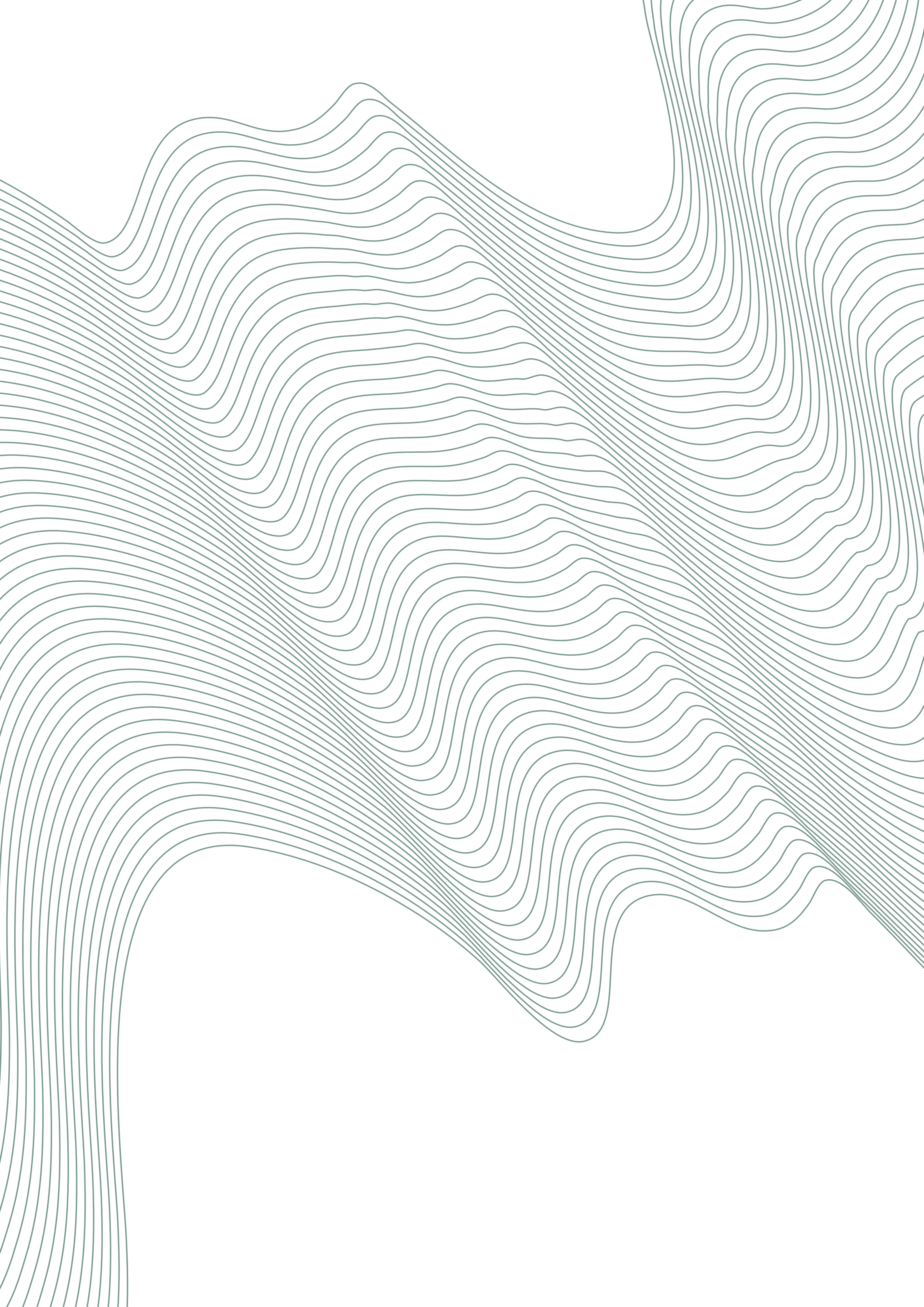
Annual Report 2022



SUMMARY:

President of the Executive Committee - CEO

Daniel-Bogdan SPUZA

President of the Bank's Council

Zoltán MAJOR

Message from the Chairman of the Supervisory Board

Zoltán MAJOR

With over 70 years of experience in the European banking sector, OTP Group consistently pursues its business strategy focused on efficiency, generating value and solutions for shareholders, clients and employees in the 11 countries in which it operates. We are in direct contact with the market and our more than 19 million customers in the Central and Eastern Europen region, with the mission to innovate and support businesses and individual customers with tailored banking services and solutions, while gradually strengthening our regional position and operations in the region.

In 2022, OTP Group has registered a consolidated adjusted after-tax profit of HUF 593 billion (EUR 1,5 billion) while the consolidated profit after tax was HUF 347 billion (EUR 1,5 billion). The annual ROE was 11%.

The overall performance of 2022 was shaped mainly by the direct and indirect impact of the war between Russia and Ukraine broken out on 24 February, and the military conflict is still ongoing. As a result, many countries, as well as the European Union imposed sanctions due to the armed conflict on Russian businesses and citizens, and Russia in turn has responded with similar measures. With subsidiaries in belligerent countries, inevitably the Group's results have been affected by this situation. However, OTP Group sustained comitment to the development vector, standing by its customers and employees, mobilizing its resources to provide the necessary support and implement the relevant business solutions. Due to the consolidated effort of the subsidiaries, at Group level, extensive support actions were carried out through humanitarian aid, donations and various commercial facilities relevant to that period. We carefully monitored the risks and impact of a possible humanitarian crisis, ready to offer support to colleagues in countries affected by this armed conflict.

In Moldova, OTP Bank is a stable, well-capitalised and resilient bank with an equity ratio of 24.75%. The bank's capital increased by 18.3% compared to the same period of the last year, and as of 31 December 2022 it amounts to over MDL 2,605 million. At the end of the financial year, the net profit recorded by the bank amounted to MDL 403 million, an increase of 49% compared to the previous year, mainly due to the increase in net interest income by MDL 578 million or 76%. Thus, at the end of 2022, the return on capital recorded was 16.92% and the return on assets of the Bank was 2.19%.

The bank ranks third in the banking system of the Republic of Moldova, with an asset share by sector of 14.1%. In 2022, the bank recorded an 11% increase in assets, mainly due to increased resources attracted from depositors and international financial organizations.

In 2022 we observed a moderation in lending activity, driven by rising prices and falling market demand, but also by reduced liquidity due to the level of reserve requirements set by the NBM. OTP Bank ranks 3rd by the volume of loans granted, with a share of 14.12% and by the volume of deposits attracted, with a market share of 14.6% enjoying the confidence of its customers.

OTP Group is the fastest growing banking group in Central and Eastern Europe and one of the most active financial institutions in the European acquisition market. In 2022 OTP successfully completed the purchase of Alpha Bank in Albania, and after the merger of the two banks, OTP Bank Albania becomes the fifth largest player by total assets and the third largest player in terms of customer lending in Albania. At the same time, the Slovenian bank Nova KBM acquisition was completed in February 2023. The new acquisitions strengthen OTP Group's leading position in Central and Eastern Europe.

OTP Bank has been one of the most active financial institutions in the European acquisitions market. In 2022 the Group successfully completed the purchase of Alpha Bank in Albania, and after the merger of the two banks, OTP Bank Albania becomes the fifth largest player by total assets and the third largest player in terms of customer lending in Albania. At the same time, în February 2023 the transaction to acquire the Slovenian bank, Nova KBM, was financially closed, the balance sheet and P&L numbers will be consolidated in the first quarter figures. The new acquisitions strengthen OTP Group's leading position in Central and Eastern Europe.

With integrity and determination, we support the growth of Moldova's real economy providing excellent financial services through digital innovation, artificial intelligence and data-driven insights. We leverage synergies within our group and act as a driver of digital transformation, contributing to the development of the Central and Eastern European region.

Message from President of the Executive Committee - CEO

Bogdan SPUZĂ

The year 2022 was a complex and challenging one for OTP Bank - we successfully completed the implementation of a new core-banking system and connection to a new card processing center, thas, confirming our commitment to improve our services and products. The transition to the new systems was a complex and lengthy process, involving considerable resources and efforts from the analysis, design and implementation stages. It has been a highly ambitious project involving a record number of staff, international developers and mixed local and Group teams.

The modernization of the IT architecture and network, together with the streamlining of internal processes and procedures, will significantly increase the efficiency of operations, the quality of services provided and the customer service of OTP Bank S.A. At the same time, the successful completion of the migration process marks the end of the integration phase and alignment with Group standards.

The year 2022 also came with unexpected events that unbalanced the economy and the situation in the Region. We have all been shaken by the events in Ukraine. Being attentive to the needs of Ukrainian citizens, but also to the local situation, the Bank reacted immediately with a series of support actions. We launched an extensive social campaign #SolidarityforPeace, offering donations, trade facilities to Ukrainian citizens and for the first time we introduced currency exchange with the Ukrainian hryvnia. OTP Bank Moldova managed to cope with the wave of panic that followed immediately after the outbreak of the conflict. The mobilisation of employees and the spirit of solidarity were manifested through donations of goods and money, volunteering. The Bank made donations through five social partners during the year, maintaining its commitment to solidarity.

The tense situation in the energy sector in the autumn caused a lot of stress among the population and we joined the national campaign to implement actions to reduce electricity consumption. Within the Bank, we have adopted a series of measures to reduce electricity consumption and provide some branches with generators to serve customers.

In 2022, we continued our partnerships with our communities and stakeholders and made valuable contributions through the projects we supported or funded, both for the economic environment, through our programmes for Moldovan entrepreneurship and SMEs, and for the social environment, through our supported community programmes and projects. All that we have achieved this year can only make us proud: proud of the commitment of our colleagues, but also of the fact that our almost 1.8 million clients - individuals, SMEs and corporations - entrust us with their funds and follow our advice, thus underlining the importance of a responsible financial partner.

The year 2022 was full of uncertainty; even so, we focused our efforts to provide quality products and services that meet the needs of our customers. Thus, we managed to maintain the loan portfolio, its quality and focus on attracting and serving customers on the side of transactional products and services (daily banking). Thanks to OTP Bank's reputation, we have increased the deposit portfolio of legal entities, which has positioned us in the second place in the market.

Despite geopolitical risks, we continuously promoted financial leasing (maintaining our 4th position in the market), strengthened our position in financing the agricultural sector and launched a new Factoring product, including International Factoring.

On the Retail Banking line in 2022 we served 178 352 customers, we had a special focus on attracting liquidity, so we managed to reach a portfolio of deposits and savings accounts of MDL 9 billion. We strived to be closer to our customers and opened two banking units - one in Botanica sector and one in Riscani sector. At the same time, we should also mention the projects that have been carried out to increase sales efficiency and improve the customer experience.

Our focus now is on integrating ESG (Environment, Social, Governance) principles into the Bank's business and building the ESG strategy, following the Group's vision of becoming a regional leader in the balanced financing of a fair and gradual transition to a low carbon economy and building a sustainable future.

In order to link business, environmental and social objectives in a balanced way, in 2022 we started to strengthen our internal mechanisms for integrating sustainable development principles, both in the products and services we offer to our customers and in our activities. Thanks to the synergy and expertise of the OTP Group teams, we will gradually develop innovative financial products and services to continuously improve our customers' experience both in the use of digital channels - one of the Bank's strategic priorities - and in the OTP Bank branch network.

Our objective in the coming years is to attract and direct financial capital to sectors that can contribute to and support the transition to a green economy, as well as to fund/support projects/initiatives to incorporate new technologies into business and our lives. We have the capacity and ambition to create a strong impact on Moldova's economy and business environment in the coming years.

THE MANAGEMENT OF THE BANK

Members of the Supervisory Board

Zoltán MAJOR	Chairman of the Supervisory Board
Taras Prots	Member of the Supervisory Board
Rodica Hîncu	Member of the Supervisory Board
Eszter Erika Huszár	Member of the Supervisory Board

Executive Committee of the bank

Bogdan Spuză President of the Executive Committee – CEO

Elena Guzun Deputy CEO
Commercial Director Corporate Banking

Petru Delinschi Deputy CEO
Commercial Director Retail Banking

Ion Veveriță Deputy CEO
CFO, Head of the Financial Division

Ruslan Cebotari Deputy CEO
CRO, Head of RISK Management Division

Iurie Rusu Deputy CEO
COO, Head of IT & Operations Division

Presentation of the OTP Bank S.A.

PRESENTATION OF THE OTP BANK S.A.

OTP Bank Moldova, formerly known as Mobiasbanca, has been present on the Moldovan banking market for over 32 years as an universal bank, offering comprehensive financial solutions for individuals and companies. It is one of the most stable and trusted financial institutions, a reputable financial advisor for both individual and corporate clients, a supporter of entrepreneurs and financial advisor to the largest multinational companies, as well as a trusted partner for International Financial Institutions.

The bank offers a wide range of high quality financial products and complete banking services to all types of customers, from individuals to large companies, segmented on three main axes:

- **Retail bank**
  offering credit products, cards, savings accounts, current operations and remote banking for individuals and entrepreneurs;
- **Corporate & Investment Banking**
  with a broad range of services, products and banking consultancy for multinational companies headquartered in Moldova, to local private and state companies, local authorities and financial institutions. Thanks to the extended network of branches, OTP Bankmay serve corporate clients throughout the country, and corporate consultants offer expertise in various key banking areas;
- **Specialized services**
  with a full range of specialized financial and treasury services, including financial, operational leasing, consumer loans in markets, titles, insurance products, pensions and other.

OTP Bank S.A. was founded on 4th of July, 1990, as an independent commercial bank, under the legal form of a limited liability company, oriented towards serving the SME sector.

In 2007, the international financial group Société Générale acquired a 67.85% stake. In 2008 the capital increase and the appointment of new strategic shareholders (Groupe Société Générale) and the EBRD (European Bank for Reconstruction and Development) spurred the development of a universal banking model. At the same time, the official name was changed to BC „Mobiasbanca - Groupe Société Générale" S.A.

The bank's history in brief:

2008 The Bank becomes a Principal Member of MasterCard.

2009 Implementation of the tele-recovery service.
MasterCard certification for microchip cards.

2011 Launch of the Simplu Finance project.
The first card collection created exclusively for women Chérie Chérie.

2012 Launch of the Universal Counter concept for the first time in our country.
Launch of MobiasInfO SMS messaging service;
launch of Contactell service;
launch of MasterCard Secure Code service - securing payments made over the Internet.

2013 Becomes the first and only bank in Moldova to hold the international ISO 9001:2008 „Quality Management Systems. Requirements".
IP telephony implementation.

2014 Opening of the new Training Centre and School Branch - unique concept on the local market.

2016 Launch of Visa Cards.
Launch of MobiSanté dedicated offers exclusively for healthcare workers.

2017 Opening of the first Mortgage Centre in Moldova;

2018 Launch of the CASH-IN service for carrying out card account top-up transactions via ATM.

2019 Launch of the Business Internet Banking Service - automated remote banking for economic agents.
Mobiasbanca became part of OTP Group - one of the largest financial services providers in Central and Eastern Europe.
After the acquisition, OTP Bank Nyrt Hungary became a 98.26% shareholder of the bank.

2020 Opening of the Leasing Centre.

2021 Change of name to „OTP Bank S.A." and rebranding.
Modernisation of the ATM fleet.

2022 Migration to a new information system and card processing centre.

After joining the OTP Group in 2019 - one of the financial market leaders in Central and Eastern Europe - and after an extensive rebranding process, OTP Bank completes the integration and alignment with the group's standards by implementing a new IT system and connecting to a new bank card processing centre. Based on a modern IT solution, the new system is designed to improve the bank's operational and management activities and provide innovative solutions for the development of financial products and services.

The bank's strategy is oriented towards the organic development of the business, the consolidation of the position on the banking market, the profitability increase and of the operational efficiency. Today, the bank serves about 178,000 customers through its 54 banking offices and with about 900 employees nationwide. Supported by strong shareholders, with innovative products and services, the bank has experienced a constant exponential evolution, reaching the top three of systemic banks by volume of loans, with a share of 14.1%, by volume of deposits attracted, with a market share of 14.6%, and by share of assets in the banking system with a share of 14.2 %.

IT transformations, modernization of operating systems, product development and process optimization are just some of the bank's objectives. OTP Bank continues its strategy of developing its products and applications, with a particular priority being the implementation of innovative solutions for delivering online services quickly and securely to its customers.

The balanced and sustainable strategy, the efficient management of resources at the same time as the implementation of actions to support the community, ensured the maintenance in the top of local banks in 2022, the bank having a very good capitalization, own funds ratio registering 24,75%, and an improved risk profile.

OTP Bank is the third largest bank in the Republic of Moldova, with a successful history of serving corporate clients, SMEs, agricultural enterprises and individuals. This success is due to a dedicated team of professionals and a strong commitment to financing its clients in a responsible and personalized manner, making OTP Bank a strategic partner for international financial institutions in boosting Moldova's economic development.

Always concerned with contributing to the development of the community in which it operates, OTP Bank is actively present through support for financial education, promotion of culture and the arts, investment in the medical sector and sport, solidarity and volunteering. Concern for the environment and sustainable solutions for the rational use of resources is one of the directions on which the bank will focus in the coming years.

OTP GROUP

38 000
employees

19 000 000
clients

1 392
branches

4 600
ATMs

OTP Group is the largest banking institution in Hungary and the third largest in Central and Eastern Europe. With more than 70 years of experience in the European banking sector, it consistently pursues a business strategy focused on efficiency, generating value and solutions for its shareholders, customers and employees.

OTP Group currently operates in 11 countries of the region: Hungary, Albania, Bulgaria, Croatia, Romania, Serbia, Slovenia, Ukraine, Montenegro, Russia and Moldova.

Promoting innovation, stable growth and integrated financial services, OTP Group has become a dominant player in the Central and Eastern European market and is considered an important banking group even on a European scale. The community of around 38 thousand employees serves almost 19 million customers daily through its 1400 branches and over 4600 ATMs, online and digital remote service channels.

With diversified business lines, OTP Group provides traditional financial services through its subsidiaries, including specialized services - car leasing, investment and insurance products. The mission to innovate and support businesses and individual customers with customized banking services and solutions, while strengthening its regional position and operations, remains a priority.

OTP GROUP

11 COUNTRIES

38 K EMPLOYEES

19 MIL CLIENTS

In 2022, OTP Group successfully adapted to the changing operating environment, maintained its position in the capital market with strong liquidity, remained stable in several business segments as well as in terms of profitability.

In 2022, OTP Group has registered a consolidated adjusted after-tax profit of HUF 593 billion (EUR 1,48 bilion) while the consolidated profit after tax was HUF 347 billion (EUR 0,9 bilion).

The Group's ESG strategy for sustainability is being implemented in several subsidiaries, and 2022 is showing rewarding results: issuance of GREEN mortgage bonds, green housing loan programme, and launch of green loans for corporate clients, etc.

ECONOMIC ENVIRONMENT AND BANKING SYSTEM EVOLUTION

During 2022, the Republic of Moldova was exposed to various shocks that generated uncertainties about economic developments and increased risks in the banking system. As a result, the national economy is facing pressures both from the cost side, explained by high electricity, gas and food prices, and from the demand side, given the reduction in real household incomes. And the spill-over effects of the military conflict in the region are expected to last for a long time.

According to the International Monetary Fund, GDP is expected to contract by -1.5% in 2022, compared to a soaring 13.9% growth in 2021. At the same time, in the medium term the IMF forecasts robust economic growth with an upward trend in purchasing power and consumption.

The average annual inflation rate for 2022 was 28.6%, peaking at 34.6% in October. The National Bank of Moldova (hereafter NBM) forecasts its return to the regulated corridor of 5% ±1.5% in the second quarter of 2024.

Considering the vulnerable macroeconomic context, the NBM's efforts were focused on mitigating inflationary pressures and managing the liquidity risk to which the banking system was exposed. To this end, the NBM adopted a restrictive monetary policy, gradually increasing both the base rate and the reserve requirement ratio. The base rate increased from 6.50% in December 2021 to 20% in December 2022, peaking at 21.50% between August and December 2022. The reserve requirement norm in lei increased from 28% in December 2021 to 37% in December 2022 with a peak of 40% in the same period, and the reserve requirement norm in freely convertible currency moved upwards from 30% to 45% for the same observation period.

Towards the end of the year, the adoption of the NBM's decision to ease monetary policy was due to the reversal of the annual inflation trajectory in response to the monetary policy measures previously implemented. According to the regulator, although the risks and uncertainties to inflation are persistent and directly related to how the events associated with the military conflict in Ukraine will unfold, including its implications for the global and domestic macroeconomic environment, the NBM, through its decision, comes to support a comprehensive perspective on economic activity, shaping the creation of preconditions on the money, credit and foreign exchange markets necessary for the revival of domestic aggregate demand, which, within the limits of the transmission mechanism, will propagate through several channels, including credit.

