Annual Report

Victoriabank 2021

www.victoriabank.md

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THE BANK'S MANAGEMENT MESSAGE

MESSAGE FROM THE PRESIDENT OF THE BOARD OF DIRECTORS

Dear partners, clients and team members of VB

I am sending you this message of thanks and gratitude for your trust and support to Victoriabank projects, part of Banca Transilvania Financial Group, also in this year.

The year 2021, like 2020, was a year with many challenges. However, if in the first pandemic year we were taken by surprise by the COVID-19 pandemic, then in 2021, we were already prepared, armed with a lot of patience and determination and adapted to the new reality.

Just as in 2020, we never stop focusing on our people, the people of Victoriabank, who are the most important resource of any company. I am proud of our team's dedication and perseverance as they continue to care for themselves, each other and their families and deliver quality for our clients. I can firmly say that the people of Victoriabank have integrity, passion and ambition, the values that are at the base of our organization and have guided us throughout our 32 years in business.

In 2021, Victoriabank continued to stand out for its adaptability and involvement in the country's economic activity, thus managing to achieve beautiful and sustainable results.

As a result of these joint efforts, the bank's assets increased by more than MDL 1,2 million, amounting to more than MDL 16,3 million at the end of the year. The market share by total assets is 14%. The clients deposits and credits portfolio also increased by MDL 852 million and more than MDL 520 million respectively compared to the end of last year. Victoriabank's net profit in 2021 reached MDL 295 million. The number of the bank's active clients as of December 31, 2021 exceeded 282 thousand persons.

I would like to express my thanks to Victoriabank's over a thousand employees across the country and thank our clients, partners and shareholders who support us.

We are confident that, together with strong partners such as the European Bank for Reconstruction and Development (EBRD) and the largest financial group in Romania - Banca Transilvania, Victoriabank will be able to continue new performances.

Thank you very much for your continuous support.

Victor ȚURCAN,
President of the Board of Directors,
Victoriabank

MESSAGE FROM THE PRESIDENT OF THE EXECUTIVE COMMITTEE

2021 - a year under the motto „cashless"

Victoriabank has completed the complex transformation process, which began in 2018, and, in the second half of 2021, has started to implement a new strategy, oriented towards products tailored to meet customers' needs and digital, cashless transactions.

Victoriabank's team has delivered outstanding results for our customers, partners, and shareholders. Together, we have taken important steps towards helping our people, both those at Victoriabank and those who choose Victoriabank.

For the past few years, digitalization has remained a top priority for the bank. Therefore, as a result, in the second quarter of 2021, Victoriabank continued to pamper its customers with digital products, becoming the leader in Moldova's digital transactions, where 80% of all transactions were performed without using cash.

Thus, under the cashless motto, in 2021 at Victoriabank it was registered:
- The largest number of digital transactions (without cash) in Victoriabank's overall operations;
- The highest value of digital operations;
- The highest average of monthly transactions with an active card.

These improvements are due directly to our three-year investment in IT infrastructure and high-performing software systems, as well as to the implementation of new products and services that have lead our customers to the bank's mobile and web applications: VB24 Web, VB24 Mobile, VB24 Business, and VB24 Pay.

In its digital ecosystem, Victoriabank offers customers a wide range of basic financial services 24/7 - such as payments, savings, fast transfers, and loans. Some of the digital services launched in 2021 include:

- T2A – a platform through which customers no longer have to come to the bank to receive a quick transfer. They have the opportunity to access the page: transfer.victoriabank.md and receive free money transfers from any corner of the world, directly on their card or in their current account at Victoriabank.
- Happy Hour – a tool through which online banking users from Victoriabank benefit from advantageous foreign exchange, directly from VB24, at the official NBM exchange rates.
- Online SWIFT transfer – Victoriabank smart solutions users can initiate an international SWIFT transfer, directly from their computer or mobile phone, via VB24.
- Payments by card in public transport in the capital – Victoriabank in partnership with Visa, has equipped some transport units in the capital with validators and terminals that allow payment for travel by card or other contactless payment devices.
- Tap2Phone – smart payment solution, introduced for the first time in Moldova by Victoriabank, which transforms a smartphone into a POS payment terminal, initially, in public transport and, later, became available for businesses in the Republic of Moldova.
- SAPI payments online - transfers to MDL can be made from one IBAN account to another IBAN account, directly from VB24.

Last but not least, Victoriabank is a major employer in the Republic of Moldova. Over a thousand employees work in more than 80 branches and agencies across the country. According to the results of the „Employer Brand Perception Survey 2021", Victoriabank is one of the best employers in 2021.

Thank you for your interest and trust in Victoriabank!

Bogdan PLEȘUVESCU
Chairman of the Steering Committee,
Victoriabank

BANK MANAGEMENT

BOARD OF DIRECTORS

Victor ȚURCANU – Chairman of the Board of Directors
Grasse THOMAS – Independent Member of the Board of Directors
Igor SPOIALĂ – Independent Member of the Board of Director
Tiberiu MOISĂ – Member of the Board of Directors
Sabaz MEHMET MURAT – 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

MEMBRES OF THE EXECUTIVE COMMITTEE

Bogdan PLEȘUVESCU
President, Chief Executive Officer

Vasile DONICA
Vicepresident of the Executive Committee

Elena-Ionela MALOȘ
Vicepresident of the Executive Committee

Vitalie CORNICIUC
Vicepresident of the Executive Committee

Sorin ȘERBAN
Vicepresident of the Executive Committee

SHAREHOLDERS OF THE BANK

CB Victoriabank JSC (Bank or Victoriabank) is the third largest bank in the Republic of Moldova. It has over 282 thousand active customers, of which over 11 thousand are companies, 75 branches in over 34 locations in the country, the number of employees of the bank exceeds one thousand people. Banca Transilvania has been the majority shareholder in Victoriabank since 2018, forming a strategic partnership to support the economy of the Republic of Moldova alongside the European Bank for Reconstruction and Development (EBRD). Together they have a 72% stake in Victoriabank's share capital.

Banca Transilvania is the leader on the Romanian banking market, being listed on the Bucharest Stock Exchange since 1997. The Bank operates through a network of 507 branches (506 in Romania, 1 in Italy), serving more than 3 million of individuals, micro-enterprises, small and medium-sized enterprises and medium and large corporate customers. The nominal share capital of the Bank registered consisted of 6.311.469.680, 00 ordinary shares, with a total value of 6.3 billion RON.

Founded in 1991, the European Bank for Reconstruction and Development uses investment to support the development of market economy and democracy in over 30 countries, from Central Europe to Central Asia. The EBRD's shareholders are 71 governments, the European Union and the European Investment Bank. The EBRD is one of the most important partners of the Republic of Moldova, that directs financial resources to road infrastructure, electricity networks, gas pipelines, but also for banks, SMEs, etc.

JOINT-STOCK COMPANY

Name:	VICTORIABANK SA
IDNO:	1002600001338
Headquarters:	str. 31 August 1989, nr.141, 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 16, Maria Cebotari str., MD-2012, Chișinău Republic of Moldova 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 31.12.2021

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 • Banca Transilvania (România) – 61,82% • BERD (Marea Britanie) – 38,18% *There are no beneficial owners
2. Țurcan Victor	Republica Moldova	10,76%	Țurcan Victor
3. Țurcan Valentina	Republica Moldova	8,07%	Țurcan Valentina
4. Artemenco Elena	Republica Moldova	4,95%	Artemenco Elena
5. Proidisvet Galina	Republica Moldova	1,58%	Proidisvet Galina

MANAGEMENT REPORT

STRATEGIC OBJECTIVES

The importance of our strategy settled few years ago is shown by the current environment and its dynamics.

Employees: our priority	Boosting the Retail and SME	Operational efficiency	Digital initiatives	Strengthening the position on the Moldovan banking market

On the one hand, employees create added value from the Bank's activity in relation to customers. On the other hand, the Bank aims to create an optimal business environment for employees, ensuring their professional development and appropriate motivation.

The Retail and SME segments have evolved well in recent years, with the volumes of products offered to customers and the number of customers benefiting from them increasing. It is worth mentioning the evolution of the individuals loan portfolio, the number of cards and customers, deposits, etc.

On the operational efficiency side, the multitude of implemented projects generates beneficial effects for the Bank and customers. Centralizing multiple branch processes at the head office level allows branch colleagues to serve customers in good condition. At the same time, we are among the few that have increased the volume of activity with a comparable number of staff.

The implemented digital initiatives allow our customers to benefit from most products without having to physically travel to the Bank. New accounts, new term deposits, money transfers from abroad, payments in national currency and foreign currency, foreign exchange, etc.

2022-2024 STRATEGY

For the following periods, our strategy expands, bringing among the objectives the customer experience and our proposal to maintain and develop medium and long-term partnerships, to grow and develop together.

Today, the banking industry is evolving exponentially or even revolutionizing its 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 servicing to modern technologies, remote service and self-service.

Our mission is to develop the business by offering quality and innovative services and products.

The strategy is based on 3 values:

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 the way we want to be treated ourselves. We appreciate the diversity of ideas, opinions and experiences.

PASSION for growing 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 those around us with a sense of ambition and respect.

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 activities are focused on the following 5 directions:

Experiența clientului	Angajații: prioritatea noastră	Impulsionarea segmentului Retail și IMM	Inițiative digitale	Eficiență operațională

The mission, values and strategic objectives are quantified through the objectives related to the current activity, which refer to the Bank's profitability, activity volumes and their evolution, expenses management, asset quality, human resources management etc.

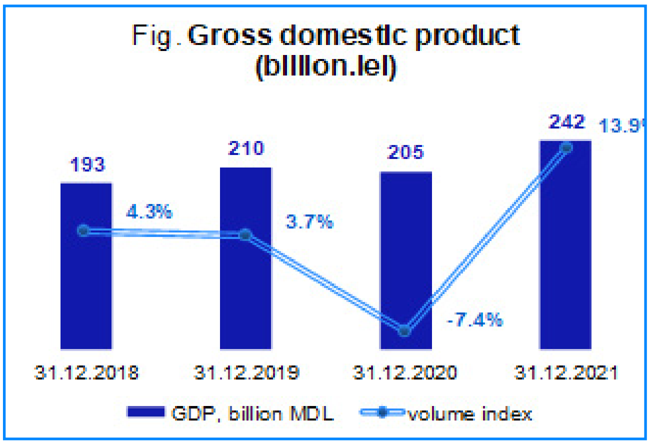
ECONOMIC ENVIRONMENT

Global economic recovery continues amid a pandemic that is resurfacing and changing perceptions of the future, bringing new challenges to health care, social protection and the economy. Vaccination has been shown to be effective in mitigating the adverse health effects of COVID-19, but several countries have provided low vaccination rates.

In 2021, as a result of the relaxation of COVID-19 restrictions, the Moldovan economy recorded significant increases in GDP. The more favorable climate has led to favorable developments for the agricultural sector. In the second half of the year, inflationary pressure has risen as a result of rising global energy prices and strong domestic demand.

Gross Domestic Product in 2021, according to preliminary data published by the National Bureau of Statistics, amounted to MDL 241.9 billion, current prices. Compared to 2020, in real terms, GDP in 2021 increased by 13.9%, against the decrease of the indicator in 2020 compared to 2019 by 8.3%. Thus, compared to the level of the pre-crisis year, 2019, GDP in 2021 increased by 4.5% in real terms.

By categories of resources, the following activities contributed to GDP growth in 2021 compared to 2020: agriculture, transport and storage, construction, information and communications, wholesale and retail trade, etc. By categories of uses, with a positive contribution was the final consumption of households, the final consumption of public administration, on the other hand, had a negative impact the export of goods and services

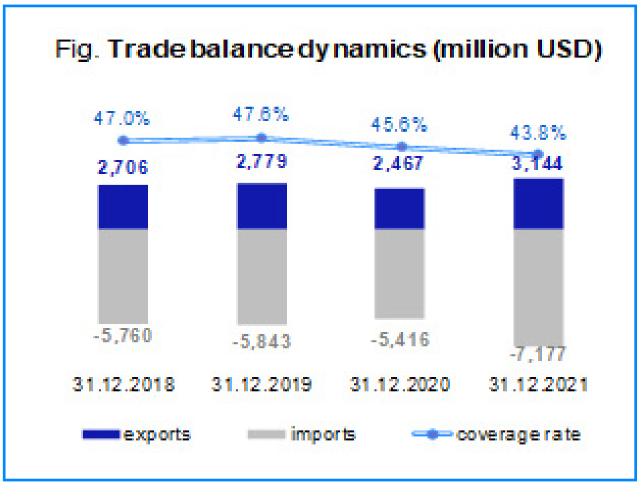


Global agricultural production in 2021, according to preliminary estimates, increased by about 49.9% (in comparable prices) compared to 2020 (on the background of decrease of the indicator in 2020 compared to 2019 by 27.2%). The increase in global agricultural production was determined by the increase in vegetable production by 75.5%. In 2021, the share of vegetable production in total agricultural production was 81%, animal production 19%. Industrial production increased by 12.1% (gross series) compared to the previous year, due to the evolution of the manufacturing industry.

According to preliminary data, in 2021 investments were made in fixed assets amounting to MDL 29.6 billion or 4.8% (in comparable prices) more than the previous year. In 2021, investments in tangible fixed assets amounted to MDL 29.0 billion (which is 97.8% of the total value of investments in fixed assets), with an increase of 4.5% over the previous year. Investments in intangible assets amounted to MDL 651.3 million or 20.2% more than in 2020.

In 2021, 60.9 million passengers were transported by public transport, 9.5% more than in 2020. The distance was 3,483.8 million passengers-km, increasing by 43.1% compared to 2020. During this period, road transport of passengers accounted for an overwhelming share of 97.4% of the total, air and rail transport accounting for 1.4% and 1.0%, respectively. Compared to 2020, there were increases in passenger air transport (2.2 times) and road transport (+ 9.3%). At the same time, there is a decrease in passenger fluvial transport (-20.1%) and rail transport (-17.0%).

In 2021, exports of goods amounted to USD 3,144.4 million, a value 27.5% higher than in 2020. In 2021, imports of goods amounted to USD 7,176.6 million, a level higher than that achieved in 2020 by 32.5%. The considerable gap between exports and imports of goods led to the accumulation in 2021 of a trade deficit of USD 4,032.2 million or by USD 1,083.3 million (+36.7%) more than in 2020.



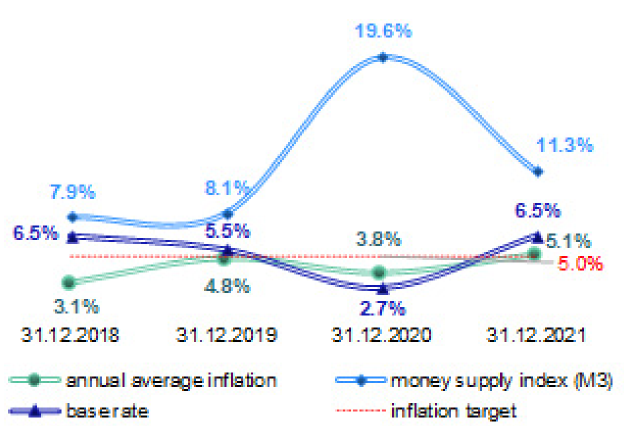
In January-December 2021, the revenues of the national public budget increased by 23.5% compared to the similar period of 2020. The expenditures of the national public budget were higher by 11.9% compared to 2020. At the same time, on the state securities market, starting with the third quarter of 2021, interest rates increased on all placement terms.

The money supply (M3) registered a historical maximum of MDL 119.8 billion, increasing in 2021 by 11.3%. Of the money supply, 26.5% goes to money in circulation and 41.4% to demand deposits.

The annual inflation rate in December 2021 was well above the range of variation associated with the inflation target (5% ± 1.5 percentage points), amounting to 13.9%, compared to 0.4% in December 2020. This increase was determined by internal and external factors. On the one hand, there has been an increase in demand due to the increase in the income of the population, and on the other hand the prices on the local market have been influenced by the increase in the price of food, oil and other raw materials on the international market. The adjustment of tariffs related to price regulation also had an impact. The annual inflation rate stood at 5.1% for 2021.

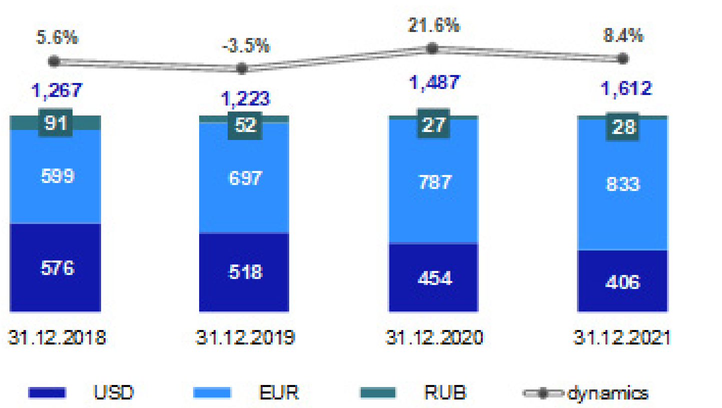
Faced with an upward trend in the inflation rate, in order to reduce the impact of the effects of the pandemic, the National Bank of Moldova has adopted monetary policy measures. During the year, the base rate applied to the main short-term monetary policy operations increased from 2.65% at the end of 2020 (maintained until the end of July) to 6.5% at the beginning of December 2021. The rate was adjusted for the facility of deposit and credit which fall within a symmetrical corridor of ± 2 percentage points compared to the base rate. The norm of required reserves in Moldovan lei («MDL») followed a downward trend from the historical maximum of 42.5% maintained at the beginning of 2020 to 28% in January 2022.

Fig. **Inflation and money supply**

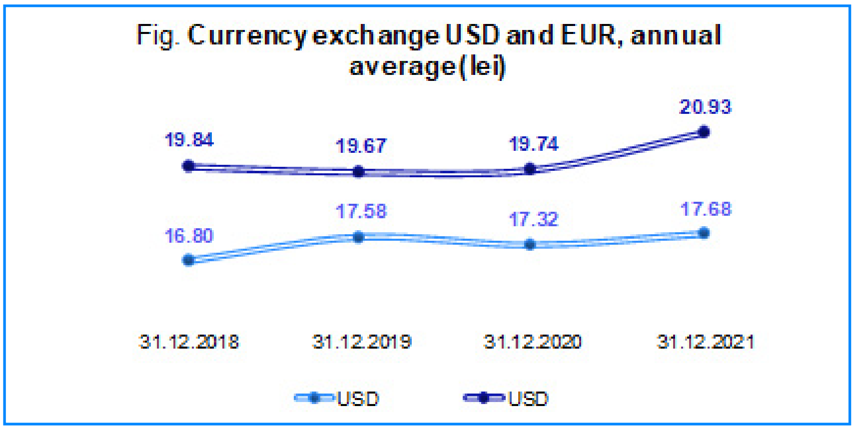


In 2021, the volume of remittances from abroad made in favour of individuals, on a net basis, increased by 8.4% compared to 2020 and amounted to USD 1,612 million, recording the maximum value from 2015 to date.

Fig. **Net remittances banking sector (million USD)**



On the foreign exchange market, the MDL/EUR exchange rate continued its downward trend in 2021, amid the dynamics of imports and exports. Thus, the MDL/EUR exchange rate varied between 19.8641 and 21.6902, registering an average level of 20.9255, increasing by 6.0% compared to 2020. The official MDL/USD exchange rate marked a depreciation from 17.2146 on January 1, 2021 to 17.7452 at December 31, 2021, registering an average level of 17,6816, increasing by 2.1% compared to 2020.



The disposable income of the population is on an upward trend in real terms. The average gross monthly nominal earnings of an employee in the national economy in 2021 registered MDL 9,116 and increased by 12.4%, in real terms, compared to 2020.

The unemployment rate in the fourth quarter of 2021 (the share of the unemployed according to the criteria of the International Labor Office) at the country level was 2.6%, being lower compared to the fourth quarter of 2020 (3.6%).

Finally, it is important to address the post-pandemic challenges, return to human capital accumulation, facilitate new growth opportunities related to green technology and digitalization, revitalize foreign trade, reduce inequality and ensure sustainable public finances, including energetic security. The impact of the situation in the region on the evolution of macroeconomic indicators over the coming periods is inevitable.

BANKING SECTOR

The year 2021 was marked by significant increases of indices in the banking sector, but the pandemic and macroeconomic dynamics had an impact on these developments. The tendency to increase own funds, increase assets, deposits and loan portfolio was maintained, while the share of non-performing loans in the loan portfolio decreased.

The number of banking institutions operating in the Republic of Moldova remained unchanged: 11 banks licensed by the NBM, including 5 member banks of international financial groups.

The territorial network of banks continued to shrink and in 12 months 2021: 29 agencies were closed and 4 branches were opened, while the number of employees in the system increased by 294 people.

Profitability at the level of the banking sector increased, the financial result for 12 months 2021 being higher than the one registered in the previous year, by 52.5%.

The share of foreign investments in the share capital of banks at the end of the period was 86.6%, 8 out of 11 banks having a share of foreign investment in total share capital of over 70%.

Total assets in the banking sector amounted to MDL 118,513.7 million, increasing during the year by 14.2%. The top 4 banks managed 80.1% of total assets, up by 1.8 percentage points throughout the year.

Deposits increased by MDL 10,446.7 million or by 13.1%, registering the value of MDL 90,145.8 million. Of total deposits, those of individuals represent 62.1%.

During the year, the balance of loans and advances increased by MDL 9,721.7 million or by 21.6%, amounting to MDL 54,626.0 million. Improving the quality of the loan portfolio was an achievement, considering the challenges of 2021. As of 31.12.2021, non-performing loans accounted for 6.1% of the total portfolio compared to 7.4% at the beginning of the year.

