ACCOUNTING POLICIES OF B.C. ''VICTORIABANK'' S.A. for 2024

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I. GENERAL PROVISIONS

1.1. The accounting policies of BC "Victoriabank" SA (hereinafter the Bank) are prepared in accordance with:

1.1.1. International Financial Reporting Standards (IFRS), approved by the International Accounting Standards Board (IASB), containing International Financial Reporting Standards, International Accounting Standards and Interpretations prepared by the International Financial Reporting Interpretations Committee (IFRIC) or to the former Standing Interpretations CommitteE (SIC);

1.1.2. Law on accounting and financial reporting no. 287 of 15.12.2017;

1.1.3. Accounting plan of the accounting records in the Licensed Banks of the Republic of Moldova of March 26, 1997

1.1.4. Accounting policies applicable at the level of BT Financial Group.

1.2. Field of application:
The accounting policies extend to all structural subunits of the Bank.

1.3.The purpose of the adopted accounting policies is to provide all users of financial statements with relevant and credible information on the asset and financial position of the Bank and the results of its activity, necessary for analyzing data and making economic decisions by users of financial statements.

1.4. The objective of the accounting policies is to establish the accounting policies, principles and treatments applied by the Bank and to form timely, detailed, truthful and consistent information regarding the Bank's activity and its patrimonial and financial situation.i.

1.5.The Vice President of the Bank, CFO, is responsible for the annual review of the Accounting Policies of the Bank and their updating whenever necessary.

II. ACCOUNTING POLICY CONVENTIONS

2.1. FUNDAMENTAL CONVENTIONS

2.1.1. The Bank's accounting policies are based on the following fundamental accounting conventions:

2.1.1.1. Accurate presentation according to IFRS.

The financial statements must accurately present the financial position, financial performance and cash flows of the Bank.

The fair presentation provides an accurate representation of the effects of transactions, other events and conditions, in accordance with the definitions and recognition criteria for assets and liabilities, income and expenses set out in the General Conceptual Framework for Financial Reporting.

In turn, accurate presentation presupposes that the information is:

(a) Neutral - meaning that it has no influence on the selection and presentation of financial information. Relevant financial information is that which has the ability to make a difference in the decisions made by users without being influenced by presentation manipulations which increases the likelihood that financial information will be received favorably or unfavorably by users.

(b) Complete - to be credible, the information in the financial statements must be complete, obviously within reasonable limits of the materiality threshold combined with the cost of obtaining it. We will not prefer complete information whose cost of obtaining clearly exceeds the size of the risk assumed by a random decision. An omission may cause the information to be false or misleading and thus to become unreliable and to become irrelevant.

2.1.1.2. Relevant presentation

The relevance of the information is influenced by its nature and significance threshold. The information is significant if its omission or misstatement could influence users' financial decisions based on their financial statements. The significance threshold depends on the size of the item or error, judged in the specific circumstances of the omission or misstatement.

2.1.1.3. Continuity of activity

The Bank is analyzed as a unit in the continuous activity, which means that the Bank will continue its activity in the foreseeable future. In accordance with this principle, the Bank assumes that the business will operate long enough to use existing resources to achieve its objectives.

2.1.2. The Bank's accounting policies are based on the following principles:

2.1.2.1. **The principle of commitments** involves the recognition of items as assets, liabilities, equity, income and expenses when the recognition criteria for these items are met, regardless of the time of payment.

2.1.2.2. **The principle of consistency** – assumes that once an accounting method is adopted, it is to be followed consistently from one accounting period to another. If, for certain reasons, the accounting method is changed, the note field will mention the change and the explanation of its effects on the items in the financial statements.

2.1.2.3. **Significance threshold principle** – assumes that the Bank presents in the financial statements the elements with significant values. Elements that have insignificant values that have the same nature or similar functions are added together, and their separate presentation is not necessary.

2.1.2.4. **The principle of frequent reporting** – assumes that the Bank presents the complete set of financial statements only once a year, the reporting period being from January 1 to December 31.

2.1.2.5. **The principle of comparative information** assumes that the Bank holds and presents comparative information related to the previous period, for all the positions reported in the financial statements of the current period. Comparative information assumes the existence of financial statements at the end of the current period and the end of the previous period.

2.1.2.6. **The principle of compensation** – assumes that assets and liabilities and income and expenses are not offset, unless compensation is required or permitted by the Standard or an Interpretation.

2.1.2.7. **The principle of aggregation** - according to which the Bank presents the financial statements delimiting the classes of similar elements (assets and liabilities), regardless of its economic content and the foreseeable evolution of the market.

2.2. ACCOUNTING STANDARDS

2.2.1. In carrying out its activity, the Bank uses standards, regulations, orders and accounting procedures, financial statements prepared on the basis of IFRS and the Chart of Accounts of the accounting in the licensed banks of the Republic of Moldova, approved in accordance with the provisions of national law.

2.3. REPORTING PERIOD

2.3.1. The reporting period in the reporting year begins on January 1 and ends on December 31, and includes all economic and financial operations performed in the Bank during that period.

2.3.2. The financial statements of the Bank are issued in accordance with IFRS and the provisions of the regulations in force of the National Bank of Moldova ("NBM"), applicable to the financial statements.

2.3.3. Accounting and financial reporting is the responsibility of the President of the Board of Directors of the Bank.

2.4. FINANCIAL STATEMENTS

2.4.1. The bank prepares a complete set of IFRS financial statements that include :

2.4.1.1. Statement of financial position at the end of the period;
2.4.1.2. Profit or loss statement and other comprehensive income;
2.4.1.3. Statement of changes in equity during the period;
2.4.1.4. Statement of cash flows by period (cash flow);
2.4.1.5. Notes, including a summary of significant accounting policies and other explanatory notes.

2.4.2. The financial statements are prepared based on the recognition and derecognition criteria, the initial and subsequent measurement methods required by IFRS. The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The bank selects the valuation method, which is mainly based on the market conditions existing at the date of each balance sheet.

2.4.3. The functional and presentation currency of the Financial Statements is the Moldovan leu (MDL), the values of the elements of the financial statements being presented in thousands of lei.

2.4.4. Relevant additional information that does not meet the conditions for presentation in separate positions in the Financial Statements is presented and disclosed in the Notes.

2.5. EXTERNAL AUDIT

2.5.1. The annual financial statements of the Bank prepared in accordance with IFRS, including the manner of reflection in the accounting records of financial and economic operations are subject to external audit, according to the requirements of the Law on the audit of financial statements no.271 of 15.12.2017 and Law on the activity of banks no. 202 of 06.10.2017.

2.5.2. The Bank shall make public the external auditor's report and the Annual Financial Statements in accordance with the requirements of applicable law.

III. GENERAL REQUIREMENTS FOR FINANCIAL STATEMENT ELEMENTS

3.1. RECOGNITION OF ELEMENTS OF FINANCIAL STATEMENTS

3.1.1. Recognition is a process of including in the statement of financial position or in the overall result of an item that meets the following recognition criteria:

3.1.1.1 Any future economic benefits related to the item are likely to enter or exit the Bank and

3.1.1.2 The cost or value of the item can be measured reliably.

3.1.2. Taking into account the general recognition criterion:

a) An asset is recognized in the balance sheet when a future economic benefit is likely to be realized by the Bank and the asset has a cost that can be measured reliably.

b) A liability is recognized in the balance sheet when it is probable that an outflow of resources will result from the settlement of a present obligation and when the amount at which this settlement will be made can be measured reliably.

c) Revenue is recognized in the statement of comprehensive income when there has been an increase in future economic benefits related to an increase in an asset or a decrease in a debt, and these can be measured reliably.

d) Expenses are recognized in the statement of comprehensive income when there has been a reduction in future economic benefits related to a decrease in an asset or an increase in a debt, and this reduction can be measured reliably, or when it is directly associated with income.

3.2. ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

3.2.1. *Changes in accounting policies.*

3.2.1.1. **The bank will change an accounting policy only if the change :**

a) is required by an IFRS; or

b) results in financial statements that provide reliable and more relevant information about the effects of transactions, other events or conditions on the financial position, financial performance or cash flows of the entity.

3.2.1.2. **Changes in accounting policies are applied retroactively or prospectivelys**

The Bank will account for a change in accounting policies that results from the required change in an IFRS, in accordance with the specific transitional provisions, if any, in that IFRS.