Banking system evolution

Despite the challenges posed by the post-pandemic crisis and the military conflict in Ukraine, the banking system proved to be resilient and robust due to high liquidity and capital levels, and the trend of growth in assets, loans, deposits and equity continued at a more modest pace than the previous year. Moreover, the non-performing loans ratio increased insignificantly by 0.3 p.p. from 6.14% in December 2021 to 6.44% in December 2022.

In the context of the volatile geopolitical and economic environment, the NBS remains focused on assessing credit risk and maintaining an adequate level of liquid assets to ensure a resilient and well-capitalised banking system.

Also, in the context of the increase in the base rate and reserve requirement rule, the cost of resources attracted has increased. Thus, the weighted average rate of new deposits attracted in lei by total terms increased by 7.3 p.p. from 3.74% as at 31 December 2021 to 11.06% as at 31 December 2022 which increased the cost of new loans granted (weighted average interest rate on new loans granted in lei by total terms) by 4 p.p. from 7.33% to 11.3%. At the same time, starting from the third quarter of 2022, an upward trend in the cost of deposits and loans in foreign currency can be observed. The weighted average interest rate on new foreign currency loans on total maturities increased by 0.6 p.p. and on deposits by 0.5 p.p..

As of December 2022, the banking system comprises 11 banks licensed by the NBM, and the 4 largest banks hold 80.5% of assets, 81.1% of loans granted, 82.3% of deposits attracted, 77.8% of capital and 80.4% of net banking income.

As at 31 December 2022, the banking sector recorded the following performance

- total assets amounted to MDL 131.4 billion, increasing during the year by MDL 12.9 billion or about 11%;
- gross (prudential) loans represented 47% of total assets or MDL 61.6 billion, increasing during the period under review by 9.3% or MDL 5.2 billion;
- the largest increases in the loan portfolio were recorded in loans granted for trade - by 14% or 1.7 billion lei and for the food industry - by 29% or 1 billion MDL.

Regarding deposits, in December 2022, their balance amounted to 95 billion lei, about 5% or 4.9 billion lei higher than in the same period of the previous year. Of these, 62% are deposits attracted from individuals and 38% from legal entities (including banks), and with reference to foreign currency, 60% are in national currency and 40% in foreign currency. Therefore, it is important to note that the pricing decisions taken by banks have led to the stabilization of the liquidity crisis generated by the geopolitical situation in the region in Q1 2022.

Despite the uncertain macroeconomic environment, banks recorded a 59% increase in net profit reaching the level of 3.7 billion lei, the determining factor being the increase in net interest income by 4.6 billion lei or 89.2%. This was mainly generated by the increase in the norm of required reserves in lei and their remuneration.

As at 31 December 2022, the banking sector's return on assets and return on equity were 2.89% and 17.03% respectively, up 0.88 p.p. and 4.68 p.p. compared to the end of 2021.

BANK'S PERFORMANCE

OTP Bank is a stable, well-capitalised and resilient bank with an equity ratio of 24.75%, up 5.88 p.p. from the previous period. The bank's capital increased by 18.3% during 2022, and as of 31 December 2022 it amounted to over MDL 2,605 million. At the end of the financial year, the net profit recorded by the Bank amounted to 403 million lei, an increase of 49% compared to the previous year, mainly due to the increase in net interest income by 578 million lei or 76%. Thus, at the end of 2022, the return on capital recorded was 16.92% and the return on assets of the Bank was 2.19%.

The bank ranks third in the banking system, with an asset ratio by sector of 14.1%. In 2022, the bank recorded an 11% increase in assets, mainly due to the increase in resources attracted from depositors and international financial organisations.

OTP Bank ranks 3rd in terms of volume of loans granted, both to individuals and legal entities, with a share of 14.12%. In 2022, the bank recorded a market share of 13% in the corporate segment and 16% in the individual segment, with a priority focus on portfolio quality.

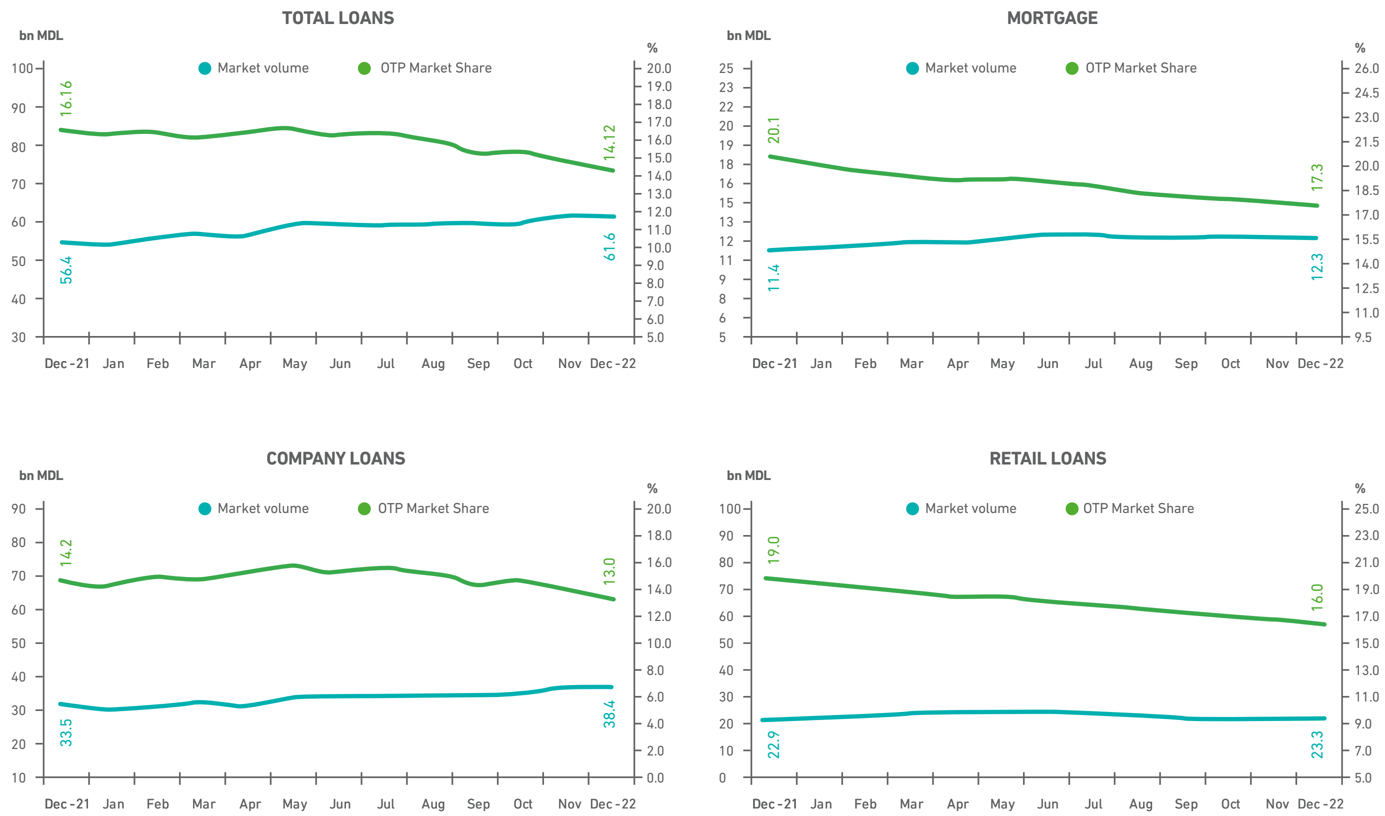


Fig.1. Evolution of the market volume of loans versus OTP Bank S.A. market share

In terms of attracted deposits, OTP Bank ranks in the top 3 market participants with a market share of 14.6% (resources attracted from legal entities - 18%, resources attracted from individuals - 12.6%).

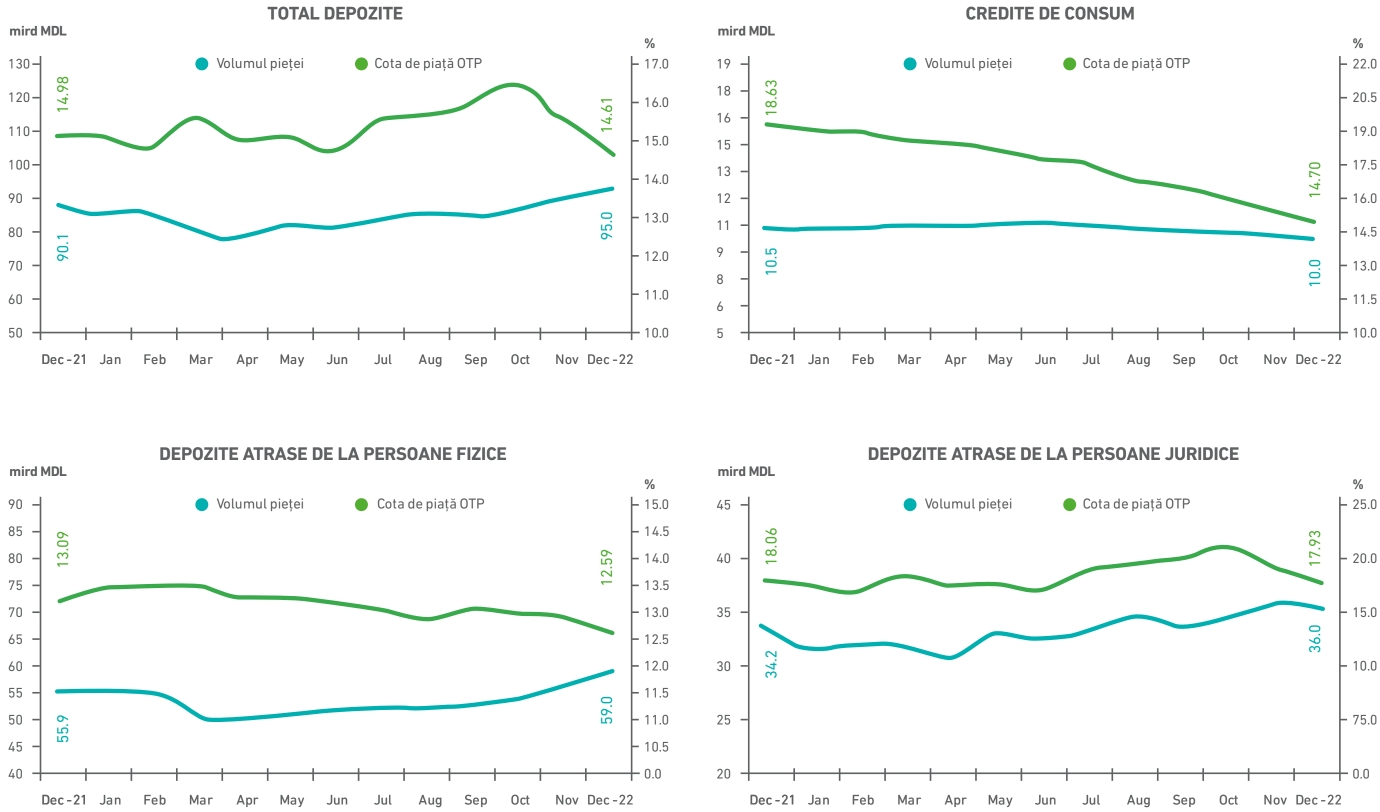


Fig.2. Evolution of the market volume of loans versus OTP Bank S.A. market share

The main projects and events in 2022:

OTP Bank is migrating to a new information system and card processing centre.

„Financial Management for Women in Business" in partnership with EBRD.

The Bank continued to sponsor the "Regional Economy" section of the economic magazine Logos Press, promoting local business.

OTP Bank S.A. was awarded with the "Service Excellence" trophy for portfolio quality by its sustainable partner - the international payment company Mastercard.

Launch of the „GDPR, Compliance and AML" programme together with EBA, in partnership with ASEM and USM OTP Bank joined the „Financial education - a personal, social and economic benefit" campaign launched by the NBM with a series of financial education activities.

OTP Bank is awarded "The best bank in Moldova" according to Euromoney.

Modernization of the OTP Bank's ATMs and branch network.

Signing of a new €15 million SME financing agreement with grant component between OTP Bank and EBRD under the EU4Business-EBRD credit line. At least 70% of this loan is intended to finance investments in green environmental technologies.

According to Euromoney, OTP Bank is leader in the Corporate Banking and Corporate Social Responsibility segments in Moldova.

The "Most Active Issuing Bank in Moldova in 2021" award was offered by the EBRD under the Trade Facilitation Program (TFP).

Concern for environmental protection and responsible consumption through various initiatives.

OTP Bank is the only bank that offered currency exchange with UAH during the whole period on a priority basis.

Opting for a transparent and prompt communication, but also out of concern for its customers and partners, OTP Bank S.A. has launched for the first time the web page - Status Services, which reflects in real time the availability of the bank's services.

Signing of a loan agreement with the European Fund for South-East Europe (EFSE) in MDL, equivalent to €20 million, as part of the crisis response package. The fund has committed to financing micro, small and medium enterprises (MSMEs) operating in crisis-relevant critical sectors to mitigate supply-chain and logistics disruptions, as well as increase local production.

As an active member of the profile associations: European Business Association, Association of Moldovan Banks, Association of Romanian Investors in the Republic of Moldova, Mobiasbanca - OTP Group develops sustainable partnerships for economic development.

Two new „Golden Mercury" awards for OTP Bank in the Trademark of the Year competition and the Gold Medal for Consumer Appreciation.

The #SolidarityForPeace campaign, with a series of initiatives in support of Ukrainian citizens.

Concern for the environment and sustainability: rehabilitation of an elm plantation, Botanical Garden, installation of bins for sorting and recycling paper, launch of the „switch to economy mode" campaign to encourage responsible electricity consumption, etc.

Corporate Governance

CORPORATE GOVERNANCE

Corporate governance is an important means of ensuring that Bank's strategic objectives are met. A reliable governance system, organization, management and control of Company's resources, financial planning, responsible management and adequate control mechanism provide a stable basis for efficiency and profitable functioning, secure and transparent business, as well as balanced relations between the management body (Supervisory Board and the Executive Committee), the control authorities, shareholders and other interested entities.

The corporate governance framework determines the distribution of rights and responsibilities between Bank's management bodies, describes in details the rules and procedures for making corporate decisions. A good corporate governance structure involves the establishment of the successful system for setting objectives, making decisions, including the control and monitoring of the execution of established decisions and objectives. At the same time, effective corporate governance means that the role and relationships established in the team building of the bank are based on ethical behavior, minimizing conflict of interest. Successful corporate governance is based on the principles of responsibility, transparency and control of decision makers.

OTP Bank S.A. complying with all requirements of the legislation in force, including those of the Group, ensures the development and maintenance of an advanced system of corporate governance that respects local and international standards, being of primary importance and ensuring simultaneously the trust and satisfaction of the Bank's customers, the increase of the shareholders' value and the corporate behavior of the Bank.

According to the legislation in force, all information/materials related to the Bank and which have the influence over the price of Bank's shares are published accurately, in full and in a timely manner. Providing regular and authentic information is essential for shareholders and other capital market participants to make sound decisions, but the way the Bank discloses information also has an impact on its reputation.

Taking this into account, the bank publicly discloses the important information about the events that influence the Bank in accordance with the National Legislation, placing them on the Bank's website: https://www.otpbank.md/disclosure and in the Official Information Storage Mechanism. The Bank discloses the information in strict accordance with the provisions of the Legislation in force, namely the Civil Code, the Law on the banks' activity, the Law on the capital market, the Law on joint stock companies, NBM/CNPF Regulations. In addition, the Bank has effective internal regulations that ensure compliance with mandatory disclosure of information.

The most important internal documents, that regulate the corporate governance of the Bank, are:

The Article of Association of the Bank
https://www.otpbank.md/storage/com/dezv/1-gov/Statutul-Bancii-27.11.2020-cu-modific%C4%83ri-%C3%AEncorporate-din-2021.pdf

The Corporate Governance Code
https://www.otpbank.md/storage/com/dezv/1-gov/3-A_000521_04-Codul-de-Guvernan%C8%9B%C4%83-Corporativ%C4%83-a-B%C4%83ncii.pdf

Directive no. 1:
The rules of organization and internal functioning of the Bank.

These Bank's documents determine in details the standards for the Governance and management of the management bodies of the Bank.

According to the principles of good corporate governance, the Corporate Governance Code establishes the structure of relationships and processes in order to be able to cope effectively with environmental change, to create a transparent and understandable system of governance that will increase the confidence of local and foreign investors, employees, customers, suppliers, supreme governance institutions and society.

The code can be accessed on the official website of the Bank, on the page dedicated to the disclosure of information regarding the governance of the bank, along with the Corporate Governance Statement "Compliance or justification". https://www.otpbank.md/governance

Directive no. 1 regulates the general aspects regarding the organization and functioning of the Corporate Governance within OTP Bank SA, inclusively establishes the individual attributions, competencies and responsibilities of the Chairman of the Executive Committee - CEO, members of the Executive Committee, and establishes the organization, functioning and competencies of the Committees established within the Bank, enabling the Bank to comply fully with the requirements of the legislation in force and with the requirements of OTP Bank Nyrt .The purpose of Directive no. 1 consists in regulating the internal procedures, obligations and responsibilities of the Bank's management.

During the reporting period, the Management and the Bank's employees acted according to the internal documents, that regulate the Corporate Governance of the Bank, namely, the Article of Association, the Corporate Governance Code, Directive no. 1, ensuring maximum transparency in the Bank's activity, acting according to the legislation in force.

The principles of Corporate Covernance, which include the creation of an effective system to ensure the security of funds offered by shareholders and their use in efficient way, respect of the rights of all shareholders, structuring of relationships and processes to cope effectively with environmental change, have been respected. In its interest, the Bank continuously monitors governance practices; identifying any weaknesses arising from external and internal changes which are examined and adapted taking into account the requirements of the legislation in force.

Internal control within the Bank is a set of means that allow the Bank's management to ensure that the operations performed, the organization and the procedures put into practice comply with the legal provisions, professional and ethical rules, internal normative documents and Bank's strategy.

The purpose of internal control includes failure prevention, measuring and exercising of the sufficient control over the involved risks, ensuring the adequacy and efficiency of internal processes, detecting irregularities, ensuring the reliability, integrity and availability of financial and management information, verification of the quality of information and communication systems.

The Bank has its own internal control mechanism. The internal control functions (risk management function, internal audit function and compliance function) are independent and have sufficient resources, knowledge and experience to carry out its tasks, and report directly to the Bank's Supervisory Board.

As important elements of the internal control are the internal normative documents, which are reviewed annually upon the necessity of their updating. Thus, during 2022, 133 internal normative documents were updated and/or elaborated, which constitute 27.5% of the total issued documents.

Ownership structure:

The Bank's shareholding structure was modified compared to the end of 2022, only in the list of minority shareholders as follows:

+ 5 new individuals

+1 individuals

By the end of 2022, the Bank had 137 shareholders, of which 136 minority shareholders holding 1.69% of the Bank's capital. The rights and legitimate interests of the Bank's shareholders are guaranteed by law, by the Article of Association and the internal normative documents of the Bank. According to the requirements of the legislation in force, the shareholders are entitled to request the redemption of the shares belonging to them. The decision regarding the redemption of the shares is taken by the General Meeting of Shareholders or by the Supervisory Board of the Bank within the limits of the competences established by the legislation in force.