The ratio of loans and advances to deposits registered 60.6%, increasing by 4.3 percentage points compared to the end of 2020, due to the faster growth of the loan and advances portfolio, compared to the increase of the deposit portfolio.

Long-term and current liquidity registered high values, constituting 0.74 (level regulated by NBM ≤ 1) and 48.5% respectively (level regulated by NBM ≥ 20%).

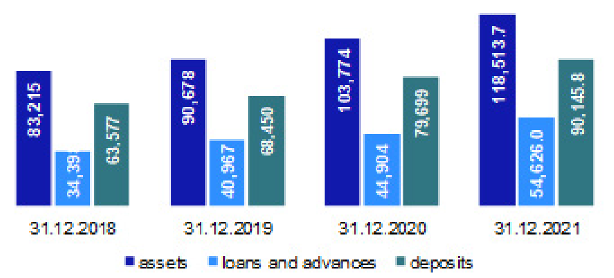


Fig. **Financial indicators (million lei)**

The economic condition and the monetary policy of the NBM have influenced the activity of attracting / placing resources and interest margins. During 2021, net interest income increased by 26.5% compared to the previous year. Although commission expenses increased in 2021 at a faster rate than commission income, net commission income increased by 21.1% compared to 2020. Exchange rate differences decreased by 7.6%. On the other hand, operating expenses increased by 19.1%, the biggest impact being generated by the evolution of staff expenses (+20.8%), administrative expenses and other operating expenses. Impairment and provisions for conditional commitments amounted to MDL 112.6 million, compared to MDL 736.4 million in 2020. The net profit obtained at the level of the banking sector was MDL 2,289.5 million, 52.5% more than in 2020.

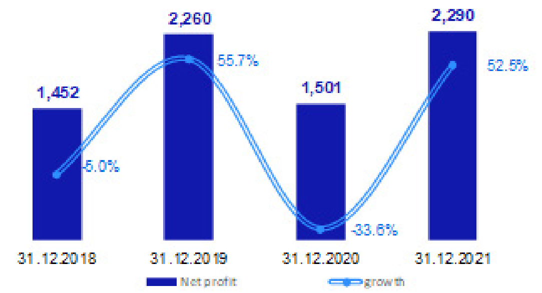


Fig. **Net profit, banking sector (million lei)**

The return on assets (ROA) reached a level of 2.0% in 12 months 2021, increasing by 0.47 percentage points compared to 2020.

The return on equity (ROE) registered a level of 12.3% in 12 months 2021, being 3.37 percentage points higher than at the end of 2020.

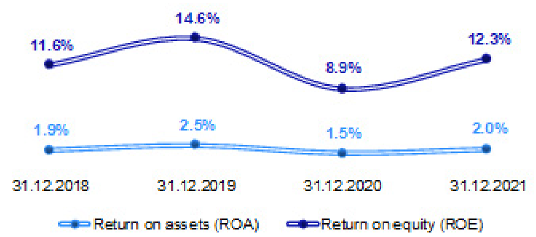


Fig. **Return on assets (ROA) and equity (ROE), banking sector**

The total own funds amounted to MDL 15,179.3 million at the level of the banking sector, increasing during the year by 11.5%. The total own funds ratio was 25.9%, down 1.4 percentage points from the beginning of the year.

C.B. VICTORIABANK J.S.C. PERFORMANCE

FINANCIAL RESULTS

In 2021, we offered products and services to our customers in order to serve their needs, expanding the Bank's digital offer. The previously initiated projects have been successfully completed and many new projects have been implemented, meant to bring added value and benefits to our clients. The 'change management' process supported the transformation towards Banca Transilvania culture. We are proud to be part of a strong financial group that is with us and supports us in the important moments of our development.

At the end of the period, the Bank's assets amounted to MDL 16,570.3 million, increasing throughout the year by MDL 1,216.1 million, the positive dynamics being conditioned especially by:

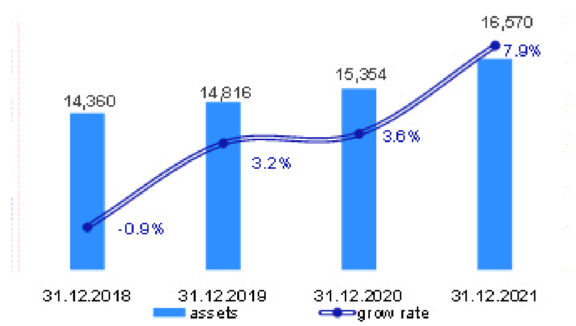
- the increase in deposits of individuals by MDL 327.6 million;
- increase of deposits of legal entities by MDL 524.4 million;
- increase in equity by MDL 278.0 million.

By total assets at the end of 2021, the Bank's market share was 14.0%.

Lending activity also developed dynamically during 2021, with an important increase in the priority business segments: individuals and small entrepreneurs. Thus, the balance of customer loans (principal) soared by MDL 523.8 million or by 11.5%, quality of loans being in ascendance: by MDL 636.3 million or by 16.4% more. The measures taken in recent periods are bearing results. The quality of loans has improved, both as a result of a decrease in the volume of non-performing loans and an increase in the volume of new ones granted. Thus, the balance of non-performing loans shrunk by MDL 112.5 million and the rate of non-performing loans decreased by 3.7 percentage points, amounting to at the end of the year to 11.3%.

The bank capitalized on the available resources according to the existing options on the local and international market, in the context of the evolution of interest rates and the demand and supply of resources, procuring state securities, NBM certificates, bonds, etc. The portfolio of debt securities increased during the year by MDL 1,059.5 million.

Fig. **Total assets (mill.lei)**



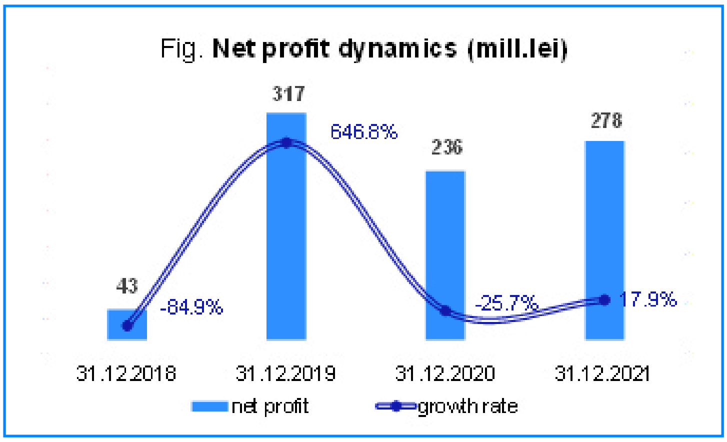
The growing activity volumes, along with the efficient management of assets and liabilities, had a positive impact on the Bank's operating income:

» net interest income rising by 14.2 %
» net commission income rising by 24.5%.

The evolution of expenses was conditioned by the upward trend of the main categories of expenditures: staff, general and administrative etc.

The increase in operating income in sum and at a rate higher than that of operating expenses allowed the increase in the Bank's operating result. Thus, the operating profit increased by MDL 33.6 million or by 11.9%, registering over MDL 315.3 million. Improving asset quality has led to lower cost of risk, even with a prudent approach.

The net profit for 2021 amounted to MDL 278.2 million, increasing by MDL 42.3 million or by 17.9% more than in 2020.



The increase in net profit had an impact on the dynamics of efficiency indicators. Thus, for 2021 the return on equity (ROE) is 9.0% and the return on assets (ROA) is 1.6%, increasing compared to the values recorded in the previous year by 0.6 percentage points and 0.1 percentage points respectively.

At the end of the period, own funds amounted to MDL 2,319.0 million, an increase of 16.9% compared to December 31, 2020, an increase ensured by the rise of retained earnings and the decrease of the amount of own funds adjustment due to prudential filters. The total own funds ratio or the ratio between own funds and the total risk weighted assets was 41.53% (regulated by the NBM ≥ 16.84%, including shock absorbers regulated by the NBM), exceeding 2.5 times the minimum requirement imposed by the NBM and the average size at the banking sector level. During the year, the rate of own funds increased by 0.4 percentage points.

The efficient and prudent management of liquidity and financing risks complied with the requirements regulated by the NBM: on 31.12.2021 the long-term liquidity was 0.71 (level regulated by the NBM ≤1) and the current liquidity: 53.1% (level regulated by the NBM ≥ 20%).

CUSTOMER SERVICE

Customer experience and customer care is our first strategic goal. The number of active clients at the end of 2021 is over 282 thousand, including 271 thousand individuals and over 11 thousand legal entities. All our clients are important, the goal being to provide financial advice and assistance, to identify the most appropriate financial solutions and make the most appropriate decisions. We are confident that only in this way can we ensure the growth of a solid customer base, contributing to the well-being of society and the development of the national economy.

The replication of Banca Transilvania's business model brings several positive results and beneficial changes for the Bank, for its clients and for the Moldovan business environment. In addition, our customers can benefit from intra-group products at very advantageous rates.

The distinct approach of the business segments allows the efficient service of clients. At the beginning of 2020, 2 groups of legal entities were established: SMEs and Corporates. The segmented approach to customers, through the teams of managers with customers, allows the identification of operational solutions for customers, with a focus on increasing the quality of services and increasing the satisfaction of our customers / partners in terms of interaction with the Bank.

Together with the Chisinau City Hall, we created the possibility to pay for trips by public transport with cashless payment instruments. This is a new project for Moldova, which provides travelers with additional convenience and provides more benefits to transportation service providers.

The online banking platform from Victoriabank (VB24 Mobile and VB24 Web) offers new possibilities to customers, without the need to visit branches: currency exchange, transfers between all accounts, opening term deposits, paying invoices from the current account, MDL transfers from current account, SWIFT transfers in foreign currency, 'Happy hour', etc. Victoriabank is the first and only bank in Moldova that offers its customers the benefit of making contactless payments, directly from the smartphone through the VB24 Pay service. The number of these transactions is constantly increasing, customers appreciating the convenience and security of these transactions. 'Happy hour' gives customers the opportunity to benefit from the most advantageous online currency exchange at the official exchange rates of the National Bank of Moldova on that day.

Remote service ensures increased convenience and security for customers, avoiding trips to the Bank's branches, which is important in the new reality imposed by the pandemic.

Victoriabank's efforts to ensure the banking security of its customers have been appreciated internationally by validating the compliance with Visa's PIN security program. Thus, the banking institution was included in the Global Register of Visa Service Providers. Victoriabank obtained this title due to the considerable efforts in order to provide quality services to ensure data security.

„Bring your salary to Victoriabank" is the product launched at the end of the previous year, which comes to provide individuals with the freedom to choose the bank they serve, benefiting from preferential conditions, similar to those offered to customers in salary projects catered by Victoriabank.

Victoriabank is even closer to the needs of entrepreneurs. We have launched several offers and dedicated products for small and medium enterprises. The SME Overdraft loan is intended to streamline cash flow and aims to meet the needs of the company's current business. The offer of personalized 'Agri Loans' to farmers according to the needs of each continued to support farmers in this agricultural season as well.

To support Moldovan SMEs, we have signed a new 5 million EUR loan agreement with the European Bank for Reconstruction and Development (EBRD). The project is a continuation of the EU4Business EBRD Credit Line program and supports local SME investments in modernizing the technologies and equipment needed to meet European Union standards.

Our products intended to support small businesses are enjoying success, with the growing number of customers benefiting from the benefits offered by the Bank: CPAG (free first year account) and „Unlimited Package". Under the CPAG package, newly established SMEs benefit from a series of gratuities for one year. Unlimited package means a current account with unlimited operations in the Victoriabank network at a fixed price, which is very advantageous. The package is activated for an indefinite period and includes several services and products, including opening and servicing accounts, connecting and using the remote service system, transferring salaries to cards in payroll projects etc.

The macroeconomic analysis and forecasting service, launched in 2018, came weekly with new and current information on macro-financial developments in the Republic of Moldova, Romania, Eurozone, Russia and the United States, being carried out in collaboration with Andrei Rădulescu, the Director of Macroeconomic analysis at Banca Transilvania.

The network of branches and agencies has been modernized and developed. Migrating to remote operations allows to optimize our physical sales network. In this context, in 2021 the number of agencies decreased by 12 units, the network of subdivisions constituting at the end of the year 30 branches and 45 agencies.

Being a member in the largest financial group in Romania is a real strength and support for Victoriabank to develop and promote new products and services, in order to improve the customer experience in interacting with the Bank.

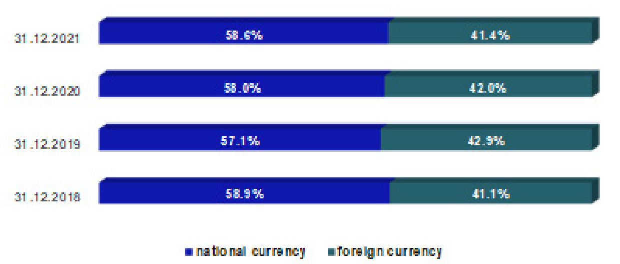
ACTIVITY ON ATTRACTING DEPOSITS

The main source of financing assets are deposits attracted from individuals and legal entities. In the structure of deposits from customers, the share of those from individual's entities is 59.6% and legal entities 40.4%.

Deposits of legal entities registered at the end of the year MDL 5,166.7 million, increasing by MDL 524.4 million or 11.3% compared to the beginning of the year, in nominal terms increasing both deposits in national currency and those in foreign currency.

At the end of the year, the portfolio of individual deposits registered MDL 7,630.0 million, more by MDL 327.6 million or 4.5% than at the beginning of the year.

Fig. Deposits structureby currency



Regarding the structure of customer deposits, in 2021 as in previous years, the preference for deposits in national currency remains growing, with a total portfolio share of 58.6%.

Fig. Deposits structure by type

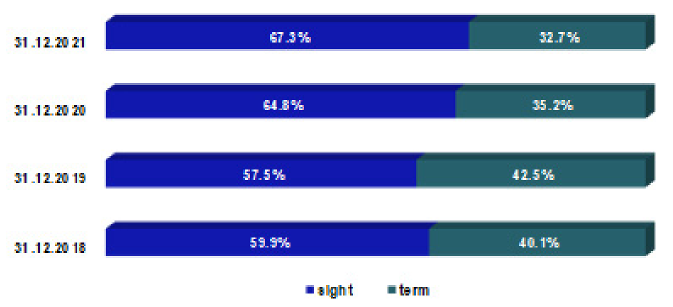
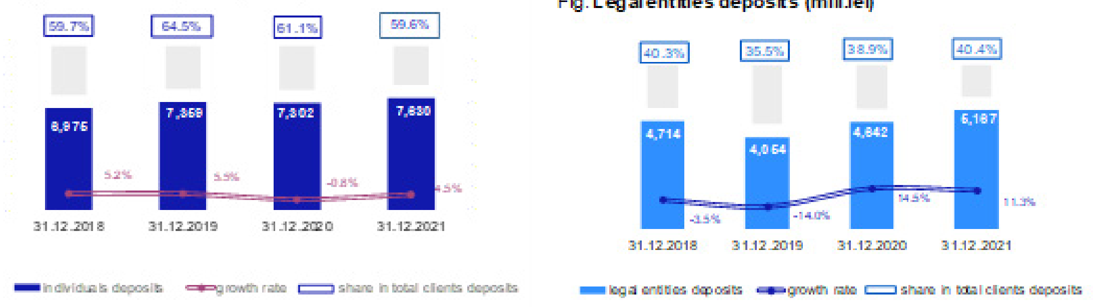


Fig. Individuals deposits (mill.lei)

Fig. Legal entities deposits (mill.lei)



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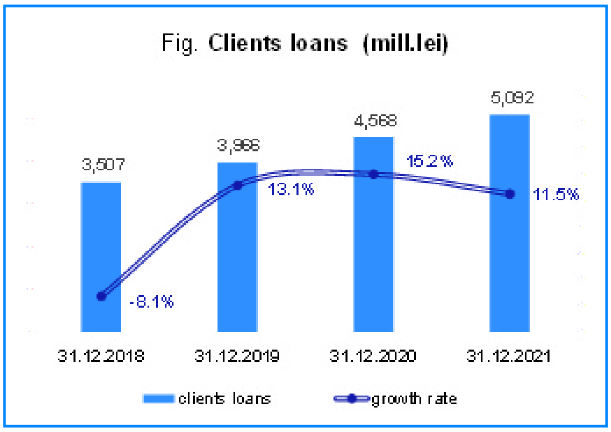
Interest expenses on customer deposits registered MDL 144.3 million, less by 1.3% compared to the previous year, the expenses related to individual deposits decreasing while those for legal entities increased compared to 2020 by MDL 10.5 million or 43.3%.

Interest rates on attracted deposits, both in national currency and in foreign currency, were correlated during the year with the demand and supply of resources, the dynamics of the exchange rate, the evolution of inflation and monetary policy rates. Similar to interest rates on monetary policy instruments, in the second half of the year, interest rates on deposits showed an upward trend.

LENDING ACTIVITY

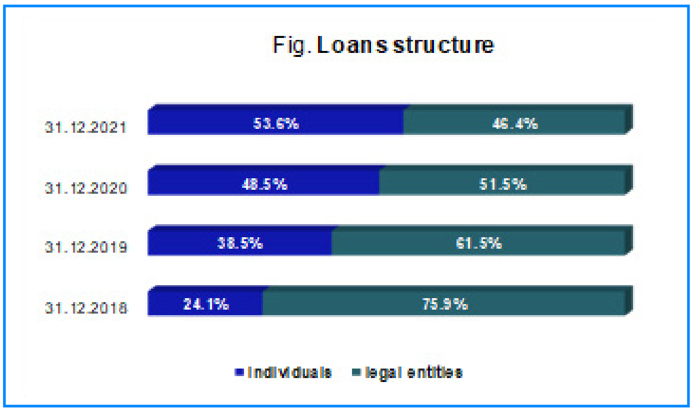
Financing economic activities, investment and consumption is an important issue for the Bank, customers, consumers and the national economy. In 2021, the continuity of the process of developing the lending activity was ensured, with an emphasis on the segments with priority: individuals and SMEs. Several internal processes have been optimized and new financing opportunities have been made available to customers.

Victoriabank in 2021 as well as in 2020 maintained its market position, ranking fourth, with a portfolio of loans to individuals and legal entities of MDL 5,092.0 million. In 2021, the loan portfolio (principal) increased by MDL 523.8 million or by 11.5%. Similar to recent years, the downward trend in non-performing loans and the increase in quality loans has been maintained. Thus, the portfolio of performing loans increased by MDL 636.3 million or by 16.4%. The increase was ensured as a result of the orientation towards the financing needs of the individuals and of SMEs. For individuals, real estate and consumer loans are on the rise.



The growth of loan portfolio was positively influenced by the promotions, 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 credit, easily and quickly, without having to go to the Bank.

Victoriabank is the only bank in Moldova that has a distinct approach to the interest rate on loans to the retail segment: the interest rate is linked to a market benchmark plus the Bank's fixed margin.



In the loan structure (principal), the majority share belongs to individuals, who during the year exceeded the share of loans of legal entities. During the year, the share of loans to individuals registered an upward trend, being in line with the strategic objective of the Bank. Thus, at the end of the period, the share of individual loans in total customer loans registered 53.6% of the total, with 5.1 percentage points more than at the beginning of the year.

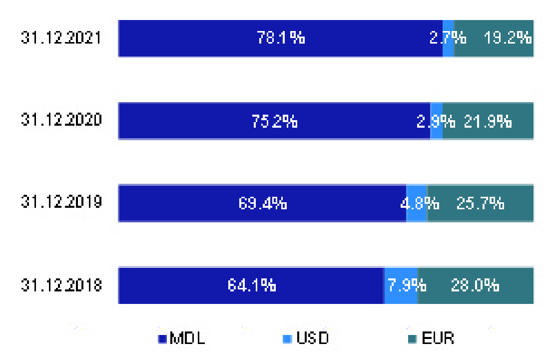
The relaunch of the lending activity of individuals allowed the Bank to record important results in this respect, Victoriabank maintaining its fourth position held at sector level. The balance of loans to individuals registered MDL 2,729.3 million, increasing in 2021 by 23.2% or by MDL 513.1 million. As a structure, the largest share belongs to real estate loans (50% of total individual loans), followed by consumer loans and card loans.

It is worth noting the fruitful collaboration with ODIMM within the First Home State Program, which allowed the Bank to obtain a market share of 21%.

Instalment shopping card - STAR Card is a product appreciated by our customers, a card through which individuals have access to several benefits offered by the Bank and its partners. More and more customers are requesting this product to pay for interest-free instalments, cash back and star points.

The structure of the portfolio by types of borrowers favored the increase in the share of loans granted in national currency in the total portfolio, decreasing the share of loans in USD and EUR.

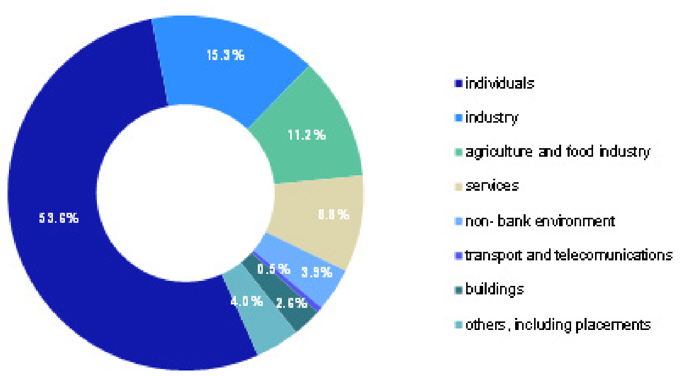
Fig. **Clients loans, structure by currency**



The loan portfolio of legal entities registered MDL 2,362.8 million, compared to MDL 2,352.1 million at the beginning of the year.

