

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.

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Independent Auditors' Report

(free translation¹)

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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Ref.: 22011Eng

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IDNO:1002600046371

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

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,

How the matter was addressed in our audit

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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Romanian version

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

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

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

Administrator of ICS KPMG Moldova S.R.L.

Cezar Furtuna

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Partner

ICS KPMG Moldova S.R.L.

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

<i>In MDL thousand</i>	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.

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

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%); European Bank for Reconstruction and Development (EBRD) (38.18%); effective beneficiaries do not exist	Romania Great Britain
2	Țurcan Victor	MDA	0	10.76	Țurcan Victor	Republic of Moldova
3	Țurcan Valentina	MDA	1	8.07	Țurcan 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

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****2. BASIS OF PREPARATION****2.1 Declaration of compliance**

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

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****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.

B.C. VICTORIABANK S.A.**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

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****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.

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****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.

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****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.

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****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 guarantees 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;

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****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.

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	<p>The Bank provides banking services to retail and corporate customers, including account management, provision of overdraft facilities, foreign currency transactions, servicing fees etc.</p> <p>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.</p> <p>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 or variable rates according to the published list of commission or individually negotiated tariffs. The rates are periodically reviewed.</p>	<p>Revenue from account service and servicing fees is recognized over time as the services are rendered.</p> <p>Revenue related to transactions is recognized at the point in time when the transaction takes place.</p>

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****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 |

B.C. VICTORIABANK S.A.

Explanatory notes to the financial statements

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.

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****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.

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****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.

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****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.

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.27 Segment reporting**

An operating segment is a component of the Bank:

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

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

3.28 Implementation of new or reviewed standards and interpretations

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.

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****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.

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****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.

B.C. VICTORIABANK S.A.**Explanatory notes to the 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:

<i>In MDL thousand</i>	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

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****5. CURRENT ACCOUNTS AND PLACEMENTS WITH BANKS**

<i>In MDL thousand</i>	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

<i>In MDL thousand</i>	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.

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****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%).

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****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.

<i>In MDL thousand</i>	31 December 2021	31 December 2020
Investment securities measured at amortized cost – debt instruments		
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		
<i>In MDL thousand</i>	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:

<i>MDL thousand</i>	31 December 2021	31 December 2020
Corporate customers		
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:

<i>In MDL thousand</i>	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

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****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:

<i>In MDL thousand</i>	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).

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****9. PROPERTY AND EQUIPMENT***In MDL thousand***Cost**

	Land and buildings	Furniture and equipment	Vehicles	Improvements of leased assets	Fixed assets under construction	Total
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).

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****10. INTANGIBLE ASSETS**

<i>In MDL thousand</i>	Intangible assets		
	Software	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 lessee is presented below.

I. Right-of-use assets

<i>In MDL thousand</i>	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

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****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.

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****13. OTHER ASSETS***In MDL thousand*

	31 December 2021	31 December 2020
Reposessed 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 reposessed 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 reposessed 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).

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****15. OTHER BORROWINGS (CONTINUED)**

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

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

"Loro" accounts from banks

Overnight deposits

Total

31 December 2021	31 December 2020
69,400	69,402
1,400	3,900
70,800	73,302

17. DEPOSITS FROM CUSTOMERS

Deposits from customers can be analyzed as follows:

In MDL thousand

Legal entities

Current accounts

Term deposits

Total

Individuals

Current accounts

Term deposits

Total

Deposits from customers

31 December 2021	31 December 2020
4,771,488	4,281,288
395,823	361,824
5,167,311	4,643,112
31 December 2021	31 December 2020
4,049,732	3,646,584
3,591,346	3,667,530
7,641,078	7,314,114
12,808,389	11,957,226

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****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

<i>In MDL thousand</i>	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:

<i>In MDL thousand</i>	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

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****19. DEFERRED TAX BALANCES (CONTINUED)**

Movement in deferred tax balances is presented below:

<i>In MDL thousand</i>	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

<i>In MDL thousand</i>	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

<i>In MDL thousand</i>	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

<i>In MDL thousand</i>	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

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****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
	5 persons	5 persons
Shareholders with a share equal to or above 1%, among which:		
Legal entities	1	1
Individuals	4	4
	172 persons	166 persons
Other shareholders, of which:		
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
Țurcan Victor	10.76	10.76
Țurcan 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).

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****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
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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:

	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

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****24. NET FEE AND COMMISSION INCOME (CONTINUED)**

	2021	2020
		reclassified*
Fee and commissions expenses		
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)

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****28. NET IMPAIRMENT (LOSSES) / RELEASE ON NON-FINANCIAL ASSETS**

<i>In MDL thousand</i>	2021	2020
Property and equipment, inventories	-	3
Reposessed collaterals	41,865	(32,207)
Total	41,865	(32,204)

29. PERSONNEL EXPENSES

<i>In MDL thousand</i>	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.

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****30. OTHER OPERATING EXPENSES**

<i>In MDL thousand</i>	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

<i>In MDL thousand</i>	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

<i>In MDL thousand</i>	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)

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****32. INCOME TAX EXPENSES (CONTINUED)**

Income tax expenses reconciles to profit before tax as follows:

<i>In MDL thousand</i>	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

<i>In MDL thousand</i>	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:

<i>In MDL thousand</i>	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.

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****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

<i>MDL thousand</i>	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.

