTWORTHY PARTNER

The mission of Victoriabank is to ensure the continuity of its activities under optimal financial conditions for growth and to meet the demands and needs of its customers, employees, shareholders, and society, while also protecting their interests.

The Bank's goal is to build one of the best banking institutions in the national financial system by consolidating a brand appreciated by all categories of customers and a favorable and sustainable corporate reputation.

Our mission highlights the importance of the Bank for the country's economic growth, our value, and the Bank's role in society to guarantee trust, stability, and security in the domestic banking system.

For Victoriabank, it is very important to successfully achieve the ambitious goal outlined in the mission - to become the first bank in Moldova in all areas of the institution's activities.

This will only be possible by achieving the personal and professional goals of the Bank's employees, by forming a team with common visions, principles, and values, whose provisions will be followed by each team member.

The Bank's corporate values adhere to the highest ethical standards by adopting a Code of Conduct designed to promote honest and responsible behavior by employees, who turn ethical principles into codes of conduct for all staff. A well-established system of corporate governance contributes to the Bank's value growth by creating effective mechanisms for management and adoption of fundamental decisions.

## VICTORIABANK – TOP EMPLOYER

In 2022, Victoriabank was awarded the title of Top Employer for the second year in a row, according to the "Employer Brand Perception Survey 2022" study. This distinction is particularly significant as Victoriabank is the only bank in Moldova to have received this award. The study was conducted by Axa Management Consulting and included 62 large companies from across the country.

By earning this award, Victoriabank further strengthened its employer brand, highlighting the company's commitment to prioritizing its employees and providing them with opportunities for development. The recognition also serves to enhance the bank's appeal to potential new talent looking to join the team.

The study employed a comprehensive methodology to evaluate the top employers at the national level. This involved surveying employees across a range of areas, such as working conditions, development opportunities, salary and benefits, and company culture.

Additionally, in 2022, Victoriabank was named one of the top employers of the year by recruitment platforms delucru.md and undelucram.md. In the former case, the bank was ranked in the top 5, while in the latter, it was the only bank from Moldova to be named among the 20 best employers in the country.

## REMUNERATION POLICY

Victoriabank's remuneration policy is designed to align with the bank's medium- and long-term strategic development objectives, aiming to both retain employees and meet the bank's profitability criteria.

The policy aims to encourage employee performance (both individual and collective), recognize and appreciate each employee's contribution to the bank's results.

The principles of the remuneration policy apply to both the fixed and variable components of the entire staff's remuneration. The evaluation criteria relate to both individual and collective performance, specifically over a sufficiently long period to indicate real performance, not only in terms of measurable financial criteria but also based on qualitative criteria, including knowledge of the field of activity, managerial skills, efficiency and general professional attitude, level of commitment, and compliance with the bank's policies.

Victoriabank periodically updates and improves its internal norms and standards to promote the best practices for staff remuneration.

The bank's policy is subject to the principles of the Banca Transilvania Financial Group's remuneration policy. Any changes and derogations from the policy fall within the competence of the VB Board of Directors and comply with the Banca Transilvania Financial Group's remuneration policy provisions.

## ANTI-CORRUPTION POLICY

Regarding its anti-corruption policy, Victoriabank applies both the BT Financial Group's Code of Ethics and Conduct, as well as its own internal policies and procedures. Victoriabank has implemented its own anti-corruption policy, adopting and promoting the principle of "zero tolerance for corruption" in all its business relationships. All members of management and employees have access to and are informed of these policies at the time of their adoption, including any changes that occur during their validity. Additionally, at the time of employment, all employees sign a written commitment to comply with the anti-corruption requirements described in the relevant policy and Code of Conduct.

Victoriabank's stance on this phenomenon is communicated to its partners by integrating an anti-corruption clause in all collaboration contracts. Furthermore, at the conclusion/modification of collaboration contracts, appropriate controls are provided to verify/ensure compliance by partners with the standards for combating corruption.

## SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

Victoriabank and its employees prioritize social responsibility and involvement. They remain committed to social projects with the same #PoftaDeFapteBune (Desire for Good Deeds).

The Caritate VB Association has been carrying out social responsibility projects for the past five years, with 2018 being the starting point of #GoodDeeds at Victoriabank. At the end of 2018, the non-profit organization "Caritate VB" was founded to support employee and community initiatives.

The association, created at the initiative of Victoriabank employees - Banca Transilvania Group, is among the top charitable organizations that enjoy public trust. Over the past four years, the nonprofit association has contributed to numerous charity acts and supported important social projects. In 2022, "Caritate VB" was among the organizations that most citizens chose to donate 2% of their own taxes.

The "Caritate VB" Association has been involved in various charitable campaigns, including the "Generosity Gala" organized by the Public Association "CCF Moldova" (Child, Community, Family), which received donations totaling 127,000 lei.

In addition, material aid was provided to other organizations and individuals in need, such as the "Republican Rehabilitation Home for Invalids, Labor and War Veterans" in the village of Cocieri, the "Andrea Charity Foundation", the Public Association "Life Without Leukemia" and the Multifunctional Community Center "Generația PRO" in the village of Peresecina, Orhei district, as well as to Victoriabank employees and other people in difficult situations.

The Caritate VB Association aims to be a bridge between those who can help, want to help, and those in need.

Since 2022, the position of CSRO (Chief Sustainability and Responsibility Officer) has been established in Victoriabank. The CSRO's responsibilities include coordinating and monitoring the implementation of environmental strategies, policies, and programs that promote sustainable development in accordance with the bank's leadership decisions. The CSRO monitors the implementation of resource efficiency programs at the business unit level, such as energy management, paper consumption and recycling, and water usage control. The CSRO also monitors opportunities for "green economy" and provides environmental and social training to employees.

In response to the energy crisis in the region following the military conflict in Ukraine, internal measures have been implemented to conserve electricity, some of which will remain permanently in place. Victoriabank reaffirms its commitment to sustainable development and managing the risks associated with the impact on the environment and society.

**At Victoriabank, we build high-performing teams and continue to promote a healthy organizational culture. We strongly believe that this is the key to long-term success.**

## Annex 1.

*Anexă la Codul de Guvernanță Corporativă*
*aprobat la ședința Consiliului de Administrație*
*al BC „VICTORIABANK" SA*
*proces-verbal nr.147 din 10.10.2022,*

## CORPORATE GOVERNANCE STATEMENT "COMPLIANCE OR JUSTIFICATION"

| No. | Question | YES | NO | If no, why? |
|---|---|---|---|---|
| 1. | Does the company have a website? Indicate its name | Yes www.victoriabank.md | | |
| 2. | Has the company developed the Corporate Governance Code describing the principles of corporate governance, including amendments to it? | Yes | | |
| 3. | Is the Corporate Governance Code placed on the website of the company, indicating the date on which the last change was made? | Yes | | |
| 4. | Does the Corporate Governance Code define the functions, competencies and duties of the board, executive body and audit commission of the company? | Yes | | |
| 5. | Does the annual report of the management (executive body) provide for a chapter dedicated to corporate governance where all relevant events related to corporate governance are described, registered during the reporting period? | Yes | | |
| 6. | Does the company ensure fair treatment of all shareholders, including minority and foreign shareholders, holders of ordinary and/or preferred shares? | Yes | | |
| 7. | Has the company prepared, proposed and approved the procedures for the orderly and efficient convening and conduct of the proceedings of the general meeting of shareholders, without prejudice to the right of any shareholder to freely express their opinion on matters within debate? | Yes | | |