When the Bank changes its Accounting Policies on the initial application of an IFRS that does not include specific transitional provisions that apply to that change, or changes the Accounting Policies voluntarily, it will have to apply the change retroactively.

Retrospective application means the adjustment of the initial balance of each affected component of equity for the most distant period presented, as well as other comparative values presented for each previous period, as if the new provisions of the accounting policies had always been applied.

Where it is not possible to determine the effects of changes in accounting policies relating to comparative information for one or more prior periods, the Bank shall apply the new accounting policies to assets and liabilities as from the earliest period for which retroactive application is possible, which may be the current period and make adjustments to the initial balances of each affected component of equity for that period.

When at the beginning of the current period it is impossible to determine the cumulative effect of applying the new accounting policies to all previous periods, the Bank adjusts the comparative information to apply the new accounting policies prospectively from the earliest possible date.

3.2.2. *Changes in accounting estimates*

3.2.2.1. The effect of a change in an accounting estimate is recognized prospectively by its inclusion in profit or loss:

a) the period when the change takes place, if it affects only that period, or,

b) the period when the change takes place and future periods, if the change also has an effect on them

3.2.2.2. At the same time, if a change in the accounting estimates leads to changes in assets and liabilities, or items of equity, this will be recognized by adjusting the related items of assets, liabilities and equity during the change period.

3.2.3. Correcting errors

3.2.2.2. The Bank retrospectively corrects significant prior period errors in the first set of financial statements after their discovery by:

a) the adjustment of the comparative values for the previous periods in which the error occurred, or
b) if the error occurred before the most distant previous period, the adjustment of the initial balances of assets, liabilities and equity for the most distant period.

3.2.3.2. When it is impossible to determine the effects of the comparative information error for one or more prior periods, the Bank adjusts the initial balances to the initial balances of assets, liabilities and equity for the longest period for which retroactive adjustment is possible.

3.2.3.3. When at the beginning of the current period it is impossible to determine the cumulative effect of an error on all previous periods, the Bank shall adjust the comparative information to correct the error prospectively from the earliest possible date.

IV. MAIN AREAS OF ACCOUNTING POLICIES

The Bank will make estimates and assumptions that affect the reported amounts of assets and liabilities except for the previous fiscal year. Estimates and assumptions are continuously evaluated and are based on historical experience and other factors, including expected future events that are considered reasonable under the circumstances.

4.1. FINANCIAL ASSETS AND LIABILITIES

4.1.1 *Initial recognition and evaluation*

The Bank initially recognizes loans granted to customers and deposits from customers on the date they originate. All other financial assets and liabilities are initially recognized at the trading date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument. An asset or financial 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 issue.

4.1.2 *Classification*

Upon initial recognition, financial assets are classified as valued at:
4.1.2.1 amortized cost;
4.1.2.2 fair value through other comprehensive income (FVOCI);
4.1.2.3 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:

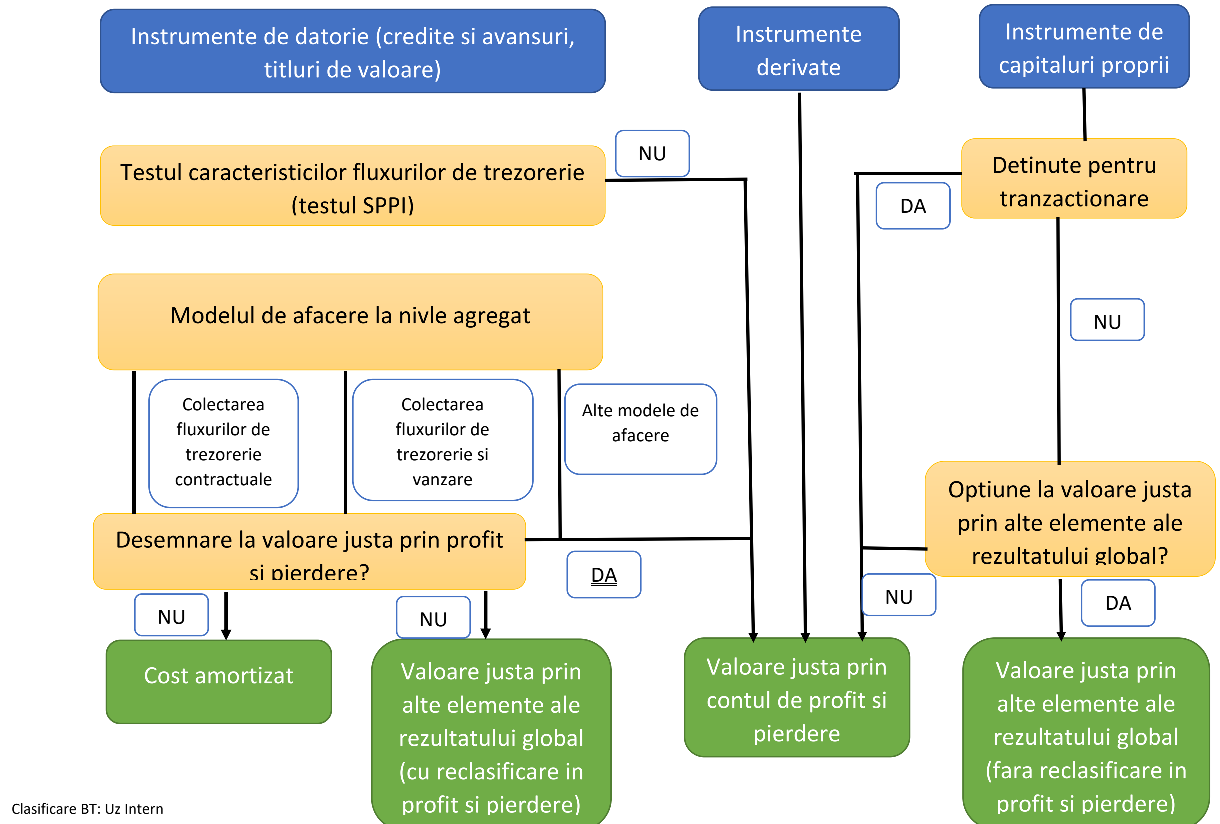
a) The asset is held within a business model whose purpose is to hold the asset in order to collect contractual flows; and
b) the contractual terms of the financial asset, at specific dates, give rise to cash flows that are only principal and interest ("SPPI").

A debt instrument is valued at FVOCI only if it meets both of the following conditions and is not designated at fair value through profit or loss:
a) The asset is held within a business model whose objective is achieved both by collecting contractual flows and by selling the financial asset; and
b) the contractual terms of the financial asset, at specific dates, give rise to cash flows that are only principal and interest ("SPPI").
Upon initial recognition of an equity instrument that is not held for trading, the Bank may irrevocably choose to present subsequent changes in fair value through other comprehensive income (OCI). This choice is made on an individual basis for each instrument.

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

In the individual statement of financial position, equity instruments representing investments in subsidiaries continue to be valued at cost in accordance with IAS 27 ”Separate Financial Statements”.

When classifying financial assets and liabilities according to the business model and the characteristics of the contractual cash flows of the financial asset / debt, the Bank uses in the decision-making scheme below (BT Group Accounting Policy Manual, Chapter III.4.D Classification of financial assets):



During its activities, the Bank recognizes, measures, reclassifies, depreciates and derecognizes the following financial assets and liabilities in accordance with the provisions of IFRS 9:

- loans and advances;
- investment securities;
- equity investment securities;
- borrowings;
- deposits;
- other financial assets and liabilities.

4.1.3 *Evaluating the business model*

The Bank evaluates the objectives of the business model in which a financial asset is held at portfolio level, as this best reflects how the business is managed and how the information is presented to management. The information considered includes:

a) The policies and objectives set for the portfolio and the implementation of these policies in practice, in particular if the management strategy is focused on earning contractual interest income, maintaining a certain interest rate risk profile, correlating the maturity of the assets and financial debts that finance these assets; making cash flows from the sale of assets;
b) how the performance of the portfolio is evaluated and reported to the management of the Bank;
c) the risks that affect the performance of the business model (and of the financial assets held within that business model) and the strategy on how to manage these risks;
d) how managers are rewarded (e.g. if the reward is based on the fair value of assets or the collection of contractual flows); and

e) the frequency, volume and timing of sales in previous periods, the reasons for such sales and expectations regarding future sales. However, sales information is not analyzed in isolation, but as part of an overall assessment of how the Bank's financial asset management targets are met and how cash flows are achieved.