Structure of shareholders of the Bank:

Category	Holding in social capital, %	Number of shareholder
Legal persons >= 1%	98.26 %	1
Physical persons >=1%	0.00	0
Legal persons < 1%	0.10 %	15
Physical persons <1%	1.59 %	121
Treasury shares	0.06 %	x
TOTAL	100 %	137

The bank's shareholders and groups of persons acting jointly and holding qualified holdings in the bank's share capital:

Name of shareholder	Country of residence	Number securities, unites	Holding in social capital, %	Effective beneficiaries of qualified holdings
OTP BANK NYRT	Hungary	9,825.785	98.26 %	N/A

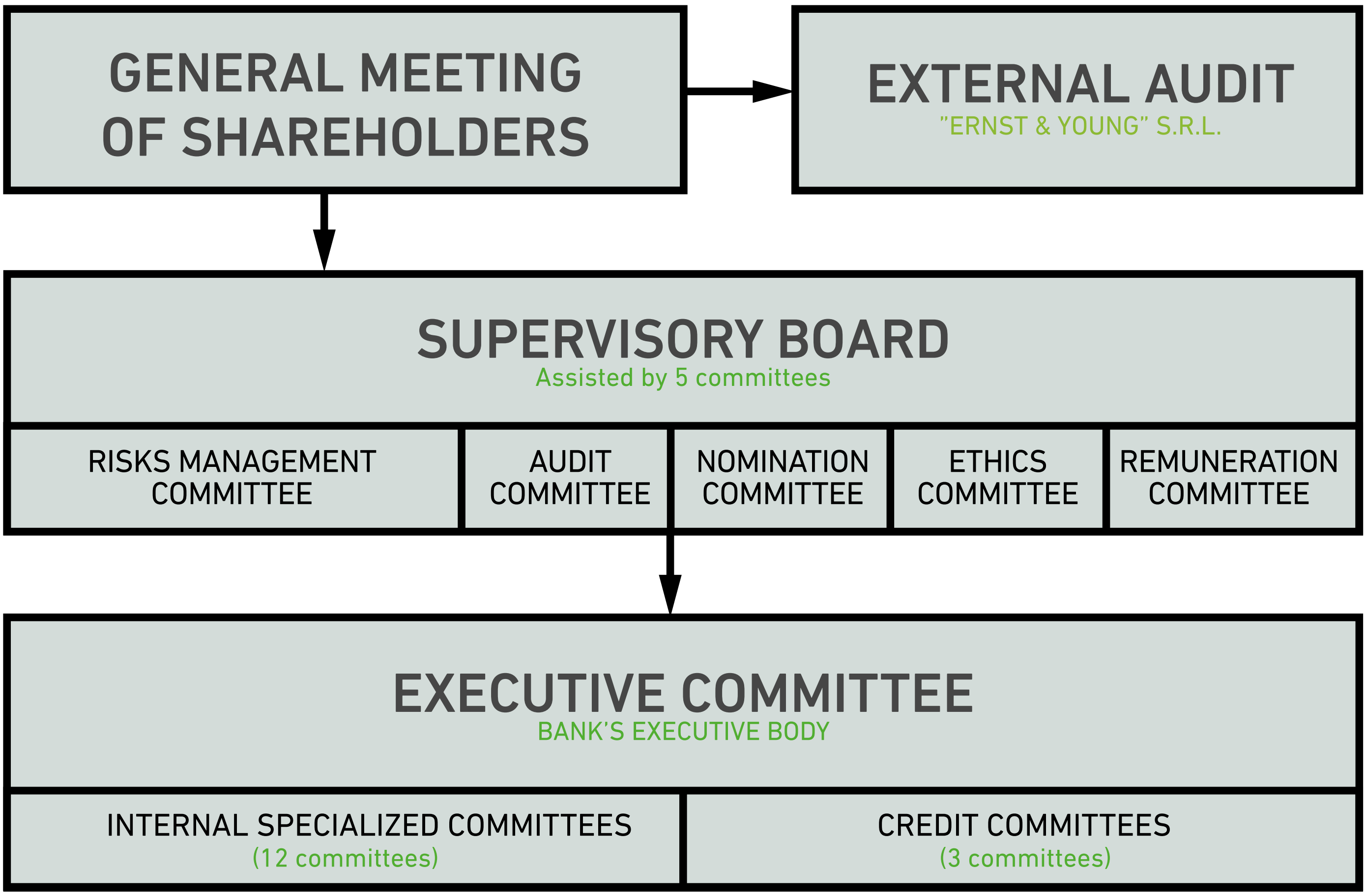
The majority shareholder of the Bank is OTP Bank Nyrt. (Hungary), which is listed on the Budapest Stock Exchange. The headquarters of the Parent-Bank is: 16 Nador str., Budapest, 1051, Hungary.

The securities of the Bank are admitted for trading on the regulated market - the Stock Exchange of Moldova.

Keeping of the shareholders' records is performed by the "Central Single Depository of Securities" S.A.

Type and the class of securities	Ordinary shares
Country	Moldova
Codul ISIN	MD14OTPB1008
Securities admitted for trading at the regulatory market	Stock Exchange of Moldova MD 2012, str. Maria Cibotari, 16 mun. Chișinău, RM Tel: 022-277-592
Registry of Bank's shareholders	Central Unique Depositary of Securities MD-2005, str. Mitropolit Gavriil Bănulescu Bodoni 57/1 mun. Chișinău, RM Tel. 0 22 999 546
Contact details	OTP Bank S.A. MD 2012, bd. Ștefan cel Mare și Sfînt, 81 A, mun. Chișinău, RM, bir. 319 Corporate Governance Department Tel: 022-812-431, 022-812-339

Statutory governing bodies:



General Meeting of Shareholders

Bank's General Meeting of Shareholders has an important role within Bank's control and verification system. Bank's General Meeting of Shareholders holds sufficient competences that do allow to fully influence the politics promoted by Supervisory Board and Executive Committee activities.

Bank's shareholders have all the rights, obligations and responsibilities settled by the legislation, by Bank's Article of Association and internal normative documents.

The right of taking part at the General Meeting is held by Bank's shareholders included in Bank's Shareholders list, as well as in the list related to the shareholders who have the right to take part within the General Meeting. The shareholders can personally take part within the general Meetings or via power of attorney. Also, shareholder's right to vote can be suspended/limited on the basis of the legislation in force or via court decision, but the actions which the vote right is suspended/limited for are not excluded when the General Meeting of Shareholders is being convoked, as well as for settling the quorum, exceptions being the ones stipulated in the legislation in force. Upon case, these shares do not participate at voting when adopting decisions regarding the matters included in the General Meeting of Shareholders agenda.

During 2022 there have been convoked and held one General Meeting of Shareholders by correspondence on 28.04.2022. The meeting was attended by shareholders and their representatives who hold 98.43% of the total number of voting shares.

The General Meeting of Shareholders was held having the National Bank of Moldova opinion regarding the list of shareholders who have the right to participate within Bank's General Meeting of Shareholders. Bank's shareholders had several possibilities to vote, either by sending it by post to the address: MD-2012, Republic of Moldova, Chisinau, 81/A Ștefan cel Mare și Sfînt Av., of.319, either by sending it via e-mail to gov@otpbank.md or by uploading the signed voting paper through the shareholders dedicated page on bank's website.

The shareholders could get acquainted with the materials for the General Meeting of Shareholders agenda on a dedicated page on Bank's site: https://otpbank.md/infoactionari/.

During the General Meeting of Shareholders, where had been examined the subjects both, for shareholders' interest as well for Bank's one, there were approved the annual reports of Supervisory Board, Executive Body, there were approved the amendments to the Bank's Articles of Association, including those relating to Bank's corporate name change - OTP Bank SA, approval of the external audit company etc. The adopted decisions were published in the regular editions of the Official Monitor of the Republic of Moldova, the newspaper „Capital Market" and placed in the Official Information Storage Mechanism and on the Bank's website.

In order to promote some strategic actions for the development of the bank in the next period, and in compliance with the recommendations of the NBM for the banking system of the Republic of Moldova regarding the lack of capital for the year 2021 (BNM letter no. 09-01114/23/735 of 11.03.2022) decided not to distribute the profit obtained according to the results of 2021 and to reflect it as „Undistributed Profit".

SUPERVISORY BOARD

Supervisory Board is Bank's management body who has the role to supervise Bank's performance, approving and monitoring the implementation of the strategic objectives, management frame and corporative culture by Bank's Executive Body. In this context, the Supervisory Board defines Bank's activity administration frame, by assuring the elaboration, approval, implementation, permanent monitoring and periodical revision of the primary internal regulations that make the subject of all Bank's activity domains, inclusively the division of responsibilities within the company and the prevention of the conflicts of interests.

The Supervisory Board is responsible both for assuring certain best practices and institution's good management, as well as for regular financial reporting to the National Bank of Moldova. The functions of Risk Management, Compliance and Internal Audit, are under the direct supervision and responsibility of Supervisory Board.

Supervisory Board has 5 members, assigned and suspended by the General Meeting of Shareholders. Candidates' identification and recommendation for being assigned as Supervisory Board members, is carried out by Bank's Nomination Committee upon the proposal of the shareholders who hold at least 5% from the total number of shares with voting right and upon personal initiative. At least 1/3 from Supervisory Board members are independent according to the definition settled in the Law regarding banks' activity.

During 2022, there were changes in the composition of the Bank's Supervisory Board, starting on 01.12.2022, the resignation of Mr. Attila Beer as a member of the Bank's Supervisory Board was approved. Thus, the numerical composition of the Bank's Supervisory Board, starting from 01.12.2022, is made up of 4 members.

The members of OTP Bank S.A. Supervisory Board as of 31.12.2021:

Supervisory Board members		Start of Supervisory Board Member	Mandate start	Is the member independent or not
President	Zoltán Major	25.07.2019	27.11.2020	Independent
	Eszter Erika Huszár	20.03.2020	27.11.2020	Independent
	Rodica Hîncu	20.05.2015	27.11.2020	Independent
	Taras Prots	27.11.2020	18.02.2021	Non-independent

Supervisory Board Members have a four-year mandate. The empowerments of each member from the Supervisory Board can cease before the settled term in case of resignation or based on the General Meeting of Shareholders decision, as well as in the case of approval's withdrawal by the National Bank of Moldova. In case if Supervisory Board membership is reduced with at least one member, a new Supervisory Board membership (full) is elected during the next annual ordinary General Meeting of Shareholders or during an extraordinary one. Thus, the quorum for holding Supervisory Board Meetings is kept in initial form that is at least half from the full membership.

Supervisory Board members contribute to an adequate governance within the Bank, inclusively vie the personal behavior, and while carrying out their responsibilities do take into account the legal interests of the Bank, and of its deponents and shareholders. Supervisory Board members perform their responsibility with honesty, integrity, objectivity and loyalty, do dedicate sufficient time and prudence, and in conformity with the legal provisions and normative frame.

In 2022, the Supervisory Board had 27 meetings, 5 in mixed form and 22 via correspondence, during which 189 issues were discussed. Thus, Supervisory Board activity in 2022, as well as for the previous years, was oriented for ensuring the performance of the strategic objectives settled by the bank, as well as the main activity directions.

Supervisory Board members was collectively reevaluated, in this context relating to the corresponding of criteria of art. 43 from the Law regarding banks' activity, afterwards being reconfirmed their appropriateness at the collective level taking into account their knowledge, aptitudes and experience.

EXECUTIVE COMMITTEE

Bank's Executive body is a collegial body, named Bank's Executive Committee, and pursues its management function upon all structural subdivisions, Bank's domains and direction, excepting the ones that are under the competence of the General Meeting of Shareholders and Supervisory Board.

The Executive Committee is composed of 7 persons with diverse experience and competence, whose nominal membership is approved by Supervisory Board. The President of the Executive Committee – CEO and the Vice-presidents of the Executive Committee act without power of attorney on behalf of the bank in any circumstance related to the activities it coordinates, as well as having the right to issue powers of attorney on behalf of the Bank.

The members of the Executive Committee, inclusively the President and the Vice-presidents of the Executive Committee are appointed for a 3 years term and begin carry out their function after being approved by the National Bank of Moldova. Members' mandate can be renewed by the Supervisory Board, for unlimited times for a 3 years term.

Members of the Executive Committee of OTP Bank S.A. as of 31.12.2022:

Members of Bank's Executive Committee		Start date of being member of the Executive Committee	Mandate's start / NBM approval (according to the CB decision)
President of the Executive Committee - CEO (from 11.04.2022 (Supervisory Board Minutes no. PV/CB/01.2022 from 10.01.2022)	Daniel-Bogdan Spuză	26.04.2020	10.01.2022 / 07.04.2022
Vice president of the Executive Committee – Commercial Director Corporate Banking	Elena Guzun	19.06.2015	18.06.2021 / 19.06.2015 /
Vice president of the Executive Committee – Commercial Director Retail Banking	Petru Delinschi	30.01.2020	30.01.2020 / 30.01.2020
Vice president of the Executive Committee – COO, Head of IT&Operations Division	Iurie Rusu	01.04.2020.	28.01.2020 / 27.03.2020
Vice president of the Executive Committee – CRO, Head of Retail Banking Divizion	Ruslan Cebotari	22.02.2021	11.11.2020 / 18.02.2021
Vice president of the Executive Committee – CFO, Head of Financial Divizion	Ion Veveriță	08.10.2021	29.06.2021 / 07.10.2021

During 2022, the nominal composition of the Executive Body was changed, as follows:

10.01.2022: Mr. Daniel-Bogdan Spuză was approved as President of the Executive Committee - CEO of the Bank, based on the NBM decision of 07.04.2022.

The Executive Committee carries out the Bank's current management in order to achieve the settled objectives within the business strategy and plan. The Executive Committee acts in Bank's interests, as well the ones of Bank's shareholders when carrying out its responsibilities, inclusively is responsible for Bank's financial performance.

Thus, the Executive Committee assures the adequate implementation of bank's administrative frame, works out and approves upon case the secondary internal regulations, knows and understands Bank's organizational structure, the risks it generates in order to assure the carrying out of Bank's activities in correspondence with Bank's strategy, appetite for risk and policies approved by Supervisory Board.

The Executive Committee quarterly reports to Supervisory Board regarding its activity, focusing on the following subjects: important changes in the banking system, the situations that can influence the strategy and/or Bank's administrative activity frame, Bank's financial performance, balance evolution, the evolution of the credits portfolio, resources' evolution, the evolution of incomes and expenses report, the observing of limits related to the conformity risks or rules, internal deficiency control system, etc..

The activity of the Executive Committee is annually evaluated by the Supervisory Board, at collectively and individual level.

During 2022, the Executive Committee had 62 meetings, 38 being by correspondence and 24 with presence or video conference, during which there had been discussed 496 issues.

SUPERVISORY BOARD SPECIALIZED COMMITTEES

There are four Supervisory Board specialized committees that are responsible for offering the necessary support to the Supervisory Board in order to carry out its responsibilities:

Risks Management Committee
Audit Committee
Nomination Committee
Ethics Committe
Remuneration Committee

The reporting committees are subordinated to Supervisory Board, are independent in front of the Executive Body and have a consultative function, putting forward proposals and recommendations to the Supervisory Board. The committees are exclusively composed of Supervisory Board members, where most of them must be independent, according to the criteria settled by the legislation in force.

The specialized committees interact among them in order to assure the coherence and in order to avoid discrepancies when taking decisions. This interaction happens by cross participation, so that the president or a member of a specialized committee can also be member of another specialized committee.

Risks Management Committee

Risks Committee offers support to the Supervisory Board regarding the appetite for risks and to the actual and future bank's risk strategy, and supports the Supervisory Board in monitoring the application of this strategy by the Executive Body. The general responsibility regarding risks is attributed to Supervisory Board.

The Risks Committee offers support to the Supervisory Board in order to settle the type, volume, format and frequency of the information regarding risks.

The Risks Committee had 4 meetings in 2022,where the following issues had been discussed: banking, economic, political environment; the analysis of credit portfolio; recuperation portfolio; market and country risk; structural risks; operational risk (inclusively the legal risk, banking security, conformity and reputational one); IT risk management; dashboard of the appetite for risk, etc.

Audit Committee

The Audit Committee has the mission of monitoring the domains regarding the modality of accounting and financial information is prepared and controlled. It has also the mission of monitoring the independence of statutory (external) auditors, as well as the efficiency of the internal control systems, of risks' measurement, supervision and control related to the accounting and financial processes. If necessary, it provides recommendations and its opinion to the Supervisory Board.

The Audit Committee had 6 meetings in 2022.

The had been presented and examined the following issues within the committee: examination of the **Ernst & Young External Audit Report for 2022**, the synthesis of audit activities, the carrying out of the internal audit recommendations, statistics regarding the external audit recommendations that included the stage of finishing the NBM action plan and the one for external audit, the dynamics of recommendations, the statistics of NBM recommendations and of the external audit.

Other key audit issues: impairment of loans and advances granted to customers that will also be included in the audit report; IT systems relevant for financial reporting, this aspect being more important in 2022 conditioned by the migration to the new basic banking system.

The audit opinion contains the mention that refers to the implications of the conflict between Ukraine and Russia on the bank.

Ethics Committe

Starting on 29.12.2022, a new committee, the Ethics Committee, was approved during the Bank Council meeting.

Thus, the main responsibilities of the Ethics Committee are: approve the Code of Ethics, as well as all its updating changes, formulate opinions or opinions regarding conflict of interest situations that were previously managed by the Compliance Department and/or the Committee of Ethics and Compliance, when necessary, oversees compliance with the Bank's ethical framework and approves annual reports, according to its competence, etc.

In carrying out its duties, the Ethics Committee takes into account the need to ensure that the decision-making process of the management body is not dominated by any person or group of persons in a way that may be detrimental to the interests of the Bank as a whole.

The Ethics Committee examines the review of the reports prepared by the Compliance Department for the areas of ethics, approves the Code of Ethics, as well as the changes made as a result of its periodic review.

Nomination Committee

The Nomination Committee identifies and recommends the candidates for vacancies in the Supervisory Board, Executive Committee, as well as for the key functions.

The Nomination Committee had 3 meetings in 2022, where there had been identified and evaluated the candidates for the vacancies in the Supervisory Board and Executive Body, there were identified and approved the evaluation of persons who have key function in the Bank, there were approved the reevaluations of the collective adequacy of Supervisory Board Bank members and of the Executive Committee members.

Remuneration Committee

The mission of the Remuneration Committee is to examine the Bank's annual remuneration policy, and namely: proposes Bank's principles of the remuneration policy, analyzes the remuneration policy of diverse personnel categories, proposes the decisions of Supervisory Board regarding the benefits offered to Supervisory Board/Executive Body members, as well as the ones related to different personnel categories.

The Remuneration Committee collaborates with other specialized committees whose activities can have impact on policy' and remuneration practices' formulation and good functioning, and also offers the Supervisory Board, and upon case to the General Meeting of Shareholders, adequate information concerning the held activities.

The Remuneration Committee had 4 meetings in 2022, where there had been examined the payment of the performances carried out by the personnel identified at local level.

Internal Specialized Committees

There are the following internal specialized Committees within the Bank, constituted in order to assure a good level of protection against the risks the Bank is exposed to:

1. **Monthly Performance Analysis Committee**
2. **AML Committee**
3. **Products Committee**
4. **Prices Committee**
5. **Credit Risk Monitoring Committee**
6. **Projects and Investments Committee**
7. **Operational Risks and Crisis Situations Management Committee**
8. **Assets and Liability Management Committee**
9. **Work-out Committee**
10. **Customer Experience Management Committee**
11. **Ethics & Compliance Committee**
12. **Credit Committees. (PV/CE/13.2022 din 30.03.2022)**

Credit Committees

According to the crediting policies, the Credit committees assure the examination, approval and appropriation of credits, other commitments within the limits of competences approved by Supervisory Board.

The following committees activated during 2022, depending on the settled competences:

Bank's Credit Committee

Retail Banking Credit Committee

Corporate Banking Credit Committee

Thus, the Bank has an adequate credit risk management frame, which takes into account Bank's appetite for risk and risk profile, as well as the macroeconomic market and conditions. Also, it has crediting policy and procedures for the identification, evaluation, monitoring and control of the risk credit, inclusively the counterparty credit risk.

Like any Company wich providing financial and investment services, the operations / activities of the bank as a whole are regulated in detail and continuously monitored by the supervisory authorities.

Risk management and Compliance

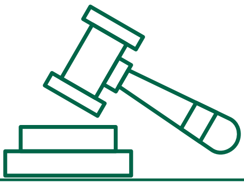
MANAGEMENT RISK AND COMPLIANCE

Approach of OTP Bank SA to risk management is correlated with the business strategy, and therefore the actions planned to achieve the business objectives are aligned with the objectives of the risk strategy. The Bank aims to achieve a balanced ratio between risk and profitability, with the aim of generating sustained growth and adequate return on capital.

The internal risk management policies regulate the correct management of all significant risks for the bank, which ensures an overall low risk profile in the context of assuming properly assessed exposures. This objective is achieved by integrating risk in a management into daily business activities, strategic planning and business development in accordance with the defined risk appetite.

Risk management includes the entire planning activity, namely how major risks will be reduced and managed once they are identified. Monitoring the risk mitigation process includes tracking identified risks, identifying new risks, as well as evaluating the effectiveness of the entire process at the bank level.

OTP Bank SA uses several risk mitigation or, where possible, risk avoidance techniques. These include an internal control system framework and strict limits on risk-taking in line with the bank's risk appetite framework.