| | | | | |
|---|---|---|---|---|
| 8. | The company publishes on its website information on the following aspects regarding corporate governance: | | | |
| | 1) general information on the company - historical data, types of activity, registration date, etc.; | Yes | | |
| | 2) the company’s report on compliance with the principles of corporate governance and legislative provisions; | Yes | | |
| | 3) the company’s Charter; | Yes | | |
| | 4) the regulations of the company, company board, executive body and audit commission, as well as the remuneration policy of members of the governing bodies, and the regulation of the procedure on convening and conducting the general meeting of shareholders, if such a procedure has been adopted; | | No | Only the internal normative acts that do not constitute a trade secret are published on the Bank's website |
| | 5) financial statements and annual reports of the company; | Yes | | |
| | 6)* information on the internal audit (audit commission) and the external audit of the company; | Yes | | |
| | 7) information on the executive body, members of the board of the company and members of the audit commission (for each member separately). There are indicated information on work experience, positions held, education, information on the number of shares held, as well as their independence, are indicated; | Yes | | |
| | 8) shareholders holding at least 5% of the company’s shares, as well as the information on changes in the list of shareholders; | Yes | | |
| | 9) any other information that need to be made public by the company in compliance with the law, for example information on large transactions, any important events, press releases of the company, archived information on the company’s reports for the previous periods; | Yes | | |
| | 10) the Corporate Governance Statement. | Yes | | |

| | | | | |
|---|---|---|---|---|
| 9. | Can the shareholder use electronic notifications on convening the general meeting of shareholders (is there such a preference)?)? | Yes | | |
| 10. | Does the company publish on its website (in a separate section) information on general meetings of shareholders: | | | |
| | 1) the decision to convene the general meeting of shareholders ? | Yes | | |
| | 2) draft decisions to be examined (materials/ documents related to the agenda) as well as any other information on the topics included in the agenda?? | Yes | | |
| | 3) the adopted decisions and the result of the vote? | Yes | | |
| 11. | Is there in the company the position of corporate secretary ? | | No | The duties of the corporate secretary are fulfilled by the Corporate Governance Division |
| 12. | Is there in the company a department/specialist working particularly with the investors ? | Yes | | |
| 13. | Does the board meet at least once per quarter for the purposes of monitoring the development of the company's activity? | Yes | | |
| 14. | Are all transactions with stakeholders revealed on the company's website? | Yes | | |
| 15. | Has the company's board/ executive body adopted a procedure for the purposes of identifying and settling adequately conflicts of interest? | Yes | | |
| 16. | Does the stakeholder comply with legal provisions and the provisions of the Corporate Governance Code in relation to transactions with conflicts of interest? | Yes | | |
| 17. | Does the structure of the company's board ensure a sufficient number of independent members? | Yes | | |

| | | | | |
|---|---|---|---|---|
| 18. | Is the election of the members of the company's board based on a transparent procedure (objective professional qualification criteria, etc.)? | Yes | | |
| 19. | Is there a Remuneration Committee in the company? | Yes | | |
| 20. | Is the company's remuneration policy approved by the general meeting of shareholders? | | No | The policy of the staff remuneration of the Bank is approved by the BoD and describes the general framework and principles of remuneration of the members of the BoD, EC, identified staff and employees of the Bank. |
| 21. | Is the company's remuneration policy set out in the Statute/Internal Regulations and/or in the Corporate Governance Code? | Yes | | |
| 22. | Does the company publish information in Russian and/or English on its website? | Yes | | |
| 23. | Is there an Audit Committee in the company? | Yes | | |
| 24. | Does the company, whose financial instruments are admitted to trading on the regulated market, present to the regulated market its statement of compliance or non-compliance with the provisions of the Corporate Governance Code? | Yes | | |

**In accordance with the provisions of Article 36(2)(a) and (h) of the Law on the activity of banks no.202 of 06.10.2017, the provisions of Article 7(1)(d), Articles 71 and 72 of the Law on joint-stock companies no.1134-XIII of 02.04.1997 and any other provisions that, directly or indirectly, refer to the audit commission shall not be applicable to banks.*