The bank may classify financial assets held for trading in the FVTPL category.

Evaluating whether cash flows are only principal and interest payments (SPPIs):

For the purpose of this measurement, "principal" is defined as the fair value of a financial asset at initial recognition. "Interest" is defined as a reward for the time value of money and credit risk associated with the principal over a period of time and for other risks and costs associated with lending (e.g. liquidity risk and administrative costs), as well as profit margin.
In assessing whether the contractual flows are only SPPI, the Bank considers the contractual provisions of the instrument. This includes determining whether the asset contains a contractual term that could change the timing or amount of the contractual flow, so that this condition is no longer met. In this assessment the Bank considers:

- contingent events that would change the amount or timing of cash flows;
- extension or advance payment clauses;
- clauses limiting the Bank's right to cash flows related to certain assets; and
- characteristics that would change the consideration of the value of money over time (e.g. periodic reset of the interest rate);
- loans granted to employees of the Bank or to employees of large corporate customers;
- clauses for syndicated loans etc.

Pursuant to the analyzes performed, the Bank concluded that the entire portfolio of loans and advances as well as the debt securities portfolios meet the SPPI criteria.

4.1.4 *Derecognition*

The Bank derecognises a financial asset when the rights to receive cash flows from that financial asset expire or when the Bank has transferred the rights to receive contractual cash flows related to that financial asset in a transaction in which it has significantly transferred all risks and the benefits of ownership. Any right in the transferred financial assets that is retained by the Bank or created for the Bank is recognized as a separate asset or liability.
Upon derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the part of the transferred asset) and the sum of (i) total receipts (including any new assets received less any new liabilities assumed and (ii) any gains or losses. The bank derecognises a financial liability when the contractual obligations established are canceled or have expired.

The bank enters into a transaction by which it transfers assets recognized in the statement of financial position, but retains either all or part of the risks and rewards associated with the transferred assets. In such cases, the transferred assets are not derecognised.
Asset transfers with retention of all or the most significant risks and rewards are, for example, securities loans or sale transactions with repurchase clause.
When assets are sold to a third party at a total swap rate of return on the transferred assets, the transaction is accounted for as a secured financial transaction, similar to a sale transaction with a redemption clause because the Bank retains all or substantially all of the risks and rewards of entitlement. ownership of these assets.
In transfers where the Bank does not retain and does not transfer substantially all the risks and rewards of ownership of a financial asset and retains control over the asset, the Bank continues to recognize the asset to the extent that it remains involved, the degree of involvement being determined by the degree to which they are exposed to the change in the value of the transferred asset.

4.1.5 *Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is an applicable legal right to offset the amounts recognized and there is an intention to settle on a net basis or realize the asset and settle the debt simultaneously.

Revenues and expenses are presented on a net basis only when specifically permitted by IFRS, or for gains and losses on a group of similar transactions such as trading activity.

4.1.6 *Changes of financial instruments*

If the terms of a financial asset change, the Bank assesses whether the cash flows are substantially different.

If the terms of the contract are substantially changed due to commercial renegotiation, both at the customer's request and at the Bank's initiative, the existing financial asset is canceled and the modified financial asset is subsequently recognized, the modified financial asset being considered a "new" asset. The criteria established by the Bank to assess contractual changes that may result in a derecognition have been determined taking into account their significant nature (quantitative or qualitative) so as to meet the requirements of IFRS 9.3.2.3. From a quantitative point of view, these changes exceed the significance threshold of 10%, by analogy with the threshold referred to in IFRS 9.3.2.3 at the derecognition of financial liabilities. From a qualitative point of view, the amendments relate to contractual clauses which significantly change the nature of the risks associated with the original contract..

If a change in 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 value of the financial asset using the initial effective interest rate and recognizes the adjustment resulting in a modification gain or loss on the change profit or loss. For floating rate instruments, the initial effective rate used in calculating the change gain or loss is adjusted to reflect the current rate at the date of the change. Any cost or commission incurred or received shall be adjusted by the gross amount of the modified asset and amortized over the remaining period of the modified financial asset.

If such a change is made because of the financial difficulties of the debtor, then the gain or loss on the change is shown in the impairment expense. In other cases, it is shown in interest income calculated using the effective interest method.

4.1.7 *Fair value measurement*

Fair value is the price that would have been received as a result of the sale of an asset or the price that would have been paid to transfer a debt through a normal transaction between market participants at the valuation date, mainly or, failing that, on the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects the risk of default.

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

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observables and minimize the use of unobservables.
The chosen valuation technique incorporates all the factors that market participants would take into account when determining the price of a transaction.

The best proof of the fair value of a financial instrument at initial recognition is normally the trading price - the fair value of a consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and that the fair value is not shown in an active market price for an identical asset or liability or in a valuation technique that uses only observable market data, then the financial instrument is initially measured at fair value, adjusted to defer the difference between fair value at initial recognition and the transaction price.

Subsequently, this difference is recognized in the statement of profit or loss on an appropriate basis over the life of an instrument, but not later than when the valuation is fully supported by observable market values or when the transaction is closed.

The Bank recognizes transfers between hierarchical levels of fair value at the end of the reporting period in which the changes occur.

The fair value of assets and liabilities included in Level 1 in the fair value hierarchy is determined on the basis of quoted prices in the active markets for identical assets and liabilities. Quoted prices in active

markets that are applied must be available immediately and regularly from an exchange or on the basis of an active index / market (a), and those prices represent transactions conducted under objective conditions that actually appear on the market.

An active market for an asset or liability is a market in which transactions with the asset or liability in question have sufficient volume and frequency to provide a constant pricing information. In order to analyze whether a market is active, it is necessary to consider the specific factors of the asset or debt.

Level 2 of the fair value hierarchy

The fair value of assets and liabilities included in Level 2 within the fair value hierarchy is determined based on valuation methods that contain observable market data when market prices are not available. Level 2 valuations typically use market-observable parameters, such as interest rates and yield curves that are commonly observed at commonly quoted intervals, default volatility, and credit margins.

Level 3 in the fair value hierarchy

The fair value of assets and liabilities included in Level 3 in the fair value hierarchy is determined on the basis of input data that are unobservable in the market (unobservable input data must reflect the assumptions that market participants would use in pricing an asset or a liability, including risk assumptions).

4.2. IMPAIRMENT OF FINANCIAL ASSETS

The Bank recognizes impairment for expected credit risk losses for the following non-FVTPL financial instruments:

- Financial assets that are debt instruments;
- Financial guarantee contracts;
- Loan commitments.

No impairment losses are recognized for equity securities.

Impairment under IFRS 9 is based on expected losses and requires early recognition of expected future losses. The calculation of expected losses shall use, at the reporting date, the effective interest rate established at the initial recognition or an approximation thereof. If a financial asset has a variable interest rate, the expected credit risk losses must be determined using the current effective interest rate. For financial assets acquired or issued impaired as a result of credit risk, the expected loss of credit risk must be determined using the effective interest rate adjusted for credit risk established at the initial recognition.

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

- significant financial difficulty of the issuer or the debtor;
- breach of contract, such as breach of obligation or arrears;
- the creditor, for economic or contractual reasons related to the financial difficulties of the debtor, grants the debtor a concession which the creditor would not otherwise have taken into account;
- it becomes probable that the debtor will go bankrupt or in some other form of financial reorganization;
- the disappearance of an active market for that financial asset due to financial difficulties; or
- the acquisition or issue of a financial asset with a significant reduction that reflects losses incurred on credit risk.

A financial asset in the category of financial assets impaired at initial recognition will be retained in this category until the date of derecognition.

The Bank estimates the expected credit risk losses ("ECL") associated with its debt instruments measured at amortized cost and fair value through other comprehensive income and the exposure from credit commitments and financial guarantee agreements. The Bank recognizes an impairment loss for these losses at each reporting date. The measurement of expected credit risk losses reflects:

a) an objective value and measured by a weighted probability of a range of possible outcomes;
b) the time value of money; and

c) information on past events, current conditions and forecasts of future economic conditions, reasonable and justifiable, which are available at no unreasonable cost and effort at the reporting date.