The general objectives of risk management activities are as follows:

- Establishing a set of fundamental standards for risk management within the bank, while maximizing potential earnings and protecting depositors' interests;
- Supporting the bank's business strategy, ensuring the pursuit of commercial objectives in a prudent manner, in order to maintain income stability and cover against unexpected losses;
- Supporting the decision-making process at the bank level, by providing a perspective on the risks to which the institution is exposed;
- Ensuring compliance with the best practices in the field of risk management and compliance with the requirements of the legislation in force;
- Promoting a culture of risk awareness and management, integrated at the bank's overall level, based on a full understanding of the risks the bank faces and how they are managed, taking into account the bank's risk tolerance and appetite;
- Ensuring an optimal capital position in order to ensure an efficient activity of the Bank;
- Development and implementation of a transparent risk management process for risk identification and management;
- Adequate monitoring, stress testing tools and escalation processes for relevant capital and liquidity limits and indicators.

To ensure an effective risk management process, control activities are implemented at all levels and functions within the bank. These include activities such as: approvals, authorizations, verifications, dual control, reconciliations, operating procedures reviews, asset security and segregation of duties.

An important component of the internal control system is also the establishment and maintenance of information security management systems that cover the entire spectrum of the bank's activities. The bank has adequate back-up facilities, which are regularly tested, to ensure the recovery of critical information and applications in the event of a disaster or system disruption.

Within the Bank, the internal control system is structured on three levels of control:

Level 1

or operational control (on-line), aims to ensure the correct execution of transactions. These controls are carried out by the staff of the business subdivisions and operational management at the front-office and back-office level, being incorporated into the bank's internal normative documents.

Level 2

or the control of the risk management functions and the compliance function, carried out by the Risk Management Division and the Compliance Department units whose duties are distinct and independent from those of the bank's business subdivisions.

Level 3

controls performed by the Bank's Internal Audit, which periodically evaluates and verifies the sufficiency, functionality and efficiency of the bank's internal control system. The Internal Audit function is independent of the other two levels.

OTP Bank SA ensures appropriate governance in the field of risk management and in establishing management standards for each risk category, for which risk approaches are consistently defined and implemented:

A. Credit risk management

OTP Bank SA has implemented strategies, policies and processes for identifying, measuring, monitoring, controlling and reporting credit risk.

The objective pursued in the credit risk management process is to promote a responsible, prudent risk approach, in accordance with the provisions of the legislation and best practices. The lending activity within the bank respects the principles of adequate separation of duties, so as to avoid conflicts of interest.

In 2022, OTP Bank SA continued to improve its credit risk management framework, with an essential focus on the following areas:

- implementation of the responsible consumer lending policy and practices,
- the development and implementation of new customer rating models, developed in accordance with the group's policies and the most current practices,
- adjustment of risk appetite, risk limits and credit policies in accordance with the volatile macroeconomic and geopolitical trends specific to the current period,
- analysis and continuous monitoring of the activity of customers exposed to the negative influences of external factors such as - the interruption of supply / delivery chains as a result of the war in Ukraine, the significant increase in the prices of energy resources, the increase in interest rates related to loans, including the effects of conditions adverse weather conditions from 2022,
- active monitoring of the portfolio, including the use of an early warning framework that allows identifying negative trends, in order to implement risk mitigation measures in a timely and adequate manner.

The bank aimed to standardize and simplify credit products granted to individuals, so that they are easy to understand by customers, bank consultants and all employees involved in the lending process. At the same time, credit agreements for Corporate and SME customers must contain an adequate degree of financial and non-financial protection.

B. Market risk management

Market risk is defined as the risk of recording losses related to balance sheet or off-balance sheet items, caused by the variation in market prices of financial instruments and equity securities held for trading, interest rates and exchange rates.

Market risk within OTP Bank SA is managed in accordance with the provisions of the Market Risk Management Instruction, which establishes the governance, measures and reporting standards for this type of risk. The concrete processes, content, responsibilities and principles are specified in this internal normative document.

The bank has established a comprehensive framework regarding market risk limits, which is regularly monitored (daily, monthly or quarterly) and reported to management.

The bank's reporting framework covers reporting and regulatory requirements, internal reporting requirements and processes, and the third-party reporting framework. Key developments in market risk management are covered in a series of dedicated reports.

C. Operational Risk Management

In 2022, the bank ensured the operational risk management activity, which is based on the following pillars:

- Risk Control and Self-Assessment (RCSA) - by identifying and assessing the risks related to the bank's processes, assessing the quality of the internal control system, including identifying vulnerabilities in the prevention and control system, as well as assessing exposure to residual risk.
- Monitoring of Key Risk Indicators on sensitive processes, by assessing and monitoring to the risk exposure.
- Scenario Analysis, which provides prospective assessments of exposure to significant impact and low frequency losses within a standardized estimation process
- Business Impact Analysis (BIA) - what determines the criticality of banking activity and the resources needed to ensure the bank's business continuity plan, serving as the legal basis for restoring the critical business processes.
- Identifying and collecting operational risk losses.

In 2022, in the conditions of pandemic crises (SARS-COV-2)/ deterioration of security in the neighboring country/ energy crisis, the bank increased emphasis on crisis management by drawing up punctual action plans, being continuously adjusted depending on the trends of the crises and the decisions issued by the authorities, aimed to:

- Ensuring business continuity;
- Protecting the bank's assets and shareholders' interests;
- Protecting the bank's customers;
- Protecting employees.

D. Liquidity risk management

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities.

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

ALM and Treasury Middle Office Department is monitoring short, medium and long term liquidity. Current (intraday) liquidity is monitored by the Treasury based on received information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Thus, Treasury maintains a portfolio of short term liquid assets, largely composed of short term liquid investment securities, loans and advance to banks and other interbank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

On a short, medium and long term basis the liquidity is monitored by ALM unit which is reporting to ALCO current liquidity situation and funding needs for the future.

All efforts are concentrated on identification of liquidity risk sources, assessing risk exposures and setting appropriate limits to reduce the possible consequences of liquidity risk.

The Bank assesses liquidity and liquidity risk through the following activities:

- Analyzing the structure of assets from the perspective of liquidity and capitalization possibilities;
- Analysis of liabilities from the perspective of stability in conditions of liquidity crisis;
- Calculation and monitoring of liquidity indicators, both from the regulator (NBM) and internally developed, including liquidity buffers;
- Establishing minimum limits for liquidity indicators;
- Funding Plan developing

E. Interest rate risk management

The Bank's operations are subject to risk of interest rate fluctuations to the extent that interest-bearing assets and interest-bearing liabilities mature at different times or in different amounts. Risk management activities are aimed for optimizing net interest income, as long as market interest rate levels are consistent with the Bank's business strategies.

In order to assess the interest rate risk, the Bank takes into account the effect of a fluctuation of +/- 200 basis points on the present value of cash flows related to interest rate sensitive assets and liabilities, which is influencing the sensitivity of the economic value of equity (EVE), as well as the effect on the Net Interest Income during one calendar year.

In order to support the sensitivity calculation, the Bank is using GAPs between interest rate sensitive assets and liabilities by maturity bands. Allocation per each band is done according to the closest date between the maturity date and the interest adjustment date.

F. Strategic risk management

Strategic risk is the risk of divergence from planned financial and operational results due to unplanned and unforeseen obstacles, events or cycles of actions.

The bank's profitability management policy is to ensure maximum profitability, under normal or crisis conditions, in the context of maintaining other risks within the limits of the Bank's risk appetite.

The economic context of 2022 being characterized by high volatility required an intensification of strategic risk management activities throughout the year, namely:

- The permanent monitoring of the evolution of the banking market, the evolution of competitors, the decisions of the regulatory authorities and the performance of the Bank, which represented a constant input in the modeling of business evolution scenarios in order to update the business strategy when necessary,
- Elaboration and evaluation of alternative investment plans of the Bank's assets in conditions of increased volatility and uncertainty on the financial market in order to ensure a minimum level of exposure of the Bank to strategic risks,
- Focusing and aligning the entire team on meeting the objectives included in the business strategy for the year 2022 in order to reach the forecasted profit target.

G. ESG risks management

The bank is directly exposed to the effects of climate change and/or reputational risk as a result of the action of environmental and social factors (for example, through working conditions). The bank has implemented an internal regulatory framework, the main purpose of which is to highlight the extra-financial risks to which it is exposed, as a result of the impact of environmental, social and governance (ESG) factors on the credit profile of the borrower or the financed project, which may affect the debtor's ability to fulfill his payment obligations.

Since the clients financed by the Bank are differently exposed to ESG risks, the methodology adopted by OTP Bank SA aims to highlight and differentiate them accordingly.

Unique regulatory principles are established within the OTP Group, regarding the definition and management of activities subject to ESG risks in the process of granting and monitoring credits (including leasing products) granted to the Bank's clients (legal entities and natural persons practicing entrepreneurial activity), including customers managed by the Recovery Department.

The management of ESG factors in the credit granting process aims to minimize the risks of transactions affected by ESG factors. Social and environmental issues can affect customers' activity, cash flows, as well as their possibilities to develop their business. In this context, the role of ESG risk management is decisive in the process of identifying and managing legal, social and environmental aspects in order to minimize credit, reputational, regulatory and legal risk.

By including environmental and social aspects in the credit risk assessment process, the Bank also contributes to promoting the need to maintain appropriate social and environmental practices in the client's business.

Particular attention is to be paid to the Bank's clients' compliance with the relevant social and environmental laws and regulations, as well as the possession of the necessary licenses and permits for the activity.

COMPLIANCE

Compliance function within OTP Bank is a key component of the bank's internal control system, being responsible for identifying, assessing, managing and monitoring compliance risk, which is associated with the Bank's failure to comply with applicable law (laws, regulations, regulations, etc.) and internal regulatory documents of the bank. As a second line of defense, the Compliance function establishes policies and guidelines for managing risk areas in the field of compliance and provides advice and guidance on issues related to compliance with internal regulations, ethics, conflicts of interest and practices for management of reputational risk.

In 2022, OTP Bank S.A. continued to focus on building the compliance culture in the company, based on the Group's policies and guidelines, by implementing the Group's best practices and the highest international standards in the areas of compliance, ethics, conflicts of interest (including investment services), anti-corruption, identification and assessment of compliance risks, sanctions and suspicious transactions, due diligence, consumer protection, personal data protection, investment activities, identification and prevention of insider trading and market manipulation, international tax compliance - FATCA.

At the same time, an important aspect in the exercise of its internal control function is the establishment of an internal regulatory framework for the observance and execution by the bank's employees of the legal provisions in the field of preventing and combating money laundering and terrorist financing.

In this connection, the Compliance function comes up with a set of proposals for measures, regulations, procedures and instructions, aimed at systematic and permanent control of the bank's activity, in order to prevent exposure to the risk of legal and regulatory sanctions, risk of financial loss or reputational damage, as a result of non-compliance of the bank's activity with the provisions of the legal and regulatory framework.

In addition, the semi-annual compliance risk assessment carried out within the Bank allows the identification of more vulnerable and risk-exposed processes and business segments. Here we would like to mention that during 2021, the compliance risk assessment process was launched and carried out, which contributed to the identification of risks related to the field of compliance, and as a result - to the development of an action plan to reduce them.

Another important objective of the Bank is compliance with international sanctions regimes. For this purpose, within OTP Bank SA, a balanced internal system operates, through the implementation of policies and procedures designed to ensure the favorable regulatory framework, but also customer and transaction filtering solutions, with the aim of avoiding the involvement of the Bank in operations with the involvement of the parties under sanctions imposed by international authorities.

In order to improve the risk management system, OTP Bank continues to develop methodologies, tools and mechanisms for risk assessment.

The bank's Management supports the compliance function to be independent of operational functions and to have sufficient authority, resources and access to the Bank's Supervisory Board.

On regular basis, the Compliance function submits compliance reports to the Management on the activities performed, specifically concerning the verifications made and the related outcome, as well as the measures implemented and/or planned to remedy any shortcomings in order to remedy any non-compliances.

At the same time, an important aspect in the exercise of its internal control function is the establishment of an internal regulatory framework for the observance and execution by the bank's employees of the legal provisions in the field of preventing and combating money laundering and terrorist financing.

In this connection, within OTP Bank are applied internal policy and procedures for preventing and combating money laundering and terrorist financing, which allow to establish in time and prevent suspicious banking operations, as well as to ensure the implementation of the appropriate information system for identification of cases of non-compliance with the legislation and of the internal normative documents in this field. The main purpose is to provide maximum protection to the interests of the bank's customers by reducing as much as possible the risk of financial crimes and fraud. The OTP Group is committed to promoting an appropriate AML / CFT culture and increased awareness across the clients and branches.

Banks are required by regulations to permanently strengthen their ability to prevent and detect financial crime and non-compliance. There is an increased regulatory focus on fraud and compliance checks, with banks expected to take all necessary measures to protect customers from fraud and to identify risks of non-compliance in business processes. Financial crime and threats of fraud continue to evolve, often along with geopolitical and technological developments. The evolving regulatory environment continues to be challenging.

In conclusion, all measures taken in the field of compliance contribute to raising the level of corporate culture and strengthening ethical and conduct values, in order to reduce the bank's exposure to these risk areas to zero. The Compliance function provides the Management with support and advice in order to prevent conducts that could lead to penalties generate losses or cause significant damage to the Bank's reputation. In this scope, compliance activities also contribute to increase the Bank's value to the benefit of all stakeholders.

Commercial Activity

COMMERCIAL ACTIVITY

Despite the uncertain economic outlook and a cautious approach, OTP Bank managed to consolidate its top position in its key business segments: 3rd (third) place by total volume of loans granted and total volume of deposits attracted per banking sector.

Thus, at the end of 2022, the portfolio of consumer loans amounted to MDL 1,465 billion, the portfolio of real estate loans amounted to MDL 2,130 billion, and the value of loans granted to legal entities amounted to MDL 703 billion. The volume of deposits and savings accounts of individuals reached the level of MDL 7,430 billion, and the portfolio of deposits attracted from legal entities amounted to MDL 1,597 billion.

OTP Bank currently serves more than 178 thousand active customers and offers a wide range of banking products and services through various channels, including its 54 banking offices across the country, of which 49 retail branches, 3 agencies, 1 corporate branch and 1 dedicated Private Banking branch. The modernization of the branch network in all regions of the country continued in 2022 by aligning with OTP Group's corporate identity. The opening of two new outlets: the Dalia Branch (Botanica sector) and the Tudor Vladimirescu Agency (Riscani sector), have broadened OTP Bank's presence in the Chisinau area, increasing the convenience of its clients and employees.

Following the OTP Group's impetus, the Bank continued the modernization of the ATM network, implementing state-of-the-art solutions and technologies. The transition to the new generation of ATMs involved the installation of 74 additional ATMs with new functionalities such as cash-in and cash recycling. The bank currently has 85 cash-out ATMs and 64 cash-in/recycler ATMs. OTP Bank has opted not only for modern and reliable ATMs, but also for machines with low energy consumption. Maximising banknote storage capacity in ATMs significantly reduces the frequency of cash handling and transport operations, thereby reducing the carbon footprint. Moreover, some ATMs are equipped with Braille keypads, making them accessible to the visually impaired.

In 2022, the Bank continued the development of its Internet and Mobile Banking solution, launched in record time a year ago. This is in fact the only solution on the banking market in the Republic of Moldova, which allows the management of personal and business bank accounts in a single application, accessible from anywhere in the world and from any Internet-connected device. The stabilization of the application after the migration to the new card-processing center and the new information system, as well as its adaptation to new market trends will continue in 2023.

Retail Banking

The turbulent and unpredictable economic and geopolitical context has led to the application of dedicated business approaches to support retail customers, including Ukrainian citizens.

During the year, the Bank made considerable efforts to optimize internal processes as well as to adapt them to the new regulatory paradigm. Thus, new savings products for individuals were launched in 2022, with specific and even unique functionalities on the market at the time of launch, and the Bank offered additional benefits and the chance to win valuable prizes during promotional campaigns.

During the year, a new social card was also launched - Visa Sigur, aimed at pension and social allowance recipients. The new card came bundled with „more benefits, more security and more prizes", this also being the slogan of the promotional campaign. During the promotional period, OTP Bank offered every client who opened a card: a free accident insurance worth 25 000 MDL, advantageous interest rate on the account balance, guaranteed cashback and a chance to win monetary prizes.

OTP Bank continued to support agricultural entrepreneurs in 2022, offering professional advice, fast and advantageous lending solutions, aligned to the needs and specific business activity of companies in this sector, including through the AgroFrabrica financing concept launched by OTP Bank two years ago. In the first half of the year, the AGRO 2022 Spring Campaign „Credit Darnic" was launched, in which, by drawing lots, prizes were offered by the bank's partners: vouchers for the purchase of agricultural raw materials (seeds, fertilizers, herbicides, pesticides, etc.), as well as a Dacia Duster car - the grand prize offered by OTP Bank. Thus, thanks to its personalized and efficient approach, the Bank has strengthened its position on the market, recording a 12% share in the portfolio of loans for agriculture, granted per banking sector.

In 2022, new advantageous lending solutions were developed to support small and medium-sized businesses, which is an important business segment for the Bank. Personalized approach, preliminary financing decision in maximum 1 working day, facilitating access to advantageous credit and lease financing resources, including from international resources and with grant component - are just some of the benefits offered by OTP Bank.

In order to facilitate SME customers' access to banking services, BASIC and BASIC + current service packages have been launched. These are designed for companies with annual sales up to 50 MMDL and offer a range of benefits in a single package. These include a single fixed monthly fee: current accounts in lei and foreign currency, OTP Internet and Mobile Banking service, Visa Business cards for national and international use, payments in lei to other bank clients, salary transfers for employees and currency conversion operations.

In April 2022, as part of the promotional campaign „All bank services for your business, in one package, FREE", the BASIC package was offered free of charge for a period of 6 months for new customers, and for newly established companies - for a period of 12 months. Additionally, companies could benefit from a Mobile term deposit in MDL with preferential interest. The main objectives of the campaign were to facilitate the access of customers to banking services, support newly established businesses, and promote the performance of current operations through the remote service - OTP Internet and Mobile Banking. By the end of 2022, more than 3000 SMEs have benefited from discounts under the BASIC and BASIC + packages.

During 2022, activities and projects were carried out, with the support and expertise of the Group, aimed at driving sales and supporting excellence in customer service, improving commercial indicators and maintaining the level of motivation and involvement of sales teams.

At the same time, commercial actions dedicated to promoting and selling the Bank's products and services were expanded. Thanks to the Bank@Work project, the Bank's presence was expanded by increasing the number of branches involved in consulting & servicing clients in the salary projects. The development of the Direct Sales Agents concept continued, correlated with the economic realities related to 2022. Thus, in addition to attracting new customers and animating inactive customers, sales agents were involved in actively promoting lending and savings products.

In 2022, the Bank continued the development of alternative sales channels by launching the POS Lending project, which is an innovation in the banking sector, offering consumers the opportunity to purchase goods and services in instalments, directly in Partner stores. The strategic objective of the project was to develop the functionality used by the Partner and to implement the competitively priced offer for lending products exclusively for individuals.

Corporate Banking activity

Corporate Banking business line continued its upward trend, registering sustainable performances in all its areas of activity. In a very complicated economic environment, fuelled by regional instability and the war in Ukraine, as well as uncertainties related to the energy market and inflationary pressures, Bank has made significant efforts to remain a trusted partner for its customers.

Strengthening and development of partnership relations with the largest companies in the national economy, collaboration with successful enterprises and facilitation of international trade remained our priority directions of activity for 2022 year.

Despite the macroeconomic and monetary policy challenges, bank has shown openness towards financing the economy, so that the Corporate loan portfolio increased by over 15.5%, registering the most robust growth among our business lines. The bank has implemented important projects in multiple key sectors of the national economy: medical services, retail trade development, agro-food and processing industry, winemaking, distribution and logistics, etc.

The high quality of the bank's loan placements once again confirms the prudence and correctness of our lending decisions, especially in a volatile economic environment.

In 2022, OTP Bank maintained its position as the reference bank for multinational companies, which are present in Moldova, as well as for the largest enterprises in the country. Being part of OTP Group has facilitated our clients' access to modern financing technologies and international cash-management platforms. The central pillar of the Corporate Banking activity is our team, made up of professionals in customer relationship management, structuring complex financing transactions and offering high-quality banking services.

Leasing activity

The Leasing activity has registered a rhythm of consolidation and adaptation to the new credit policy standards related OTP Group, showing a increasing trend of the market share and a constant pace for the portfolio volume. OTP Leasing still remains one of the top leasing service providers, offering financing into business segment, especially for equipment and specialized vehicles procurement.

The 2022 year was one of major changes for the Bank, where the development of important IT projects continued with the involvement of the leasing team, leading to the possibility to launch in the net year and IT Tool for leasing purposes which will allow the presence of the OTP Leasing products into the Retail and Consumer market.

Relationship with International Financial Institutions

In 2022, OTP Bank S.A. consolidated its position as an important player in the implementation of financial projects for business environment development in the country, continuing to remain a reference bank for International Financial Institutions (IFI) and the European Union in the Republic of Moldova.