# branches network

List of territorial units of CB Victoriabank JSC as at 31.12.2022

| SUBDIVIZIUNI | ADRESA |
|---|---|
| **Branch No. 1 Balti** | **MD 3121, Balti municipality, 18, Puskin Street** |
| Agency No. 6 Balti | MD 3101, Balti municipality, 24, Independentei Street |
| Agency No. 7 Balti | MD 3101, Balti municipality, 8/4, Stefan cel Mare Street |
| Agency No.36 Balti | MD 3100 Balti municipality, 9, Nicolae Iorga Street |
| Agency ZEL | MD 3101, Balti municipality, 4, Industriala Street |
| **Branch No. 2 Floresti** | **MD 5001, Floresti city, 59, 31 August 1989 Street** |
| **Branch No. 3 Chisinau** | **MD 2004, Chisinau municipality, 141, 31 August 1989 Street** |
| Agency Sfatul Tarii | MD 2004, Chisinau municipality, 29, Sfatul Tarii Street |
| Branch No. 4 Nisporeni | MD 6401, Nisporeni city, 92, Alexandru cel Bun Street |
| Branch No. 5 Causeni | MD 4301, Causeni city, 2, Stefan cel Mare Street, ap. 30-31 |
| Agency No. 22 Stefan Voda | MD 4201 Stefan Voda city, 7, 31 August Street |
| **Branch No. 6 Soroca** | **MD 3006, Soroca city, 77, Independentei Street** |
| **Branch No. 7 Orhei** | **MD 3505, Orhei municipality, 42, Vasile Lupu Street** |
| Agency No. 58 Rezina | MD 5401, Rezina city, 18/a, 27 August 1989 Street |
| Agency No. 47 Telenesti | MD 5801, Telenesti city, Dacia Street |
| Agency No. 68 Orhei | MD 3505, Orhei municipality, 7, Mihai Eminescu Street |
| **Branch No. 8 Chisinau** | **MD 2038, Chisinau municipality, 99, Decebal Avenue** |
| Agency No. 3 Chisinau | MD 2001, Chisinau municipality, 2/,4 Negruzzi C. Street |
| Agency No. 26 Chisinau | MD 2032, Chisinau municipality, 49/8. Dacia Avenue |
| Agency Budapesta | MD 2038, Chisinau municipality, 14/1 Dacia Avenue |
| Agency No. 35 Chisinau | MD 2072, Chisinau municipality, 26/3, Independentei Street |
| Agency No. 49 Chisinau | MD 2071 Chisinau municipality, 7, Zelinski Street |
| Agency No. 74 Anenii Noi | MD 6501, Anenii – Noi city, 2A, Concilierii Nationale Street |
| **Branch No. 9 Cahul** | **MD 3901, Cahul city, 11 A, Mateevici Street** |
| Agency Cantemir | MD 7301, Cantemir city, 40A, Stefan-Voda Street |
| **Branch No. 10 Ungheni** | **MD 3606, Ungheni municipality, 26, Nationala Street** |
| **Branch No. 11 Chisinau** | **MD 2012, Chisinau municipality, 77, Stefan cel Mare si Sfint Avenue** |
| Agency No. 4 Chisinau | MD 2012, Chisinau municipality, 55, Tighina Street |
| Agency No. 5 Chisinau | MD 2012, Chisinau municipality, 32, Puskin A. Street |
| Agency No. 16 Chisinau | MD 2038, Chisinau municipality, 21, Arborilor Street |
| Agency No. 71 Chisinau | MD 2005, Chisinau municipality, 26, A. Puskin Street |
| **Branch No. 12 Chisinau** | **MD 2020, Chisinau municipality, 3, Moscova Avenue** |
| Agency No. 2 Chisinau | MD 2020, Chisinau municipality, 16, Moscova Avenue |
| Agency No. 76 Chisinau | MD 2059, Chisinau municipality, 88/1, Petricani Street |
| Agency Posta Veche | MD 4839, Chisinau municipality, Stauceni com., 5, Chisinaului Street |
| Agency OASIS | MD 2068, Chisinau municipality, 1, Bogdan Voievod Street |
| **Branch No. 13 Taraclia** | **MD 7401, Taraclia city, 143/5, Lenin Street, ap. (of.) 2** |