IFRS 9 presents a "three-stage" impairment model based on changes in credit quality since initial recognition, as summarized below:

a) a financial instrument that is not impaired at initial recognition is classified as "Stage 1" and has its credit risk regularly monitored by the Bank;

b) if there is a significant increase in credit risk ("SICR") since initial recognition, the financial instrument is moved to "Stage 2" but is not yet considered impaired;

c) if the financial instrument is depreciated, the financial instrument is then transferred to "Stage 3";

d) the Stage 1 financial instruments have the ECL value measured at a value equal to the portion of the expected credit losses over the life, which results from possible default events in the next 12 months. The instruments in Stages 2 or 3 have the ECL value calculated on the basis of the expected credit losses over the whole life;

e) a pervasive concept in measuring ECL in accordance with IFRS 9 is that future information should be considered;

f) purchased or originated credit impaired financial assets ("POCI") are those financial assets that are impaired at initial recognition. Their ECL is always measured over their lifetime (Stage 3).

Simplified approach for assets related to contracts and other receivables

Assets related to contracts and other receivables are recognized in accordance with IFRS 15. Revenue from contracts with customers. These are presented in the "Other financial assets" category in the statement of financial position. For these assets, a simplified approach is applied to the calculation of expected losses, which are always measured over the useful life of the asset. This approach eliminates the requirement to calculate expected losses over 12 months and the requirement to determine a significant increase in credit risk. [IFRS 9 5.5.15-16]

The bank uses a provisioning matrix for these receivables based on the time period of arrears, developed based on a history of realized losses. Past losses are adjusted at least annually to reflect:
- the current economic situation and
- reasonable and measurable information on the forecasted economic situation.

Details on how to apply the simplified approach to leasing can be found in IFRS 9, the section Simplified approach to trade receivables, contract assets and receivables arising from leasing contracts.

Presentation of allowances for ECL in the statement of financial position

ECL depreciations are presented in the statement of financial position as follows:

a) financial assets valued at amortized cost as a reduction in the gross value of those assets;

b) credit commitments and financial guarantees, in general, as a provision;

c) when a financial instrument includes both a drawn and non drawn component, the Bank will calculate a total ECL for both the drawn component and for the credit commitment. The value of the depreciation obtained will be distributed proportionally to the balance sheet and off-balance sheet exposure for both components. The amounts are presented as a deduction from the gross amount of the drawn component and as a provision for the non drawn component; and

d) for the debt instruments valued at FVOCI, no impairment is recognized in the statement of financial position, because the book value of these assets is the fair value. However, impairment losses are recognized in the reserve for the revaluation of financial assets at fair value through other comprehensive income.

Derecognition of the Bank's impaired financial assets

Based on an analysis, The Bank may decide to derecognise a depreciated asset and reflect it in the off-balance sheet. These assets will continue to be subject to recovery procedures. According to IFRS 9, a financial asset is derecognized and written-off when there are no longer any reasonable expectations

regarding its full or partial recovery. The Bank periodically conducts the analysis of financial assets to be derecognised:

- 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.
Upon reaching these thresholds, the Bank is not required to record off-balance sheet exposures - these loans will be subject to further analysis to estimate the chances of recovery in the next period:

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

The bank must derecognise exposures, which at the same time:
a) are 100% covered with reductions for losses from the depreciation of loans;
b) have higher debt service than:
- 4 years for uninsured loans;
- 9 years for loans insured with movable property;
- 10 years for loans insured with immobile goods.

Prior to carrying out the off-balance sheet, the Bank must ensure that the financial asset is fully covered by provisions. The off-balance sheet recording operation is not reversible.Therefore, the amounts subsequently collected from the recovery of the exposure will be directly recognized as a recovery of provision expenses in the Bank's profit or loss account.

4.3. INVESTMENTS IN SUBSIDIARIES

4.3.1. Subsidiaries are the entities that are controlled by the Bank. In the Bank's Individual Financial Statements, investments in subsidiaries are initially recognized at cost (including transaction cost) in accordance with the provisions of IAS 27 "Separate Financial Statements". After initial recognition, they are measured at cost less any provision for impairment. Dividend income is recognized in the statement of profit or loss in the management period in which they are paid.

4.3.2. Basis of consolidation

According to IFRS 10, control is defined when an investor has: 1) power over the entity in which it invests; 2) exposure, or rights, to variable earnings from his involvement in the entity in which he invests; and 3) the ability to use its power over the investee to influence earnings.

4.3.2.1. Business Combinations

A business combination is accounted using the acquisition method at the date when the control is acquired, except for the cases when the combination involves entities or parties under common control or the acquired entity is a subsidiary of an investment entity.
Each identifiable asset and acquired asset and assumed liability is evaluated at fair value at the acquisition date. The non-controlling interests in the acquired entity, which represent current ownership interest and entitle the holder to a proportional share of the entity's net assets in the event of liquidation, are measured either at fair value or proportionally with the acquired ownership interest in the entity's net identifiable assets. Non-controlling interests that are not current ownership interests are measured at fair value.

Goodwill is measured by deducting the identifiable net assets acquired from the aggregate of the consideration transferred, any non-controlling interests in the acquired entity and the fair value at the acquisition date of the equity participation in the acquired entity previously held by the acquiring entity. If the acquirer obtains a gain from a bargain purchase, this gain is recognized in the profit or loss after the

management reassesses whether all the assets were acquired and all liabilities and contingent liabilities were assumed based on appropriate measurement.

The consideration transferred in a business combination is measured at the fair value of the assets transferred by the acquirer, the liabilities incurred or assumed and the equity instruments issued, but excludes the costs related to intermediation, advisory, legal, accounting, valuation and other professional or consulting services, general administrative costs that are recognized in the profit or loss.

4.3.2.2. Subsidiaries

The Group's subsidiaries are the entities under the Group's direct and indirect management. The management of an entity is reflected by the Group's capacity to exercise its authority in order to influence any variable return to which the Group is exposed based on its involvement in the entity.

The factors that the Group must consider when deciding to include an entity in the consolidation are the following:

- the purpose and relevant activity of the entity;
- the entity's relevant activities and the manner in which they are determined;
- whether the Group's rights ensure its capacity to manage the entity's relevant activities;
- whether the Group is exposed or entitled to variable returns;
- whether the Group can use its capacity in order to influence returns.

If voting rights are relevant, the Group is considered to be in control if it holds, directly or indirectly, more than half of the voting rights of an entity, except when there is proof that another investor has the capacity of control over the relevant activities. Potential voting rights considered as substantial are also taken into account when determining the control of the entity. Moreover, the Group controls an entity even if it does not hold the majority of the voting rights, but however has the effective capacity to control the entity's relevant activities.

This situation may occur when the dimension and dispersion of the shareholders' participations give authority to the Group to control the activities subject to investment. The subsidiaries are included in the consolidation starting from the date when the control is transferred to the Group.

The Group revaluates on an ongoing basis the control over the entities subject to investment, at least upon each quarterly reporting date. Therefore, any structural modification leading to the change of one or several control parameters is subject to revaluation. Such modification may include the change of the decision-making rights, changes in the contractual terms, financial or capital structure modifications, modifications caused by an event anticipated upon the initial documentation.

4.3.2.3. Non-controlling interest

The Group presents the non-controlling interest in its consolidated financial position within equity, separated from the equity of the parent company's shareholders. The non-controlling interest is measured proportionally with the percentage held in the net assets of the subsidiary. Changes in ownership interest which do not result in the loss of parent control of the subsidiary, are reflected as equity transactions.

4.3.2.4. Loss of control

If the parent loses the control of a subsidiary, it derecognizes the assets (including goodwill), the liabilities and the book value of any non-controlling interest at the date such control is lost. Any gain or loss arising from the loss of control is recognized in the profit or loss account.

Upon the loss of control over a subsidiary, the Group: a) derecognizes the assets (including the attributable goodwill) and liabilities of the subsidiary at their book value, b) derecognizes the book value of any non-controlling interests held in the former subsidiary, c) recognizes the consideration received at fair value, as well as any distribution of the subsidiary's shares, d) recognizes any investment in the former subsidiary at fair value and e) recognizes any difference resulting from the above elements as gain or loss in the income statement. Any amounts recognized in the previous periods as other items of comprehensive income in relation to the respective subsidiary, shall be either reclassified in the consolidated statement of profit or loss or transferred to retained earnings, if required by other IFRS standards.