Collaboration with IFI has improved significantly, in particular, thanks to the launch of a new financing project with the European Fund for South-Eastern Europe (EFSE), which has provided to OTP Bank S.A. EUR 20 million equivalent in MDL. At the same time, due to the continuous cooperation with the EBRD, which in 2022 granted the Bank new EUR 15 million loan under the EaP SMEC facility with Grant component of up to 15%, remaining the only bank in Moldova financing companies through financial leasing with grant component.

In cooperation with the local authorities, thanks to the successful implementation of the credit programs launched with support of the Government of Moldova, OTP Bank S.A. had the solid position of a strategic and important Partner for OGPAE, IFAD and UIP Fruit Garden (EIB). Especially for CEB facility distribution, which granted subsidized interest credit (10% of credit with 0% interest rate) to help SMEs in the country with liquidity needed to increase investment and production capacity. In this sense continuing to remain one of the leading banks in Moldova in terms of CEB financing, in 2022 OTP Bank S.A. granting subsidized loans in the equivalent amount of EUR 5.20 million to its clients focused on creating or maintaining viable jobs.

OTP Bank continued actively promote the financing programs for Young Entrepreneurs and Women in Business, the primary goal being the development of business in rural areas, offering access to special conditions and a reduced price and financial incentives up to 40%. This was possible due to the involvement of the Ministry of Finance of Moldova, the Office for the Management of Foreign Assistance Programs (OGPAE), the International Fund for Agricultural Development (IFAD) and the Organization for the Development of Entrepreneurship (IP ODA).

Likewise, the Bank maintains and intensifies the axis of deep collaboration with OGPAE, UCIP IFAD (support of Agro-Industrial companies) and EIB (UIP fruit Garden) where the final beneficiaries financed from international funds benefited from funding with Grant component, various advantages as discounted interest rates, Tax and Duty exemptions and free technical assistance.

Correspondent Banks

OTP Bank S.A. proves to be a strong and reliable partner, by performing of the related international trade foreign currency payments of the clients, via its accounts held in 12 foreign globally representative banks and a wide network of correspondent connections through RMA relations (SWIFT keys). The historically established correspondent relations with first-class foreign banks facilitate cross-border payments both in terms of security and efficiency, as well as through the speed of transaction processing and the avoidance of high costs related to the receipts applied by intermediate correspondent banks.

Clients have possibility to process payments in more than 120 currencies that enable them to trade across the world, having several advantages such as: protection against currency risk, lack of additional taxes to the standard ones, fast execution of payments and without limitations of minimum / maximum amounts.

OTP Bank S.A. opts to maintain mutually beneficial and long-lasting relationships, while also committed to providing quality services, in line with the level of expectations and needs expressed by customers.

In the context of strict regulations, both at the local level and due to the rigorous policy of the OTP Group, each existing or potential correspondent bank is subject to a complex, thoroughly and prudently conducts the due diligence examination by preparing an exploring analysis, assessing and evaluating theirs system of ways and means applied against money laundering and terrorism financing, according to national and international requirements to ensure that the banking partner is safe and of impeccable reputation.

Digital solutions in Cash Management

In 2022, the effort of the Cash Management team was fully allocated to the development, migration and automation of services offered by digital products for legal entities, including multinational companies. „OTP Internet & Mobile Banking" and „International Account Management" (MT101/MT940/MT950/MT942) were migrated to the new Core Banking System platform, which allowed access to the respective services with high performance. Now, the automatic and online processing of payments (local, treasury, salary), receipt of statements has allowed clients to become autonomous in the management of treasury, payments, and access to bank accounts (24/7) and without the intervention of bank operators and bank support.

In record time, the Bank's team demonstrated commitment to the migration of digital products and customer database by providing individualized support (visit, zoom), technical expertise to ensure a smooth migration from the old rigid system to the new one.

Trade Finance and Factoring

In the context of the previous year of regional instability and disruption of supply chains related to the conflict in the neighbouring country, OTP BANK S.A. actively supported the foreign trade activity of its clients, offering the full package of instruments to reduce the risks of non-delivery/non-payment.

The Bank is strengthening its role as a financial advisor to the client, to help them explore and approach new markets by offering a wide spectrum of Trade Finance products that represent risk minimization tools in import/export activity by organizing webinars to present and promote Trade Finance tools of bank guarantees, documentary and stand-by letters of credit, documentary encashment, as well as the option of financing by discounting letters of credit.

With stable correspondent relationships with first-class banks and inclusion in the EBRD and IFC trade facilitation programmes, OTP Bank offers trade facilitation instruments at the highest international standards. For the 7th consecutive year, the Bank has been nominated by the European Bank for Reconstruction and Development as the „Most Active Issuing Bank in Moldova in 2021".

OTP Bank is one of the few banks in the market offering export factoring, helping local exporters to increase their competitiveness in the global market. In 2022, the first transactions were made in the FCI's 2-factor system*.

For next year, the digitization project is underway by implementing a high-performance IT solution. This will enable the bank to offer customers the best receivables financing services and develop supply chain financing solutions.

**Factors Chain International*

Capital Markets Activity

OTP Bank S.A. carries out numerous activities on the international and local Moldavian capital markets with involvement in securities operations, operations of attraction and placement of funds on interbank market, as well as monetary operations of the National Bank of Moldova.

OTP Bank S.A. always was and remains an active participant of the Moldovan securities market. The bank invests its own resources in State Securities (SS), National Bank of Moldova Certificates (NBC), and offers intermediation services to its clients who can benefit from a full range of investment products.

In 2022, based on the availability of liquidity, the Bank's total investments in SS and NBC compared to 2021 decreased by about 32.7% (only for NBC was fixed a decrease by 39.2%, and for SS – an increase of more than 2 times). At the same time, as a result of management of the available liquid assets within the aforementioned operations, and due to the increase in interest rates during the year, the obtained income constituted a 2.4 times increase, compared to the level of the last year. The average volume of SS portfolio maintained for the Bank's clients was 460 million MDL, representing an increase of about 77% compared to 2021.

The Global Transaction Banking Department has performed various operations of placements and borrowing of resources in local and foreign currency for the purpose of more efficient management of the bank liquidity. The annual volume of overnight deposits placed at NBM had an increase of approx. 57.5%, and the total income volume increased by approx. 13 times compared to the level of 2021. The turnover of monetary transactions with foreign currency (especially overnight deposit placements in USD) had an increase of 12.9%, and the income obtained (also due to the increase in interest rates) increased 39.6 times compared to last year.

Monetary Market (Forex)

Because of geopolitical, macroeconomic inflationist conjuncture, in 2022 Forex market registered high-level volatility. Therefore, occurred active intervention from National Bank of Moldova trough instruments of Monetary Policy – it generated complex structural changes by currency in assets and liabilities of the bank.

Under this circumstances OTPBank have managed to generate a growth of +27.2% in volume of FX transactions compare to previous year;

At the same time due to concentration of competitive environment, it had mark down a sharp increase in Forex net banking income up to 304,7 mil. MDL, growing by over + 70% compare to previous year.

NON-FINANCIAL STATEMENT

Through the established Corporate Social Responsibility (CSR) policy, OTP Bank S.A. strengthens its role in society: a reliable partner for its employees, customers and suppliers, which the Group supports in achieving their dreams and goals, and a factor of progress for the economy, the environment and the future society.

Concern for the environment, responsible consumption and sustainable solutions are a priority, and the Bank acts consciously and with a sense of responsibility regarding the impact of its actions on the environment, its employees and the community in which it operates. Thus, in 2022, OTP Bank S.A. started to build the ESG strategy (environmental, social and governance factors) in line with the Group's vision, in collaboration with responsible subdivisions of the Group, focused around the Bank's portfolio of products and services.

The actions that will guide OTP Bank Moldova in the implementation of the ESG Strategy will focus on three 3 areas of responsibilities:

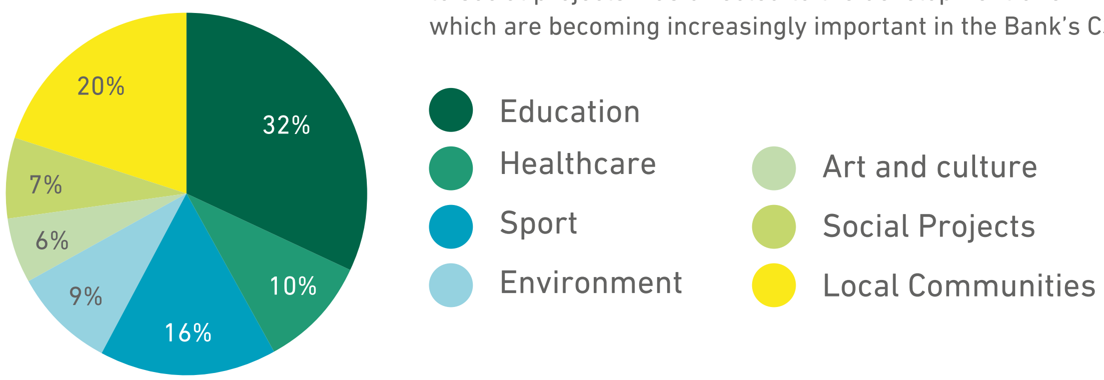
1 Responsible Finanial partner: with the aim of financing the gradual transition to a green, low-carbon economy and offering a range of sustainable products and balanced financing options. This strategic direction refers to increasing the product portfolio with green credit and other financing solutions, developing digital products and channels, active ESG risk management practices in banking.

2 Responsible Employer: with the aim of developing and implementing active ESG management tactics, integrated into the governance model and continuous investment in employee well-being and development, inclusion and diversity, and employee involvement in decision-making;

3 Socially responsible actor: by setting ambitious targets, in terms of their own actions to adopt responsible consumption within the organisation and reduce CO2 emissions from their fleet. Creating a positive social impact, not only by offering responsible products and communication campaigns, but also by continuing CSR activities - protecting the environment, supporting active and healthy living, culture and art, health and through the Financial Education Foundation's educational project „OK".

OTP Bank has always been concerned with contributing to the development of the community in which it operates, being actively involved in supporting financial education, promoting culture and the arts, in the medical and sports sectors, as well as volunteering. The priority axes of OTP Bank's Corporate Social Responsibility Policy are: art and culture, sport and healthy lifestyle, financial education, environmental protection. At the same time, the Bank supports local communities through sponsorships and donations, but also through volunteering and solidarity actions.

In 2022, OTP Bank Moldova sponsored social initiatives of 32 associations or institutions in various fields, with the largest share of financial education projects - 32%, followed by support to local communities - 20%, sports - 16% and health - 10%. It should be noted that last year about 9% of the budget allocated to social projects was directed to the development of environmental initiatives, which are becoming increasingly important in the Bank's CSR policy.



Financial Education

One of the priorities for 2022 in CSR activity was to support financial education. Through the „OK" Foundation for Financial Education, in three years of activity, we have managed to reach various localities of the country, bringing financial education programs and games to over 5000 children, youth and adults. At the same time, 29 national and international partnerships have been established. At the beginning of the school year, OTP Bank together with the Foundation team donated 100 backpacks with school supplies for primary school students from socially vulnerable families. As part of the national campaign dedicated to the Global Money Week, a series of activities were carried out, such as: Financial Education Marathon (webinars for students), training „About real estate investments", educational videos, contests and prizes, etc.

To support women in business, two editions of „Financial Management for Women in Business" were organized in collaboration with the EBRD Moldova Team, with the financial support of the Government of Sweden (Embassy of Sweden in Chisinau). The beneficiaries of the project were 65 businesses run by women, client OTP Bank.

Culture and art

OTP Bank continues to be a loyal partner of culture and art, supporting institutions of national importance, such as the National Art Museum of Moldova and from 2022 - the Republican Theatre „Luceafarul". A special edition of the European Night of Museums event was organized in 2022, after two years of restrictions, which gathered a very large number of visitors thanks to the diverse cultural program with interferences between visual arts, music and poetry.

Investment in Health

OTP Bank supports the healthcare sector and responds to the needs put forward by healthcare institutions with responsibility. Last year the Bank directed financial resources to the Institute of Neurology and Neurosurgery „Diomid Gherman" in Chisinau for repair works. We also financed the equipping of a physiotherapy room for children with disabilities within the Association for Children with Disabilities „Steaua Calauza/Centrul Nicusor" in Gratiesti commune.

Sport as a lifestyle

The promotion of a healthy lifestyle and the practice of sports were reflected through social initiatives supported by OTP Bank, such as - the Chisinau International Marathon gathered over 80 employees on the running track, the Hospice Bike Tour to support cancer patients in terminal stages, participation in the AIR Cup football tournament, as well as participation with the Business League football team, where OTP Bank was Official Sponsor.

OTP Bank supports the development of Moldovan football being the Main Partner of „ZIMBRU - 1947" Children's Football Academy for 3 years already. Almost 500 children train and develop their football skills in the Academy. This year the Bank also came up with a donation of bottom equipment for the academy disciples.

Environment

Concern for environmental protection and responsible consumption of resources has been shaped by several important projects. OTP Bank has taken under its care an elm plantation in the Botanical Garden in Chisinau. With the Bank's financial support and the work of its proactive employees, the rehabilitation of the elm plantation was achieved. Further plans are to set up an eco relaxation area and rehabilitate a rustic fountain, all under the aegis of OTP Bank. Also last year, OTP Bank supported the World Environment Day event with an exhibition of billboards made of recycled materials.

Closer to local communities

The Bank has also focused its efforts and resources on supporting local communities. Thus, we contributed to the improvement of the educational process by supporting children attending the mental arithmetic school to participate in the International Olympiad in Egypt, awarding prizes to the best graduates of L.T. „Hyperion", or. Durlesti. We organized Children's Day for children with Down's Syndrome, A.O. „Sunshine", disciples of the Football Academy „ZIMBRU - 1947". We contributed to support inclusion in society by marking the International Day of Persons with Disabilities and the International Day of Persons with Down Syndrome. At the same time we supported the improvement of the performance of young athletes of the club „Senshi no kokoro" in Ceadir-Lunga.

"Solidarity for Peace" Campaign

OTP Bank has mobilized its efforts to support the Ukrainian people through a series of actions within the #SolidarityforPeace social campaign: financial donations and commercial facilities, including the introduction of currency exchange with the Ukrainian Hryvnia, payment of rent for refugees, laptop donation, volunteering at one of the temporary placement centres, donations of goods and essential products, purchase of tickets to support a charity football match at Zimbru. At the same time, the Bank sponsored the recording of an audio book in Romanian and Ukrainian.

The social campaign #I'mSantaChristmas continues for the third year, gathering over 500 volunteers, OTP Bank employees. The concept of the campaign is to provide Christmas presents to children from foster homes, socially vulnerable families. This year the help offered by the employees was directed towards the foster care centres under the care of our partner A.O. „Concordia. Social Projects". In the three editions of the campaign, almost 850 children from different regions of the country received help and gifts.

OTP Bank became the Main Partner of the social project „Winter Story" - Calancea's LUPII and Osoianu's Sisters, with the aim to offer social support to old people and children from disadvantaged families, promoting Moldovan culture and traditions. About 1120 children and 510 elderly people benefited from social aid during the hikes organized in various localities within the framework of this project.

The supreme award „Golden Mercury" in the nomination „Socially Responsible Trademark" at the National Trademark 2022 competition confirms OTP Bank's status as a socially responsible company that invests in the welfare of communities through sponsorships and donations, supporting impactful social initiatives and projects.

Responsible employer

Developing in a dynamic and challenging environment, OTP Bank implements responsible human resources policies, designed to support the development of a sustainable environment characterized by ethics, professionalism and responsibility:

- Investing in the development and continuous training of employees;
- Fair pay and career advancement opportunities based on merit;
- Retaining talent in the organization;
- Equal rights, treating employees with respect and fairness, without discrimination;
- Information and involvement in the bank's activities;
- Health and safety in the workplace;
- Work in quality conditions and endowment with modern equipment.

The OTP Bank's strategy in the field of human resources is oriented towards consolidating the status of reference employer on the local market, having as priorities the following strategic directions:

a. Training and continuous development of bank employees through the implementation of new training programs, tools and modern means of professional and personal development;

b. Supporting internal mobility and developing career programs;

c. Development of organizational culture and continuous improvement of the working environment and conditions;

d. Increasing team commitment and promoting the values that unite us;

e. Promote and achieve constructive collaboration through transparent communication focused on the sustainable development of the team and the Bank.

a. Training and continuous development of employees

As a strategic partner of the business, the Human Resources and Institutional Communication Department builds its strategy and focuses its efforts to maintain the image of an employer of reference, by implementing various programs and initiatives aimed at motivating and retaining employees, offering career growth and professional development opportunities.

Thus, during 2022, more than 29,000 hours of training were organized, on average constituting ~ 32 hours/per employee, the main objectives of training and development of bank employees being:

- Change management support in the process of **migration to the bank's new information system:**

To achieve this objective more than 580 bank employees were trained in various training activities (organized both in offline and online format) to familiarize and master the functionality of the new information system:

47
offline training **DAYS**

584
PEOPLE trained offline & online

6232
delivered traning **HOURS**

- **Development of the commercial skills** of the bank's Business team employees, by organizing training sessions on various dedicated topics, such as:

Advanced Sales & Negotiation

Sales workshops (CLIPRI & CLIPRO)

Selling, Negotiation and Persuasion through Role Play etc.

- Promote **risk management and compliance** knowledge and culture at all levels in the bank by organising regular eLearning trainings on the internal MyLearning distance learning platform;

- Support **organizational and cultural transformation** by implementing leadership improvement and development programs such as:

Inspirational Leadership - a managerial program, dedicated to the team of managers in the Bank's Branch network, focused on developing the ability to create passion and enthusiasm in employees;

Leadership Academy (2nd edition) - talent management programme, focused on identifying and training tomorrow's leaders;

Leadership Transformation Program - a change management program, dedicated to the Bank's middle management team, which includes a series of activities to reinvigorate the organizational culture by optimizing management practices and approaches, thus improving collective performance.

b. Supporting internal mobility and developing career programs

OTP Bank TP Bank continues to support employee development by encouraging internal mobility through the establishment of a career development framework and the organisation of development programmes, focused on ensuring business continuity, by providing qualified staff for key Front Office positions. Thus, during the year 49 employees successfully completed training programmes, giving them the opportunity for career advancement.

- CLIPRI School - program dedicated to the training of future Individual Client Counselors
- CLIPRO School - a specialized program for the training of future Legal Advisers

c. Development of organizational culture and continuous improvement of the working environment and conditions

In order to improve the organizational culture and diversify the work environment, during 2022 several HR projects and initiatives were implemented, such as:

OTP Group Engagement Survey - questionnaire launched for the second consecutive year, centralised at OTP Group level and aimed at all employees. The results help us measure engagement, satisfaction and other important elements in relation to the people who make up the OTP Group team;

Developing team spirit by organizing internal corporate, thematic events and involving open colleagues for development and contribution:

- Loyalty events for employees with more than 10 years of experience in the bank;
- Employee reward events for individual performance;
- Leadership Team Meeting - event dedicated to the leadership community;
- Creative workshops for employees and their children to provide work-life balance;
- Skills development events led by OTP employees for employees.

Appreciating the loyalty and performance of the people who have contributed to the Bank's development over the past 14 years;

Implementation of the internal OTPersona program which aims to develop a community of ambassadors consisting of bank employees who promote the OTP Bank name on social media;

Open Day - a monthly exercise to introduce colleagues and subdivisions of the Bank in which they perform their roles, with the aim of facilitating understanding of activities and collaboration between subdivisions;

OTP Hobby Club - monthly online events on various non-banking topics of common interest to bank employees;

Front Office Dress Code - providing Front Office employees with business-style clothing items accompanied by corporate identity elements (badge).

Ensuring a climate based on team spirit and practices where employees' needs and passions are noticed, continuous development and career growth, wellness and health benefit programs, flexible working hours and internal events - through all these actions and projects we are committed to creating a working environment that contributes to the well-being of OTP Bank employees.

OTP Bank's people are the driving force of the company, the key element of the Bank's success, i.e. In order to promote a healthy way of life as well as the well-being of the employees, OTP Bank in 2022 implemented Optional Medical Insurance for both the bank's employees and their family members (spouse, children).

Respect for human rights and the fight against corruption

The bank's corporate governance framework and Human Resources policy are built on the current legislative framework on the protection and observance of human rights and all interested parties - shareholders, investors, customers, business partners, employees and civil society.