| | |
|---|---|
| **Branch No. 14 Chisinau** | **MD 2044, Chisinau municipality, 17/3, Mircea cel Batrin Street** |
| Agency No. 10 Chisinau | MD 2044, Chisinau municipality, 17/3 Mircea cel Batrin Street |
| **Branch No. 15 Comrat** | **MD 3800, Comrat city, 46 a, Pobedi Street** |
| Agency No. 72 Comrat | MD 3800, Comrat municipality, 22, Tretiacov Street, ap.11 |
| **Branch No. 16 Edinet** | **MD 4601, Edinet municipality, 19, 31 August Street** |
| Agency No. 43 Edinet | MD 4601, Edinet municipality, 67/3, Independentei Street |
| Agency Ocnita | MD 7101, Ocnita city, 62, 50 Ani ai Biruintei Street |
| **Branch No. 17 Chisinau** | **MD 2012, Chisinau municipality, 64, 31 August 1989 Street** |
| Agency No. 24 Chisinau | MD 2005, Chisinau municipality, 43, Soseaua Hincesti Street |
| Agency No. 29 Chisinau | MD 2025, Chisinau municipality, 20, Testimitanu Street |
| **Branch No.18 Hincesti** | **MD 3401, Hincesti municiplaity, 7, Chisinaului Street** |
| Agency Leova | MD 6301, Leova city, 14, Independentei Street |
| **Branch No. 19 Briceni** | **MD 4701, Briceni city, 20 A, Independentei Street** |
| **Branch No. 20 Chisinau** | **MD 2051, Chisinau municipality, 7/2, O. Ghibu Street** |
| Agency No. 34 Chisinau | MD 2069, Chisinau municipality, 1a, Calea Iesilor Street |
| Agency No. 45 Chisinau | MD 2064, Chisinau municipality, 76, Ion Creanga Street |
| Agency Durlesti | MD 2003, Chisinau municipality, Durlesti city, 16, Codrilor Street |
| Agency Calea Iesilor | MD 2069, Chisinau municipality, 8, Calea Iesilor Street |
| **Branch No. 23 Straseni** | **MD 3701 Straseni municipality, 31, M. Eminescu Street** |
| **Branch No. 24 Ialoveni** | **MD 6801, Ialoveni city, 53, Alexandru cel Bun Street** |
| Agency No. 48 Costesti | MD 6813, Ialoveni district, Costesti village, 117, Stefan cel Mare Street |
| **Branch No. 25 Singerei** | **MD 6201, Singerei city, 127/A, Independentei Street** |
| Agency No. 39 Singerei | MD 6201, Singerei city, 4/32, B. Glavan Street |
| **Branch No. 26 Chisinau** | **MD 2005, Chisinau municipality, 28/1 Mt. Banulescu-Bodoni, Street** |
| Agency No. 38 Chisinau | MD 2005, Chisinau municipality, 6, Constantin Tanase Street |
| Agency Energia | MD, 2005, Chisinau municipality, 64, Puskin Street |
| **Branch No. 27 Falesti** | **MD 5901, Falesti city, 10, M. Eminescu Street** |
| Agency Glodeni | MD 4901, Glodeni city, 14, Suveranitatii Street |
| **Branch No. 28 Calarasi** | **MD 4401, Calarasi city, 32 A, M. Eminescu Street** |
| **Branch No. 30 Chisinau** | **MD 2060, Chisinau municipality, 29, Dacia Avenue** |
| Agency Dacia | MD 2072, Chisinau municipality, 61, Dacia Avenue |
| Agency No.35 Chișinău | MD 2072, Chisinau municipality, 26/3 Independentei Street |
| **Branch No. 31 Drochia** | **MD 5202, Drochia city, 3, 31 August 20 Street** |
| Agency No. 57 Donduseni | MD 5101, Donduseni city, 30, Stefan cel Mare Street |
| **Branch No. 32 Ceadir Lunga** | **MD 6100, Ceadir-Lunga municipality, 54 A, Lenin Street** |
| **Branch No. 34 Riscani** | **MD 5601, Riscani city, 18, Independentei Street** |