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****36. SEGMENT REPORTING (CONTINUED)**

We present below segmented financial information on the statement of financial position and operating profit before income tax expenses, net expenses for expected losses from impairment of loans and advances to customers and conditional commitment provisions and litigations as of December 31, 2021 and comparative data for 2020:

Reportable segments as of December 31, 2021

<i>MDL thousand</i>	Corporate	SME	Individuals	Treasury	Others	Total
Loans to customers	1,766,213	619,743	2,726,930	-	-	5,112,886
<i>Expected credit loss allowances</i>	(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

<i>MDL thousand</i>	Corporate	SME	Individuals	Treasury	Others	Total
Loans to customers	1,863,682	510,404	2,207,500	-	-	4,581,586
<i>Expected credit loss allowances</i>	(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

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****36. SEGMENT REPORTING (CONTINUED)****Reportable segments as of December 31, 2021**

<i>MDL thousand</i>	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

<i>MDL thousand</i>	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

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****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.

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****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

In MDL thousand

Financial assets

	Notes	Carrying amount	Fair value	Level 1	Level 2	Level 3
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.

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****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

In MDL thousand

Financial assets

	Notes	Carrying amount	Fair value	Level 1	Fair value hierarchy Level 2	Level 3
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.

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****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:

<i>In MDL thousand</i>	Shareholders > 1 %	Key- management personnel	2021 Other related parties	Total	Shareholders > 1 %	Key- management personnel	2020 Other related parties	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).

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****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.

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****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 through 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.

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)*****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.

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)**

- 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

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)**

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

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)**

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)

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)*****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.

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)*****Credit quality analysis depending on the class of financial assets***

	31 December 2021			
<i>In MDL thousand</i>	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
<i>Expected credit loss allowance for financial assets</i>	<i>(138,647)</i>	<i>(50,151)</i>	<i>(349,660)</i>	<i>(538,458)</i>
Carrying amount	15,081,284	750,980	313,505	16,145,769

	31 December 2020			
<i>In MDL thousand</i>	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
<i>Expected credit loss allowance for financial assets</i>	<i>(104,177)</i>	<i>(40,284)</i>	<i>(337,199)</i>	<i>(481,660)</i>
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

Cash and Balances with National Bank of Moldova

	Stage 1	Stage 2	Stage 3	Total
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

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)****31 December 2021***In MDL thousand***Loans to customers**

	Stage 1	Stage 2	Stage 3	Total
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***Cash and Balances with National Bank of Moldova**

	Stage 1	Stage 2	Stage 3	Total
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

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)****31 December 2020***In MDL thousand***Investment securities measured at amortized cost**

	Stage 1	Stage 2	Stage 3	Total
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***Current accounts and placements with banks**

	Stage 1	Stage 2	Stage 3	Total
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

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)****31 December 2021***In MDL thousand***Investment securities measured at amortized cost**

	Stage 1	Stage 2	Stage 3	Total
Standard	4,477,560	-	-	4,477,560
Supervised (Watch)	182,695	-	-	182,695
Substandard	-	-	-	-
Doubtful	-	-	-	-
Compromised (losses)	-	-	-	-
<i>Loss allowance</i>	<i>(46,444)</i>			<i>(46,444)</i>
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
<i>Loss allowance</i>	<i>(83,352)</i>	<i>(50,151)</i>	<i>(316,135)</i>	<i>(449,638)</i>
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
<i>Loss allowance</i>	<i>(3,554)</i>		<i>(33,526)</i>	<i>(37,079)</i>
Carrying amount	320,783	-	20,365	341,148

31 December 2020*In MDL thousand***Current accounts and placements with banks**

	Stage 1	Stage 2	Stage 3	Total
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)	-	-	-	-
<i>Loss allowance</i>	<i>(1,597)</i>			<i>(1,597)</i>
Carrying amount	1,816,719	-	-	1,816,719

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)****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

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 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

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)**

<i>In MDL thousand</i>	31 December 2021				31 December 2020			
	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

<i>In MDL thousand</i>	31 December 2021				31 December 2020			
	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

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)**

<i>In MDL thousand</i>	31 December 2021				31 December 2020			
	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
<i>In MDL thousand</i>	31 December 2021				31 December 2020			
	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

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)**

<i>In MDL thousand</i>	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

<i>In MDL thousand</i>	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

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 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								
	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
<i>In MDL thousand</i>									
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

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)**

	2020								
<i>In MDL thousand</i>	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

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****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:

<i>In MDL thousand</i>	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

<i>In MDL thousand</i>	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

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****39. FINANCIAL RISK MANAGEMENT (CONTINUED)****39.1 Credit Risk (continued)****III. Concentration of credit risk**

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**

<i>In MDL thousand</i>	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

<i>In MDL thousand</i>	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

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****39. FINANCIAL RISK MANAGEMENT (CONTINUED)****39.1 Credit Risk (continued)****III. Concentration of credit risk (continued)****Concentration of credit risk by sector**

31 December 2021											
<i>In MDL thousand</i>	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											
<i>In MDL thousand</i>	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

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****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.

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****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.

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****39. FINANCIAL RISK MANAGEMENT (CONTINUED)****39.2 Market risk (continued)****39.2.1 Currency risk (continued)****31 December 2020***In MDL thousand***Financial assets**

	Notes	MDL	EUR	USD	Other currencies*	Total
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
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* Other currencies mainly include the Russian ruble, the Ukrainian hryvnia and Romanian leu.

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****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:

<i>In MDL thousand</i>	Impact on Profit or Loss	
	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:

<i>In MDL thousand</i>	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.

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****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

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****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

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****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.

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****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.

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****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.

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****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

<i>In MDL thousand</i>	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

<i>In MDL thousand</i>	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)

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****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:

<i>In MDL thousand</i>	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.

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****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.

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****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.

B.C. VICTORIABANK S.A.**Explanatory notes to the financial statements****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.