In the structure of the loan portfolio of legal entities, the largest share belongs to the loans granted to industry and trade, agriculture and food industry, as well as to those in the field of service provision.

Fig. **Loans structure on branches**



Interest rates on new loans evolved during the year in line with market trends, towards the end of the period being above the respective level a year ago. The dynamics of the rates were influenced by the demand and supply of resources and monetary policy decisions of the NBM.

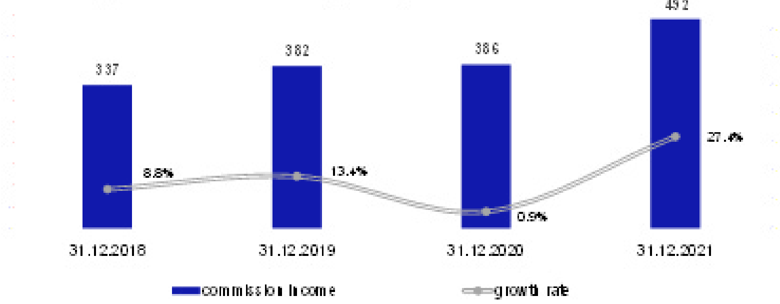
The increase of the quality loan portfolio generated interest income on loans higher than in 2020 by 3.9%, thus contributing to the increase of net interest income, which registered MDL 442.9 million, by 14.2% more than in the previous year.

SERVING CUSTOMER OPERATIONS

The new reality forced by the pandemic and the periodic restrictions set by the authorities have influenced the number of operations carried out at the Bank's counters. The process of increased migration to digital channels has continued and more efforts have been made to develop and develop features and services. Customers were much more receptive to benefit from the offered advantages. The possibilities offered to customers were significantly more and varied.

The incomes from commissions amounted to MDL 491.9 million, registering an increase of MDL 105.9 million compared to 2020. Victoriabank maintained its position, ranking third in the banking sector. In 2021, net commission income was registered in the amount of MDL 241.4 million, compared to MDL 193.9 million in 2020. In the structure of revenues from commissions, the majority share belongs to card operations, followed by those related to customer account service.

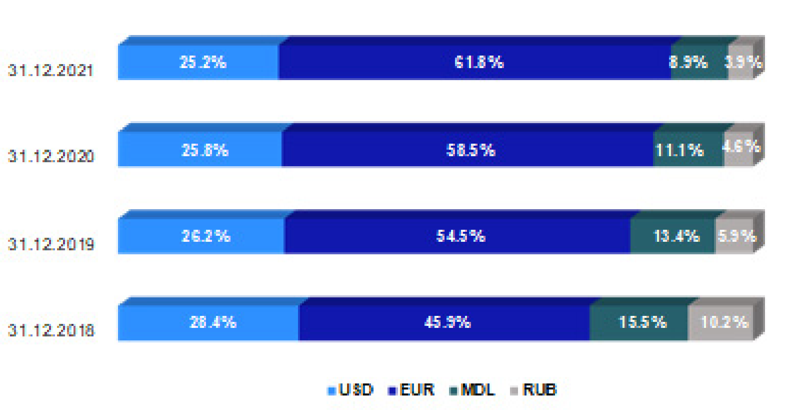
Fig. Commission income (mill.lei)



The bank serves several cash remittance systems for individuals. Revenues generated from the provision of these services in 2021 decreased by MDL 0.3 million or 1.2% compared to the previous year. One of the reasons that contributed to this decline is the cessation of some systems.

In the currency structure of transfers, the EUR remains the predominant currency. Several promotions were organized for the Bank's clients.

Fig. Structure of remittances number by currency



Products and services offered are aimed at promoting and developing cashless payment instruments and reducing cash flow. In this context, we are constantly expanding and developing the offer of card products. We have made available to customers the only electronic wallet in Moldova: VB24 Pay. We have updated the pricing of services and products, etc.

The bank will aim to increase the level of customer satisfaction and undertake the necessary actions and measures to create favorable conditions for the delivery of services. The growth of the volumes of activity and of the revenues presents a solid indicator of the degree of trust of the population and strengthening of the market image of the Bank.

BANK CARD ACTIVITY

The development of digital channels is one of our important goals. In this way we provide our customers with innovative products and services, new possibilities, safety and convenience. Another current advantage of the period with restrictions imposed by the pandemic: customers can benefit from most of our services without going to the Bank's offices. The business with bank cards is in dynamic development and is of great interest to the Bank and the community, considering the advantages it offers.

For more secure and faster online transactions, we have launched a new version of 3D Secure 2. This is a security standard for online payments that aims to further protect the cardholder and reduce e-commerce fraud. The current version has an improved design that significantly improves the user experience on mobile devices, being compatible with current applications. We have launched two new ways to authorize online operations through 3D Secure version 2, namely: fingerprint and facial recognition. Thanks to these new ways of confirmation, online transactions will be faster, more convenient and more secure.

Also, this year we created the possibility to pay for trips in public transport with contactless payment instruments. We have introduced two technologies to facilitate payments and the convenience of citizens: the classic contactless payment through validators, as practiced in large cities around the world, and through Tap to Phone - a new technology that allows you to pay for travel with a contactless card or your own smartphone.

An innovative product for the local market: „Bring your salary to Victoriabank", launched at the end of the previous year, comes to provide individuals with the freedom to choose the bank they serve, at preferential rates with more freebies: zero issuance fee and administration and no account service fees, zero fees for withdrawals at ATMs of Victoriabank and other Moldovan banks and zero fees for transfers from any bank in Moldova or abroad etc.

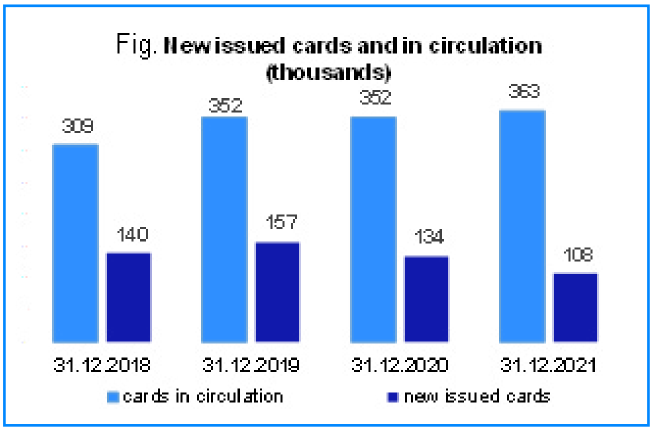
The STAR Card is becoming more and more popular with customers. The bank continued to expand its network of merchants and partners, launching various promotional campaigns. STAR Card incorporates three cards: a credit card, a card that can be used to pay in instalments, and a card that allows you to earn loyalty points, which can be used to purchase other products from our network of partners.

Our customers enjoy the benefits of VB24 Pay and Garmin pay. VB24 Pay is the only electronic wallet in Moldova. Garmin Pay is a secure, simple and convenient way to pay for goods, contactless through Garmin watches, protecting card data by generating unique codes for each transaction. The number of these transactions is constantly increasing, customers appreciating the convenience and security of these operations.

Most promotional campaigns have been carried out for card customers, including: „Give love with Visa from Victoriabank", „Special offers for online shopping for Mastercard holders", „Payments with Visa from Victoriabank on public transport bring you guaranteed CASHBACK and monthly gifts", "Travel comfortably and safely with Victoriabank Mastercard", " Discover the world of wine with Victoriabank Visa premium cards! ", " Pay with STAR Card and win cashback! ", " Where there are Olympic victories, there are also prizes! ", " Back to school: Discounts of up to 25% with VISA cards from Victoriabank "," Pay with Garmin Pay and receive 10% STAR points " etc.

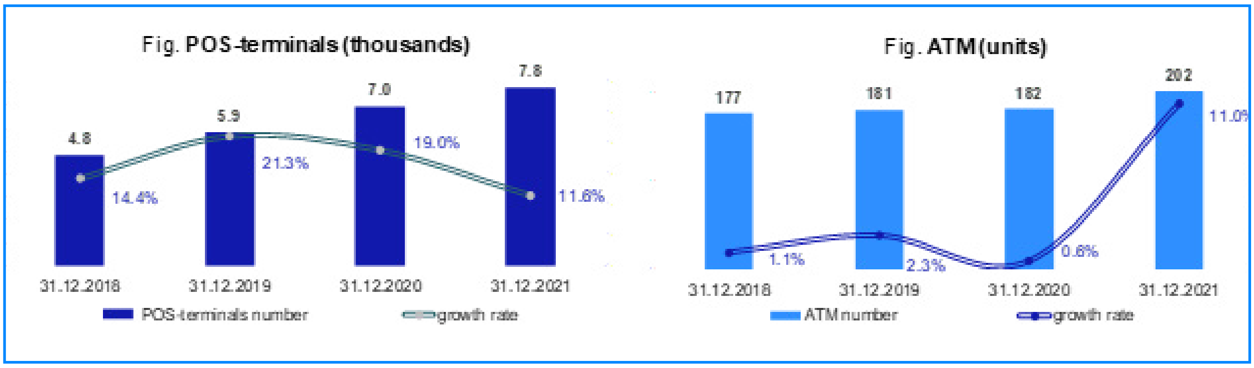
The Bank's customers can enjoy the facilities offered by meal vouchers, the companies providing an additional benefit to their own employees. The bank, in turn, is expanding the number of acceptance points for these cards.

The number of cards in circulation increased compared to the end of the previous year, reaching 362.8 thousand units, during the year 107.9 thousand cards were issued.



We are delighted that advanced technologies are entering the lives of our customers, who are increasingly opting for cashless transactions.

In order to ensure the servicing of the increasing activity volumes, during 2021 the network of POS-terminals increased by 0.81 thousand units, making up at the end of the year 7.8 thousand units and the ATM network with 20 units being on 31.12.2021, 202 ATMs.



The number of users of remote service systems is increasing, through web-banking increasing by 22.1% and through mobile-banking by 37.0%. The total number of operations increased by 24.9% and their volume increased, but slowly, increasing at rates below those of 2020. Digitization will continue to be a priority for the Bank, so that it can respond and anticipate as best as possible the present and future requests of customers.

The efficiency of customer service processes continues to be one of our priority objectives, which generates added value and advantages for all parties involved in the transaction: customers, beneficiaries and the Bank.

FOREIGN EXCHANGE ACTIVITY

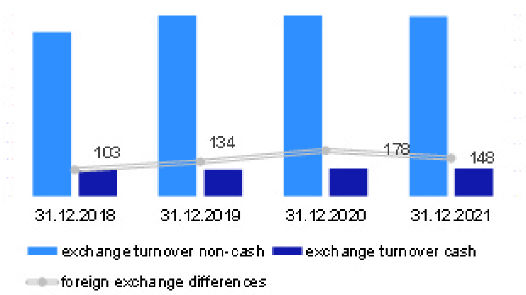
During 2021, foreign exchange reserves reached a record volume of USD 4.07 billion. On the background of the exchange rate moderation, the NBM intervened steadily last year and as a result the reserves fell to USD 3.77 billion, but by the end of the year the level reached was USD 3.90 billion.

In 2021, the biggest effect on the foreign exchange market was the increase in energy prices. The government allocated an amount of MDL 1.6 billion that automatically entered the foreign exchange market, because it was necessary to buy foreign currency for the import of gas. The population was also forced to pay a higher price for energy resources, money that was still converted into currency.

This gap between supply and demand has generated a foreign exchange deficit in the foreign exchange market, which in 2021 reached USD 566 million. During 2021, the NBM sold USD 305 million, a record amount in the last five years, to maintain the exchange rate.

In 2021, Victoriabank continued to deepen its correspondence with renowned banks in the West and the USA, such as: Bank of New York Mellon, New York, DZ Bank AG, Frankfurt, Raiffeisenbank International AG, Vienna, Intesa SanPaolo, Milan. The volume of the Bank›s turnover in intra-bank transfer transactions decreased by 0.01%. The volume of the Bank›s turnover in transactions at cash exchange points decreased by 0.19%.

Fig. **Currency activity**



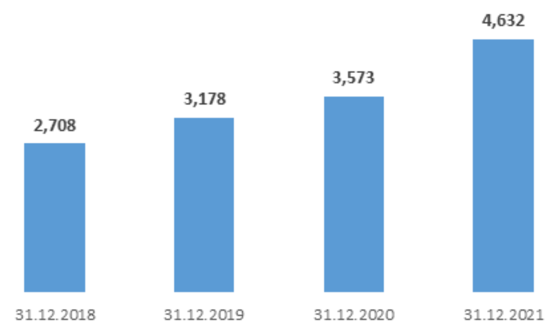
The evolution of activity volumes and transaction margins had an impact on revenues. In 2021, the exchange rate differences registered MDL 148.5 million.

ACTIVITY ON THE STATE SECURITIES MARKET AND THE CAPITAL MARKET

Victoriabank is an active participant in the state securities market, carrying out transactions on the primary and secondary market, for its own account and at the request of its clients. According to the assessment made by the Ministry of Finance for the year 2021, the Bank has kept its no. 1 position in the ranking of primary dealers, occupying this position since 2018.

Interest rates for state securities were kept at a stable level in the first eight months of the year, and in the last four months, they showed an upward trend amid inflation forecasts, and the NBM's decisions to increase the base rate. The Bank's and its clients' holdings of state securities represent more than 27% of the total state securities issued in the primary market at the end of the year 2021.

Fig. **State securities (mln. lei)**



As an Investment Company, Victoriabank in 2021, manifested itself as an active participant in the capital market, offering clients intermediation services, executing sale-purchase transactions on behalf of investors on this market.

In 2021, the Bank left its mark on a new stage of development of the capital market in the Republic of Moldova, providing support for the issuance of municipal bonds by Local Public Authorities.

Victoriabank is the first bank to mediate the first issues of municipal bonds, issued by Sangera City Hall and Ceadar-Lunga City Hall, within the project „Local government bonds - a measure to increase local autonomy", implemented by the Independent Analytical Center „Expert-Grup" with the financial support of the Netherlands Embassy in the Republic of Moldova. As a market maker, the Bank also contributed to the recording of transactions on the secondary market with these instruments.

The share of the Bank's intermediated stock exchange transactions in 2021 is 18.48%, placing the Bank in the top of the ranking of the members of the Stock Exchange who register transactions on the regulated market and MTF. On the regulated market of the Moldovan Stock Exchange, Victoriabank brokered 27.95% of the total volume of registered transactions, ranking first.

The issuers with the highest volume and number of transactions remain commercial banks, the interest of investors being directed to trading with their shares.

RISK MANAGEMENT

The objective of the 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:

a) 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;

b) include criteria that take appropriate account of the impact of forward-looking information, including macroeconomic factors;

c) 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;

d) consider relevant internal and external factors that may affect the expected credit loss estimates;

e) 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;

f) 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 2021, 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 2021, 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.

CONFORMITY RISK

The conformity 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 conformity risk, as required by applicable normative acts. The Conformity 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 conformity 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 conformity 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 „conformity culture" through continuous training/consulting on non conformity events, including those related to corporate ethics, so that compliance risk can be effectively managed;

» developing and streamlining of conformity risk management processes, including by optimizing and digitizing the activities of the conformity function;

» regular internal auditing of the conformity 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 conformity risk, with the conformity function ensuring continuous monitoring of risk indicators, identification and analysis of causes that may lead to the occurrence of events of a conformity risk nature. Moreover, in order to prevent and/or mitigate conformity risk related to the Bank's activities, the conformity function has undertaken continuous risk control measures.

HUMAN RESOURCES MANAGEMENT

The year 2021 tested the resilience of the entire Victoriabank. team and brought many new challenges because of the pandemic. We responded quickly to the newly created situation and prioritized the safety of our clients and employees.

In 2021, in the context of the pandemic period, the priorities of the Human Resources Directorate, continued to be: health, protection and safety of the Bank's employees; quality and timely selection and recruitment; continuous professional and personal development of all colleagues of Victoriabank, thus also significantly increased the number of hours of online training; career management for colleagues with potential. All the above-mentioned aspects have had a decisive impact on the company's performance and on increasing the retention and commitment of our colleagues to the bank.

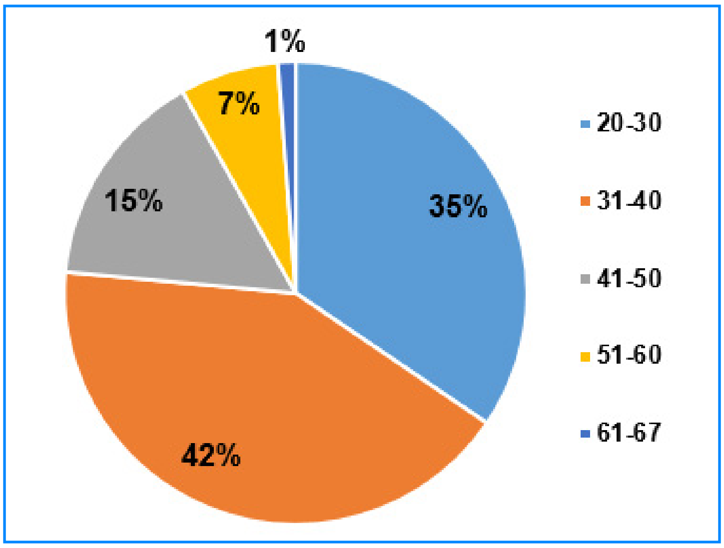
The priorities of Human Resources activities in 2021 continued to be oriented towards supporting and achieving strategic goals: Supporting the Bank's business strategy by providing the necessary human resources; Improving the transparency of HR activities and processes; Supporting and increasing employee performance; Career management; Promoting the image of an employer as well as occupying a leading position among employers; Developing active corporate culture by developing team spirit and aligning employees' personal values with company values; Implementing action plans dedicated to increasing employee engagement and satisfaction; Motivating Bank employees and retaining talent.

As of December 31, 2021 within the Victoriabank the total number of employees was 1,329 persons, out of which 801 work in the Distribution Network and 528 in the Head Office.

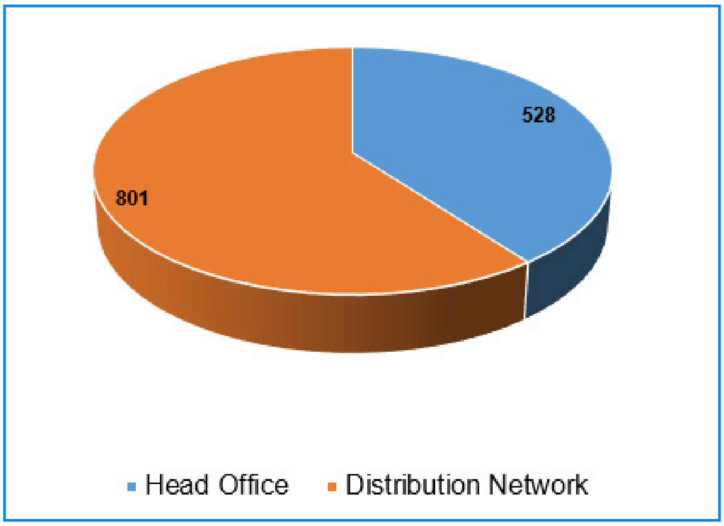
The number of active bank employees is 1,048, while 281, which is 22% of employees, are on maternity and childcare leave.

The average age of the bank's employees as of 31.12.2021 is 36 years.

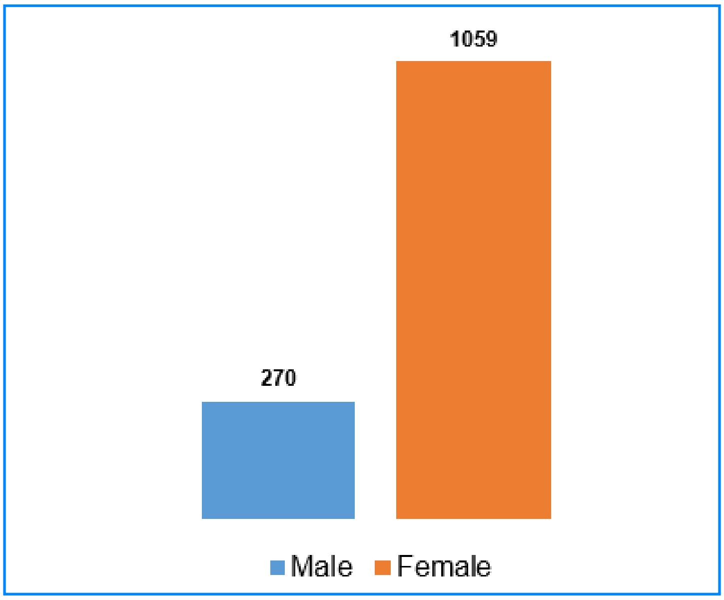
STAFF STRUCTURE BY AGE



VICTORIABANK'S EMPLOYEES - HEAD OFFICE VS DISTRIBUTION NETWORK



STAFF STRUCTURE BY GENDER (MALE/FEMALE)



RECRUITMENT

We are transparent in all recruitment; vacancies are open and can be found both on social media channels (Facebook, LinkedIn) and on https://www.victoriabank.md/cariere as well as on special recruitment platforms and career fairs etc.

In 2021, the total volume of recruitment activities reached 267. At the same time, the Bank used the human resources tool in the field of recruitment, „Referral Programme”. The program is an additional benefit/non-formal benefit for employees and a possibility to increase their income by referring a friend - neighbour - friend within the bank. The recommendations are the most reliable form of promoting the employer brand by providing the company with the necessary resources, motivated and trained employees to support the bank’s strategy. This program allows the selection and recruitment of new employees based on recommendations from Victoriabank’s employees. During 2021, 127 candidates were recommended, out of which 51 joined the Victoriabank’s team.