OTP Bank is committed to high standards of ethical behaviour and has a zero tolerance approach to corruption, violation of these principles is not appropriate for good corporate governance. In order to comply with the legislation on the prevention of corruption and ethical principles in all areas of activity, the bank has implemented anti-corruption policies and the Code of Ethics. These basic internal regulatory documents are supported by our ongoing investments in technology and training. During 2022, trainings were organized through mandatory e-learning courses, which ended with tests successfully passed by the bank's employees.

We also mention that OTP Bank was awarded the „Golden Mercury" for the nomination „Implementation of integrity standards in the private sector", an award that demonstrates compliance with the code of business ethics and the implementation of mechanisms to promote integrity and anti-corruption standards in business.

otpbank

OTP BANK S.A.

Financial Statements
31 December 2022

Prepared in accordance with International Financial Reporting Standards

FOR IDENTIFICATION PURPOSES
ERNST & YOUNG
Signed.
Date 22/03/23

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FOR IDENTIFICATION PURPOSES
ERNST & YOUNG
Signed
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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of OTP Bank S.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of OTP Bank S.A. (the Bank), which comprise the statement of financial position as at December 31, 2022, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) as issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements that are relevant to the audit of the financial statements in Moldova and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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.

For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the "Auditor's responsibilities for the audit of the financial statements" section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter

Impairment of loans and advances to customers

The net carrying values of loans and advances to customers of 8,165,102 thousand MDL represents a significant part (44.07%) of the total assets of the Bank as at 31 December 2022.

Management's assessment of impairment indications and determination of Expected Credit Loss (ECL) for loans and advances to customers is a complex process and involves significant judgement. Such an assessment is inherently uncertain, involving forecasting of future macroeconomic conditions in a number of scenarios, assessing the likelihood of such scenarios and their impact on ECL. It also involves assessment of Risk of Default, Loss Given Default and Exposure at Default by employing models based on series of historical data and quantitative techniques.

The uncertainties in the environment in the context of economic conditions and geopolitical tensions (war in Ukraine) and related governments actions, including elevated inflation, energy crisis and other disturbances have affected certain industries, increasing the uncertainty around macro-economic scenarios and weights. These have resulted also in certain limitations on the relevance of historical data in forecasting defaults and recovery rates and limits the ability of the statistical techniques to differentiate the impact between sectors. Such uncertainties and limitations, led to an increased complexity of the expected loss estimation and requires post model adjustment/ overlays.

The potential effect of the above items is that it has a high degree of estimation uncertainty, with a potential range of reasonable outcomes, significantly different than estimated impairment allowance. Notes 2.5.9, 2.7.5 and 15 to the financial statements present more information on the estimation of impairment allowance for loans and advances to customers.

Due to the significance of loans and advances to customers, the uncertainties involved and related complexity of estimation techniques we consider the Impairment of loans and advances to customers a key audit matter.

How our audit addressed the key audit matter

Our audit procedures included, among others, the assessment of the Bank's methodology regarding the identification of impairment and determination of expected credit losses, including determination of macroeconomic scenarios and their weight, staging criteria and the credit risk parameters models like Probability of Default, Loss Given Default and Exposure at Default.

We assessed the design and evaluated the operating effectiveness of internal controls over the monitoring the quality of loans and advances to customers, parameters' models, macroeconomic scenarios and related weights, post model adjustments/ overlays, expected credit loss calculation as well as controls over the quality of underlying data and relevant systems.

We also assessed the macroeconomic scenarios and related weights and examined the approach used in determination of post-model adjustments/ overlay.

For the loss allowance of impaired loans assessed on an individual basis (stage 3), our evaluation was focused on the loans with the most significant potential impact on the financial statements and considered the key assumptions underlying the impairment identification and quantification such as estimated future cash flows, including the realizable value of collaterals and estimates of recovery on default. Our internal valuation experts were involved, as appropriate, in performing our audit procedures.

For expected credit losses for loans assessed in stage 1 or stage 2 we tested key risk parameters' models by involving our credit risk specialists to reperform the modeling for a sample of models re-performed staging and re-calculated expected credit losses.

We further assessed the adequacy of the Bank's disclosures in the financial statements regarding exposure to credit risk.

Key audit matter

Information Technology (IT) systems relevant for financial reporting

A significant part of the Bank's operations and financial reporting process is reliant on IT systems involving automated processes and related general and application controls over the capture, storage and processing of data. An important component of this internal control system involves the existence of and adherence to appropriate user access and change management processes and controls. These controls are particularly important because they ensure that the access and changes to IT systems and data are made by authorized persons in an appropriate manner.

The IT environment of the Bank is complex with a significant number of interconnected systems and databases. Besides, the new way of working adopted in all areas of the Bank brings changes and further complexity.

Given the level of automation of the processes relevant for financial reporting and given the complexity of the IT environment of the Bank, the migration to a new core system and the outsourcing of cards processing, a high proportion of the overall audit procedures was concentrated in this area.

We therefore consider that this area represents a key audit matter.

How our audit addressed the key audit matter

We focused our audit procedures on those IT systems and related controls that are significant for the financial reporting process. As the audit procedures over the IT systems require specific expertise, we involved our IT specialists to assist us in performing the audit procedures.

Our audit included, among others, the following procedures:

- Understanding and assessing the overall IT control environment and the controls in place, including the ones over access to systems and data, and considering the context of work from home, as well as IT system changes. We tailored our audit approach based on the importance of the system for the financial reporting.
- We tested the operating effectiveness of controls over granting access rights to determine if only appropriate users had the ability to create, modify or delete user accounts for the relevant applications.
- We tested the operating effectiveness of controls around the development and changes of applications to determine whether these are appropriately authorized, tested and implemented.
- We assessed and tested the design and operating effectiveness of the application and IT-dependent controls in the processes relevant to our audit.

Emphasis of matter

We draw attention to Note 33 "Assessment of going concern" to the financial statements, which describes the risk and impact of the uncertainties in regard to the conflict between Russia and Ukraine. Our opinion is not modified in respect of this matter.

Other information

The other information comprises the Annual Report of the Bank's Council and Management which includes the Non-Financial declaration but does not include the financial statements and our auditors' report thereon. Management is responsible for the other information.

Our audit opinion on the financial statements does not cover the other information and 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 of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards 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.

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.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism 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, 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.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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 auditor's 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.

Report on Other Legal and Regulatory Requirements

Reporting on Information Other than the Financial Statements and Our Auditors' Report Thereon

In addition to our reporting responsibilities according to ISAs described in section "Other information", with respect to the Annual Report of the Bank's Council and Management (Annual Report), we have read the Annual Report and report that:

a) in the Annual Report we have not identified information, which is not consistent, in all material respects, with the information presented in the accompanying financial statements as at December 31, 2022;
b) the Annual Report identified above includes, in all material respects, the required information according to the provisions of the Law on accounting and financial reporting nr. 287 dated 15.12.2017 article 23;
c) based on our knowledge and understanding concerning the Bank and its environment gained during our audit of the financial statements as at December 31, 2022, we have not identified information included in the Annual Report that contains a material misstatement of fact.

On behalf of

ICS Ernst & Young SRL
51 Alexandru cel Bun street, Chisinau, Republic of Moldova
Registered in the Public register of audit entities with no. 1903059

Partener: Alina Dimitriu

Auditor's name: Galina Gherman
Registered in the Public register of certified auditors with no. 1606103

Chisinau, Republic of Moldova
22 March 2023

Statement of Comprehensive Income for the year ended 31 December 2022

	Note	2022	2021
(in thousands MDL)			
Interest income	4	1,327,044	757,117
Interest expense	4	(377,728)	(203,726)
Net interest income		**949,316**	**553,391**
Fee and commission income	5	222,506	209,271
Fee and commission expense	5	(86,968)	(74,423)
Net fee and commission income		**135,538**	**134,848**
Net trading income	6	305,220	178,795
Credit loss expense on financial assets	7	(341,526)	(34,117)
Other operating income	8	10,822	11,556
Net operating income		**1,059,370**	**844,473**
Personnel expenses	9	(334,632)	(283,569)
Depreciation of property, equipment and right-of-use assets	18	(54,461)	(45,001)
Amortization of intangible assets	19	(18,517)	(10,511)
Other operating expenses	10	(188,615)	(197,988)
Profit before tax		**463,145**	**307,404**
Income tax expense	11	(60,038)	(36,036)
Profit for the year		**403,107**	**271,368**
Basic and diluted earnings per share (in MDL)	12	**40.33**	**27.15**

The accounting policies and Notes on pages 8 to 132 form part of, and should be read in conjunction with, these financial statements.

The financial statements and related notes were authorised for issue by the Supervisory Board on 21 March 2023.

Daniel-Bogdan SPUZĂ
President of the Executive Committee
OTP BANK S.A.

Ion VEVERIȚĂ
Chief Financial Officer
OTP BANK S.A.

22 March 2023

REPUBLICA MOLDOVA mun. CHIȘINĂU OTP Bank S.A. otpbank IDNO 1002600006089

FOR IDENTIFICATION PURPOSES
ERNST & YOUNG
Signed
Date 22/03/23

Statement of Financial Position as at 31 December 2022

	Note	31 December 2022	31 December 2021
(in thousands MDL)			
Assets			
Cash and balances with Central Bank	13	6,807,269	3,866,208
Due from banks	14	898,300	2,318,602
Derivative financial instruments		1,629	311
Financial assets at fair value through profit or loss	17	2,583	3,949
Loans and advances to customers	15	8,165,102	8,796,570
Debt instruments at amortized cost	16	2,162,209	1,346,193
Other assets	20	75,457	57,097
Property and equipment	18	290,329	279,349
Deferred tax assets	11	4,886	5,678
Intangible assets	19	119,779	108,256
Total assets		**18,527,543**	**16,782,213**
Liabilities			
Due to banks	21	410,522	2,571
Derivative financial instruments		41	659
Due to customers	22	13,493,021	13,497,108
Borrowed funds from IFIs	23	1,730,929	862,907
Other liabilities	24	218,298	152,794
Provisions	25	69,604	64,153
Total liabilities		**15,922,415**	**14,580,192**
Equity			
Issued capital	26	100,000	100,000
Treasury shares	26	(56)	(56)
Share premium		151,410	151,410
General reserve		10,674	10,674
Prudential reserve		0	134,684
Retained earnings		2,343,100	1,805,309
Total equity		**2,605,128**	**2,202,021**
Total liabilities and equity		**18,527,543**	**16,782,213**

The accounting policies and Notes on pages 8 to 132 form part of, and should be read in conjunction with, these financial statements.

The financial statements and related notes were authorised for issue by the Supervisory Board on 21 March 2023.

Daniel-Bogdan SPUZĂ
President of the Executive Committee
OTP BANK S.A.

Ion VEVERIȚĂ
Chief Financial Officer
OTP BANK S.A.

22 March 2023

REPUBLICA MOLDOVA mun. CHIȘINĂU OTP Bank S.A. otpbank IDNO 1002600006089

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ERNST & YOUNG
Signed...
Date... 22/03/23

Statement of Changes in Equity for the year ended 31 December 2022

(in thousands MDL)	Issued capital	Treasury shares	Share premium	General reserve	Prudential reserve	Retained earnings	Total
At 31 December 2020	**100,000**	**(56)**	**151,410**	**10,674**	**155,701**	**1,610,517**	**2,028,246**
Profit net	-	-	-	-	-	271,368	**271,368**
Rezerve prudențiale	-	-	-	-	(21,017)	21,017	-
Dividende	-	-	-	-	-	(97,593)	**(97,593)**
Sold 31 decembrie 2021	**100,000**	**(56)**	**151,410**	**10,674**	**134,684**	**1,805,309**	**2,202,021**
Profit	-	-	-	-	-	403,107	**403,107**
Prudential reserves allocation	-	-	-	-	(134,684)	134,684	-
Dividends	-	-	-	-	-		-
At 31 December 2022	**100,000**	**(56)**	**151,410**	**10,674**	**-**	**2,343,100**	**2,605,128**

General reserve represents a statutory non-distributable reserve that according to the legislation consists of 10% of the share capital.

Prudential reserve represent general reserves for covering the bank risks related to the differences between the asset impairment losses and provisions for contingent liabilities, according to the IFRS, and the amount calculated but unformed of allowances for losses on contingent assets and liabilities, according to the prudential regulations. This reserve is created since 2012 according to the chart of accounts approved by the National Bank of Moldova and may not be distributable.

The accompanying notes on pages 8 to 132 form an integral part of the financial statements.

Statement of Cash Flows for the year ended 31 December 2022

	Note	2022	2021
(in thousands MDL)			
Cash flows from operating activities			
Profit before tax		463,145	307,404
Adjustments for:			
Depreciation and amortization	18,19	72,978	55,512
Loss on disposal of property and equipment	9	47	205
Net impairment gain on financial assets	7	(341,526)	(34,117)
Foreign exchange loss/(gain)		(292,507)	(10,303)
Interest income		(1,327,044)	(757,117)
Interest expenses		377,728	203,726
Tax expense	11	(60,038)	(36,036)
Changes in:			
Mandatory reserves		(2,583,639)	(9,339)
Due from Banks		(4,195)	10,293
Loans and advances to customers		959,331	(1,413,302)
Other assets		2,104	3,786
Deposits from banks		414,118	4,073
Deposits from customers		(25,905)	1,728,084
Other liabilities		75,997	34,877
Cash received/(used) in operating activities before interest		**(2,269,406)**	**87,746**
Interest paid		(346,842)	(198,420)
Interest received		1,271,960	758,361
Income tax paid		5,816	18,344
Cash received in operating activities		**(1,338,472)**	**666,031**
Investing activities			
Purchase of property and equipment		(64,855)	(84,943)
Purchase of intangible assets		(30,040)	(76,285)
Proceeds from sale of property and equipment		(90)	(370)
Purchase of securities		(7,947,747)	(12,219,456)
Proceeds from securities		7,649,061	11,967,695
Cash received/(used) from investing activities		**(393,671)**	**(413,359)**
Financing activities			
Proceeds from loans from banks and IFI's		1,449,805	664,710
Repayment of loans from banks and IFI's		(298,345)	(134,796)
Lease liabilities payments		(28,644)	(22,502)
Dividends paid			(97,593)
Cash received/(used) from financing activities		**1,122,816**	**409,819**
Increase in cash and cash equivalents		**(609,327)**	**662,491**
Cash and cash equivalents at 1 January	30	**3,183,934**	**2,521,443**
Cash and cash equivalents at 31 December	30	**2,574,607**	**3,183,934**

The accounting policies and Notes on pages 8 to 132 form part of, and should be read in conjunction with, these financial statements.

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ERNST & YOUNG
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Date... 22/03/23

Notes to the Financial Statements

1 Corporate information

Commercial Bank *OTP BANK S.A.* ("the Bank") was established in the Republic of Moldova in 1990. The Bank was registered by the National Bank of Moldova ("NBM") in July 1990 as a commercial bank and transformed into a joint stock commercial bank in 1996.

During June 2002 the Bank was registered as an open joint stock commercial bank and its shares became listed on the Moldova Stock Exchange.

The Bank's head office is located on Boulevard Stefan cel Mare si Sfant, 81A, Chisinau, Republic of Moldova.

Holder of banking license, the Bank offers a complete set of banking operations and services to enterprises and private customers.

The year 2019 was a milestone year for the bank in the field of Corporate Governance. Significant changes have taken place involving the change of the majority shareholder and the launch of the integration process within the OTP Group.

On July 22, 2019, the majority shareholders of the bank Société Générale, BRD - Groupe Société Générale S.A. and BERD sold its shares in favour of the Hungarian Bank - OTP Bank Nyrt (Hungary), which represents the ultimate parent of *OTP BANK S.A.* As a result of this transaction, OTP Bank Nyrt became the majority shareholder with 96.69% of the bank's capital. Its head office is located on Nádor Street 16, Budapest, Hungary H-1051.

In order to comply with the requirements of the national legislation in October 2019, the majority shareholder announced the Offer to take over the shares issued by *OTP BANK S.A.* Follow-up of the transaction carried out by OTP Bank Nyrt. It became the holder of 98.26% of the total shares issued by the Bank.

As at 31 December 2022 the bank has 51 points of sale, out of which 49 universal points of sale, 1 VIP branch and 1 specialized (2021: 52 points of sale, out of which 50 universal points of sale, 1 VIP branch and 1 specialized).

2 Accounting policies

2.1 Basis of preparation

The financial statements have been prepared on the historical cost basis except for financial instruments measured at fair value: derivative financial instruments, financial assets at fair value through profit and loss (FVPL). The carrying values of recognized assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortized cost, are adjusted to record changes in fair value attributable to the risks that are being hedged, and when relating to portfolio fair value hedges, are recognized on a separate line of the statement of financial position. The financial statement is presented in MDL and all values are rounded to the nearest million lei, except when otherwise indicated.

2.2 Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB).

Notes to the Financial Statements

2 Accounting policies (continued)

2.3 Presentation of financial statements

The Bank presents its statement of financial position in order of liquidity based on the Bank's intention and perceived ability to recover/settle the majority of assets/liabilities of the corresponding financial statement line item. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non–current) is presented in Note 31.

Financial assets and financial liabilities are generally reported gross in the consolidated statement of financial position except when IFRS netting criteria are met.

2.4 Changes in accounting policies and disclosures

2.4.1 New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the bank as of 1 January 2022:

- **IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments)**
  The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:
  - **IFRS 3 Business Combinations (Amendments)** update a reference in IFRS 3 to the previous version of the IASB's Conceptual Framework for Financial Reporting to the current version issued in 2018 without significantly changing the accounting requirements for business combinations.
  - **IAS 16 Property, Plant and Equipment (Amendments)** prohibit a company from deducting from the cost of property, plant and equipment any proceeds from the sale of items produced while bringing the asset to the location and condition necessary for it be capable of operating in the manner intended by management. Instead, a company recognizes such sales proceeds and related cost in profit or loss.
  - **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous. The amendments clarify, the costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to the contract activities.
  - **Annual Improvements 2018-2020** make minor amendments to **IFRS 1 First-time Adoption of International Financial Reporting Standards**, **IFRS 9 Financial Instruments, IAS 41 Agriculture** and the Illustrative Examples accompanying **IFRS 16 Leases**

The amendments did not have impact of the financial position or performance of the Bank.

- **IFRS 16 Leases-Covid 19 Related Rent Concessions beyond 30 June 2021 (Amendment)**
  The Amendment applies to annual reporting periods beginning on or after 1 April 2021, with earlier application permitted, including in financial statements not yet authorized for issue at the date the amendment is issued. In March 2021, the Board amended the conditions of the practical expedient in IFRS 16 that provides relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic. Following the amendment, the practical expedient now applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendments did not have impact of the financial position or performance of the Bank.

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ERNST & YOUNG
Signed...
Date... 22/03/23

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies

2.5.1 Foreign Currency translation

(i) Functional and presentation currency

The financial statements are presented in Moldovan Lei ("MDL"), rounded to the nearest thousand, which is the Bank's functional and presentation currency.

(ii) Transactions and balances

Transactions in foreign currencies are initially recorded at the spot rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange at the reporting date. All differences arising on non–trading activities are taken to Net trading income in the income statement.

Non–monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition. Non–monetary items measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined.

The official exchange rates for major foreign currencies at year-end were as follows:

	31 December 2022	31 December 2021
(in Moldovan Lei per unit of foreign currency)		
US dollar	19.1579	17.7452
EUR	20.3792	20.0938
Russian Rouble	0.2667	0.2369

2.5.2 Recognition of interest income

(i) The effective interest rate method

Under IFRS 9, interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortized cost. The EIR is the rate that exactly discounts contractual cash receipts through the life of the financial instrument.

The EIR (and therefore, the amortized cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Bank recognizes interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan.

The Bank calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets.

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.2 Recognition of interest income (continued)

(i) The effective interest rate method (continued)

If expectations of fixed rate financial assets' or liabilities' cash flows are revised for reasons other than credit risk, then changes to future contractual cash flows are discounted at the original EIR with a consequential adjustment to the carrying amount. The difference from the previous carrying amount is booked as a positive or negative adjustment to the carrying amount of the financial asset or liability on the balance sheet with a corresponding increase or decrease in Interest revenue/expense calculated using the effective interest method.

For floating-rate financial instruments, periodic re-estimation of cash flows to reflect the movements in the market rates of interest also alters the effective interest rate, but when instruments were initially recognised at an amount equal to the principal, re-estimating the future interest payments does not significantly affect the carrying amount of the asset or the liability.

(ii) Presentation of net interest income

The Bank considers its net interest margin to be a key performance indicator; the measure includes both interest calculated using the effective interest method and interest recognized on a contractual basis on its financial assets/liabilities measured at FVPL other than those held for trading.