4.3.2.5. Transactions eliminated from consolidation

Intra-group settlements and transactions, as well as any unrealized gains resulted from the intra-group transactions have been fully eliminated in the preparation of the consolidated financial statements. Unrealized gains resulted from transactions with equity accounted investees are eliminated in correlation with the investment in the related entity. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

4.3.2.6. Presentation of the legal merger through absorption in the financial statements

The Group applies the common control scope exclusion in IFRS 3 requirements "Business combination" by analogy to the accounting for common control transaction in separate financial statements to record the merger by absorption operations in the separate financial statement of the absorbing entity. The separate financial statements of the absorbing entity after merger are a continuation of the consolidated financial statements prepared starting with the date of acquisition of the absorbed entity.

The profit or loss and other comprehensive income of the absorbing entity includes the revenues and expenses as they were booked by the absorbed entity at individual level, for the period between the date of gaining the control and the merger date.
Due to the lack of specific requirements in the IFRS related to legal mergers through absorption, the Bank decided to present the book value of the acquired identifiable assets and undertaken liabilities in the separate financial statements at the legal merger date, after their initial recognition at fair value at the date when the control was acquired.

4.4. RECOGNITION OF INCOME AND EXPENSES

4.4.1. Income is recognized to the extent that the economic benefits are probable and the income can be measured reliably.
The items of income and expenses recognized in the management year are included in determining the net profit or loss for the period.

4.4.2. **Interest income and expenses**

Interest income and expense on all interest-bearing financial instruments are recognized in profit or loss using the effective interest rate method.
The effective interest rate method is a method of calculating the amortized cost of a financial asset or a financial liability and allocating interest income or interest expense over the relevant period.

The effective interest rate is the rate that accurately reflects the expected future cash payments or receipts over the life of the financial instrument or, where applicable, a shorter period of the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates the cash flows taking into account all the contractual terms of the financial instrument, but without taking into account the expected credit risk losses.

4.4.3. **Income and expenses from payments and commissions**

The bank derives revenue from fees from a wide range of services provided to customers. Commissions are recognized on an accrual basis when the service was provided. Credit commitment fees, which are likely to be charged, are deferred (together with the related direct costs) and recognized as an adjustment to the effective interest rate on the loan.
Commissions arising from trading or participating in trading with a third party - such as an agreement to acquire shares or other securities or the purchase or sale of commercial activities - are recognized upon completion of the related transaction. Portfolio and other management and service consultancy fees are recognized on the basis of applicable service contracts, usually on a time-proportionate basis.
Revenue from expenses and commissions is calculated based on the amount specified in a contract with a customer. The bank recognizes revenue when it has control over a contract with a customer to whom it provides services.
Revenue from commissioning fees is recognized over time with the provision of services.
Revenue from transactions is recognized at the time the transaction takes place.
Revenues and expenses from payments and commissions are recognized on an accrual basis when the service is provided.

4.5. REPO CONTRACTS AND REPO REVERSE CONTRACTS

4.5.1. Investment secutities (debt instruments) sold that are subject to repurchase agreements ("REPOs") are classified in the financial statements as debt instruments measured at amortized cost (treasury certificates) and the other party's debt is included in amounts owed to banks or customers , as the case. Securities purchased under reverse repo are recorded as loans and advances to other banks or customers, as appropriate.

4.5.2. The difference between the sale price and the redemption price is treated as interest and is accrued over the life of the contacts using the effective interest method.
Securities held by the Bank as collateral for lending activities with financial institutions are not recognized in the financial statements unless they are sold to third parties, in which case the acquisition or sale is recorded at a loss or gain included in net trading income. The obligation to return them is recorded at fair value as a trading liability.

4.6. CURRENCY CONVERSION AND NET INCOME FROM TRADING

4.6.1. The Bank's foreign currency transactions and balances are recorded at the exchange rate set for the date of the transaction and are revalued daily using the MDL exchange rate against foreign currencies
4.6.2. Exchange rate differences resulting from the conclusion of foreign currency transactions are included in the statement of financial results at the settlement date using the exchange rate set for that date. Exchange rate differences are recognized in the income statement.
4.6.3. Non-monetary assets and liabilities recorded at historical cost denominated in foreign currency are translated using the exchange rates at the date of the initial transaction.
4.6.4. Foreign currency income and losses arising from the revaluation of foreign currency monetary assets and liabilities are reflected in the income statement.
4.6.5. Net trading income is the gain or loss on foreign currency transactions and differences in the revaluation of the foreign exchange position.

4.7. CASH AND CASH EQUIVALENTS

4.7.1. For the purpose of cash flow statement, cash and cash equivalents include balances with an initial maturity of less than three months of assets at the date of acquisition, including: cash, unrestricted balances with the National Bank of Moldova, treasury certificates, certificates of the National Bank of Moldova and amounts owed by other banks, which are highly liquid and have a maturity of less than 90 days and do not pose a significant risk of a change in fair value.

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

4.8. REPOSSESSED COLLATERALS

4.8.1. Repossessed collaterals are non-financial assets in exchange for the repayment of loans and other debts with or without the transfer of ownership, which is classified as:
- assets held for sale in accordance with IFRS 5, or
- other assets (if the criteria in IFRS 5 are not met), according to the provisions of the legal framework and IFRS.

4.8.2. Upon initial recognition, the Bank measures the assets transferred to the bank in possession / acquired in exchange for repayment of loans, classified as held for sale, at the lower value of the debt balance, interest calculated and reflected in the balance sheet, commissions, penalties and other receivables related to the loan, net of IFRS depreciation.
4.8.3. If the assets transferred to the bank in exchange for repayment of the loans have not been sold for objective reasons within 12 months from the date of recognition, the Bank shall review the situation of those assets for the purpose of further classification into other assets.
4.8.4. Subsequent revaluation of non-financial assets repossessed in exchange for loan repayment is carried out at the end of the reporting period or when certain indicators are found that imply an impairment.

4.9. LOANS AND ADVANCES

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

4.10. BORROWINGS

4.10.1. Borrowings are initially recognized at fair value, net of recorded transaction costs. Subsequently, the loans are valued at amortized cost and any difference between the net proceeds from the sale and the redemption value is recognized in the statement of profit or loss over the period of the loans, using the effective interest method.

4.11. IMPAIRMENT OF NON-FINANCIAL ASSETS

4.11.1. For the depreciation of non-financial assets, such as, for example, property and equipment, intangible assets, assets held for sale, the provisions of IAS 36 apply and the recoverable amount is determined.
4.11.2. Assets that have an indefinite useful life (for example: trademarks, intangible assets with an indefinite useful life) are not depreciated and are tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment whenever circumstances or events indicate that the carrying amount cannot be recovered.

4.11.3. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. If the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount, the asset is considered impaired and its value is reduced to its recoverable amount. Impairment losses recognized at the financial asset group level are an intermediate step in identifying impairment losses for individual assets within the financial asset group that are collectively measured for impairment. As soon as information is available that specifically identifies losses on individually impaired assets in a group, those assets are removed from the group.

4.12. PROPERTY AND EQUIPMENT

Property and equipment are tangible elements with a term of service of more than one year held for use in the production or supply of goods or services, for rent to third parties or for administrative use, with a value in excess of MDL 6000.