The induction of new Victoriabank employees continues, during the pandemic period, in online format through the digital **Onboarding || RPA program**. The purpose of the program is to orient new employees about Victoriabank’s and Banca Transilvania Group’s company history and culture; mission, vision and values; career opportunities and career management; internal communication; benefits and remuneration; training and development; occupational health and safety; information security; AML etc.

Considering the need to employ new colleagues in specific fields, coupled with a continuous need to market the opportunities we have in the bank, Victoriabank has adapted its recruitment strategy in this regard, in order to broaden the possibilities of attracting candidates. In November 2021, the 3.0 edition of the financial education project **Zoom in banking || Internships with remuneration** from Victoriabank was re-launched in collaboration with the Academy of Economic Studies of Moldova (AESM), the Moldova State University (MSU) and the European Business Association (EBA) and B.C „Victoriabank” S.A.

The 3.0 edition is being held in an expanded format with a new partner. The Moldova State University joins the other existing partners: B.C „Victoriabank” S.A, the European Business Association (EBA) and the Academy of Economic Studies of Moldova, with the common objective of training and solidifying practical skills related to banking among students and teaching staff, through the involvement of banking specialists and international experts. The programme will also focus on strengthening aspects of financial reporting, cash flow, bookkeeping, tax administration and risk management.

The purpose of the Zoom in banking programme:

- developing local human capital to increase the employability of young people;
- 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 a career in the banking system;
- guiding students in identifying the right field and job within the bank for the development of professional skills;
- dissemination of best practices, counselling and career guidance to students;
- motivating and rewarding the most active, responsible and ambitious young people.

The project is aimed at all those interested, especially students and teachers. The trainings took place in an online environment, the practical topics being set by trainers and practitioners from Victoriabank, together with partners EBA, AESM and MSU.
As a result of the project, students who wish to carry out practical hours at Victoriabank are accepted for internships and are paid for their work.

PROFESSIONAL DEVELOPMENT

Even though the training process has suffered an organizational stress from the perspective of social influences, namely their pandemic nature, in 2021, the Human Resources Directorate continued to set and achieve goals in the training and development of bank employees.

Both external providers and the Bank’s internal trainers supported training programs.

In 2021, the online program „Challenge your sales" was launched, comprising 20 lessons, attended by 315 Client Service Specialists and Operations Coordinators. For Branch Managers, RM SME and RM Retail the course „Accounting and Financial Analysis" was held.

At the same time, this year, on the online E-learning course platform, many new functionalities were added, skill soft and English language courses (which received a complete update), many new course modules appeared, new functionalities appeared on the platform.

Currently there are 645 course modules on the E-learning online platform, 83 more courses than last year. In 2021 by bank employees, 16,181 courses were promoted on the platform.

On average, each employee promoted 17 online courses on the E-learning platform, with the most requested courses being in the areas of: leadership; communication and sales skills; work-life balance; Microsoft office.

PERFORMANCE ASSESSMENT

In 2021, we continued conducting EEI (Employee Experience Index) sessions, an exercise through which employees can assess their supervisors.

BENEFITS AND REMUNERATION

The care of the employee stays our priority in 2021, and safety is essential in the pandemic context, which is why COVID-19 testing has been included in the compensation and benefits package and is fully paid for by the employer. We care about the health of our colleagues, and by testing and working remotely, we greatly reduce the risk of infection. It has been possible to ensure business continuity because many activities can be carried out from home, without diminishing the efficiency or quality of the work performed.

Similarly, for colleagues whose children are studying in Romania, the special programme „Internships for children of Victoriabank employees was continued. Thus, students and master's students who are studying economics, IT, marketing, etc. have the opportunity to learn everything about banking from the team of Banca Transilvania.

At the same time during 2021, we continued the internal communication campaign „Ask sessions with the bank's Management". ASK Sessions is an interactive approach, inviting open and transparent discussions with the company's leaders on topics of interest to the entire team.

REMUNERATION POLICY

The remuneration policy of Victoriabank is developed in accordance with the bank's mid- and long-term strategic development objectives, aiming both to retain staff and to achieve the bank's profitability criteria.

The aim of the remuneration policy is to encourage the performance of employees (both individual and collective), to recognize and value the contribution of each employee to the bank's results.

The principles of the Remuneration Policy cover both the fixed and variable components of the remuneration of all staff. The assessment criteria relate to both individual and collective performance, specifically for a sufficiently long period to indicate real performance, not only in terms of measurable financial criteria but also in terms of qualitative criteria, including business knowledge, managerial skills, efficiency and general professional attitude, level of commitment and compliance with the Bank's policies.

The Victoriabank regularly updates and improves its internal rules and standards to promote best practices in staff remuneration.

The own policy of Victoriabank is subject to the principles of the Banca Transilvania Financial Group Remuneration Policy. Any changes and derogations from the Policy are under the competence of the VB Board of Directors and comply with the provisions of the Banca Transilvania Financial Group Remuneration Policy.

SOCIAL RESPONSIBILITY AND ENVIRONMENTAL PROTECTION

Victoriabank continues to support the community it belongs to and stays with its customers because responsibility and social involvement are a priority for the bank, in addition to integrity and openness, professionalism, customer engagement and teamwork. Thus, in 2021, the bank launched various campaigns in support of the company, under the motto „With a desire for good deeds”:

CARITATE VB

At the end of 2018, the A.O. “Caritate VB” (non-profit organization) was created at the initiative of the people from Victoriabank. The association is in the top charities, which enjoy the trust of the population. In 3 years of activity, the non-profit association has contributed to many charities and has supported important social projects. Caritate VB ranked 38th out of 665 NGOs benefitting from the 2% designation in 2021, with individuals redirecting 45,890 lei on behalf of the organization.

EU SUNT IMM

In 2021, Victoriabank continued to support the small and medium-sized enterprises in the Republic of Moldova with the Eu sunt IMM (I am SME) campaign, after launching in 2020 a campaign to support local producers with the generic #CumpărăDeLângăTine (Buy locally!). The campaign aims to SMEs and provides examples for the whole community to follow. Each week, the bank presents three stories of entrepreneurs behind several beloved local brands. These are published on the bank’s Facebook page and on the specially created website: www.eusuntimm.md. Each of the protagonists tells about what it is like to do business in the Republic of Moldova, about successes, but also about the difficulties they face in their entrepreneurial path.

THE MAIN SPONSOR OF MOLDOVA’S BASKETBALL FEDERATION

Victoriabank also showed solidarity with the athletes from the Republic of Moldova in 2021, financially supporting the activities and plans of the Basketball Federation of the Republic of Moldova and thus becoming its main partner. The bank supports all categories of teams, both the women’s and men’s leagues and the junior and adult leagues. At the same time, in 2021, two competitions took place under the Victoriabank name. These are the Victoriabank Basketball Cup and the Championship of the Republic of Moldova - Victoriabank National Division.

PARTNER OF THE GENEZA ART THEATER

Victoriabank is in solidarity with the people of culture in the Republic of Moldova in order to help overcome the stalemate in which they found themselves following the restrictions imposed by the COVID-19 pandemic. Thus, Victoriabank announced that it is sponsoring the last year’s activity of one of the local theaters, institutions strongly affected by the crisis of almost two years. Geneza Art Theater in Chisinau had been offered the amount of 100 thousand lei, laying the foundations of a lasting partnership with this important cultural institution in the Republic of Moldova.

THE CONTINUOUS SUPPORT OF THE ORGANIZATION „COPIL. COMUNITATE. FAMILIE” (CCF MOLDOVA) through the “Stories from home” campaign, the charity auction “Buy art, support a child” and “Gala of Generosity”.

Victoriabank continued to be with CCF Moldova at last year’s Gala of Generosity, the largest charity event in the Republic of Moldova. Moreover, Victoriabank supported the Gala of Generosity for the seventh consecutive year, because the noble cause of CCF Moldova to provide a safe and protected family environment for every child cannot leave us indifferent.

In the summer of 2021, the bank launched the charity auction „Buy Art, Support a Child”, in which 12 wine paintings were put up for sale, created by journalist and artist Vasile Botnaru. The auction took place on the official Facebook page of the bank, and the starting price for a painting was 1,200 lei. The amount collected was donated to the organization Child Community Family (CCF Moldova).

Following the Buy a Child - Support a Child campaign, Victoriabank put up for sale, at the Generosity Gala, seven wine paintings, made by journalist Vasile Botnaru. The works could be bought only at the given event, on December 3, and the money raised was directed to the family support programs of CCF Moldova.

On the International Family Day of 2021, Victoriabank joined the second edition of the social campaign “Stories from home”, carried by non profit organization - CCF Moldova.

For two weeks, evening by evening, the protagonists of the campaign - artists, TV presenters, bloggers, businessmen and persons known to the public, accompanied by Victoriabank employees, read stories for children, urging the community and the general public to donate on the platform of the organization www.donatii.md. Victoriabank, as a partner of the organization, doubled each donation, thus encouraging people to participate in charity events, and donated over 40,000 lei.

IMPACTFUL CHARITY CAMPAIGNS

In the last 3 years **«Caritate VB»** has been involved in numerous charity campaigns, among the most resounding being the «Gala generozitatii» within the Public Association «CCF Moldova» (Child, Community, Family), which received donations in the total amount of MDL 127 thousand.

In the context of the pandemic, an internal fundraising campaign «I want to get involved in the fight against Covid» was held in 2020. More than 100 employees of the bank actively participated, and from the amount collected, **«Caritate VB»** donated a video laryngoscope of the latest generation to the Otorhinolaryngology Department of the Republican Clinical Hospital for Children «Emilian Cotaga», coming to the aid of doctors and small patients by decreasing the risk of infection.

Other material aid went to the «Republican Asylum for Rehabilitation of Disabled, Labour and War Veterans» in the Cocieri village, «Andrea Charity Foundation», Public Association «Life without Leukaemia» and Multifunctional Community Centre «Generatia PRO» of Peresecina village, Orhei district, as well as to employees of Victoriabank and other individuals who are in difficult situations.

The Association «Caritate VB» wants to be a connecting bridge between those who can help, want to help and those who are in need.

SUSTAINABILITY PROJECTS

This year we implemented several projects, aimed at achieving rational consumption of paper and consumables, electricity and heat, etc.

Additionally, since September 1st 2021, Victoriabank has given up on using the stamp, a premiere for the banking sector in the Republic of Moldova.

CORPORATE GOVERNANCE

The corporate governance is a system of principles, rules and regulations that govern the relationship between shareholders, members of the Board of Directors, the executive bodies of the Bank and other stakeholders.

Victoriabank is consistently developing its corporate governance system, and aligns with the best international standards and practices in the field, following the governance principles of Banca Transilvania Financial Group.

The quality of corporate governance directly contributes to the successful development of the Bank and increases its competitiveness on the market, providing additional guarantees to partners. Victoriabank's corporate governance standards are based on the principle of transparent and accountable business conduct, which allows us to evolve, even in the face of the challenges posed by the pandemic.

A significant step in 2021 was the organization of the Corporate Governance Division, responsible for the implementation of corporate governance principles in the bank.

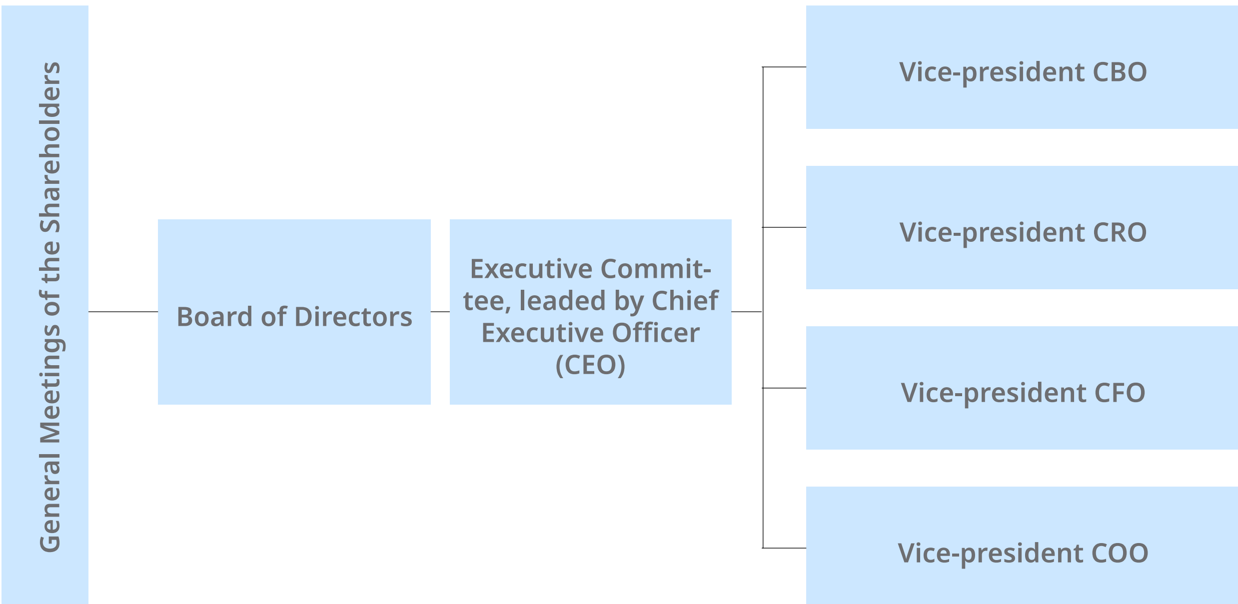
Victoriabank's corporate governance regulatory system incorporates the following documents:

- Bank's Charter
- Corporate Governance Code
- Internal regulations (Regulation on Organization and Operation, Code of Conduct, etc.)

POWERS AND ACTIVITY OF THE BANK'S MANAGEMENT BODIES

Victoriabank has adopted a corporate governance system that is in line with best practices in the matters of corporate governance, transparency of corporate information, protection of the interests of various stakeholders and efficient functioning on the banking market.

The complete organizational structure of the Bank can be viewed on the official website www.victoriabank.md, in section About Us, subsections *Information Publishing, Corporate Governance*.



Ensuring good corporate governance practices is impossible without a clear delineation of powers and competencies between the supervisory body and executive bodies, as well as without an effective interaction between them.

The General Meeting of Shareholders (GMS) is the supreme authority where the shareholders exercise their right to vote on matters of major importance to the bank, as well as participate in the election of the Bank's governing bodies.

The Bank's governing bodies are the Board of Directors (BoD) and the Executive Committee (EC). Both structures have sufficient independence in their work. The Board of Directors does not intervene (without good justification) in the day-to-day activities of the Executive Committee, which in turn is responsible for informing the Board of Directors on all important aspects of the Bank's progress in the implementation of strategic objectives, planning and business development, as well as regarding the state of risk management and internal control.

GENERAL MEETING OF SHAREHOLDERS

The General Meeting of Shareholders plays a vital role in the management and control system, having competencies that allow the members to exert influence on the policies promoted by the bank's management bodies.

Victoriabank treats all shareholders equally and in a fair manner, each shareholder having rights and obligations determined by applicable law and internal regulations. The Bank encourages the active involvement of all shareholders in the activity of the bank, as well as in the decision-making process within the General Meeting.

The Bank offers shareholders the opportunity to comfortably exercise their right to participate in the General Meeting of Shareholders by creating the most favorable conditions. The procedure for the preparation and carrying out of the Meeting is determined by internal regulations, which provide that each shareholder will have the opportunity to exercise their right to vote in a convenient manner - in person or by representation.

The Bank prepares the Meetings responsibly and diligently, using all available resources. The Bank's practice of using information technology gives shareholders the opportunity to debate items on the agenda and make decisions on subjects that are put to vote, without being present at the meeting. The ability to exercise one's rights as shareholders of the bank in any part of the world fits perfectly into the realities dictated by the pandemic. Victoriabank pays special attention to safety and health, as the most significant human values.

The Bank shall ensure the publication of information on decisions taken by the GMS in accordance with the procedure approved by national law, no later than 7 days after the meeting took place.

In between the meetings, all shareholders' questions are answered with the assistance of the specialists of Corporate Governance Division, as well as through various communication channels provided by the Bank.

In 2021, two General Meetings of Victoriabank Shareholders took place. Taking into account the epidemiological situation in the country, both meetings were held by correspondence.

The Annual Ordinary General Meeting of Shareholders was held by correspondence on April 29, 2021. At this Meeting, the shareholders approved the annual financial report of the bank for 2020, the report of the Board of Directors and examined issues related to the distribution of the annual profit.

At the Extraordinary General Meeting on October 8, 2021, the Regulations regarding the Board of Directors and the remuneration of the members were approved. At the same time, the shareholders examined information that influences or may influence the activity or price of the bank's securities.

BOARD OF DIRECTORS

The Board of Directors of Victoriabank supervises and monitors the management decision-making process and is responsible for the Bank's activity and its financial soundness. The Board of Directors includes seven members elected by the GMS by cumulative vote, 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**

For the sustainable and consistent development of the Bank, the members of the Board of Directors shall perform in a reasonable manner, in good faith and with due discretion, their duties in the interest of the Bank, bearing personal responsibility for the decisions taken. In its activities, the Board of Directors identifies, evaluates and takes into account the expectations and interests of shareholders, customers, partners and other stakeholders.

The high performance of the Board of Directors is based on:

» understanding the business needs and the role of the Board of Directors in the development of the Bank;
» diverse and balanced composition of the Board of Directors, due to attracting of professionals of highest level;
» a system of remuneration of the members of the Board of Directors corresponding to the Bank›s activity;
» conducting an annual performance evaluation of the Board of Directors so as to identify growth opportunities;
» effective communication both within the Board of Directors and with the shareholders and members of the Executive Committee, as well as with other key stakeholders.

In 2021, the members of the Board of Directors held 28 meetings, of which 11 in teleconferencing format, 17 - by correspondence, at which they examined and approved 207 issues.

The Board of Directors shall set up specialized committees, composed exclusively of members of the Board. The attributions, functions and responsibilities of the specialized committees, as well as the requirements of their members, are established in the normative acts of the National Bank of Moldova and in the internal regulations of the Bank. The specialized committees shall report directly to the Board of Directors.

At the level of the Board of Directors, there are four specialized committees:

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. The Audit Committee remain responsible for monitoring the activities of the Internal Audit Division as well as the appropriateness and effectiveness of the internal control and risk management systems of Victoriabank. The Committee has the right to make recommendations to the Board of Directors regarding the effectiveness of the performance of the Internal Audit Department and the remuneration of the Director of that Department.

During 2021, the Audit Committee met in 13 formal meetings, during which the Audit Committee carried out the following actions:

- understanding the business needs and the role of the Board of Directors in the development of the Bank;
- diverse and balanced composition of the Board of Directors, due to attracting of professionals of highest level;
- a system of remuneration of the members of the Board of Directors corresponding to the Bank's activity;
- conducting an annual performance evaluation of the Board of Directors so as to identify growth opportunities;
- effective communication both within the Board of Directors and with the shareholders and members of the Executive Committee, as well as with other key stakeholders.

RISK MANAGEMENT COMMITTEE

The Risk Management Committee (RMC) is responsible for the independent review, evaluating and recommending actions on the Bank's risk strategy, profile, appetite and risk tolerance, risk management system, risk policies, as well as being responsible for the adequacy of the capital to the risks assumed.

Throughout 2021, RMC continued to take a proactive approach to risk management through close monitoring and discussion of the Bank's internal and external challenges, as well as reviewing the usual information on the Bank's risk profile, of risk management practices and results.

During the 11 meetings of the Committee held during 2021, the discussions focused on the following topics:

- reviewing and assessing the robustness, adequacy and effectiveness of the Bank's risk management system, focusing on risk strategies and policies for 2021, based on reports prepared by the Bank's risk management functions;
- reviewing the overall risk management strategy in the context of the macroeconomic situation in the market and updating the bank's risk profile;
- reviewing the framework of risk management policies addressing risk management methodologies, risk management processes and assessing the impact on the Bank's financial statements;
- analysis of credit, market, liquidity, operational risk, compliance and strategic risk management reports;
- reviewing the recovery strategy for the highest non-performing exposures;
- cooperating with other internal bodies and ensuring that the remuneration policy is in line with the Bank's strategy and promotes sound and efficient risk management;
- reviewing regular risk reports and continuously monitoring the status of the implementation of the money laundering prevention and control program;
- reviewing the exposures subject to the approval of the Board of Directors;
- prior examination of the primary internal regulations in order to be recommended for approval to the Board of Directors.

REMUNERATION COMMITTEE

The Remuneration Committee assists the Board of Directors in the field of remuneration at the level of the Bank and that exercises its attributions mandated by the Board of Directors in this segment of activity.

The main objective of the Committee is to assist the Board of Directors in fulfilling its responsibilities in the field of remuneration, in order to develop and maintain best practices in corporate governance in the field of remuneration.

During 2021, 10 meetings of the Committee were held at which the following topics regarding the remuneration of members of the executive body, persons holding key positions, as well as other issues related to the remuneration of the bank's staff were consodered.

NOMINATION COMMITTEE

The Nomination Committee assists the Board of Directors in assessing the suitability of candidates and nominations at the Bank level.

The main objective of the Committee is to assist the Board of Directors in fulfilling its responsibilities in the field of nomination, in order to develop and maintain best practices in corporate governance.

During 2021, the Committee met in 5 meetings, during which topics regarding the nomination, re-evaluation of Governing bodies of the Bank, as well as persons with key positions were examined.

EXECUTIVE COMMITTEE

The Executive Committee is the collegial executive body of the Bank that organizes, manages and is responsible for the current activity of the Bank. The EC shall organize, direct and be responsible for the current activity of the Bank, managing it both effectively and prudently, in a manner consistent with the Bank's strategy and governance framework approved by the BoD.