The existent portfolio of debt instrument financial assets classified at FVPL is not significant amounting MDL 2,583 thousand as at 31 December 2022. The Bank has therefore concluded that including an additional line item entitled, "Other interest income" in order to show all interest income resulted from FVPL financial assets would not add additional value to its stakeholders and decided to keep one single line item entitled "Interest income" for showing interest income calculated using the EIR and on a contractual basis on its financial assets measured at FVPL. The Bank has also elected to present its interest expense in a manner consistent and symmetrical with interest income.

(iii) Interest and similar income/expenses

Net interest income comprises interest income and interest expense calculated using the effective interest method. In its Interest income/expense calculated using the effective interest method, the Bank only includes interest on those financial instruments that are set out in Note 2.5.2 (i) above.

The Bank calculates interest income on financial assets, other than those considered credit-impaired, by applying the EIR to the gross carrying amount of the financial asset.

When a financial asset becomes credit-impaired (as set out in Note 2.5.9 and is therefore regarded as 'Stage 3', the Bank calculates interest income by applying the EIR to the net amortised cost of the financial asset. If the financial asset cures (as outlined in Note 2.5.9) and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.3 Fees and commission income

The Bank earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognized at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for providing the services.

The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The Bank's revenue contracts do not typically include multiple performance obligations. When the Bank provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time.

The Bank has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

2.5.4 Net trading income

Net trading income includes all gains and losses from changes in fair value and the related interest income or expense and dividends, for financial assets and financial liabilities held for trading. This includes any ineffectiveness recorded on hedging transactions.

2.5.5 Financial instruments – initial recognition

(i) Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognized on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognized when funds are transferred to the customers' accounts. The Bank recognizes balances due to customers when funds are transferred to the Bank.

(ii) Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Notes 2.5.6.1 (i) and Note 2.5.6.1 (ii). Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price.

(iii) Measurement categories of financial assets and liabilities

According to IFRS 9, the Bank classifies all of its financial assets that are debt instruments based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortized cost, as explained in Note 2.5.9.1
- FVPL, as explained in Note 27

The Bank classifies and measures its derivative and trading portfolio at FVPL. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies, as explained in Note 27. Financial liabilities, other than loan commitments and financial guarantees, are measured at amortized cost or at FVPL when they are held for trading and derivative instruments or the fair value designation is applied, as described per Note 2.5.6.4.

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.6 Financial assets and liabilities

2.5.6.1 Due from banks, Loans and advances to customers, Financial investments at amortized cost

According to IFRS 9, the Bank only measures *Due from banks, Loans and advances to customers* and *other financial investments* at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below:

(i) Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)

The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

(ii) The SPPI Test

As a second step of its classification process the Bank assesses the contractual terms of financial to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set. In contrast, contractual terms that introduce a more than de minimum exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.6 Financial assets and liabilities (continued)

2.5.6.2 Due to customers, due to banks and borrowed funds

After initial measurement, due to customers, due to banks and borrowed funds are subsequently measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the EIR. A compound financial instrument which contains both a liability and an equity component is separated at the issue date.

2.5.6.3 Financial assets and liabilities at fair value through profit or loss

> **Financial assets and liabilities**

Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9.

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated. Such changes in fair value are recorded in the Own credit reserve through OCI and do not get recycled to the profit or loss. Interest earned or incurred on instruments designated at FVPL is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument. Interest earnt on assets mandatorily required to be measured at FVPL is recorded using contractual interest rate. Dividend income from equity instruments measured at FVPL is recorded in profit or loss as other operating income when the right to the payment has been established.

> **Derivative Financial Instruments**

- Foreign exchange swaps and interest rate swaps

The Bank enters into foreign-exchange swap and interest rate swap ("IRS") transactions. The swap transaction is a complex agreement concerning the swap of certain financial instruments, which usually consists of a spot and one or more forward contracts. Interest rate swaps obligate two parties to exchange one or more payments calculated with reference to fixed or periodically reset rates of interest applied to a specific notional principal amount (the base of the interest calculation). Notional principal is the amount upon which interest rates are applied to determine the payment streams under interest rate swaps. Such notional principal amounts are often used to express the volume of these transactions but are not actually exchanged between the counterparties. The Bank's interest rate swap contracts can be hedging or held for trading contracts.

- Foreign exchange options

A foreign exchange option is a derivative financial instrument that gives the owner the right to exchange money denominated in one currency into another currency at a pre-agreed exchange rate at a specified future date. The transaction, for a fee, guarantees a worst case exchange rate for the futures purchase of one currency for another. These options protect against unfavourable currency movements while preserving the ability to participate in favourable movements.

2.5.6.4 Financial guarantees, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognized in the financial statements at fair value, being the premium received.

Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the income statement, and – under IFRS 9 – and an ECL provision as set out in Note 25.1.1.

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.6.5 Financial guarantees, letters of credit and undrawn loan commitments (continued)

The premium received is recognized in the income statement in *Net fees and commission income* on a straight-line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Based on IFRS 9, these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position. The nominal values of these instruments together with the corresponding ECLs are disclosed in Note 25.1.

2.5.7 Reclassification of financial assets and liabilities

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified.

2.5.8 Derecognition of financial assets and liabilities

2.5.8.1 Derecognition due to substantial modification of terms and conditions

The Bank derecognizes a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

When assessing whether or not to derecognize a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan;
- Introduction of an equity feature;
- Change in counterparty;
- If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded. For financial liabilities, the Bank considers a modification substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten percent. For financial assets, this assessment is based on qualitative factors.

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.8 Derecognition of financial assets and liabilities (continued)

2.5.8.2 Derecognition other than for substantial modification

(i) Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when the rights to receive cash flows from the financial asset have expired. The Bank also derecognizes the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Bank has transferred the financial asset if, and only if, either:

- The Bank has transferred its contractual rights to receive cash flows from the financial asset

  Or

- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement

Pass-through arrangements are transactions where by the Bank retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates
- The Bank cannot sell or pledge the original asset other than as security to the eventual recipients
- The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay

In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either:

- The Bank has transferred substantially all the risks and rewards of the asset

  Or

- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognized only to the extent of the Bank's continuing involvement, in which case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be required to pay.

FOR IDENTIFICATION PURPOSES
ERNST & YOUNG
Signed...
Date... 22/03/23

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.8 Derecognition of financial assets and liabilities (continued)

Derecognition other than for substantial modification (continued)

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Bank would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

(ii) Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in profit or loss.

2.5.9 Impairment of financial assets

2.5.9.1 Financial assets carried at amortized cost

This category includes due from banks, loans and advances to customers as well as debt instruments carried at amortized cost.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past–due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group.

The Bank has developed a methodology for assessing impairment on loans and advances that is based on three years historical information on the timing and the amounts of the expected future cash flows. The Bank regularly reviews the methodology and assumptions used for estimating future cash flows in order to reduce any differences between loss estimates and actual loss.

(i) Overview of expected credit loss (ECL) principle

The Bank records allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in referred to as "financial instruments".

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Bank's policies for determining if there has been a significant increase in credit risk are set out in Note 28.2.

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.9 Impairment of financial assets (continued)

2.5.9.1 Financial assets carried at amortized cost (continued)

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

PDs, both for LTECLs and for 12mECLs are calculated on a collective basis (the description of criteria determining the calculation of ECL on collective or individual basis are set out in Note 28), depending on the nature of the underlying portfolio of financial instruments.

The LGD collectively evaluated for impairment is estimated based on historical loss or recovery experience observed.

The collective ECL calculation parameters take into account the current situation and the impact of the forward-looking information (considering the expectation related to the evolution of macro-economic indicators), as described in Note 28.2.

For the purpose of specific provisions calculated for individually assessed counterparties that are declared "in default", the Bank assesses the cash flow that is expected to recover from client's operation (if there is an activity that generates cash flows) or by exercising the guaranties and collaterals. The expected cash flows are spread over the time so that their value is discounted at the time of provisioning closing. The uncovered part of exposure by estimated recoveries is provisioned.

The Bank has established a methodology to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Bank groups its loans into Stage 1, Stage 2 and Stage 3, as described below:

- Stage 1: when loans are first recognized, the Bank recognizes an allowance based on 12mECLs and keeps the loans in this stage if no significant increase in credit risk since origination is identified. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from other stages.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered in "default" or credit-impaired. The bank records an allowance for the LTECLs.
- POCI: This category would be used for financial assets that are credit-impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognized based on a credit-adjusted EIR. ECLs are only recognized or released to the extent that there is a subsequent change in the expected credit losses.

The bank records an allowance for the 12mECLs and LTECLs.

The methodology applied for the calculation of provisions for off-balance sheet items (loan commitments, financial guarantees, letters of credit) is similar to the one used for financial assets carried out at amortized cost (loans and advances, including leasing). Exposure at default for off-balance sheet items is calculated taking into account the CCF (credit conversion factor).

This is explained in Notes 28.2 and 25.

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.9 Impairment of financial assets (continued)

2.5.9.1 Financial assets carried at amortized cost (continued)

(ii) The calculation of ECLs

The Bank calculates ECLs based on a probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- PD: the Probability of Default is an estimate of the likelihood of default over a given time horizon;
- EAD: the Exposure at Default is the basis for provisioning;
- LGD: the Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on historic recoveries;
- FL: the Forward Looking coefficient is a coefficient used at the calibration of PD which takes into account the expectation related to the evolution of macro-economic indicators;
- CCF: the Cash Conversion Factor used to estimate the EAD for off-balance commitments and contingencies, subject to ECL calculation.

The key elements for ECL calculation are explained in Notes 28.2.

The concept of PD is further explained in Note 28.2.

The mechanics of the ECL method are summarized below:

Stage 1:

The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities adjusted with FL are applied to EAD and multiplied by LGD .

Stage 2:

When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, but PDs are estimated over the lifetime of the instrument.

Stage 3:

For loans considered credit-impaired (as defined in Note 28.2), the Bank recognizes the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.9 Impairment of financial assets (continued)

2.5.9.1 Financial assets carried at amortized cost (continued)

(iii) Credit Cards and other revolving facility

The Bank's product offering includes a variety retail overdraft and credit cards facilities, in which the Bank has the right to cancel and/or reduce the facilities with a notification period as specified in lending agreement. The Bank does not limit its exposure to credit losses to the contractual notice period and calculates ECL over a period of the validity of the facility agreement under rules disclosed in Note 28.2.7 below.

(iv) Forward looking information

In order to assess the FL coefficient, the Bank has determined the correlation between the dynamic of main macroeconomic indicators and evolution of internal probability of default (PD), subsequently estimating the PD for 2022-2024 time horizon.

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as:

- Gross Domestic Product (GDP), y-o-y growth (real prices);
- Inflation (e-o-y data);
- EUR/MDL exchange rate (e-o-y data);
- Unemployment rate (e-o-y data).

The historical data for these indicators has been collected from official sources; the forecasted figures have been taken from IMF report, from data included in Medium-term budgetary framework of the country (2022-2024) and from internal budgetary estimations (exchange rate for EUR/USD).

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Detailed information about these inputs and sensitivity analysis are provided in Note 28.2.

2.5.9.2 Forborne and modified loans

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the front-office unit or Risk Management Division. Forborne may involve extending the payment arrangements and the agreement of new loan conditions.

It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. The forborne status defines the transaction's risk status which indicator should be examined at a transactional level. If a restructuring measure is applied, the transaction acquires Non-Performing Forborne or Performing Forborne status, except commercial renegotiation.

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.9.2 Forborne and modified loans (continued)

The exposure acquires Non-Performing Forborne status when the exposure is defaulted or impaired upon the restructuring. For the Enterprise segment: if after the restructuring a material NPV loss (1%) can be expected from the exposure (compared to the original cash flow). It is determined in an individual decision whether a material NPV loss exists. Non-Performing Forborne status is assigned if a performing forborne status exposure becomes defaulted or impaired. A non-performing forborne status exposure once again acquires non-performing status after acquiring performing forborne status, if during the probation period it falls past due over 30 days or it is repeatedly restructured.

The exposure acquires Performing Forborne status when the conditions of the non-performing forborne do not exist and the exposure fulfils the conditions after restructuring there was no delay of more than 30 days in the past year and in the past year no factors indicative of default exist and the institution does not find it probable, due to other reasons, that the obligor will not fulfil his loan obligations in full, in accordance with the valid repayment schedule stipulated in the restructuring contract, without realising the collateral.

The Non-Performing Forborne loans are classified in Stage 3 for at least 12 months. After that, it will have a minimum 24-month probation period during which any delay more than 30 days will lead to classification in S3. The Performing Forborne loans are classified in Stage 2 for a minimum 24-month probation period during which the conditions of the Non-Performing Forborne do not exist.

In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities have to be considered performing;
- The probation period of two years has passed from the date the forborne contract was considered performing;
- During 1 year from probation period a significant repayment has been made;
- The customer does not have any contract that is more than 30 days past due.

The loans for which was made a commercial renegotiation (necessary for developing the business relation with the client) are not considered forborne and are treated as performing. Commercial renegotiation is referring to the modification of interest rate, the substitution of pledge, or any other event, in which the Bank has the opportunity to refuse this renegotiation (meaning that it is voluntarily agreed by the Bank) with any impact on the activity of the client. The modification of any initial condition of the loans is considered as commercial renegotiation only if the client is treated as performing, no delay more than 30 days was registered during the last 3 months and the counterparty meets all criteria of the bank to be credited. All other modifications are considered forborne.

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment.

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.9 Impairment of financial assets (continued)

2.5.9.3 Credit enhancements: collateral valuation and financial guarantees

The Bank seeks to use collateral, where required by internal normative bank, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets. The fair value of collateral is generally assessed, at a minimum, at inception and periodically according to internal rules, however, some collateral, for example, cash, is valued daily.

To the extent possible, the Bank uses active market data for valuing financial assets, held as collateral. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as evaluation companies and other independent sources.

2.5.9.4 Collateral repossessed

The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. For initial recognition, repossessed assets are measured and accounted for in accordance with the policies applicable for the relevant assets categories Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Bank's policy.

Repossessed assets are evaluated at the lower value between carrying amount and fair value minus selling costs. They are reflected in the balance sheet in accordance with the Chart of Accounts of the accounting record in banks and other financial institutions from the Republic of Moldova.

In its normal course of business, the Bank does not physically repossess properties or other assets in its portfolio. During 2022, the Bank did not repossessed assets from its customers.

2.5.9.5 Write-offs

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery and the asset is fully covered by provisions. Any subsequent recoveries are credited to credit loss expense. Details regarding write off policy are presented in Note 25.

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.9.6 Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, cash in transit and cash in cash dispensers.

For the purposes of the statement of cash flows, cash and cash equivalents comprise: cash balances on hand, cash deposited with National Bank of Moldova, Nostro accounts with banks, placements with NBM and with other banks with less than 90 days original maturity and short-term treasury investments with a maturity of less than 90 days.

2.5.9.7 Property, plant and equipment

Property and equipment is stated at cost excluding the costs of day–to–day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. Right-of-use assets are presented together with property and equipment in the statement of financial position. Right-of-use assets are depreciated on a straight-line basis over the lease term.

Depreciation is calculated using the straight–line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

- Buildings: 40-56 years
- Vehicles: 5-7 years
- Computers: 4-5 years
- Equipment 5-15 years
- Furniture and office equipment: 2.5-15 years

Property and equipment is derecognized on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in *Other operating income* in the income statement in the year the asset is derecognized.

2.5.9.8 IFRS 16: Leases

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The standard requires lessees to recognize most leases on their financial statements. Lessees have a single accounting model for all leases, with certain exemptions.

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.9.8 IFRS 16: Leases (continued)

➢ **Bank as a lessee**

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term. The right-of-use assets are presented within Note 18 Property, equipment and right-of-use assets and are subject to impairment in line with the Bank's policy as described in Note 2.5.9.11 Impairment of non-financial assets.

Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

➢ **Bank as a lessor**

A lease is classified as a finance lease when the terms and conditions of the lease agreement substantially transfer all the risks and rewards of ownership to the lessee. Amounts owed by tenants under a finance lease agreement are recognised as receivables.

The recognition of a lease agreement is made at its commencement date. Commencement date is the date when the asset is made available for use to the lessee. Gross investment in the lease is the sum of all minimum lease payments plus any unsecured residual value. Finance lease income is allocated over the accounting periods to reflect a constant periodic return on the net investment remaining to the Bank.

The investment in the lease is subject to the impairment and derecognition rules of IFRS 9 "Financial Instruments" as described in notes 2.5.8 and 2.5.9 above.

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.9.9 Intangible assets

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on the basis of the expected useful lives up to 5 years. Costs associated with maintaining computer software programs are recognized as an expense when incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Bank, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognized as assets are amortized using the straight-line method over their useful lives over 5 years.
Licenses are capitalized on the basis of the costs incurred to acquire the specific license. These costs are amortized on the basis of the license period (5-20 years). Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.
An intangible asset is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss.

2.5.9.10 Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the financial statements (within Other liabilities) at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the income statement, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in the income statement in Net impairment loss on financial assets. The premium received is recognized in the income statement in Net fees and commission income on a straight-line basis over the life of the guarantee.

2.5.9.11 Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount.

A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement.

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.9.12 Employee benefits

The Bank's short-term employment benefits includes wages, bonuses, holiday pay and social security contributions and they are recognized as an expense as incurred.

Obligations for contributions to defined contribution pension plans are recognized as an expense in the income statement as incurred.

The Bank, in the normal course of business makes payments to the National House of Social Insurance and to the National House of Medical Insurance on behalf of its Moldovan employees for pension, health care and unemployment benefit. All employees of the Bank are members and are also legally obliged to make defined contributions (included in the social security contributions) to the Moldovan State pension plan (a State defined contribution plan). All relevant contributions to the Moldovan State pension plan are recognized as an expense in the income statement as incurred. The Bank does not have any further obligations.

The Bank does not operate any independent pension scheme and, consequently, has no 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.

2.5.9.13 Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2.5.9.14 Taxes

(i) Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

(ii) Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.9.14 Taxes (continued)

Deferred tax assets are recognized in respect of deductible temporary differences associated with investments in subsidiaries only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognized directly in equity are also recognized in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Since 1 January 2012 the corporate income tax rate is 12%.

2.5.9.15 Own shares

Ordinary shares acquired by the Bank are deducted from equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

2.5.9.16 Dividends on ordinary shares

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

2.5.9.17 Equity reserves

The reserves recorded in equity on the Bank's statement of financial position include general and prudential reserves that are required by the legislation.

2.5.9.18 Earnings per share

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

Notes to the Financial Statements

2 Accounting policies (continued)

2.6 Standards issued but not yet effective and not early adopted

- **IFRS 17: Insurance Contracts**
  The standard is effective for annual periods beginning on or after 1 January 2023 with earlier application permitted, provided the entity also applies IFRS 9 Financial Instruments on or before the date it first applies IFRS 17. This is a comprehensive new accounting standard for insurance contracts, covering recognition and measurement, presentation and disclosure. IFRS 17 applies to all types of insurance contracts issued, as well as to certain guarantees and financial instruments with discretional participation contracts. The bank does not issue contracts in scope of IFRS 17; therefore its application does not have an impact on the bank's financial performance, financial position or cash flows.

- **IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments)**
  The Amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. The Bank is currently revisiting its accounting policy information disclosures to ensure consistency with the amended requirements going forward. The amendments will not have impact on the financial position or performance of the Bank.

- **IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)**
  The amendments become effective for annual reporting periods beginning on or after January 1, 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty, if they do not result from a correction of prior period error. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The amendments will not have impact on the financial position or performance of the Bank.

- **IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments)**
  The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. The amendments narrow the scope of and provide further clarity on the initial recognition exception under IAS 12 and specify how companies should account for deferred tax related to assets and liabilities arising from a single transaction, such as leases and decommissioning obligations. The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement, having considered the applicable tax law, whether such deductions are attributable for tax purposes to the liability or to the related asset component. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal. The Bank is currently assessing the impact of the amendments.

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)**
  The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted, and will need to be applied retrospectively in accordance with IAS 8. The objective of the amendments is to clarify the principles in IAS 1 for the classification of liabilities as either current or non-current.

Notes to the Financial Statements

2 Accounting policies (continued)

2.6 Standards issued but not yet effective and not early adopted (continued)

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments) (continued)**

  The amendments clarify the meaning of a right to defer settlement, the requirement for this right to exist at the end of the reporting period, that management intent does not affect current or non-current classification, that options by the counterparty that could result in settlement by the transfer of the entity's own equity instruments do not affect current or non-current classification. Also, the amendments specify that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification. Additional disclosures are also required for non-current liabilities arising from loan arrangements that are subject to covenants to be complied with within twelve months after the reporting period. The amendments will not have impact on the financial position or performance of the Bank.