4.12.1. **Property and equipment** are initially recorded at cost, which includes the purchase price, customs duties, irrecoverable taxes, and all expenses directly related to the commissioning of the asset.
4.12.2. Depreciation of an asset is calculated from the day it is available for use and ceases on the first date between the date when the asset is classified as held for sale (or included in a disposal group), in accordance with IFRS 5, and the date on which asset is derecognized.
4.12.2.1. Depreciation is calculated by systemically allocating the value of the item of Property and equipment by the straight-line method, estimated for each item in the category of property and equipment

The useful lives estimated by category are:

• Buildings	25-45 years	• Furniture and equipment	2 – 15 years
• Improvement to leased building	5 years	• Vehicles	6 – 7 years
• Computers	3 years		

4.12.2.2. Assets in progress are not depreciated until they are put into service (available for use). However, this category of property, plant and equipment is being tested for impairment.
4.12.3. The lands have an unlimited useful life and therefore are not depreciated.
4.12.4. The duration of operation is established by the bank, by the decision of the Steering Committee of the bank, independently periodically, taking into account the experience of working with such assets, the actual condition of objects in the current period, the need for repair and maintenance of assets, current trends, development in the field of technology or for the manufacture of new products or the provision of new services. The useful life of property and equipment may be shorter than the physical service life.
4.12.5. Expenses related to repairs and maintenance of property and equipment are recognized in profit or loss as incurred. Expenses related to - replacement of certain major components of property, and equipment are recognized in the carrying amount if the criteria for recognizing property and equipment are met.
4.12.6. Tangible assets are derecognised upon disposal or when no future economic benefits are expected from their use or disposal. Gains or losses arising from the derecognition of property and equipment are included in the income statement in the period in which the asset is derecognised.
4.12.7. The bank evaluates property and equipment on a cost-based basis.
4.12.8. An item of property and equipment is derecognised from the statement of financial position at the time of its release (sale, scrapping, etc.) or when no future economic benefits are expected from its use or disposal.
The Bank shall record in profit or loss the gain or loss arising on the derecognition of an item of property, equipment, determined as the difference between the net proceeds on disposal, if any, and the carrying amount of the item.
4.12.9. Impairment testing of property and equipment is carried out at the end of the management year applying the provisions of SIC 36.
4.12.10 Property and equipment, the cost of which is up to the ceiling established by art. 26^1 par. (2) of the Fiscal Code, is valued for fiscal purposes as stocks.
4.12.11 The supporting documents regarding the strategic acquisitions, namely related to the buildings, lands, equipment, etc., will be kept in separate files for each separate building with a permanent storage period.
4.12.12 Strategic procurement means the acquisition, on a permanent or temporary basis, by the Bank of long-term products, works or services at essential and important amounts in terms of the Bank's strategy, by awarding a contract.

4.13. INVENTORIES

4.13.1. Inventories are assets :
- held for sale during the normal course of business;

- in production for such a sale;
- in the form of materials and other consumables to be used in the production process or for the provision of services.

4.13.2. Inventories are initially recorded at cost, which includes acquisition costs, conversion costs, and other costs incurred to bring the inventories to their current state and location..

4.13.3. Inventories are initially recorded at cost, which includes acquisition costs, conversion costs, and other costs incurred to bring the inventories to their current state and location.

4.13.4. Assets with a useful life of more than 1 year, but worth up to MDL 6000 fall into the category of inventories.

4.13.5. The spare parts of the separate property and equipment can exceed the value of MDL 6000 and are part of the inventories.

4.13.6. Inventories of goods and materials intended for consumption in the maintenance of assets and the provision of services relate to expenses as they are used, separately for each type of asset, service or other destination.

After initial recognition, all inventories are valued at the lower of carrying amount and net realizable value.

4.14. INTANGIBLE ASSETS

4.14.1. Intangible assets are a non-monetary, identifiable asset without material support (does not physically take the form of property an equipment), such as costs for the acquisition of software and software licenses. Intangible assets purchased separately are recognized at initial cost. The cost of intangible assets includes the purchase price, customs duties, sales taxes, and all direct costs attributable to the asset for use.

4.14.2. An intangible asset is recognized if applicable :

- the definition of intangible assets,
- recognition criteria,
- the likelihood that the expected future economic benefits attributable to the asset will lie with the bank, which is based on rational and easy-to-sustain calculations,
- the cost of the asset can be measured reliably,
- rational assessment of the degree of security associated with obtaining future economic benefits that can be attributed to the use of the asset based on the evidence available at the time of initial recognition.

Trademarks, customer lists, goodwill, intangible assets generated internally during the research phase are not recognized as intangible assets. .

4.14.3. Expenditure on internally developed IT applications is recognized as an intangible asset if the Bank demonstrates its intent and ability to develop and use the application in a manner that will bring future economic benefits and if application development expenditures can be estimated in a manner reasonable. Capitalized costs generated by internally developed computer applications include all costs directly attributable to application development and are amortized over a lifetime. Internally developed IT applications are highlighted at capitalized cost, from which the accumulated depreciation and the provision for impairment are deducted.

4.14.4. Subsequent expenses with the development of computer applications are capitalized only when they contribute to the increase of future economic benefits arising from the use of those assets

4.14.5. Other costs associated with the development of computer applications are reflected in the income statement as they are incurred.

4.14.6. The costs of developing software recognized as an asset are amortized on a straight-line basis to reduce the cost of intangible assets at their residual value over their estimated useful lives. Depreciation for fixed-term intangible assets begins when the asset is available for use, that is, when it is in the place and condition necessary for it to function. Depreciation ceases on the first date between the date on which the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IFRS 5 and the date on which the asset is derecognised.

The amortization period and the depreciation method for intangible assets with a determined useful life are reviewed at the end of each financial year during the inventory organization period.

4.14.7. After initial recognition, intangible assets are measured at **cost less** any accumulated depreciation and any accumulated impairment losses.

4.14.8. The straight-line method is used to depreciate intangible assets. The amortization period and the useful life shall be reviewed at least at the end of each management period. The useful life of intangible assets is set at a maximum of 1 to 20 years.

4.14.9. Intangible assets under construction are not depreciated until they are put into operation...

4.14.10. If the accounting amount of an asset is greater than its estimated recoverable amount, the asset is impaired to its recoverable amount.

4.14.11. Derecognition of intangible assets is carried out on disposal or when no future economic benefits are expected to arise from its use or disposal.

4.14.12. The income and loss resulting from the derecognition of an intangible asset must be determined as the difference between the net proceeds from the disposal, if any, and the carrying amount of the asset. This is recognized in profit or loss when the asset is derecognised.

4.14.13. The supporting documents regarding the strategic acquisitions, namely related to software and software licenses, will be kept in separate files with a permanent retention period.

4.15. LEASING CONTRACT

4.15.1. Leasing contract - a contract or part of a contract, which grants the right to control the use of an identified asset for a certain period of time in exchange for a consideration.

4.15.2. The Bank applies the provisions of IFRS 16 to all leases, including leases, for assets related to the right of use under a sublease, except:

(i) Contracts with a value of less than EUR 5 thousand or the equivalent of EUR 5 thousand at the date of recognition, or

(ii) Contracts with a duration of less than 1 year.

4.15.3. When initiating a contract, the Bank assesses whether it contains a lease. A contract is, or contains a lease, if that contract grants the right to control the use of an identified asset for a specified period of time in exchange for a consideration. In determining whether a contract grants the right to control the use of an identified asset, the Bank uses the provisions of IFRS 16.

The bank as a lessee:

4.15.4. When initiating or amending a contract that contains a leasing component, the Bank assigns consideration to each leasing component on the basis of individual prices.

4.15.5. The Bank recognizes an asset related to the right of use and a liability arising from the lease at the inception of the contract.

4.15.6. The right-of-use asset is initially recognized at cost, which includes the amount of the initial valuation of the debt arising from the lease adjusted by any lease payments made on or before the start of the term, plus any initial direct costs incurred by the lessee. and an estimate of the costs to be borne by the lessee for the dismantling and removal of any improvements made to branches or rooms.

4.15.7. The right-to-use asset is subsequently amortized on a straight-line basis from the date of commencement to the end of the lease term. In addition, the right-of-use asset is periodically reduced by any impairment loss and adjusted by any revaluation of liabilities arising from leases.

4.15.8. The debt arising from the lease is initially measured at the present value of the lease payments made during the term of the lease, discounted at the default rate of the lease. The bank uses the average interest rate on deposit balances as a discount rate.

4.15.9. The lease payments included in the valuation of the debt arising from the lease include the following :

- fixed payments, including those which are essentially fixed payments
- variable lease payments that depend on an index or a rate, initially assessed on the basis of the index or rate from the start date;
- the amounts expected to be due by the lessee on the basis of guarantees relating to the residual value;
- the exercise price of a call option if the lessee is reasonably certain that he will exercise the option, the lease payments related to the extension of the lease if it is reasonable that the lessee will exercise the option to extend and payments of the lease termination penalties, if the duration of the lease reflects the exercise by the lessee of an option to terminate the lease.

4.15.10. Debts arising from leases are measured at amortized cost using the effective interest method. They are revalued when there is a change in future lease payments as a result of a change in an index or rates, when there is a change in the Bank's estimate of residual value, when the Bank changes its assessment of the exercise of the right to purchase, extend or terminate. there is a review of payments that are essentially fixed.