The main tasks of the Executive Committee consist in implementing the decisions of the General Meeting of Shareholders and the decisions of the Board of Directors, as well as in the promotion of a policy aimed at increasing the Bank's competitiveness, ensuring its sustainable financial and economic position, to protect shareholders ,and investors' rights. Subsequently, the following priorities are included in the list of EC competencies:

a) Implementation of the strategic objectives, the internal control systems, the strategy regarding the risk management and the administration framework of the Bank's activity, approved by the Board of Directors;
b) Elaboration of an adequate and transparent organizational structure for the Bank to ensure the separation of the functional responsibilities;
c) Adequate monitoring of subordinate staff;
d) Distribution of the Bank's staff tasks and responsibilities;
e) Quarterly presentation to the Board of Directors of the report on the results of the activity;
f) Other attributions provided for in the Bank's Charter and the internal regulations.

The Executive Committee is subordinate to the Board of Directors and consists of five members elected by the Board of Directors for a term of four years, with the possibility of being re-elected for a new term.

		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

The Executive Committee is obliged to report 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 committee, 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 2021, the members of the Executive Committee met in 89 meetings, where they discussed and voted on 902 issues.

GOVERNANCE CODE AND ITS OBSERVANCE

As we recognize the importance of adhering to high standards of corporate governance for sustainable business development and understand the significance of respecting and ensuring the rights and legal interests of shareholders, we have defined the Corporate Governance Code reflecting the key approaches and benchmarks on which the system of the Bank's corporate governance is built.

Assuming that corporate governance is evolving in nature and its development is based on the results already achieved and examples of good practice, in 2021 we updated the Governance Code.

The Governance Code is a public document, contains a set of principles and standards on which the Bank's corporate governance system is based, and is developed in accordance with the recommendations of the Basel Committee „Guidelines on Corporate Governance for Banks" and the requirements of Moldovan law. The document sets out the main working methods, rights and responsibilities of the Bank's management and supervisory structures, as well as of the Bank's shareholders, employees and customers.

The specific procedures and internal rules are set out in detail and regulated by the Charter and the corresponding internal documents of the Bank. The Corporate Governance Code and other relevant documents governing the internal management processes can be found on the official website of the Bank.

The Governance Code aims to increase the confidence of all categories of participants in the management and administration of the Bank and helps investors to know the corporate culture and values of Victoriabank:

- Respect for rights and fair treatment of shareholders;
- Ensuring access to information for investors, by publishing, in a fair and transparent manner, all relevant financial and operational information;
- Establishing the role and respecting the rights of stakeholders other than the shareholders;
- Establishing the responsibilities of the Board of Directors towards the Bank and shareholders, as well as its framework for interaction with the Executive Committee;
- Integrity and ethical behavior.

In accordance with the provisions of the Governance Code and the provisions of the legislation in force, the Bank publishes the Governance Statement (Annex 1).

The Bank undertakes to carry out activities of continuous and consistent improvement of the corporate governance system, taking into account as a matter of priority the interests of shareholders, investors, customers and other stakeholders.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The internal control system represents a set of internal control bodies and areas, in accordance with the specifics of the Bank's financial and business operations. The Bank's internal control is organized, based on a risk-oriented approach, which in practical terms is a mechanism for limiting the Bank's risk appetite.

The Board of Directors is responsible for defining the principles and approaches regarding the Bank's internal control and risk management system. The Executive Committee, in turn, ensures the creation and efficient maintenance of this system, being responsible for the practical implementation of the decisions of the Board of Directors in that field.

The viability of the control system in all practical areas is ensured by the independent activity of the following functions:

- **Compliance function** - assists the Bank's governing bodies in identifying, assessing, monitoring and reporting the compliance risk associated with its activity, by offering advice on the compliance of the activity carried out with the provisions of the legal regulatory framework, its own norms and standards, as well as the established codes of conduct, by providing information on developments in this area.
- **Risk management function** - provides an overview of all risks, participation in the development of the risk assessment and management framework and their measurement systems, active involvement in the development of the Bank's strategies (mainly risk management strategies), implementation appropriate policies and processes for significant risk assessment.
- **Internal audit function** - ensures the independent, impartial and objective assessment of the adequacy and efficiency of the management framework in accordance with the provisions of the legal and regulatory framework, the bank's internal regulations, as well as in the reports to the Board of Directors, Audit Committee and Executive Committee, in order to improve the Bank's activity indicators through the systematic and orderly application of the methods of evaluation and improvement of the internal control mechanism within the Bank.

Annex to the Corporate Governance Code
Approved at the meeting of the Board of Directors
of VICTORIABANK
Minutes No. 58 of 25.09.2019
updated on 01.11.2021

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 subdivisions of B.C. „Victoriabank" S.A. as of 31.12.2021

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. 9 Orhei	MD 3505, Orhei municipality, 2/1, Piatra Neamt 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 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 No. 31 Vulcanesti	MD 5300, Vulcanesti city, 10, Frunze Street
Agency No. 11 Cantemir	MD 7300, 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. 69 Chisinau	MD 2024, Chisinau municipality, 24, A. Doga 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. 32 Chisinau	MD 2019, Chisinau municipality, 1, Sergiu Radautanu Street
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. 45 Chisinau	MD 2064, Chisinau municipality, 76, Ion Creanga Street
Agency No. 34 Chisinau	MD 2069, Chisinau municipality, 1a, Calea Iesilor 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
Branch No. 31 Drochia	**MD 5202, Drochia city, 3, 31 August 20 Street**
Agency No. 57 Donduseni	MD 5102, 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 2021

(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	2021	2020
Interest income calculated using the effective interest method		597,726	543,675
Interest expenses		(154,818)	(155,881)
Net interest income	23	**442,908**	**387,794**
Fee and commission income		491,920	386,060
Fee and commission expense		(251,785)	(188,531)
Net fee and commission income	24	**240,135**	**197,529**
Net trading income	25	149,279	178,790
Other operating income	26	23,285	19,918
Revenue		**855,607**	**784,031**
Net impairment losses on financial assets and provisions for off-balance sheet commitments	27	(37,422)	(125,332)
Net impairment (losses) / release on non-financial assets	28	41,865	(32,204)
Net reversals related to provisions	18	98	131,803
Personnel expenses	29	(278,437)	(259,161)
Depreciation	31	(76,765)	(66,022)
Other operating expenses	30	(185,087)	(177,146)
Total expenses		**(535,748)**	**(528,062)**
Profit before income tax		**319,859**	**255,969**
Income tax expense	32	(41,628)	(20,052)
Profit for the year		**278,231**	**235,917**
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	44	20
The impact of exchange rate variations		(16)	-
Tax related to items that will not be classified to profit or loss		(38)	-
		(10)	**20**
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		(233)	49
Tax on items that can be classified as profit or loss		5	-
		(228)	**49**
Total comprehensive income		**277,993**	**235,986**
Earnings per share, MDL	35	**11.13**	**9.44**

The financial statements were approved by the Board of Administration on April 14, 2022.

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

Bogdan Pleşuvescu
Chief Executive Officer

Vitalie Corniciuc
Chief Financial Officer

Statement of financial position

For the financial year ended 31 December

In MDL thousand	Notes	31 December 2021	31 December 2020
ASSETS			
Cash and balances with National Bank of Moldova	4	4,294,953	5,009,054
Current accounts and placements with banks	5	2,214,905	1,816,719
Frozen Nostro account	5	-	226,785
Investment securities – debt instruments	6	4,631,735	3,572,197
Equity investment securities designated at fair value through other comprehensive income	8	3,207	3,200
Loans to customers	7	4,663,248	4,180,251
Other financial assets	12	341,148	109,730
Property and equipment	9	228,166	197,751
Intangible assets	10	79,445	79,176
Right-of-use assets	11	65,247	46,158
Current tax assets	14	-	33,820
Deferred tax assets	19	432	504
Other assets	13	43,968	71,922
Total assets		**16,566,454**	**15,347,267**
LIABILITIES			
Deposits from banks	16	70,800	73,302
Deposits from customers	17	12,808,389	11,957,226
Other borrowings	15	144,372	69,445
Other financial liabilities	20	220,785	210,989
Provisions for other risks and loan commitments	18	18,024	19,180
Lease liabilities	11	63,910	49,264
Current tax liabilities	14	2,176	-
Other liabilities	21	18,104	25,959
Total liabilities		**13,346,560**	**12,405,365**
EQUITY			
Share capital	22	250,001	250,001
Share premium		10,250	10,250
Fair value reserves	22	462	700
Statutory reserves		25,000	25,000
Other reserves	22	448,925	563,827
Retained earnings		2,485,256	2,092,124
Total equity		**3,219,894**	**2,941,902**
Total liabilities and equity		**16,566,454**	**15,347,267**

The financial statements were approved by the Board of Administration on April 14, 2022.

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

Bogdan Plesuvescu
Chief Executive Officer

Vitalie Corniciuc
Chief Financial Officer

B.C. VICTORIABANK S.A.

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 2020		**250,001**	**10,250**	**589**	**25,000**	**779,699**	**1,640,377**	**2,705,915**
Statement of comprehensive income for the period								
Profit for the period		-	-	-	-	-	235,917	**235,917**
Other comprehensive income, net of income tax								
Financial assets at FVOCI – net change in fair value		-	-	69	-	-	-	**69**
Total comprehensive income for the period		-	-	**69**	-	-	**235,917**	**235,986**
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**	-	-	42	-	-	(42)	**-**
Appropriation of reserves	**22b**	-	-	-	-	(215,872)	215,872	**-**
Total contributions and distributions of the shareholders		**-**	**-**	**42**	**-**	**(215,872)**	**215,830**	**-**
Balance at 31st of December 2020		**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		-	-	-	-	-	-	**-**
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**

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**	**2021**	**2020**
Cash flows from operating activities			
Profit for the year		**278,231**	**235,917**
Adjustments for:			
Depreciation and amortization	**31**	76,765	66,022
Net impairment losses / (release) of financial assets and provisions for off-balance sheet commitments	**27**	37,422	125,332
Net impairment losses / (release) on non-financial assets	**28**	(41,865)	32,204
Net expenses / (reversals) related to provisions	**18**	(98)	(131,803)
Income tax expense	**32**	41,628	20,052
Interest income	**23**	(597,726)	(543,675)
Interest expense	**23**	154,818	155,881
(Income) / losses from the revaluation of foreign currency	**25**	(2,236)	8,311
Other adjustments		-	-
Net profit adjusted with non-monetary elements		**(53,061)**	**(31,759)**
Changes in operating assets and liabilities			
Change in current account with National Bank of Moldova	**4**	(127,608)	151,978
Change in current accounts and placements with banks	**5**	129,445	(85,863)
Change in loans to customers	**7**	(537,624)	(540,222)
Change in other assets	**12,13**	66,022	51,697
Change in deposits from banks	**16**	(3,789)	18,999
Change in deposits from customers	**17**	1,000,741	187,427
Change in other liabilities	**20,21**	3,074	(89,408)
Change in provisions	**18**	17	(1,380)
		530,278	**(306,772)**
Interest received		610,452	559,767
Interest paid		(153,448)	(144,556)
Income tax paid		(4,713)	(46,698)
Net cash-flow from operating activities		**929,508**	**29,981**
Cash-flow used in investment activities			
Proceeds from sale of equity investments	**8**	-	117
Acquisitions of investment securities measured at amortized cost		(5,273,108)	(2,849,702)
Proceeds from the disposal of investment securities measured at amortized cost		4,113,055	1,909,882
Acquisitions of property and equipment	**9**	(62,372)	(74,100)
Proceeds from disposal of property and equipment	**9**	399	1,074
Acquisitions of intangible assets	**10**	(13,350)	(27,120)
Net cash-flow (used in) investment activities		**(1,235,376)**	**(1,039,849)**
Cash-flow from financing activities			
Gross proceeds from loans from other financial institutions	**15**	100,280	34,222
Gross payments from loans from other financial institutions	**15**	(21,883)	(16,528)
Repayment of the principal portion of the lease liabilities	**11**	(33,307)	(29,229)
Net cash-flow from / (used in) financing activities		**45,090**	**(11,535)**
Net increase/decrease (-) in cash and cash equivalents		**(260,778)**	**(1,021,403)**
Cash and cash equivalents at January 1		**4,122,750**	**5,016,659**
The impact of exchange rate variations on cash and cash equivalents		162	127,494
Cash and cash equivalents at December 31	**4**	**3,862,134**	**4,122,750**

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

Explanatory notes to the financial statements

1. GENERAL INFORMATION

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

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

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

The Bank operates through its head office located in Chisinau, 30 branches and 45 agencies (as at 31 December 2021), located throughout the country (30 branches and 57 agencies as at 31 December 2020).

The Bank’s number of active employees as at 31 December 2021 was of 1,055 (1,067 as at 31 December 2020).

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 2021 and 31 December 2020:

	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%);	Romania
					European Bank for Reconstruction and Development (EBRD) (38.18%); effective beneficiaries do not exist	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 2021, the composition of the Board of Administration of the Bank in exercise, selected at the ordinary General B.C.”Victoriabank” S.A. Shareholders’ Meeting as at the 24th of May 2019, is of the following members:

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

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

Explanatory notes to the financial statements

2. BASIS OF PREPARATION

2.1 Declaration of compliance

These financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS"). These financial statements were authorized for issue by the Board of Administation on 14 April 2022.

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 2021 year resulted from the potential effects of the economic turbulences (energy crisis, pro-inflationary pressure 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 2021, 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 considered susceptible to the effects of economic turbulences were classified in Stage 2. For the retail segment, post-model adjustments were applied in form of two standard deviations added to statistically estimated default rates, in order to capture the effects of uncertainties associated to this portfolio generated by the current economic turbulences.

The major factor which determined increase in expected credit losses in 2020 was the COVID-19 pandemic and the changes it generated in forward-looking information, the situation being also valid in 2021. Against this background, the management of the Bank applied its own judgments considering that a number of post-model adjustments are required to better reflect the associated risks and uncertainties in credit risk modeling. The post-model adjustments applied in 2020 to estimate the effects of the pandemic event were also maintained in 2021. As such, due to the uncertainties related to pandemic development, the weightings of macroeconomic scenarios used in 2021 have not changed as comparing to 2020. The exposures classified in Stage 2 as result of the individual analysis performed in 2020, were maintained in at least the same stage as it was determined at the time of the analysis performed in 2020.

In 2020-2021, the Bank's restructuring practices have been updated to pay special attention to customers affected by the COVID-19 pandemic. These practices include additional measures to ensure that COVID-19 concessions are fully complied with NBM decisions on moratorium operations, respectively it is considered that the operations will not automatically generate a tougher classification of exposures (should not be considered as an automatic trigger, but should be considered in correlation with other risk indicators), being expected that the Bank will develop and strengthen its own mechanisms to identify in early stages, increase of credit risk and unlikeliness to pay situation.

Due to the COVID-19 pandemic, financial markets have been highly volatile, creating short-term challenges in managing cash flows and also significant changes in market markings. 2021 year has brought new turbulences in the markets and interest rates volatility, determined by the increase of inflation rates in the last quarter, which might trigger adverse effects to the securities valuation. However, the Bank's trading portfolio, measured at fair value through other comprehensive income, which might be potentially affected by the volatility of interest rates of debt securities, is not significant (less than 1% of the total debt securities portfolio held by the Bank as of 31 December 2021).

The Bank has a very good liquidity position, so the market disruptions during this period did not have a significant impact on it.

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.

Please see Note 34 for other significant litigations.

Explanatory notes to the financial statements

2. BASIS OF PREPARATION (CONTINUED)

2.5 Reclassifications and restatements

In order to comply with the presentation method at December 31, 2021, the Bank reclassified the following items of profit or loss and other comprehensive income for the period ended December 31, 2020 as presented below:

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2020	**Previously reported**	**Reclassifications**	**Reclassified**
Fee and commission expense	(193,021)	4,490	(188,531)
Net fee and commission income	**193,039**	4,490	**197,529**
Other operating expenses	(172,656)	(4,490)	(177,146)
Total expenses	**(523,572)**	(4,490)	**(528,062)**
Profit for the year	**235,917**	-	**235,917**

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:

	2021		2020	
	USD	**EUR**	**USD**	**EUR**
Average for the period	17.6816	20.9255	17.3201	19.7436
The end of the year	17.7452	20.0938	17.2146	21.1266

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.

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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 2020 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 2021 and 2020.

(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.

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B.C. VICTORIABANK S.A.

Explanatory notes to the financial statements

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets and liabilities (continued)

Write-off (continued)

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

3.3 Interest income and expense

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

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

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

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

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

3.4 Fee and commission income

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

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

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

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

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

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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 2021 was 12% (2020 -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

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 2021 and 2020.

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 2021 and 2020.

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.

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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 2021 and 2020, 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.

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

The following new standards and interpretations came into force on 1 January 2021:

Reform of the interest rate benchmark - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

The amendment entered into force on 1 January 2021. Its application does not have a significant impact on the financial statements for 2021 or previous years.

3.29 New or reviewed standards and interpretations that will apply for periods beginning on or after 1 January 2022

The following new standards, as well as updates to existing standards, came into force for annual periods beginning after January 1, 2021 and may be applied earlier. The Bank has not adopted any of these new or amended standards in advance and is not expected to have a significant impact on the Bank's financial statements when these enter into force.

Amendments to IFRS 16 Leases COVID-19-Related Rent Concessions beyond 30 June 2021. (Effective for annual periods beginning on or after 1 April 2021. Earlier application is permitted, including in financial statements not authorized for issue at 31 March 2021)

The amendments extends by one year the application period of the optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee applies the amendments retrospectively and recognizes the cumulative effect of initially applying them in the opening retained earnings of the reporting period in which they are first applied.

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

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

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

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 Early application is permitted)

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.29 New or reviewed standards and interpretations that will apply for periods beginning on or after 1 January 2022 (continued)

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 Early application is permitted) (continued)

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 decommissioning liabilities.

For leases and decommissioning liabilities, the associated deferred tax assets and liabilities will need to be recognized from the beginning of the earliest comparative period presented, with any cumulative effect recognized 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 recognize a separate deferred tax asset and a deferred tax liability. There will be no impact on retained earnings on adoption of the amendments.

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.

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.

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.

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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 2022 (continued)

Annual Improvements to IFRS Standards 2018-2020. (Effective for annual periods beginning on or after 1 January 2022 Early application is permitted)

- **Amendment to IFRS 9 Financial Instruments**

The improvements clarify that, when assessing whether an exchange of debt instruments between an existing borrower and lender are on terms that are substantially different, the fees to include together with the discounted present value of the cash flows under the new terms include only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

- **Amendment to Illustrative Examples accompanying IFRS 16 Leases**

The improvements remove from illustrative Example 13 accompanying IFRS 16 reference to a reimbursement by the lessor to the lessee for leasehold improvements as well as an explanation of a lessee's accounting for such reimbursement.

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 2021	31 December 2020
Cash on hand and other values	1,060,112	1,839,952
Current account with National Bank of Moldova	5,600	229
Minimum reserve requirement in MDL	1,693,123	1,715,425
Minimum reserve requirement in foreign currency	1,536,118	1,453,448
Cash and balances with National Bank of Moldova	**4,294,953**	**5,009,054**
Balances with National Bank of Moldova, out of which:		
Gross value	3,238,031	3,172,232
Expected credit loss allowances	(3,190)	(3,130)
Total	**3,234,841**	**3,169,102**

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 2021 the reserving ratio from financial means attracted in MDL and NCC was 26.0%, and the reserving ratio from financial means attracted in FCC was 30.0% (31 December 2020: the reserving ratio from financial means attracted in MDL and NCC - 32%, 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 2021, the balance of "Nostro" account at the NBM amounts to 1,694,790 MDL'000 (31 December 2020: 1,717,118 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 21,609 USD'000 and 57,439 EUR'000 respectively (31 December 2020: 23,322 USD'000 and 49,861 EUR'000).

The remuneration interest on mandatory reserves paid by the NBM during 2021 for reserves in MDL increased from 0.15% to 4.5%. The interest rate applied to the remuneration of foreign currency reserves was maintained at a level of 0.01%. (2020: the interest rate decreased from 2.50% to 0.15% for reserves in MDL and was maintained at 0.01%, for reserves in foreign currency). At 31 December 2021 the accrued interest for reserves maintained in MDL was 5,606 MDL'000 and for those in convertible currencies: 10 MDL'000 (2020: 230 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 2021	31 December 2020
Cash on hand and other values	4	1,060,112	1,839,952
Current account with the NBM	4	5,600	229
Current accounts with other banks and overnight placement	5	1,851,043	1,324,238
Term placements with banks with maturity up to 3 months	5	88,610	51,616
Certificates issued by the NBM	6	767,847	898,460
State Securities, initial maturity less than 3 months	6	88,922	8,255
Cash and cash equivalents in the cash flow statement		**3,862,134**	**4,122,750**

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5. CURRENT ACCOUNTS AND PLACEMENTS WITH BANKS

In MDL thousand	31 December 2021	31 December 2020
Current accounts with other banks and overnight placements, out of which:	**1,851,043**	**1,324,238**
Gross value	1,852,497	1,325,265
Expected credit loss allowances	(1,454)	(1,027)
Term deposits-guarantees in banks, out of which:	**98,017**	**96,263**
Gross value	98,051	96,296
Expected credit loss allowances	(34)	(33)
Term placements with banks with maturity below 3 months, out of which (Note 4):	**88,610**	**51,616**
Gross value	88,743	51,665
Expected credit loss allowances	(133)	(49)
Term placements with banks due after 3 months, out of which:	**177,235**	**344,602**
Gross value	177,502	345,090
Expected credit loss allowances	(267)	(488)
Total	**2,214,905**	**1,816,719**

As at 31 December 2021 placements with banks include „NOSTRO" accounts and overnight deposits, which are included in the cash flow statement (Note 4), amounting to 1,851,043 MDL'000 (2020: 1,324,238 MDL'000).