# financial statements

**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 Cornicluc**
**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** |



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# 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%);<br>European Bank for Reconstruction and Development (EBRD) (38.18%);<br>effective beneficiaries do not exist | Romania<br>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



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### 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.



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## 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.

## 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.<br>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.<br>Transaction-based fees (e.g. interchange), are charged to the customer’s account when the transaction takes place.<br>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.<br>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.

## 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.

## Explanatory notes to the financial statements

### 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.



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**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.

## 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** |



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### 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) |



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### 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*<br>**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** |



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## 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**<br>*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).



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## 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).



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### 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** |



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## Explanatory notes to the financial statements

**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*<br>***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.

### 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).



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# Explanatory notes to the financial statements

## 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** |

## Explanatory notes to the financial statements

### 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** |



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### 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** |

### 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).

## 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** |

### 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)** |



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### 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.



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### 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)** |



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### 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.

## 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.

### 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** |



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## 37. FAIR VALUE OF THE FINANCIAL INSTRUMENTS

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

**Level 1 in the fair value hierarchy**

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

**Level 2 in the fair value hierarchy**

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

**Level 3 in the fair value hierarchy**

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

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

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

## 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).



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## 39. FINANCIAL RISK MANAGEMENT

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

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

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

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

### 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.

**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.



* 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)**

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 |

## 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:

## 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 |



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## 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.



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## 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** |



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## 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** |



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## 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** |

## 39. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 39.1 Credit Risk (continued)

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

| **31 December 2021**<br>*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**<br>*In MDL thousand* | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
|---|---|---|---|---|
| **Current accounts and placements with banks** | | | | |
| Standard | 964,125 | - | - | 964,125 |
| Supervised (Watch) | 96,746 | - | - | 96,746 |
| Substandard | 41,196 | - | - | 41,196 |
| Doubtful | - | - | - | - |
| Compromised (losses) | - | - | - | - |
| *Loss allowance* | (784) | | | (784) |
| **Carrying amount** | **1,101,283** | **-** | **-** | **1,101,283** |



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## 39. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 39.1 Credit Risk (continued)

### 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** |



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## 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** |



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## 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** |

## 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** |



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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** |



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## 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** |



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## 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** |



* 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)**

**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** |

## 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.

## 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.



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## 39. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 39.2 Market risk (continued)

#### 39.2.2 Interest rate risk from the banking book (continued)

**31 December 2022**

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



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## 39. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 39.2 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** |



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## 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.

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** |



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## 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.



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## 39. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 39.3 Liquidity risk (continued)

The tables below set out the remaining contractual maturities of the Bank's financial liabilities as at 31 December 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)** |

## 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.



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## 39. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 39.5 Operational risk

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

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

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

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

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

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

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

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

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

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

### 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.



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# external audit report

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# 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.

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## 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").<br><br>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.<br><br>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").<br><br>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:<br><br>• 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.<br><br>• 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.<br><br>• 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.<br><br>• For expected credit losses determined on a collective basis:<br><br>- 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 |

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| | |
|---|---|
| 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.<br><br>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.<br><br>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;<br><br>- 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.<br><br>- 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;<br><br>- Based on the outcome of the preceding procedures, we have recomputed the collective ECL as at reporting date;<br><br>• For impairment allowances calculated individually:<br><br>- 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;<br><br>- We have recomputed the individual ECL as at reporting date.<br><br>• 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.

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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.

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- 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

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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

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Partner

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#CuPoftăDeSucces

victoriabank