4.15.11. When a liability arising from leases is revalued in this way, an appropriate adjustment is included in the carrying amount of the right-of-use asset or is recognized in the income statement if the value of the asset has been reduced to zero.

4.15.12. The Bank presents Assets related to the right of use and Debts arising from leases as separate lines in the Statement of Financial Position.

Bank as lessee:

4.15.13. The Bank, as a lessee under operating leases, recognizes income leases on a straight-line basis using the commitment method.

4.15.14. Leasing contracts are classified in terms of the transfer of risks associated with the leased asset as:
- financial leasing - in case all the risks and rewards related to the property right are transferred
- operational leasing - in case not all risks and rewards are transferred

4.16. PENSION COSTS AND EMPLOYEE BENEFITS

Short-term benefits

4.16.1. In the ordinary course of its business, the Bank makes payments to the state budget of the Republic of Moldova on behalf of its employees for pension, health insurance and unemployment. All employees of the Bank are members of the state pension plan.

4.16.2. The bank does not operate any other pension scheme and therefore has no other pension obligations. The bank does not operate any other defined benefit or post-retirement benefit plan. The bank has no obligation to provide other services to current or former employees.

Other benefits

4.16.3. Variable management remuneration can also be granted on the basis of shares ("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, conditioned by the fulfillment of certain performance indicators. The variable remuneration can be granted either in cash or in Shadow Shares related to the share price of Banca Transilvania (TLV on the Bucharest Stock Exchange). In the case of identified personnel, when determining the variable part of the annual remuneration, it is considered to limit the excessive assumption of risks. A substantial part, which in all cases represents at least 40% of the variable component of total remuneration, is postponed for a period of 3 years and is correlated with the nature of the activity, its risks and the activities of the staff concerned.

4.16.4. The Board of Directors of the Bank decides on the number of Shadow Shares to be granted as variable remuneration. The fair value at the time of the entitlement of shares to employees as a premium is recognized in the category of staff costs in the period in which the employees are entitled unconditionally to such remuneration.

Recognized expense is adjusted to reflect the amount of rewards for which non-market related services and operating conditions are expected to be met, so that the amount that is ultimately recognized as an expense is based on the actual rewards of services and performance conditions that are not related to the market at the exercise date.

4.17. PROVISIONS

4.17.1. Provisions and legal obligations are recognized when the Bank has a current or implied obligation generated by a previous event, the settlement of which is expected to result in an outflow of resources, incorporating economic benefits of the Bank, 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 is determined at the expected value weighted by the associated probabilities, taking into account all possible outcomes.

4.17.2. Provisions are measured at the estimated value of expenses estimated as necessary to settle the obligation, using reasoning - based on experiences with similar transactions and with the assistance of lawyers or other experts. Subsequent valuation of the provision due to the passage of time is recognized as an interest expense.

An onerous contract is a contract in which the unavoidable costs of fulfilling the obligations under the contract outweigh the economic benefits expected to be received under it (IAS 37.10).

If a particular type of provision, contingent asset or contingent liability falls within the scope of another standard, an entity applies that standard instead of this standard.

For example, certain types of provisions are covered by standards for:

- Construction contracts (IFRS 15 Revenues from contracts with customers);
- Income taxes (see IAS 12 Income taxes);
- Leases (see IFRS 16 Leases). However, as IAS 17 does not contain specific requirements to deal with leases that become onerous, this standard applies to these cases);
- Employee benefits (see IAS 19 Employee benefits);
- Insurance contracts (see IFRS 4 Insurance contracts). However, this standard applies to the provisions, contingent liabilities and contingent assets of an insurer other than those arising out of its contractual obligations and rights arising out of insurance contracts covered by IFRS 4;
- Contingent compensation of an acquiring entity in a business combination (see IFRS 3 Business Combinations).

4.18. DEBT SECURITIES

4.18.1. Debt securities include:
- Debt securities valued at amortized cost. These are recognized at fair value plus direct trading costs. Subsequently, they are measured at amortized cost using the effective interest method.
- Debt securities measured at fair value through other comprehensive income (FVOCI). These are measured at fair value, and changes are recognized in other comprehensive income.
- Debt securities measured at fair value through profit or loss (FVTPL). The change in the fair value of these securities is reflected in the income statement.

4.18.2. The bank prefers to recognize debt securities at amortized cost or in the FVOCI portfolio. In the case of debt securities valued at FVOCI, gains and losses are recognized in other comprehensive income, except for the following, which are recognized in profit or loss in the same way as financial assets measured at amortized cost:
- interest income using the effective interest method;
- estimated reductions in impairment losses and reversals; and
- exchange rate gains and losses.

4.18.3. When debt securities valued at FVOCI are derecognised, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

4.19. EQUITY INVESTMENT SECURITIES

4.19.1. The Bank measures equity investment securities at fair value through other comprehensive income, with changes recognized in other comprehensive income.

4.19.2. The Bank chooses to disclose changes in the fair value of certain investments in equity instruments that are not held for trading in other comprehensive income. The choice is made from one instrument to another at the initial recognition and is irrevocable.

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

4.20. INCOME TAX

4.20.1. Tax expense (tax revenue) is the aggregate amount of current and deferred tax that is included in determining profit or loss for a period.

4.20.2. Current tax is the amount of income tax payable (recoverable) in relation to taxable profit (tax loss) for a period. The tax related to the management year is paid in installments according to art. 84 of the Fiscal Code, no later than the 25th of March, June, September and December of the fiscal year, in amounts equal to ¼ of the amount of tax paid for the previous year, but not less than 80% of the final amount of tax from current fiscal period. Upon presentation of the Annual Income Tax Return, it will be determined according to the provisions of the Fiscal Code. Income tax expenses are recognized in the period to which they relate

4.20.3. Deferred tax includes Debts and Receivables recorded as a result of the finding of taxable and deductible temporary differences. When the taxable temporary difference is ascertained, in the financial statements, a debt is registered regarding the deferred tax, in case of the deductible temporary difference and the fiscal losses a receivable is registered. Fiscal losses are also recorded in the off-balance sheet accounts to be carried forward in stages over the next five fiscal periods according to the Fiscal Code. Deferred tax

assets are recognized only if the taxable profit is expected to exist in relation to which the deductible temporary difference can be used.

4.20.4. Deferred tax assets and liabilities are determined using the tax rates that are expected to be applied in the years in which the assets are realized or the debts are settled, using the tax rates (and tax laws) that were enacted or largely adopted until at the end of the reporting period .

4.20.5. The main temporary differences are those differences between the carrying amount of an asset or a liability and the carrying amount in the statement of financial position.

4.20.6. Current and deferred tax are recognized as income or expense and are included in profit or loss for the reporting period except for items that are recognized in other comprehensive income.

4.20.7. At the end of the financial period, the deferred tax assets and liabilities are offset in the financial statements if and only if:

(a) the legally exercisable right to set off current tax receivables with current tax liabilities persists; and

(b) deferred tax assets and liabilities relate to income taxes levied by the same tax authority.

4.21. DIVIDENTS

4.21.1. Dividend income is recognized as a result of the period in which the right to receive is established and these dividends are likely to be collected. Dividends are reflected as a component of "Net dividend income" in the income statement. Dividends payable are treated as profit distribution for the period in which they are declared and approved by the General Meeting of Shareholders.

4.22. FINANCIAL GUARANTEE CONTRACTS AND LOAN COMMITMENTS

4.22.1. Financial guarantee contracts are contracts that oblige the issuer to make specific payments to reimburse the holder for a loss suffered by the issuer due to the fact that a specific debtor does not make a payment when it becomes due, in accordance with the terms of a debt instrument. Such financial guarantees are provided to banks, financial institutions and other bodies on behalf of customers to guarantee loans, overdrafts (overdrafts) and other banking facilities.

4.22.2. Financial guarantees and credit commitments are initially recognized in fair value financial statements. Following 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 with similar transactions and the history of past losses and based on professional judgment. Any increase in the debt related to the guarantee is recognized in the statement of profit or loss.

4.23. CONTINGENT LIABILITIES AND ASSETS

4.23.1. Contingent liabilities are not recognized in the financial statements. Contingent liabilities, which mostly consist of certain guarantees and credit commitments issued to customers, are possible liabilities arising from past events. As the incidence or absence of these events depends on certain future events that are not fully under the control of the Bank, they are not recognized in the financial statements, but are recorded off the balance sheet and are disclosed in the financial statements if they are significant.