The amount of 2,083,484 MDL'000 (2020: 1,696,394 MDL'000) are placed in the banks from OECD member countries, the amount of 131,421 MDL'000 (2020: 120,325 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 2021	31 December 2020
Rating from A to AA-	2,062,646	1,665,231
Rating from BBB to BBB+	93,615	102,852
Rating BBB- and lower	58,644	48,636
Total	**2,214,905**	**1,816,719**

In MDL thousand	31 December 2021	31 December 2020
Frozen Nostro account	**-**	**226,785**

As at 31 December 2020, the amount of USD 13,174 thousand, equivalent of MDL 226,785 thousand, was frozen on the Nostro correspondent account held of the Bank with Bank of New York Mellon. The seizure order was issued following the decision of the Court of the Charlotte division, North Carolina, USA no. 3:12 cv 519 of February 12, 2016. As result of this decision, on February 17, 2016, the amount of USD 13,174 thousand was seized. The US Court considered these funds might be owned by Rex Venture Group LLC.

Based on the consultations with lawyers and understanding of the risks associated to this case, on December 31, 2020, the Bank did not recognize any provision in respect of this case.

Considering this decision to be an arbitrary, abusive one, applied contrary to the norms of international judicial practice, which clearly and unfoundedly significantly infringes the legal rights of the Bank, the Bank initiated the judicial procedure to challenge the order and unblock the seized amount.

As a result of several legal actions and Court's decisions, the seizure of the account was lifted in February 2021.

However, in March 2021, the Bank noted that the same amount of USD 13,174 thousand had been blocked in the Nostro bank account held by the Bank in Bank of New York Mellon on the basis of another seizure order, the details of which were not disclosed to the Bank.

* 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.

5. CURRENT ACCOUNTS AND PLACEMENTS WITH BANKS (CONTINUED)

During March-April 2021, the Bank became aware of the existence of an administrative procedure initiated by the Department of Justice of the United States of America (USA) which led to the blocking and then debiting from Bank's account of the amount mentioned above. During May - November 2021, the Bank provided the requested information to the Department of Justice of USA and took the necessary legal proceedings.

As such, on November 30, 2021, the Bank was officially informed of the termination of administrative proceedings and the reimbursement of the funds to the Bank.

Following the reporting date, on February 24, 2022, checks in the name of the Bank were issued in the amount of USD 13,174 thousand, and on April 7, 2022 the respective amount was deposited in 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 restriction.

In the financial statements for the period ended December 31, 2021, this amount was presented as a receivable from the United States Treasury in the balance sheet position "Other financial assets". See Note 12.

6. INVESTMENT SECURITIES – DEBT INSTRUMENTS

In MDL thousand	**31 December 2021**	**31 December 2020**
Investment securities measured at amortized cost	4,613,811	3,555,397
Investment securities measured at FVOCI	17,924	16,800
Total	**4,631,735**	**3,572,197**

Investment securities measured at amortized cost – debt instruments

In MDL thousand	**31 December 2021**	**31 December 2020**
Certificates issued by the National Bank of Moldova	767,847	898,460
State securities included in cash and cash equivalents (Note 4)	88,922	8,255
State securities with initial maturity greater than three months	3,575,506	2,414,556
State securities issued by Romanian Government	181,536	191,802
Bonds issued by international funding organizations	-	42,324
Total	**4,613,811**	**3,555,397**
Gross value	4,660,255	3,587,013
Expected credit loss allowances	(46,444)	(31,616)

Investment securities measured at FVOCI – debt instruments

In MDL thousand	**31 December 2021**	**31 December 2020**
State securities	17,965	16,788
Changes in the fair value	(41)	12
Total	**17,924**	**16,800**

As at 31 December 2021, 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 2021 consist of 4,613,811 MDL'000 (2020: 3,555,397 MDL'000).

As at 31 December 2021 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" amounting to 17,924 MDL'000 (2020: 16,800 MDL'000).

The state securities in the Bank's portfolio as at 31 December 2021 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 5.0% and 9.6% (2020: 3.40% and 5.66%) 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 730-1827 days fixed or floating rate ranging between 4.96% and 7.21% (2020: 4.97% and 6.90%).

Certificates issued by the National Bank in the Bank's portfolio as at 31 December 2021 have an original maturity of 14 days at a rate of 6.5% (2020: 2.65%).

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6. INVESTMENT SECURITIES – DEBT INSTRUMENTS (CONTINUED)

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 5 years, and pay a fixed interest rate of 1%.

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

In MDL thousand **Investment securities measured at amortized cost – debt instruments**	**31 December 2021**	**31 December 2020**
Rating A-	-	42,324
Rating BBB-	181,536	191,802
Rating B-	4,432,275	3,321,271
Total	**4,613,811**	**3,555,397**

As of 31 December 2021, state securities in the amount of 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 2021			**31 December 2020**		
In MDL thousand	**Gross value**	**Expected credit loss allowances**	**Carrying Amount**	**Gross value**	**Expected credit loss allowances**	**Carrying Amount**
Corporate customers	2,385,907	(326,372)	2,059,535	2,374,048	(305,522)	2,068,526
Mortgage loans	1,360,080	(7,030)	1,353,050	1,214,450	(13,210)	1,201,240
Consumer loans	1,366,899	(116,236)	1,250,663	993,088	(82,603)	910,485
Total	**5,112,886**	**(449,638)**	**4,663,248**	**4,581,586**	**(401,335)**	**4,180,251**

Analysis of loan portfolio by economic sector as at 31 December 2021 and 31 December 2020 is presented below:

MDL thousand **Corporate customers**	**31 December 2021**	**31 December 2020**
Production and trade	776,888	828,717
Real estate	136,877	126,127
Farming and food industry	570,180	533,600
Consumer loans	26,717	25,171
Transport and road construction	27,643	33,977
Energy sector	65	223
Government	135,921	157,478
Others	711,616	668,755
Total	**2,385,907**	**2,374,048**

Effect of expected credit loss allowances on loans to customers during 2021 and 2020 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	**2021**	**2020**
Balance as at 1 January	**3,200**	**3,258**
Changes in the fair value	44	20
Additions	-	-
Disposals	-	(117)
Exchange rate movements	(37)	39
Balance as at 31 December	**3,207**	**3,200**

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8. EQUITY INVESTMENT SECURITIES DESIGNATED AT FVOCI (CONTINUED)

As of 31 December 2021, 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 2021 and 31 December 2020:

In MDL thousand	**Scope of business**	**Owned share 2021, %**	**31 December 2021**	**Owned share 2020, %**	**31 December 2020**
Biroul de Credit SRL	Data processing	18.19	2,038	16.67	2,038
S.W.I.F.T SCRL	International transfer	0.01	730	0.01	723
Bursa de Valori	Stock exchange	7.69	439	7.69	439
Total			**3,207**		**3,200**

As of 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 2020	**125,751**	**184,647**	**21,880**	**13,256**	**5,904**	**351,439**
Additions	-	6,359	-	-	67,741	**74,100**
Transfers	4,241	34,551	5,275	1,337	(45,404)	-
Reclassified as held for sale	-	-	(2,653)	-	-	(2,653)
Disposals (write-offs)	-	(12,697)	-	-	(885)	**(13,582)**
Balance at 31 December 2020	**129,992**	**212,860**	**24,502**	**14,593**	**27,356**	**409,304**
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**
Accumulated depreciation and impairment losses						
Balance at 1 January 2020	**49,496**	**130,221**	**10,595**	**12,154**	**-**	**202,467**
Depreciation for the year	3,312	17,202	3,121	612	-	**24,247**
Reclassified as held for sale	-	-	(2,653)	-	-	**(2,653)**
Disposals	-	(12,508)	-	-	-	**(12,508)**
Balance at 31 December 2020	**52,808**	**134,915**	**11,063**	**12,766**	**-**	**211,553**
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**
Carrying amounts						
Balance at 1 January 2020	**76,255**	**54,426**	**11,284**	**1,102**	**5,904**	**148,972**
Balance at 31 December 2020	**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**

As at 31 December 2021, the costs of property and equipment fully amortized and still used by the Bank amounted to 100,832 MDL’000 (31 December 2020: 107,028 MDL’000). As at 31 December 2021 tangible assets in amount of 57,152 MDL’000 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 2020	**132,828**	**2,832**	**135,660**
Additions	249	26,871	**27,120**
Transfers	13,174	(13,174)	**-**
Disposals	-	-	**-**
Balance at 31 December 2020	**146,251**	**16,529**	**162,780**
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**
Accumulated depreciation			
Balance at 1 January 2020	**70,864**	**-**	**70,864**
Depreciation for the year	12,739	-	**12,739**
Disposals	-	-	-
Balance at 31 December 2020	**83,603**	**-**	**83,603**
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**
Carrying amounts			
Balance at 1 January 2020	**61,964**	**2,832**	**64,796**
Balance at 31 December 2020	**62,648**	**16,529**	**79,176**
Balance at 31 December 2021	**72,032**	**7,412**	**79,445**

As at 31 December 2021, the cost of intangible assets fully amortized but still used by the Bank amounted to 21,829 MDL’000 (31 December 2020: 19,150 MDL'000). As at 31 December 2021 intangible assets have not been pledged as collateral.

11. LEASES

The Bank leases a number of offices for the bank’s branches. The leases typically run for a period of 1 - 7 years. The leases were classified as operating 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	2021	2020
Balance at 1 January	**90,156**	**89,923**
Additions	63,196	13,249
Disposals	(30,387)	(13,016)
Balance at 31 December	**122,965**	**90,156**
Accumulated depreciation		
Balance at 1 January	**43,998**	23,296
Depreciation charge for the year	32,124	29,036
Disposals	(18,404)	(8,334)
Balance at 31 December	**57,718**	**43,998**
Carrying amounts		
Balance at 1 January	**46,158**	**66,627**
Balance at 31 December	**65,247**	**46,158**

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11. LEASES (CONTINUED)

Maturity analysis – Contractual undiscounted cash flows

In MDL thousand	**2021**	**2020**
Less than one year	4,946	26,063
Between one and three years	25,875	21,792
Between three and five years	27,274	2,042
More than five years	6,562	-
Total undiscounted lease liabilities at 31 December	**64,657**	**49,897**

II. Amounts recognized in profit or loss

In MDL thousand

Leases under IFRS 16	**Note**	**2021**	**2020**
Interest expense on lease liabilities (included in interest expenses)	**23**	635	668
Expense relating to leases of low-value assets (included in other operating expenses)	**30**	1,606	2,071

III. Amounts recognized in statement of cash flow

In MDL thousand	**2021**	**2020**
Lease liabilities	**63,910**	**49,264**
Total cash outflow for leases	33,307	29,229

12. OTHER FINANCIAL ASSETS

In MDL thousand	**31 December 2021**	**31 December 2020**
Receivables related to administrative proceedings in the USA*	233,776	-
Receivables from international payment systems	11,948	13,455
Receivables from Visa and Mastercard	60,580	48,110
Other financial assets	71,923	91,942
Expected credit loss allowance for other financial assets	(37,079)	(43,777)
Total	**341,148**	**109,730**

Other financial assets of the Bank consist of receivables related to administrative proceedings in the USA, 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. As of December 31, 2020, 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.

  As a result of withdrawal by the US authorities of the bank's Nostro account and official information from the Bank regarding the lifting of restrictive measures and the initiation of refund procedures initiated in the last quarter of 2021, this amount is not in the bank's Nostro account and has no seizure applied as of December 31, 2021. For more details, see Note 5.

The evolution of allowances for expected credit losses of other financial assets during 2021 and 2020 financial years, is presented in Note 39.1.

13. OTHER ASSETS

In MDL thousand	31 December 2021	31 December 2020
Repossessed collaterals	105,225	233,670
Inventories	9,310	9,036
Advances to suppliers	16,200	21,203
Prepaid expenses	14,741	11,730
Impairment allowance for other non-financial assets	(101,508)	(203,717)
Total	**43,968**	**71,922**

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	2021	2020
Balance as at 1 January	**203,717**	**189,397**
Impairment charges / (release) (Note 28)	(41,865)	32,207
Disposals due to sales	(60,344)	(17,887)
Balance as at 31 December	**101,508**	**203,717**

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 2021	31 December 2020
Current income tax assets	411	37,296
Current income tax liability	(2,587)	(3,476)
Current income tax assets / (liabilities), net	**(2,176)**	**33,820**

15. OTHER BORROWINGS

In MDL thousand	31 December 2021	31 December 2020
Loans from the Ministry of Finance	68,871	25,467
Loans from international finance organizations	75,501	43,978
Total	**144,372**	**69,445**

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

In MDL thousand	2021	2020
Balance as at 1 January	69,445	47,289
Proceeds received	100,280	34,222
Payments	(21,883)	(16,528)
Liability-related:		
Interest expense (Note 21)	3,708	1,863
Interest paid	(2,906)	(1,608)
The effect of changes in foreign exchange rates	(4,272)	4,207
Balance as at 31 December	**144,372**	**69,445**

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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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).

A new EUR 5 million loan was signed with the EBRD in December 2021, a continuation of the EU4BUSINESS-Credit Line project.

In 2021, the interest rate on loans received ranged varied between 3.25% - 7.10% for MDL, 1.25% - 1.35% for USD, 0.15 - 3.50% 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 2021, 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. 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.

On 31 December 2021 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 and does not consider that IP OMEAP will request early repayment. 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 2021**	**31 December 2020**
“Loro” accounts from banks	69,400	69,402
Overnight deposits	1,400	3,900
Total	**70,800**	**73,302**

17. DEPOSITS FROM CUSTOMERS

Deposits from customers can be analyzed as follows:

In MDL thousand

Legal entities	**31 December 2021**	**31 December 2020**
Current accounts	4,771,488	4,281,288
Term deposits	395,823	361,824
Total	**5,167,311**	**4,643,112**
Individuals	**31 December 2021**	**31 December 2020**
Current accounts	4,049,732	3,646,584
Term deposits	3,591,346	3,667,530
Total	**7,641,078**	**7,314,114**
Deposits from customers	**12,808,389**	**11,957,226**

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17. DEPOSITS FROM CUSTOMERS (CONTINUED)

Analysis of the deposits from customers by economic sector as at 31 December 2021 and 31 December 2020 is presented below:

Legal entities, *MDL thousand*	**31 December 2021**	**31 December 2020**
Production and trade	1,638,100	1,374,971
Services	703,930	629,622
Manufacturing and processing	560,304	549,170
Constructions	474,756	430,486
Real estate	404,995	405,584
Transportation	298,702	313,114
Financial services	209,234	224,567
Health	250,571	215,050
Agriculture	92,172	50,318
Government/Public Administrations	10,391	6,755
Energy sector	1,257	31
Others	522,899	443,445
Total	**5,167,311**	**4,643,112**

18. PROVISIONS FOR OTHER RISKS AND LOAN COMMITMENTS

In MDL thousand	**31 December 2021**	**31 December 2020**
Provisions for loan commitments, financial guarantees	15,710	16,768
Litigation provisions	2,314	2,412
Total	**18,024**	**19,180**

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

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

	2021	**2020**
Balance at 1 January	**2,412**	**136,029**
Provisions made during the year	-	3,637
Provisions reversed during the year	(98)	(135,440)
Provisions used during the year	-	-
Foreign exchange losses	-	(1,814)
Balance at 31 December	**2,314**	**2,412**

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 2021**	**31 December 2020**
Deferred income tax assets	3,914	3,974
Deferred income tax liabilities	(3,483)	(3,470)
Deferred tax assets / (liabilities), net	**432**	**504**

19. DEFERRED TAX BALANCES (CONTINUED)

Movement in deferred tax balances is presented below:

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**

In MDL thousand	31 December 2019	Recognized in profit and loss	Recognized in other items of comprehensive income	31 December 2020
Property and equipment	(2,772)	(698)	-	(3,470)
Provisions for litigations	16,324	(16,035)	-	289
Accrual for untaken holidays	1,311	99	-	1,410
Accrual for other employee benefits	2,304	(29)	-	2,275
Deferred tax assets / (liabilities)	**17,167**	**(16,663)**	**-**	**504**

20. OTHER FINANCIAL LIABILITIES

In MDL thousand	31 December 2021	31 December 2020
Creditors regarding documentary transactions	-	828
Amounts pending for customers instructions	72,681	90,297
Bank cards operations	19,365	17,463
Non-interest-bearing calculated expenses	19,298	15,702
Payments collected for transfer according to the destination	6,067	6,544
Suspense amounts	1,628	1,351
Settlements with the brokers	4,301	6,653
Settlements for the sales of other assets	-	573
Settlements related to intangible assets	1,616	4,409
Dividends payable	-	25
Accruals for untaken holidays	10,531	11,751
Accruals for other employee benefits	19,735	18,957
Other financial liabilities	65,563	36,436
Total	**220,785**	**210,989**

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

21. OTHER LIABILITIES

In MDL thousand	31 December 2021	31 December 2020
Other settlements with the state budget	8,640	10,173
Other non-financial liabilities	9,464	15,786
Total	**18,104**	**25,959**

22. CAPITAL AND RESERVES

a. Share capital

During the year 2021, there were no changes to the Bank's share capital amounting to MDL 250,000,910 as at 31 December 2021 and 31 December 2020, 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 2021 the Bank has a total of 177 shareholders - individuals and legal entities (31 December 2020: 171 shareholders), among which:

	31 December 2021	31 December 2020
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:	**172 persons**	**166 persons**
Legal entities	9	9
Individuals	163	157

	31 December 2021, %	31 December 2020, %
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 from time to time 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.

a. 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 2021, the above-mentioned difference decreased from the balance reflected in the general reserve account for bank risks of 31 December 2020. Thus, the amount of 114,902 MDL'000 was returned in the retained earnings.

b. 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.

c. 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	2021	2020
Interest income calculated using the effective interest method		
Loans to customers*	360,414	347,004
Current accounts and placements held with NBM, other banks	22,067	24,174
Investment securities at amortized cost	214,003	171,556
Investment securities at FVOCI	1,242	941
Total interest income	**597,726**	**543,675**

*The interest income on impaired loans for the year ended 31 December 2021 amounted 21,935 MDL'000 (2020: 35,879 MDL'000).

In MDL thousand	2021	2020
Interest expense		
Deposits from customers	(144,261)	(146,208)
Current accounts with banks	(6,027)	(7,072)
Deposits from banks	(187)	(70)
Other borrowings	(3,708)	(1,863)
Operational leasing	(635)	(668)
Total interest expense	**(154,818)**	**(155,881)**
Net interest income	**442,908**	**387,794**

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	2021	2020
Financial assets measured at amortized cost	596,484	542,680
Financial assets measured at FVOCI	1,242	995
Total	**597,726**	**543,675**
Financial liabilities measured at amortized cost	**(154,818)**	**(155,881)**

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	2021	2020 reclassified*
Fee and commissions income		
Bank cards operation	289,801	207,683
Transactions with customers	152,960	127,638
Clearing operations	24,684	24,994
Currency exchange operations	1,239	3,755
Commission for release of guarantees	3,521	2,617
Brokerage fees	479	541
Lending activity	726	652
Other commissions income	18,510	18,180
Total fee and commissions income	**491,920**	**386,060**

24. NET FEE AND COMMISSION INCOME (CONTINUED)

Fee and commissions expenses	2021	2020 reclassified*
Commissions for card services	(216,960)	(145,833)
Payment transactions	(11,585)	(9,037)
Commissions upon cash withdrawal and depositing	(23,121)	(33,578)
Other commissions related to borrowings	(119)	(84)
Total fee and commissions expenses	**(251,785)**	**(188,532)**
Net fee and commission income	**240,135**	**197,528**

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

* See Note 2.5 Reclassifications and restatements.

25. NET TRADING INCOME

In MDL thousand	2021	2020
Net income from foreign exchange transactions	146,279	186,224
Losses from the revaluation of foreign currency assets and liabilities	2,236	(8,311)
Dividends on equity investments measured at FVOCI	541	677
Other financial income	223	200
Total	**149,279**	**178,790**

26. OTHER OPERATING INCOME

In MDL thousand	2021	2020
Other operating income	14,494	10,388
Fines and penalties received	3,184	6,492
Other income	5,606	3,038
Total	**23,284**	**19,918**

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 2021 and 2020 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	2021	2020
Cash and balances with the National Bank of Moldova	(100)	448
Current accounts and placements with banks	(322)	1,320
Debt securities at amortized cost	(14,892)	(8,812)
Debt securities at FVOCI	(15)	(30)
Loans to customers at amortized cost	(24,097)	(112,805)
Receivables from sales of collaterals	5,311	7,437
Other financial assets	(4,242)	(1,156)
Loan commitments and financial guarantee contracts	935	(11,734)
Total	**(37,422)**	**(125,332)**

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

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

In MDL thousand	**2021**	**2020**
Property and equipment, inventories	-	3
Repossessed collaterals	41,865	(32,207)
Total	**41,865**	**(32,204)**

29. PERSONNEL EXPENSES

In MDL thousand	**2021**	**2020**
Salaries and bonuses	(206,869)	(193,874)
Social insurance and contributions	(51,624)	(34,854)
Medical contributions	-	(9,823)
Net expenses with accruals for untaken holidays and other accruals	(2,743)	(713)
Other staff expenses (other payments, meal vouchers)	(17,200)	(19,898)
Total	**(278,437)**	**(259,161)**

The average monthly number of employees active in the Bank during 2021 was 1,046 people (in 2020 was 1,088).

The Bank's expenses related to the share-based payments are included in the salaries and bonuses and amounted to MDL 1,373 thousand in 2021 (2020: MDL 864 thousand). The related contributions were MDL 330 thousand in 2021 and MDL 57 thousand in 2020.

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 2021 related to SSP 2020:

- Achievement of performance and prudential indicators during 2020;
- 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 (15 June 2020) and when exercising such right (starting from June 2021);

Contractual vesting period for the shares granted for the year 2020 through SSP:

- Release after 1 June 2020;
- Deferral period for the identified personnel – 3 - 5 years, subject to applicable restrictions, pursuant to internal regulations in force.

As at 31 December 2021 the Bank accrued MDL 1,480 thousand for SSP expected to vest in 2022 and MDL 71 thousand of related taxes and contributions (as 31 December 2020 MDL 830 thousand for SSP expected to vest in 2021 and MDL 40 thousand of related taxes and contributions).

The total deferred variable remuneration as 31 December 2021, for SSP expected to vest after 31 December 2022 is estimated at MDL 3,666 thousand and MDL 176 thousand of related contributions.

30. OTHER OPERATING EXPENSES

In MDL thousand	2021	2020 reclassified*
Utilities and rent	(7,685)	(8,313)
Repairs and maintenance expenses	(14,139)	(13,163)
Contribution to the Bank Deposit Guarantee Fund and Resolution Fund	(33,328)	(18,976)
Security and protection	(5,583)	(6,327)
Advertising, marketing, entertainment and sponsorship expenses	(13,107)	(12,485)
Expenses for maintaining intangible assets	(34,871)	(30,279)
Mail, telecommunication and SMS traffic expenses	(10,606)	(9,220)
Stationery and supplies	(2,543)	(2,710)
Audit, advisory and legal expenses	(18,576)	(21,875)
Training	(1,896)	(1,128)
Travel and transportation	(712)	(370)
Expenses related to the disposal of other assets	(1,892)	(6,211)
Taxes and penalties	(710)	(5,299)
Success fees for insolvency administrators	(2,882)	(4,489)
Other operating expenses	(36,556)	(36,300)
Total	**(185,086)**	**(177,145)**

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

* See Note 2.5 Reclassifications and restatements.

31. DEPRECIATION

In MDL thousand	2021	2020
Property and equipment (Note 9)	(31,559)	(24,247)
Right-of-use assets (Note 11)	(32,125)	(29,036)
Intangible assets (Note 10)	(13,082)	(12,739)
Total	**(76,765)**	**(66,022)**

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 2021	31 December 2020
Current tax		
Current tax expenses	(41,589)	(3,389)
Deferred tax		
Deferred tax (expenses) / income	(39)	(16,663)
Total income tax expenses recognized during the year	**(41,628)**	**(20,052)**

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

32. INCOME TAX EXPENSES (CONTINUED)

Income tax expenses reconciles to profit before tax as follows:

In MDL thousand		2021		2020
Profit before tax		**319,859**		**255,969**
Tax using the Bank's domestic tax rate	12.00%	(38,383)	12.00%	(30,716)
Tax effect of non-deductible expenses	1.04%	(3,335)	1.36%	(3,470)
Tax-exempt income	(0.03%)	90	(5.52%)	14,134
Income tax expense recognized in profit and loss account	13.01%	**(41,628)**	7.83%	**(20,052)**

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 2021	31 December 2020
Current income tax		
Current tax	-	-
Deferred income tax		
Change in fair value of debt investment securities designated at FVOCI	5	-
Change in fair value of equity investments securities designated at FVOCI	(38)	-
Total income tax recognized in other comprehensive income	**(33)**	**-**

33. GUARANTEES AND OTHER FINANCIAL COMMITMENTS

The cumulated amounts of guarantees in balance and other off balance sheet elements as at 31 December 2021 and 2020:

In MDL thousand	31 December 2021	31 December 2020
Letters of credit	-	828
Issued guarantees	83,976	121,467
Commitments to issue guarantees	79,975	58,932
Loan commitments	533,010	369,039
Total	**696,961**	**550,267**

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 2021 and as of 31 December 2020. 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.

34. CONTINGENT LIABILITIES AND LITIGATIONS (CONTINUED)

As detailed in Note 5, as of December 31, 2020, the Bank was involved in a dispute that resulted in the blocking of USD 13,174 thousand in the Bank's correspondent account with the Bank of New York Mellon. During 2021 the same amount was part of an administrative procedure initiated by the United States Department of Justice. However, on November 30, 2021, the Bank was officially informed regarding the termination of the administrative proceedings and the reimbursement of the funds to the Bank. On April 7, 2022, the respective amount was registered in the Nostro account held by the Bank at Bank of New York Mellon, being at the Bank's disposal and free from any restrictions.

The Bank is also involved as defendant in a number of other litigations as at 31 December 2021 and 31 December 2020, emerged from normal banking activities.

35. BASIC EARNINGS PER SHARE

MDL thousand	**31 December 2021**	**31 December 2020**
Profit for the year	278,231	235,917
The number of ordinary shares	25,000,091	25,000,091
Basic earnings per share	**11.13**	**9.44**

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 2021 and as at 31 December 2020 was based on the number of outstanding shares during the period, this number being unmodified – 25,000,091 – since 2011.

As at 31 December 2021 and 2020 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, 2021 and December 31, 2020, 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, 2021 and comparative data for 2020:

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**

Reportable segments as of December 31, 2020

MDL thousand	**Corporate**	**SME**	**Individuals**	**Treasury**	**Others**	**Total**
Loans to customers	1,863,682	510,404	2,207,500	-	-	**4,581,586**
Expected credit loss allowances	*(273,021)*	*(32,501)*	*(95,812)*	-	-	*(401,335)*
Current accounts and placements with NBM and banks	-	-	-	5,212,606	-	**5,212,606**
Debt and equity instruments	-	-	-	3,575,397	-	**3,575,397**
Other assets	13,720	14,807	5,571	-	2,344,915	**2,379,013**
Total assets	**1,604,380**	**492,710**	**2,117,259**	**8,788,003**	**2,344,915**	**15,347,267**
Deposits from banks	-	-	-	73,302	-	**73,302**
Deposits from customers	2,610,639	2,032,473	7,314,114	-	-	**11,957,226**
Other borrowings	43,978	25,468	-	-	-	**69,445**
Provisions for other risks and loan commitments	12,386	3,016	1,367	-	2,412	**19,180**
Other liabilities	-	-	-	-	286,212	**286,212**
Total liabilities	**2,667,003**	**2,060,956**	**7,315,481**	**73,302**	**288,624**	**12,405,366**
Equity	-	-	-	-	2,941,901	**2,941,901**
Total liabilities and equity	**2,667,003**	**2,060,956**	**7,315,481**	**73,302**	**3,230,525**	**15,347,267**

36. SEGMENT REPORTING (CONTINUED)

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 / litigations and income tax	**52,442**	**23,523**	**79,453**	**159,900**	**315,318**

Reportable segments as of December 31, 2020

MDL thousand	Corporate	SME	Individuals	Treasury	Total
Net interest income	58,389	48,226	176,647	104,533	**387,795**
Net commission income	35,974	33,715	124,081	3,758	**197,528**
Net trading income	40,471	20,682	23,785	93,851	**178,789**
Other operating income	7,229	3,535	8,315	840	**19,919**
Total income	**142,063**	**106,158**	**332,828**	**202,982**	**784,031**
Personnel expenses	(48,434)	(42,889)	(133,686)	(34,152)	**(259,161)**
Other operating expenses	(43,427)	(38,620)	(132,223)	(28,898)	**(243,168)**
Total expenses	**(91,861)**	**(81,509)**	**(265,909)**	**(63,050)**	**(502,329)**
Operating income before net impairment expenses, provisions for contingent liabilities/litigation and income tax	**50,202**	**24,649**	**66,919**	**139,932**	**281,702**

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.

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 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		**11,854,244**	**11,559,365**	**-**	**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 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 2020:

31 December 2020		**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**	1,816,719	1,816,719	-	1,816,719	-
Frozen Nostro account	**5**	226,785	226,785	-	-	226,785
Financial assets measured at amortized cost – debt instruments	**6**	3,555,397	3,581,990	-	3,581,990	-
Debt securities at fair value through other comprehensive income	**6**	16,800	16,800	-	16,800	-
Equity securities at fair value through other comprehensive	**8**	3,200	3,200	-	-	3,200
Loans to customers	**7**	4,180,251	4,165,195	-	-	4,165,195
Other financial assets	**12**	109,730	109,730	-	-	109,730
Total		**9,908,882**	**9,920,419**	**-**	**5,415,509**	**4,504,910**
Financial liabilities						
Deposits from banks	**15**	73,302	73,302	-	73,302	-
Deposits from customers	**16**	11,957,226	11,893,210	-	7,740,633	4,152,577
Other borrowings	**14**	69,445	69,445	-		69,445
Other financial liabilities	**19**	210,989	210,989	-	-	210,989
Total		**12,310,962**	**12,246,946**	**-**	**7,813,935**	**4,433,011**

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.

* 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.

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 2021 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:

In MDL thousand	2021 Shareholders > 1 %	2021 Key-management personnel	2021 Other related parties	2021 Total	2020 Shareholders > 1 %	2020 Key-management personnel	2020 Other related parties	2020 Total
Balance								
Current accounts to banks	36,506	-	-	**36,506**	34,251	-	-	**34,251**
Loans to customers	-	1,685	105,100	**106,785**	-	308	48,993	**49,301**
Deposits from customers	13,126	4,869	29,781	**47,776**	16,179	3,628	23,702	**43,509**
Commitments								
Given loan commitments and financial guarantees	-	260	45	**305**	-	462	1	**463**
Income and expenses								
Interest income	46	108	2,545	**2,699**	31	30	2,023	**2,084**
Fee and commissions income	41	21	237	**299**	141	30	364	**535**
Interest expenses	(2,565)	(14)	(16)	**(2,595)**	(2,082)	(9)	(25)	**(2,116)**
Fee and commissions expenses	(213)	-	-	**(213)**	(159)	-	-	**(159)**

Remuneration of Administration

The total amount of remuneration expenses for executive management was MDL’000 21,977 for the year 2021 (2020: MDL’000 19,441). The amount of expenses for the remuneration of the Board of Administration was MDL’000 7,584 for the year 2021 (2020: MDL’000 6,171).

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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.

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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 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.

In 2020, certain categories of individuals and legal persons had the opportunity to request the postponement of the payment of installments due up to 3 months, but not more than June 30, 2020 for legal persons and up to 4 months, but not more than 31 July 2020 for individuals. Thus, during 2020, over 2,034 debtors (1,995 individuals and 39 legal entities) benefited from the deferral of installments amounting to MDL 727,361 thousand (at the date of the requests for moratorium on payments). Following the moratorium period, the payments of 53 loans were restructured, the exposure of which at the time of requesting the restructuring was MDL 407,570 thousand.

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.

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:

Baseline scenario	**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

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit Risk (continued)

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

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

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 table below lists the macroeconomic assumptions over the three-year period, used as an input into expected credit losses as at 31 December 2020:

Baseline	**2021**	**2022**	**2023**
Gross domestic product, %	8.4	8.8	8.5
Average monthly consumption expenditure per person (%, YoY)	8.2	7.5	7.1
Gross salary, nominal, %	8.3	8.5	8.1
Unemployment rate, %	4.8	3.9	3.8
Inflation, %	4.8	4.3	4.0
Price of construction assembly works (%)	8.3	8.7	8.3
Interest rate on new loans granted, national currency, %	7.8	7.3	6.5
Interest rate on new loans granted, foreign currency, %	3.6	4.2	4.6
Interest rate on newly attracted deposits, national currency, %	3.3	4.2	4.9
Interest rate on newly attracted deposits, foreign currency, %	0.8	1.0	1.2
Base rate, %	2.9	3.6	4.0

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit Risk (continued)

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

Optimistic scenario	**2021**	**2022**	**2023**
Gross domestic product, %	8.9	9.2	9.4
Average monthly consumption expenditure per person (%, YoY)	8.2	7.8	7.4
Gross salary, nominal, %	9.1	9.4	9.6
Unemployment rate, %	4.0	3.0	3.0
Inflation, %	2.3	3.5	3.5
Price of construction assembly works (%)	9.1	9.4	9.6
Interest rate on new loans granted, national currency, %	6.9	6.5	6.0
Interest rate on new loans granted, foreign currency, %	3.4	4.0	4.4
Interest rate on newly attracted deposits, national currency, %	2.4	3.4	4.4
Interest rate on newly attracted deposits, foreign currency, %	0.6	0.8	1.1
Base rate, %	2.0	2.8	3.5

Pessimistic scenario	**2021**	**2022**	**2023**
Gross domestic product, %	6.8	6.2	6.2
Average monthly consumption expenditure per person (%, YoY)	7.7	7.1	6.7
Gross salary, nominal, %	7.0	6.3	6.3
Unemployment rate, %	5.4	5.5	5.6
Inflation, %	5.9	5.1	4.2
Price of construction assembly works (%)	6.9	6.3	6.3
Interest rate on new loans granted, national currency, %	8.9	8.0	6.7
Interest rate on new loans granted, foreign currency, %	3.9	4.4	4.6
Interest rate on newly attracted deposits, national currency, %	4.4	5.0	5.1
Interest rate on newly attracted deposits, foreign currency, %	1.1	1.2	1.3
Base rate, %	4.0	4.4	4.2

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 2021 compared to 31 December 2020.

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

For loans granted to individuals:

- Average monthly consumption expenditures per person;
- The price of construction and assembly works;
- Annual inflation rate;
- Gross domestic product;
- Unemployment rate;
- Interest rate on newly attracted deposits, foreign currency.

For loans granted to legal entities:

- Annual inflation rate;
- Exchange rate EUR against MDL.

The table below illustrates the impact of setting maximum weights for each scenario:

Weight of scenarios	100% pessimistic	100% baseline	100% optimistic
Change in ECL, *MDL thousand*	4,008	(3,547)	(5,222)

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39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit Risk (continued)

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

Incorporating forward-looking information (continued)

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.

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.

The following table sets out information about the credit quality of financial assets measured at amortized cost and debt investments measured through FVOCI. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

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39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit Risk (continued)

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

Credit quality analysis depending on the class of financial assets

				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**

				31 December 2020
In MDL thousand	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and Balances with National Bank of Moldova	5,012,184	-	-	5,012,184
Current accounts and placements with banks	1,818,316	-	-	1,818,316
Frozen Nostro account	226,785	-	-	226,785
Investment securities measured at amortized cost	3,587,013	-	-	3,587,013
Investment securities measured at FVOCI	16,800	-	-	16,800
Loans to customers	3,137,742	732,169	711,675	4,581,586
Other financial assets	79,883	193	73,431	153,507
Expected credit loss allowance for financial assets	*(104,177)*	*(40,284)*	*(337,199)*	*(481,660)*
Carrying amount	**13,774,546**	**692,078**	**447,907**	**14,914,531**

B.C. VICTORIABANK S.A.

Explanatory notes to the financial statements

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit Risk (continued)

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

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

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**
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**

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

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Explanatory notes to the financial statements

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**
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**

31 December 2020

In MDL thousand	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and Balances with National Bank of Moldova				
Current	5,012,184	-	-	5,012,184
Overdue ≤ 30 days	-	-	-	-
Overdue > 30 days ≤ 90 days	-	-	-	-
Overdue > 90 days	-	-	-	-
Loss allowance	(3,130)			(3,130)
Carrying amount	**5,009,054**	**-**	**-**	**5,009,054**
Current accounts and placements with banks				
Current	1,818,316	-	-	1,818,316
Overdue ≤ 30 days	-	-	-	-
Overdue > 30 days ≤ 90 days	-	-	-	-
Overdue > 90 days	-	-	-	-
Loss allowance	(1,597)	-	-	(1,597)
Carrying amount	**1,816,719**	-	-	**1,816,719**
Frozen Nostro account				
Restricted	226,785	-	-	226,785
Overdue ≤ 30 days	-	-	-	-
Overdue > 30 days ≤ 90 days	-	-	-	-
Overdue > 90 days	-	-	-	-
Carrying amount	**226,785**	**-**	**-**	**226,785**

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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 2020

In MDL thousand	Stage 1	Stage 2	Stage 3	Total
Investment securities measured at amortized cost				
Current	3,587,013			3,587,013
Overdue ≤ 30 days	-	-	-	-
Overdue > 30 days ≤ 90 days	-	-	-	-
Overdue > 90 days	-	-	-	-
Loss allowance	(31,616)	-	-	(31,616)
Carrying amount	**3,555,397**	-	-	**3,555,397**
Investment securities measured at FVOCI				
Current	16,800	-	-	16,800
Overdue ≤ 30 days	-	-	-	-
Overdue > 30 days ≤ 90 days	-	-	-	-
Overdue > 90 days	-	-	-	-
Loss allowance	(205)	-	-	(205)
Carrying amount	**16,595**	**-**	**-**	**16,595**
Loans to customers				
Current	3,041,015	685,665	22,150	3,748,830
Overdue ≤ 30 days	96,710	20,918	29,582	147,210
Overdue > 30 days ≤ 90 days	17	25,586	13,660	39,263
Overdue > 90 days	-	-	646,283	646,283
Loss allowance	(65,919)	(40,284)	(295,132)	(401,335)
Carrying amount	**3,071,823**	**691,885**	**416,543**	**4,180,251**
Other financial assets				
Current				
Overdue ≤ 30 days	79,883	-	11,300	91,183
Overdue > 30 days ≤ 90 days	-	193	-	193
Overdue > 90 days	-	-	-	-
Loss allowance	-	-	62,131	62,131
Carrying amount	(1,710)	-	(42,067)	(43,777)
	78,173	**193**	**31,364**	**109,730**

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 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**

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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 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**

31 December 2020

In MDL thousand	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Current accounts and placements with banks				
Standard	1,666,211	-	-	1,666,211
Supervised (Watch)	102,987	-	-	102,987
Substandard	42,578	-	-	42,578
Doubtful	6,540	-	-	6,540
Compromised (losses)	-	-	-	-
Loss allowance	(1,597)			(1,597)
Carrying amount	**1,816,719**	**-**	**-**	**1,816,719**

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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 2020

In MDL thousand	Stage 1	Stage 2	Stage 3	Total
Frozen Nostro account				
Standard	226,785	-	-	226,785
Supervised (Watch)	-	-	-	-
Substandard	-	-	-	-
Doubtful	-	-	-	-
Compromised (losses)	-	-	-	-
Loss allowance	-	-	-	-
Carrying amount	**226,785**	-	-	**226,785**
Investment securities measured at amortized cost				
Standard	3,351,598	-	-	3,351,598
Supervised (Watch)	235,415	-	-	235,415
Substandard	-	-	-	-
Doubtful	-	-	-	-
Compromised (losses)	-	-	-	-
Loss allowance	(31,616)	-	-	(31,616)
Carrying amount	**3,555,397**	-	-	**3,555,397**
Loans to customers				
Standard	2,783,660	177,989	8,885	2,970,534
Supervised (Watch)	353,757	522,848	6,484	883,089
Substandard	293	31,332	13,319	44,944
Doubtful	-	-	142,757	142,757
Compromised (losses)	32	-	540,230	540,262
Loss allowance	(65,919)	(40,284)	(295,132)	(401,335)
Carrying amount	**3,071,823**	**691,885**	**416,543**	**4,180,251**
Other financial assets				
Standard	75,847	-	-	75,847
Supervised (Watch)	4,026	-	-	4,025
Substandard	11	193	2,070	2,274
Doubtful	-	-	2,856	2,856
Compromised (losses)	-	-	58,505	68,505
Loss allowance	(1,710)	-	(42,067)	(43,777)
Carrying amount	**78,183**	**193**	**31,364**	**109,730**

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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	**2021**	**2020**
Cash and Balances with National Bank of Moldova		
Balance at 1 January	3,130	3,491
Net remeasurement of loss allowance	100	(448)
Other adjustments (including exchange rate influence)	(41)	87
Balance at 31 December	**3,189**	**3,130**
Current accounts and placements with banks		
Balance at 1 January	1,597	2,809
Net change due to changes without recognition	590	(1,372)
Increases due to initiation and acquisition	852	1,951
Decreases due to derecognition	(1,120)	(1,899)
Other adjustments (including exchange rate influence)	(32)	108
Balance at 31 December	**1,887**	**1,597**
Investment securities measured at amortized cost		
Balance at 1 January	31,616	22,689
Net change due to changes without recognition	2,497	(452)
Increases due to initiation and acquisition	73,160	75,947
Decreases due to derecognition	(60,766)	(66,682)
Other adjustments (including exchange rate influence)	(63)	114
Balance at 31 December	**46,444**	**31,616**
Investment securities measured at FVOCI		
Balance at 1 January	206	176
Net change due to changes without recognition	(502)	(19)
Increases due to initiation and acquisition	935	220
Decreases due to derecognition	(418)	(172)
Other adjustments (including exchange rate influence)	-	-
Balance at 31 December	**220**	**205**

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit Risk (continued)