4.24. AFFILIATED PARTIES

4.24.1. The parties affiliated to the Bank are considered to be persons or entities that exercise direct or indirect control over the capital of the Bank or significantly influence financial and operational decisions.

4.24.2. Transaction with a person affiliated with the Bank is any legal act or modification / completion of the legal act, which generates any transfer of funds or contractual obligations between the affiliated persons and the Bank, regardless of whether or not a payment is charged.

4.25. OWN CAPITAL

4.25.1. The own capital of the bank includes:

- ordinary shares;
- treasury shares;
- additional capital;
- reserve capital;
- undistributed profit.

Ordinary shares represent the amount of contributions received from shareholders on account of payment of shares and is equal to the sum of the nominal value of the placed shares.
The share capital is reflected in the financial statements at the nominal value of the subscribed and paid - in shares.
Changes in share capital may occur as a result of subscribing and issuing new shares, reducing the number of shares, repurchasing shares, increasing the nominal value of shares placed in the share capital account and / or other operations arising from the Decisions of the General Meeting of Shareholders of the bank and other bodies. empowered according to the law and the Statute of the bank.
The additional capital was formed as a result of the sale of the Bank's shares and shows the difference between the sale price and the nominal value of the shares.
The reserve capital is formed by the account of the deductions from the profit after tax in the amount established by the General Meeting of Shareholders.
The reserve capital is used only in case of insufficient undistributed profit and is distributed to cover the bank's losses, interest payments and / or to cover other expenses related to the Bank's obligations.
Unallocated profit is used to settle losses for the current period, pay dividends, build up reserve capital.

4.26. SUBSIDIES

4.26.1. In partnerships, the Bank may receive certain financial or non-monetary assistance, both from Government subsidies and from other similar bodies at local, national or international level.
4.26.2. Government assistance takes many forms, depending on the nature of the assistance provided and the conditions attached to it. The purpose of the assistance is to encourage the Bank to engage in a course of action that it would not normally have followed if the assistance had not been provided.
4.26.3. Monetary and non-monetary subsidies at fair value should not be recognized until there is reasonable assurance that:
(a) the Bank shall comply with the conditions imposed by the subsidy; and
(b) subsidies will be received.
4.26.4. Grants are recognized in profit or loss during the periods in which the entity recognizes as expenses the related costs that these grants are to be offset on a systematic basis.
4.26.5. A subsidy to be received as compensation for expenses or losses already incurred or for the purpose of providing immediate financial assistance to the entity without incurring future costs shall be recognized in profit or loss in the period in which it becomes receivable.
4.26.6. A subsidy may take the form of the transfer of a non-monetary asset, such as land or other resources, for the use of the Bank. In such circumstances, the fair value of the non-monetary asset is assessed and both the grant and the asset are accounted for at that fair value. An alternative sometimes used is to record both the asset and the subsidy at face value.

4.27. RISKS

4.27.1. Credit risk
The current or future risk of affecting profits and capital as a result of the debtor's or counterparty's non-fulfillment of contractual obligations or its failure to fulfill those established in the contract.
4.27.2. Liquidity risk
The current or future risk of damage to profits and capital, determined by the bank's inability to meet its obligations when they fall due.
4.27.3. Operational risk
The current or future risk of harm to profits and capital resulting from inadequate or failed internal processes or systems and/or from the action of external persons or events.
4.27.4. Market risk
The risk of incurring losses on on-balance sheet and off-balance sheet positions due to adverse market fluctuations in the prices of financial instruments and equity securities held for trading, interest rates and foreign exchange rates.
4.27.5. Position risk
The risk of affecting profits and capital that may occur due to price inconsistency over time, between the moment of concluding the contract and the moment when the payment and collection of the amount stipulated in the contract is made.
4.27.6. Residual risk
The risk that may arise because the credit risk mitigation techniques used are less effective than expected because these techniques generate new risks (such as liquidity risk, compliance risk) that could affect the effectiveness of the mitigation techniques.
4.27.7. Interest rate risk

The current or future risk of damage to earnings and capital as a result of adverse changes in interest rates.

4.27.8. Reputational risk

The current or future risk of affecting profits and capital or liquidity, determined by the unfavorable perception of the bank's image by counterparties, shareholders, investors or supervisory authorities.

4.27.9. Strategic risk

The current or future risk of affecting profits and capital determined by changes in the business environment or unfavorable business decisions, inadequate implementation of decisions or lack of reaction to changes in the business environment.

4.27.10. Risk related to information and communication technology (ICT risk)

Subcategory of operational risk that refers to the risk of loss/negative impact, due to the compromise of information confidentiality, data integrity, related to information systems, unavailability of information systems and/or data, as well as the inability to change ICT in a certain period and at a reasonable cost. These losses/negative impact may result from external or internal factors such as: inadequate organization, faulty or insufficiently secure information systems and network and communication infrastructures, as well as an insufficient number of employees or inadequately qualified employees, whose responsibility it includes the administration of the bank's information systems.

4.27.11. Transfer risk

The risk of affecting profits and capital resulting from the impossibility of converting by a counterparty the national currency into foreign currency necessary for the payment of financial obligations due to the lack or unavailability of this currency as a result of restrictions imposed by the respective counterparty's country.

4.27.12. Country risk

The risk of exposure to losses as a result of economic, social and/or political conditions and events in a foreign country affecting the bank's activity.

4.27.13. Curency risk

The risk of exposure to losses resulting from commercial contracts or other economic relationships as a result of market fluctuations in the exchange rate between the conclusion of the contract and its maturity.

4.27.14. Climate risk

The impact of climate change and the acceleration of initiatives at the level of regulatory authorities, as well as at the level of public policy, contribute to the increasing concern of the financial services sector about the identification and management of related risks, especially as financial institutions are expected to play an important role in the transition towards a sustainable economy.

To manage climate risks, the Bank has implemented a list of sector exclusions aligned with the recommendations of the EBRD and the Banca Transilvania Financial Group.

4.27.15. Fiscal risk

The bank is committed to ensuring sustainable fiscal risk management by building and maintaining an efficient, effective and transparent fiscal function within the organization. The Bank strictly observes and applies the legal regulations regarding taxes and fees.

The legislation of the Republic of Moldova provides detailed and complex rules and has faced many changes in recent years. The interpretation and practical implementation of tax legislation may vary and there is a risk that certain transactions may be interpreted differently by the tax authorities compared to the Bank's treatment.
At the same time, the transition to the application of IFRS generated additional fiscal implications for banks, implications that are not fully regulated and can therefore generate a fiscal risk.

The State Fiscal Service periodically performs fiscal audits of all entities operating in the Republic of Moldova, and these audits cover both the subject of fiscal compliance and other legal and regulatory aspects. The Bank continues to be subject to periodic fiscal controls, as new laws and regulations are issued in this area.

4.28. EVENTS AFTER THE REPORTING DATE

4.28.1. Events after the balance sheet date that provide additional information about the Bank's position at the balance sheet date (events leading to the adjustment of the financial statements) are reflected in the financial statements.

4.28.2. Events after the balance sheet date that do not lead to the adjustment of the financial statements are presented in the notes whenever they have a material impact on the financial statements.

V. FINAL PROVISIONS

5.1. These Policies enter into force from 01.01.2024. As of the effective date of these Policies, the Accounting Policies of B.C. "VICTORIABANK" S.A. according to IFRS for 2023, approved at the meeting of the Board of Directors of B.C. "Victoriabank" S.A., minutes no. 165 from June 14, 2023.

5.2. Unauthorized release by employees of BC "Victoriabank" S.A. of these Policies, to third parties, falls under the confidentiality agreement and is sanctioned according to the legislation in force. The application of sanctions does not remove criminal, civil, material or contravention liability, as the case may be.

5.3. If selective provisions of this Policy conflict with applicable law, other regulations or the Statute of the Bank, it is considered necessary to guide actions in accordance with applicable law, other regulations or the Statute of the Bank until the necessary amendments are included herein.

5.4. If the names of the subdivisions mentioned in the Policy are changed during its application, the responsibilities will be taken over until the changes are introduced herein.

The policy was modified and approved by the Board of Directors on 28.12.2023 **and shall enter into force on 01.01.2024**