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

	31 December 2021				31 December 2020			
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	65,919	40,284	295,132	401,335	45,165	12,373	253,645	311,184
Transfer to Stage 1	11,812	(4,081)	(7,731)	-	2,582	(1,610)	(972)	-
Transfer to Stage 2	(3,672)	4,617	(945)	-	(8,738)	9,909	(1,171)	-
Transfer to Stage 3	(1,244)	(2,230)	3,474	-	(562)	(4,865)	5,427	-
Net remeasurement of loss allowance	(45,742)	16,662	48,391	19,311	491	24,249	190,610	215,350
New financial assets originated or purchased	68,311	-	-	68,311	33,508	-	-	33,508
Financial assets that have been derecognized	(11,534)	(3,746)	(6,198)	(21,478)	(5,728)	(610)	(66,198)	(72,536)
Write-offs	-	-	(11,177)	(11,177)	-	-	(96,708)	(96,708)
Foreign exchange and other movements	(498)	(1,356)	(4,811)	(6,664)	(799)	838	10,499	10,537
Balance at 31 December	**83,352**	**50,151**	**316,135**	**449,638**	**65,919**	**40,284**	**295,132**	**401,335**

	31 December 2021				31 December 2020			
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	30,657	3,937	61,219	95,813	5,364	818	17,731	23,913
Transfer to Stage 1	9,072	(1,564)	(7,508)	-	1,150	(225)	(925)	-
Transfer to Stage 2	(339)	1,141	(802)	-	(97)	1,237	(1,140)	-
Transfer to Stage 3	(1,103)	(1,589)	2,692	-	(303)	(399)	702	-
Net remeasurement of loss allowance	(8,218)	3,760	24,772	20,314	22,802	2,682	52,990	78,474
New financial assets originated or purchased	33,245	-	-	33,245	5,804	-	-	5,804
Financial assets that have been derecognized	(8,824)	(327)	(5,916)	(15,067)	(826)	(236)	(3,923)	(4,985)
Write-offs	-	-	(11,175)	(11,175)	-	-	(3,674)	(3,674)
Foreign exchange and other movements	(39)	-	175	136	(3,237)	60	(542)	(3,719)
Balance at 31 December	**54,451**	**5,358**	**63,457**	**123,266**	**30,657**	**3,937**	**61,219**	**95,813**

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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 2021				31 December 2020			
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	35,261	36,346	233,915	305,522	39,802	11,555	235,914	287,271
Transfer to Stage 1	2,740	(2,517)	(223)	-	1,432	(1,385)	(47)	-
Transfer to Stage 2	(3,333)	3,476	(143)	-	(8,641)	8,672	(31)	-
Transfer to Stage 3	(141)	(641)	782	-	(259)	(4,466)	4,725	-
Net remeasurement of loss allowance	(37,525)	12,902	23,617	(1,006)	(22,314)	21,566	137,623	136,875
New financial assets originated or purchased	35,067	-	-	35,067	27,705	-	-	27,705
Financial assets that have been derecognized	(2,710)	(3,418)	(282)	(6,410)	(4,902)	(374)	(62,276)	(67,552)
Write-offs	-	-	(2)	(2)	-	-	(93,034)	(93,034)
Foreign exchange and other movements	(458)	(1,355)	(4,986)	(6,799)	2,438	778	11,041	14,257
Balance at 31 December	**28,901**	**44,793**	**252,678**	**326,372**	**35,261**	**36,346**	**233,915**	**305,522**

	31 December 2021				31 December 2020			
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	12	-	30,780	30,792	11	213	39,216	39,440
Transfer to Stage 1	-	-	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-	-	-
Transfer to Stage 3	(12)	-	12	-	(5)	(211)	216	-
Net remeasurement of loss allowance	-	40	(3,669)	(3,629)	(804)	(2)	(6,561)	(7,367)
New financial assets originated or purchased	-	-	-	-	-	-	-	-
Financial assets that have been derecognized	-	(16)	(1,666)	(1,682)	-	-	(70)	(70)
Write-offs	-	(24)	(4,746)	(4,770)	-	-	-	-
Foreign exchange and other movements	-	-	(405)	(405)	810	-	(2,021)	(1,211)
Balance at 31 December	**-**	**-**	**20,305**	**20,305**	**12**	**-**	**30,780**	**30,792**

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit Risk (continued)

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

In MDL thousand	31 December 2021	31 December 2020
Other financial assets – other receivables		
Balance at 1 January	12,985	14,963
Net remeasurement of loss allowance	5,428	5,204
New financial assets originated or purchased	3,539	2,131
Financial assets that have been derecognized	(4,704)	(6,171)
Write-offs	(411)	(34)
Foreign exchange and other movements	(66)	(3,108)
Balance at 31 December	**16,773**	**12,985**

In MDL thousand	31 December 2021	31 December 2020
Loan commitments and financial guarantee contracts		
Balance at 1 January	16,768	4,599
Net remeasurement of loss allowance	(21,725)	5,384
New financial assets originated or purchased	29,313	11,241
Financial assets that have been derecognized	(8,523)	(4,891)
Foreign exchange and other movements	(124)	435
Balance at 31 December	**15,710**	**16,768**

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Explanatory notes to the financial statements

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit Risk (continued)

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

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.

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**

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Explanatory notes to the financial statements

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit Risk (continued)

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

	2020								
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	(448)	(3,271)	(67,135)	(190)	142,814	(7,437)	(966)	493	63,860
New financial assets originated or purchased	-	1,951	75,947	220	33,508	-	2,131	11,241	124,998
Total	**(448)**	**(1,320)**	**8,812**	**30**	**176,322**	**(7,437)**	**1,165**	**11,734**	**188,858**
Recoveries of amounts previously written off	-	-	-	-	(63,517)	-	(9)	-	(63,526)
Total	**(448)**	**(1,320)**	**8,812**	**30**	**112,805**	**(7,437)**	**1,156**	**11,734**	**125,332**

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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 2021**	**31 December 2020**
Property	2,236,829	1,954,610
Security interests in movable property	1,862	1,862
Cash deposits	-	570
Total	**2,238,691**	**1,957,042**

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 2021**	**31 December 2020**
Less than 50%		164,554	140,822
51-70%		212,425	161,420
71-90%		261,363	174,211
91-100%		19,113	8,008
More than 100%		702,626	729,989
Total	**7**	**1,360,080**	**1,214,450**

* The gross value of mortgage loans in the amount of MDL’000 702,626 with an LTV ratio higher than 100% (2020: MDL’000 725,499) 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 2021**		**31 December 2020**	
		Gross value	**Collateral amount**	**Gross value**	**Collateral amount**
Stages 1 and 2		1,849,533	5,982,712	1,741,608	5,401,590
Stages 3		536,374	1,617,150	632,440	1,954,104
Total	**7**	**2,385,907**	**7,599,862**	**2,374,048**	**7,355,694**

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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 2021 and 31 December 2020 are presented below:

Concentration of credit risk by geographic location

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**

31 December 2020

In MDL thousand	Moldova	OECD countries	Non-OECD countries	Total
Current accounts and placements with banks	117	1,696,394	120,208	1,816,719
Frozen Nostro account	-	226,785	-	226,785
Investment securities – debt instruments	3,338,072	42,323	191,802	3,572,197
Equity investment securities designated as at FVOCI	2,477	723	-	3,200
Loans to customers	4,180,251	-	-	4,180,251
Other financial assets	109,730	-	-	109,730
Total	**7,630,647**	**1,966,225**	**312,010**	**9,908,882**

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

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit Risk (continued)

III. Concentration of credit risk (continued)

Concentration of credit risk by sector

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**

31 December 2020 *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	1,816,719	-	-	-	-	-	-	-	-	-	1,816,719
Frozen Nostro account	226,785	-	-	-	-	-	-	-	-	-	226,785
Investment securities – debt instruments	42,323	3,529,874	-	-	-	-	-	-	-	-	3,572,197
Equity investment securities designated as at FVOCI	-	-	-	-	-	-	-	-	-	3,200	3,200
Loans to customers:											
Retail	-	-	-	-	-	-	-	1,201,240	910,485	-	2,111,725
Corporate	-	147,877	388,060	795,594	100,067	32,551	211	-	23,644	580,522	2,068,526
Other financial assets	-	-	-	-	-	-	-	-	-	109,730	109,730
Total	**2,085,827**	**3,677,751**	**388,060**	**795,594**	**100,067**	**32,551**	**211**	**1,201,240**	**934,129**	**693,452**	**9,908,882**

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 2021 and 31 December 2020. The Bank's financial assets and liabilities are stated at carrying amounts, categorized by currency.

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39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.2 Market risk (continued)

39.2.1 Currency risk (continued)

31 December 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.

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39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.2 Market risk (continued)

39.2.1 Currency risk (continued)

31 December 2020

In MDL thousand	Notes	MDL	EUR	USD	Other currencies*	Total
Financial assets						
Cash and Balances with National Bank of Moldova	**4**	3,012,669	1,516,477	460,962	18,946	5,009,054
Current accounts and placements with banks	**5**	-	1,180,884	620,072	15,763	1,816,719
Frozen Nostro account	**5**	-	-	226,785	-	226,785
Investment securities measured at amortized cost	**6**	3,321,271	234,126	-	-	3,555,397
Investment securities measured at FVOCI	**6**	16,800	-	-	-	16,800
Equity investment securities designated as at FVOCI	**8**	2,477	723	-	-	3,200
Loans to customers	**7**	3,212,312	849,131	118,808	-	4,180,251
Other financial assets	**12**	73,957	24,695	10,701	377	109,730
Total financial assets		**9,639,486**	**3,806,036**	**1,437,328**	**35,086**	**14,917,936**
Financial liabilities						
Deposits from banks	**16**	5,050	10,699	57,547	6	73,302
Deposits from customers	**17**	6,933,889	3,671,094	1,318,412	33,831	11,957,226
Other Borrowings	**15**	15,278	53,441	726	-	69,445
Lease liabilities	**11**	4,157	45,073	34	-	49,264
Other financial liabilities	**20**	137,994	39,752	30,634	2,609	210,989
Total financial liabilities		**7,096,368**	**3,820,059**	**1,407,353**	**36,446**	**12,360,226**
Net currency position		**2,543,118**	**(14,023)**	**29,975**	**(1,360)**	**2,557,710**

* 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 2021 and 31st of December 2020 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	**2021**	**2020**
EUR increase by up to 10%	(184)	(1,024)
EUR decrease by up to 10%	184	1,024
USD increase by up to 10%	4,859	2,958
USD decrease by up to 10%	(4,859)	(2,958)

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 2021**	**31 December 2020**
Own funds	2,319,038	1,984,047
Potential decline in economic value +/- 200bp		
Absolute value	34,138	41,703
Impact on own funds	1.47%	2.10%

The tables on the next pages show the Bank's exposure to interest rate risk as at 31 December 2021 and 31 December 2020. 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.

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

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.2 Market risk (continued)

39.2.2 Interest rate risk from the banking book (continued)

31 December 2021

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

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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 2020

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	5,009,054	2,925,445	-	-	-	2,083,609
Current accounts and placements with banks	5	1,816,719	1,713,411	103,308	-	-	-
Frozen Nostro account	5	226,785	-	-	-	-	226,785
Investment securities measured at amortized cost	6	3,555,397	2,286,339	751,101	517,957	-	-
Investment securities measured at FVOCI	6	16,800	8,438	3,419	4,943	-	-
Loans to customers	7	4,180,251	4,159,996	3,044	14,334	2,877	-
Other financial assets	12	109,730	1,157	-	-	-	108,573
Total financial assets		**14,914,736**	**11,094,786**	**860,872**	**537,234**	**2,877**	**2,418,967**
Financial liabilities							
Deposits from banks	16	73,302	73,302	-	-	-	-
Deposits from customers	17	11,957,226	11,904,356	14,411	-	-	38,458
Other borrowings	15	69,445	69,445	-	-	-	-
Lease liabilities	11	49,264					49,264
Other financial liabilities	20	210,989	-	-	-	-	210,989
Total financial liabilities		**12,360,226**	**12,047,104**	**14,411**	**-**	**-**	**298,711**
Interest gap			**(952,318)**	**846,461**	**537,234**	**2,877**	**2,120,256**
Cumulative interest gap			**(952,318)**	**(105,857)**	**431,377**	**434,254**	**2,554,510**

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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 2021 and 31 December 2020. 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 2021

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	4,294,953	4,294,953	-	-	-	-
Current accounts and placements with banks	5	2,214,905	2,028,275	88,613	-	98,017	-
Investment securities measured at amortized cost	6	4,613,811	2,000,711	1,951,034	662,066	-	-
Investment securities measured at FVOCI	6	17,924	4,976	7,052	5,896	-	-
Equity investment securities designated as at FVOCI	8	3,207	-	-	-	-	3,207
Loans to customers	7	4,663,248	566,051	976,433	1,942,464	1,178,300	-
Other financial assets	12	341,148	338,672	-	2,476	-	-
Total financial assets		**16,149,196**	**9,233,638**	**3,023,132**	**2,612,902**	**1,276,317**	**3,207**
Financial liabilities							
Deposits from banks	16	70,800	70,800	-	-	-	-
Deposits from customers	17	12,808,389	9,932,248	1,874,254	994,522	7,365	-
Other borrowings	15	144,372	8,013	48,385	86,117	1,857	-
Lease liabilities	11	63,910	579	4,354	52,536	6,441	-
Other financial liabilities	20	220,785	220,785	-	-	-	-
Total financial liabilities		**13,308,256**	**10,232,425**	**1,926,993**	**1,133,175**	**15,663**	**-**
Net balance sheet position		**2,840,940**	**(998,787)**	**1,096,139**	**1,479,727**	**1,260,654**	**3,207**
Loan commitments and financial guarantee contracts	33	616,986	616,986	-	-	-	-
Total off-balance sheet		**616,986**	**616,986**	-	-	-	-
Total net on- and off-balance sheet position		**3,457,926**	**(381,801)***	**1,096,139**	**1,479,727**	**1,260,654**	**3,207**

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

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.3 Liquidity risk (continued)

31 December 2020

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**	5,009,054	5,009,054	-	-	-	-
Current accounts and placements with banks	**5**	1,816,719	1,481,125	240,671	-	94,923	-
Frozen Nostro account	**5**	226,785	-	-	226,785	-	-
Investment securities measured at amortized cost	**6**	3,555,397	1,432,634	1,575,610	547,153	-	-
Investment securities measured at FVOCI	**6**	16,800	3,550	7,010	6,240	-	-
Equity investment securities designated as at FVOCI	**8**	3,200	-	-	-	-	3,200
Loans to customers	**7**	4,180,251	613,426	724,189	1,771,169	1,071,467	-
Other financial assets	**12**	109,730	107,208	2,522	-	-	-
Total financial assets		**14,917,936**	**8,646,997**	**2,550,002**	**2,551,347**	**1,166,390**	**3,200**
Financial liabilities							
Deposits from banks	**16**	73,302	73,302	-	-	-	-
Deposits from customers	**17**	11,957,226	9,138,100	1,988,373	823,798	6,954	-
Other borrowings	**15**	69,445	1,486	20,791	42,506	4,662	-
Lease liabilities	**11**	49,264	249	4,149	44,866	-	-
Other financial liabilities	**20**	210,989	210,989	-	-	-	-
Total financial liabilities		**12,360,226**	**9,424,127**	**2,013,313**	**911,170**	**11,616**	**-**
Net balance sheet position		**2,557,710**	**(777,130)**	**536,689**	**1,640,177**	**1,154,774**	**3,200**
Loan commitments and financial guarantee contracts	**33**	490,506	490,506	-	-	-	-
Total off-balance sheet		**490,506**	**490,506**	**-**	**-**	**-**	**-**
Total net on- and off-balance sheet position		**3,048,216**	**(286,624)***	**536,689**	**1,640,177**	**1,154,774**	**3,200**

* 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 2021 and 31 December 2020:

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)**

31 December 2020

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**	73,302	(73,302)	(73,302)	-	-	-
Deposits from customers	**17**	11,957,226	(11,965,417)	(9,135,721)	(1,991,538)	(831,112)	(7,045)
Other borrowings	**15**	69,445	(69,445)	(1,487)	(20,791)	(42,506)	(4,661)
Lease liabilities	**11**	49,264	(49,264)	(249)	(4,149)	(44,866)	-
Other financial liabilities	**20**	210,989	(210,989)	(210,989)	-	-	-
Loan commitments and financial guarantee contracts	**33**	-	(490,506)	(490,506)	-	-	-
Total financial liabilities		**12,360,226**	**(12,858,923)**	**(9,912,254)**	**(2,016,478)**	**(918,484)**	**(11,706)**

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

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.4 Capital management

Capital management – compliance with capital requirements

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

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

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

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

- 6.78% for the basic level 1 own funds rate;
- 9.25% for the level 1 own funds rate;
- 12.34% 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, far exceeding the minimum limits imposed by legislation: for 2021 the average level was 43.42% (in 2020 the average level was 35.92%).

The level and the requirements of own funds as at 31 December 2021 and 31 December 2020 are as follow:

In MDL thousand	**31 December 2021**	**31 December 2020**
Tier 1 own funds	2,319,038	1,984,047
Tier 2 own funds	-	-
Total own funds	**2,319,038**	**1,984,047**
Credit risk exposure	4,304,177	3,724,899
Market risk, currency risk, delivery risk exposure	-	-
Operational risk exposure	1,189,636	1,099,265
Total risk exposure	**5,493,813**	**4,824,164**
Capital adequacy ratio (%)	**42.21**	**41.13**

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.

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.

40. SUBSEQUENT EVENTS

On April 7, 2022, the Bank collected USD 13,174 thousand in the Nostro account held with the Bank of New York Mellon, which was part of a litigation and then an administrative proceeding in the United States of America (see Note 5 and Note 34).

On February 24, 2022, Russia's military aggression against Ukraine began, which generated many economic, social and humanitarian challenges and uncertainties, both directly for the Republic of Moldova and for most European countries and major world powers. This event has caused geopolitical instability and volatility in the energy and financial markets, and the economic consequences have already begun to manifest themselves in rising energy and food prices. In response to this aggression, the European Union, the United States and the United Kingdom have imposed a series of economic and individual sanctions on Russia and Russian citizens.

These events and response measures could have repercussions in multiple economic sectors, leading to volatility in capital markets and exchange rates, as well as the price of energy and goods. Disruption of the logistics and supply chain could also lead to local and regional uncertainties and challenges.

Although the Bank's direct exposure to Ukraine, Belarus and Russia is insignificant, the Bank conducted a broader analysis of these events on the Bank's business operations, financial and business risks. Based on the information currently available, the Bank's management has concluded that at the date of approval of the financial statements there is no significant impact on the Bank's business and on these financial statements. The Bank will continue to monitor developments in Ukraine and analyze their impact on the Bank's business.

No other significant subsequent events have been identified since the date of the statement of financial position.

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 2021, 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 2021 are identified as follows:

• Total equity:	MDL 3,219,894 thousand
• Profit for the year:	MDL 278,231 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 2021, 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.

Impairment of loans to customers

As at 31 December 2021, gross loans to customers: MDL 5,112,886 thousand, related 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 (31 December 2020: gross loans to customers: MDL 4,581,586 thousand, expected credit losses: MDL 401,335 thousand and net impairment losses in the statement of profit or loss for the year then ended: MDL 112,805 thousand).

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

The key audit matter	How the matter was addressed in our audit
As described in the notes to the financial statements, the expected credit losses ("ECLs") have been determined based on the requirements of IFRS 9 Financial Instruments ("IFRS 9" or "the Standard"). Impairment allowances represent management's best estimate of the expected credit losses within loans to customers (collectively, "loans", "exposures") at amortized cost at the reporting date. We focused on this area as the measurement of impairment allowances requires management to make complex and subjective judgements over the amount of any such impairment. Impairment allowances for the performing exposures (stage 1 and stage 2 in the IFRS 9 hierarchy), as well as non-performing exposures (stage 3) with amounts not exceeding certain pre-determined thresholds individually, are determined by modelling techniques, relying on key parameters such as the probability of default ("PD"), exposure at default ("EAD") and loss given default ("LGD"), taking into account historical experience,	Our audit procedures, performed, where relevant, with the assistance from our own financial risk management, valuation and information technology ("IT") specialists, included, among others things: • Inspecting the Bank's ECL impairment methods and models and assessing their compliance with the relevant requirements of the financial reporting standards. This included 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. • Testing 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. • Assessing 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

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identification of exposures with a significant increase in credit risk ("SICR"), forward-looking information and management judgment (together "collective impairment allowance"). Impairment allowances for non-performing (stage 3) exposures in excess of certain thresholds, are determined on an individual basis by means of a discounted cash flows analysis. The process relies on a number of complex assumptions, in particular those in respect of the recovery scenarios and the expected proceeds from the sale of the related collateral and estimated period for collateral disposal. In the wake of the COVID-19 pandemic and the downward macroeconomic effects of the increase in energy and other commodity prices and resulting inflationary pressures and disruptions in the global supply chains, measurement of ECLs was associated with additional complexities and an increased estimation uncertainty. In addition, application of post-model adjustments was required from management in arriving at the year-end estimate of impairment losses. In the light of the above factors, we considered measurement of expected credit losses on loans to customers to be associated with a significant risk of material misstatement in the financial statements. Therefore, the area required our increased attention in the audit and as such was determined to be a key audit matter.	stage 3. • For expected credit losses determined on a collective basis: - Challenging 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 COVID-19 pandemic and the increase in energy and other commodity prices and resulting inflationary pressures and disruptions in the global supply chains, by means of inquiries of the management board members and inspection of publicly available information; - Testing the relevance and reliability 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. - Challenging significant post-model adjustments, by evaluating key underlying assumptions, inspecting the calculation methods and tracing a sample of data used back to source data; - Based on the outcome of the preceding procedures, recomputing the collective ECL as at reporting date; • For impairment allowances calculated individually: - For a sample of loans, challenging 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; - Recomputing the individual ECL as at reporting date. • Assessing the accuracy, completeness and relevance of the ECL-related financial statement disclosures against the requirements of the relevant financial reporting standards.

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Other Information – Annual Report

6. Management is responsible for 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.

   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.

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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.

    - 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.

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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.

19 April 2022

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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#CuPoftăDeSucces