- **IFRS 16 Leases: Lease Liability in a Sale and Leaseback (amendments)**
  The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. The amendments are intended to improve the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction in IFRS 16, while it does not change the accounting for leases unrelated to sale and leaseback transactions. In particular, the seller-lessee determines 'lease payments' or 'revised lease payments' in such a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use it retains. Applying these requirements does not prevent the seller-lessee from recognising, in profit or loss, any gain or loss relating to the partial or full termination of a lease. A seller-lessee applies the amendment retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application, being the beginning of the annual reporting period in which an entity first applied IFRS 16. The amendments will not have impact on the financial position or performance of the Bank.

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**
  The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments will not have impact on the financial position or performance of the Bank.

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Date 22/03/23

Notes to the Financial Statements

2 Accounting policies (continued)

2.7 Significant accounting judgements, estimates and assumptions

2.7.1 Impact of climate risk on accounting judgments and estimates. Current macroeconomic and geopolitical uncertainty

A. In the absence of the trigger for migration between stages based on the customer rating, in order to ensure the identification of the significant increase in credit risk and, respectively, for the allocation in stage 2, additional criteria should be set so that other events are also caught than those existing at the moment (payment delay over 30 days, classification as performing forborne, LTV>125% for Mortgage type products, WL2 allocation etc.).

Thus, additional criteria have been identified for individual customers, based on the uncertainties characteristic of the current negative macroeconomic trends (decrease in GDP, high inflation and significant increase in interest rates related to credit products), as follows:

1. for Consumer loans - DTI greater than 55% (limit applied internally from 2021 - 60%), this being the maximum level regulated by the National Bank of Moldova in order to mitigate consumer over-indebtedness;
2. for Mortgage loans – variable interest rate:
   - for which the degree of indebtedness estimated after the interest rate change from September 2022 exceeds the limits regulated by the NBM - 40% (clients with incomes below 19,800 MDL) and 55% (clients with incomes above 19,800 MDL), and
   - granted to private individuals in the PRO category whose incomes are not of an official nature and were estimated according to MICRO technology.

The application of the above-mentioned criteria, carried out in December 2022, resulted in an additional provision of approx. 62.8 MMDL compared to 30.11.2022, which also includes the impact of the change in risk parameters, as well as from the modification of exposures, as follows:

- Consumer with DTI>55%: +30.9 MMDL;

- Mortgage: +31.9 MMDL basis.

B. In addition, it is considered appropriate to assign WL2 to the clients legal entities, whose main activity is Cultivation of plants (CAEN 01.1 Growing of non-perennial crops, CAEN 01.2 Growing of perennial crops and CAEN 01.3 Plant propagation), being seriously affected by the climatic conditions (the current year's drought) and the macro-economic circumstances induced by the conflict in Ukraine. The criteria does not apply to:

1. clients with exposures above the threshold of the exposure managed by the Corporate Credit Risk Monitoring Committee, they being evaluated individually based on Instruction regarding the monitoring of clients with the CORPORATE commercial approach, based on the Early Warning System (EWS)
2. clients analyzed by the Credit Risk Underwriting Department between July and December 2022 in the exposure analysis/review process and not considered affected.

Also, there are clients legal entities with real estate projects that currently do not have signed contracts with clients, respectively they are exposed to the risk of encountering difficulties in repaying the contracted loans, therefore, it is considered appropriate to assign WL2 to them.

The application of the above-mentioned criteria, carried out in December 2022, resulted in an additional provision of approx. 18.4 MMDL compared to 30.11.2022, which also includes the impact from the change in risk parameters, as well as from the modification of exposures.

Notes to the Financial Statements

2 Accounting policies (continued)

2.7 Significant accounting judgements, estimates and assumptions

2.7.1 Impact of climate risk on accounting judgments and estimates. Current macroeconomic and geopolitical uncertainty (continued)

C. As a result of the exercise to assess the impact of the COVID-19 pandemic, the conflict in Ukraine and the current macroeconomic situation, as well as part of the Q4 2022 related provisioning review process, which includes the assessment of the impact of the Stage 2 reclassification of customers from fully affected sectors (red zone according to the industry classifier received from OTP Group), it is considered appropriate to assign WL2 to customers from the respective sectors:

C18.1.1 - Printing of newspapers
C18.1.2 - Other printing
C18.1.3 - Pre-press and pre-media services
C18.1.4 - Binding and related services
C30.1.1 - Building of ships and floating structures
C30.1.2 - Building of pleasure and sporting boats
C30.3.0 - Manufacture of air and spacecraft and related machinery
C30.4.0 - Manufacture of military fighting vehicles
C30.9.9 - Manufacture of other transport equipment n.e.c.
C32.1.1 - Striking of coins
C32.1.2 - Manufacture of jewellery and related articles
C32.1.3 - Manufacture of imitation jewellery and related articles
C33.1.6 - Repair and maintenance of aircraft and spacecraft
H51.1.0 - Passenger air transport
H51.2.2 - Space transport
H52.2.3 - Service activities incidental to air transportation
I - ACCOMMODATION AND FOOD SERVICE ACTIVITIES
J58.1 - Publishing of books, periodicals and other publishing activities
J59.1.3 - Motion picture, video and television programme distribution activities
J59.1.4 - Motion picture projection activities
J59.2.0 - Sound recording and music publishing activities
N77.1.1 - Renting and leasing of cars and light motor vehicles
N77.3.4 - Renting and leasing of water transport equipment
N77.3.5 - Renting and leasing of air transport equipment
N79.1 - Travel agency and tour operator activities
N79.9.0 - Other reservation service and related activities
R90.0 - Creative, arts and entertainment activities
R91.0 - Libraries, archives, museums and other cultural activities
R92.0.0 - Gambling and betting activities
R93.2 - Amusement and recreation activities
S96.0.4 - Physical well-being activities

The assignment of WL2 for customers from the revised list of fully affected sectors (red zone), carried out in December 2022 resulted in a provision release of approx. 1.6 MMDL compared to 30.11.2022, which also includes the impact from the change in risk parameters, as well as from the change in exposures.

Notes to the Financial Statements

2 Accounting policies (continued)

2.7 Significant accounting judgements, estimates and assumptions

2.7.2 Going concern

The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

2.7.3 Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Bank based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Bank. Such changes are reflected in the assumptions when they occur. Items with the most significant effect on the amounts recognised in the financial statements with substantial management judgement and/or estimates are disclosed for PD, LGD in Note 28.2.8.

2.7.4 Fair value of financial instruments

The fair value of the financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under the current market conditions regardless of whether that price is directly observable or estimated using another valuation technique.

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs such as volatility for longer–dated derivatives and discount rates, prepayment rates and default rate assumptions for asset-backed securities. The valuation of financial instruments is described in more detail in Note 27.1.

Determination of fair value

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison with similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date. Where a fair value cannot be reliably be estimated, unquoted equity instruments that do not have a quoted market price in an active market are measured at cost and periodically tested for impairment.

Notes to the Financial Statements

2 Accounting policies (continued)

2.7 Significant accounting judgements, estimates and assumptions (continued)

2.7.5 Impairment losses on financial instruments

The measurement of impairment losses under IFRS across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. For more details refer to Note 15.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit rating model;
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, and the effect on PDs, EADs and LGDs; Selection of forward-looking macroeconomic scenarios. For more details refer Note 28.2.8.

2.7.6 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in the Statement of financial position.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

2.7.7 Provisions and other contingent liabilities

The Bank operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it is involved in various litigation, arbitration and regulatory investigations and proceedings in local jurisdictions, arising in the ordinary course of the Bank's business.

When the Bank can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Bank records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed.

Given the subjectivity and uncertainty of determining the probability and amount of losses, the Bank takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgement is required to conclude on these estimates.

For further details on provisions and other contingencies see Note 25.

Notes to the Financial Statements

3 Segment information

During 2022 and 2021 respectively, the bank has been organised into two operating segments based on products and services, as follows:

- Retail banking - Individual customers 'deposits and consumer loans, overdrafts, credit card facilities;
- Corporate banking - Loans and other credit facilities and deposits and currents accounts for corporate and institutional customers.

The Executive Management Committee monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses and is measured consistently with operating profits or losses in the financial statement.

Interest income is reported net as managements primarily relies on net interest revenue as a performance measure, along with the gross income and expenses.

Transfer prices between operating segments are based on the bank's internal pricing framework.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2022 or 2021.

Profit segments

An analysis of the bank's income, for 2022 and 2021 is presented, as follows:

	Total	Retail	Non-Retail
(in thousands MDL)			
2022			
Interest income	**1,327,044**	582,296	744,748
Interest expense	**(377,728)**	(225,163)	(152,565)
Fee and commission income	**222,506**	142,007	80,499
2021			
Interest income	**757,117**	436,093	321,035
Interest expense	**(203,726)**	(126,378)	(77,348)
Fee and commission income	**209,271**	136,590	72,681

An analysis of the bank's assets and liabilities for 2022 and 2021 is presented, as follows:

	Total	Retail	Non-Retail
(in thousands MDL)			
31 December 2022			
Loans and advances to customers	**8,165,102**	4,089,264	4,075,838
Due to customers	**13,493,021**	9,043,599	4,449,422
31 December 2021			
Loans and advances to customers	**8,796,570**	4,909,002	3,887,568
Due to customers	**13,497,108**	8,752,309	4,744,799

Notes to the Financial Statements

4 Net interest income

Interest and similar income calculated using the effective interest rate

(in thousands MDL)	2022	2021
Cash and balances with Central Bank	295,481	18,120
Due from banks	7,657	167
Debt instruments at amortized cost	119,889	49,870
Loans and advances to customers	904,017	688,960
	1,327,044	**757,117**

The interest income accrued on impaired (Stage 3) Loans and advances to customers during 2022 amounted to MDL'000 16,083 (2021: MDL'000 12,513).

Interest and similar expense calculated using the effective interest rate

(in thousands MDL)	2022	2021
Due to customers	278,958	172,757
Borrowed funds from IFI's	68,500	21,920
Due to banks	11,951	5,451
Interest-related expenses on operating lease from customers	2,351	1,808
REPO with NBM	15,968	1,790
	377,728	**203,726**

Notes to the Financial Statements

5 Net fee and commission income

Net fee and commission income includes fees and commission income from various banking services, including income from banking services regarding domestic and international payments, less fees and commission expenses paid for similar services received by the Bank.

Fee and commission income

	Total	31 December 2022	
		Fee income earned from services that are provided over time:	**Fee income from providing financial services at a point in time:**
(in thousands MDL)			
Payment processing	66,042	-	66,042
Transactions with cards	65,542	-	65,542
Cash transactions	30,795	-	30,795
Current accounts administration	12,325	12,325	-
Guarantee fee income	9,936	-	9,936
Early repayment fees	6,869	-	6,869
Remote banking	3,957	3,957	-
Cash collection fee	3,508	-	3,508
SMS banking	3,378	-	3,378
Transfers through international payment systems	3,310	-	3,310
Cash transactions in foreign currency-interbank	3,025	-	3,025
Distribution of social payments	2,726	-	2,726
Loans commitment fees	2,689	-	2,689
Loans renewal fees	1,622	-	1,622
Broker fees	738	-	738
Insurance fees	664	-	664
Letters of credit	580	-	580
Loans upfront fees	376	-	376
Other	4,424	-	4,424
	222,506	**16,282**	**206,224**

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Notes to the Financial Statements

5 Net fee and commission income (continued)

(in thousands MDL)	Total	31 December 2021 Fee income earned from services that are provided over time:	Fee income from providing financial services at a point in time:
Payment processing	61,048	-	61,048
Transactions with cards	57,043	-	57,043
Cash transactions	27,954	-	27,954
Current accounts administration	13,892	13,892	-
Guarantee fee income	8,413	-	8,413
Early repayment fees	7,929	-	7,929
Remote banking	4,882	4,882	-
Cash collection fee	3,268	-	3,268
SMS banking	3,394	-	3,394
Transfers through international payment systems	3,593	-	3,593
Cash transactions in foreign currency-interbank	1,864	-	1,864
Distribution of social payments	3,198	-	3,198
Loans commitment fees	3,653	-	3,653
Loans renewal fees	1,430	-	1,430
Broker fees	200	-	200
Insurance fees	608	-	608
Letters of credit	714	-	714
Loans upfront fees	220	-	220
Other	5,968	-	5,968
	209,271	**18,774**	**190,497**

Fee and commission expense

(in thousands MDL)	2022	2021
Transactions with cards	53,295	47,916
Commissions on interbank transfers	18,326	14,614
Cash transactions in foreign currency - interbank	7,458	4,479
Contributions to deposit guarantee fund (1)	5,953	6,101
Leasing services	0	2
Other	1,936	1,311
	86,968	**74,423**

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Notes to the Financial Statements

5 Net fee and commission income (continued)

In accordance with the Law No. 575-XV "On Guaranteeing of Deposits Placed in the Banks" of 26 December 2003 and its modification LP227 from 01.11.18, MO441-447/30.11.18 art. 703 in force from 01.01.20, subsequent "Regulation on Methodology on Calculation and Payment of Contribution in Deposit Guarantee Fund of the Republic of Moldova" of 20 August 2004 and it's modification HFGDSB03/2 from 18.02.19, MO111-118/29.03.19 art.576 in force 01.01.20, the Bank has to transfer to the Deposit Guarantee Fund a contribution equal to 0.08% of total deposits outstanding at the end of each quarter (only for qualified deposits, as stipulated in the law). The Bank prepares the basis for the calculation of contribution based on its database of client deposits and databases on non-guaranteed deposits, approved regularly by the Management of the Bank. The expenditure with "contribution to deposits guarantee fund is accrued monthly and the calculation is validated quarterly by auditors, i.e. 15th day of the next month from the reported quarter.

6 Net trading income

	2022	2021
(in thousands MDL)		
Foreign exchange result on transactions with:		
Corporate clients	227,045	32,238
Individuals	52,446	140,735
Banks	34,237	13,926
Result from revaluation	(8,508)	(8,104)
	305,220	**178,795**

7 Credit loss expense on financial assets

	2022	2021
(in thousands MDL)		
Loans and advance to customers	307,040	9,967
Financial guarantee contracts	118	14,416
Other assets	4,246	1,640
Due from banks	6,167	4,570
Debt instruments at amortized cost	23,955	3,524
	341,526	**34,117**

The table below shows the ECL charges on financial instruments for 31 December 2022 recorded in the income statement under IFRS 9:

	Note	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)						
Due from banks	14	5,859	308	-	-	**6,167**
Loans and advances to customers	15	46,024	251,207	12,573	(2,764)	**307,040**
Debt instruments measured at amortized cost	16	23,955	-	-	-	**23,955**
Other assets	20	2,940	-	1,306	-	**4,246**
Financial guarantees	25	1,338	4,049	659	-	**6,046**
Loan commitments	25	(4,555)	(1,713)	(262)	-	**(6,530)**
Letters of credit	25	225	377	-	-	**602**
Total impairment loss		**75,786**	**254,228**	**14,276**	**(2,764)**	**341,526**

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Notes to the Financial Statements

7 Credit loss expense on financial assets (continued)

The table below shows the impairment charges recorded in the income statement during 2021:

	Note	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)						
Due from banks	14	4,570	-	-	-	**4,570**
Loans and advances to customers	15	27,425	5,261	(29,685)	6,966	**9,967**
Debt instruments measured at amortized cost	16	3,524	-	-	-	**3,524**
Other assets	20	(550)	-	2,190	-	**1,640**
Financial guarantees	25	783	1,112	670	-	**2,565**
Loan commitments	25	9,285	2,249	194	-	**11,728**
Letters of credit	25	25	98	-	-	**123**
Total impairment loss		**45,063**	**8,720**	**(26,631)**	**6,966**	**34,117**

8 Other operating income

	2022	2021
(in thousands MDL)		
Gain from disposal of fixed assets	90	370
Fines, penalties and other sanctions	123	347
Other income from dormant accounts	1,324	8,810
Other operating income	1,222	2,029
Income from recoveries of credits and payments thereof	8,063	-
Total other operating income	**10,822**	**11,556**

9 Personnel expenses

	2022	2021
(in thousands MDL)		
Wages and salaries	190,963	161,687
Bonuses	39,458	35,538
Social security costs	57,931	49,376
Accrual for employee benefits and related contribution	33,449	26,513
Meal tickets	10,903	8,902
Other payments	1,928	1,553
	334,632	**283,569**

The average number of staff employed by the Bank in 2022 was 875 (2021: 870).

Notes to the Financial Statements

10 Other operating expenses

(in thousands MDL)	2022	2021
Maintenance of intangibles	43,898	44,954
Consulting and auditing	12,973	28,980
Repair and maintenance of fixed assets	24,793	21,180
Contribution to resolution fund	19,319	20,318
Advertising and publishing	12,947	16,815
Telecommunication	10,290	10,476
Rent and utilities	13,978	8,529
Insurance	7,508	7,460
Security costs	5,436	6,604
Information cost	4,945	4,748
Training	4,948	4,706
Consumables and LVA	3,343	4,169
Taxes and duties	3,229	3,073
OK Foundation contribution	1,600	2,100
Charity	2,533	1,322
Travel and transportation	1,975	1,314
Representation expenses	280	243
Result of disposal of fixed assets	45	205
Other provision for operational risk	475	(239)
Other	14,100	11,031
	188,615	**197,988**

11 Income tax expense

(in thousands MDL)	2022	2021
Current tax		
Current income tax	59,247	36,727
Deferred tax		
Relating to origination and reversal of temporary differences	791	(691)
Income tax expense	**60,038**	**36,036**

During 2022 the corporate income tax rate was 12% (2021: 12%).

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Notes to the Financial Statements

11 Income tax expense (continued)

11.1 Reconciliation of the total tax charge

Reconciliation between the tax expense and the accounting profit multiplied by the tax rate enforced in the Republic of Moldova for the years ended 31 December 2022 and 2021 is, as follows:

	2022	2021
(in thousands MDL)		
Accounting profit before tax	463,145	308,040
At statutory income tax rate of 12% (2021: 12%)	55,577	36,965
Adjustment in respect of current income tax of prior years	(901)	(1,724)
Income not subject to tax	(331)	(1,786)
Non–deductible expenses	5,693	2,581
Income tax expense reported in the income statement	**60,038**	**36,036**

The effective income tax rate for 2022 is 11.13% (2021: 11.8%).

Effective 2022 Impairment losses on loans and advances to customers are deductible based on IFRS rules, resulting in release of related deferred tax liabilities.

Non–deductible expenses mainly include accruals and provisions, which do not meet the deductibility requirements based on tax rules.

11.2 Deferred tax

The following table shows deferred tax recorded on the statement of financial position in other assets and other liabilities and changes recorded in the Income tax expense:

31 December 2022	**Deferred tax Assets**	**Deferred tax Liabilities**	**NET**	**Charge in Income statement**
(in thousands MDL)				
Property and equipment	-	2,154	2,154	1,127
Other liabilities	(7,040)		(7,040)	(336)
	(7,040)	**2,154**	**(4,886)**	**791**

31 December 2021	**Deferred tax Assets**	**Deferred tax Liabilities**	**NET**	**Charge in Income statement**
(in thousands MDL)				
Property and equipment	-	1,027	1,027	1,028
Other liabilities	(6,705)		(6,705)	(1,719)
	(6,705)	**1,027**	**(5,678)**	**(691)**

Notes to the Financial Statements

12 Basic earnings per share

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of Bank by the weighted average number of ordinary shares outstanding during the year.

	2022	2021
(in thousands MDL)		
Net profit attributable to ordinary equity holders	403,107	271,368
Weighted average number of ordinary shares	9,994,394	9,994,394
Basic earnings per share (MDL/share)	40.33	27.15
Dividends per share (MDL/share)	-	9.7648

The diluted earnings per share is equal to the basic earnings per share as there are no dilutive instruments as at the end of year.

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the completion of these financial statements which would require the restatement of earnings per share.

13 Cash and balances with Central Bank

	31 December 2022	31 December 2021
(in thousands MDL)		
Cash on hand	574,254	533,374
Current account with Central bank	2,976,860	1,444,426
Mandatory reserve deposit held in foreign currency	3,274,878	1,895,922
Impairment on balances with Central bank (Stage 1)	(18,723)	(7,514)
	6,807,269	**3,866,208**

Current account and obligatory reserves

The National Bank of Moldova (NBM) requires commercial banks to maintain for liquidity purposes mandatory reserves calculated at a certain rate of the average funds borrowed by banks during the previous month (period between date 16 of the previous month and date 15 of the current month) including all customer deposits.

The Bank maintains its mandatory reserves in a current account opened with the NBM on funds attracted in Moldovan Lei and non-convertible currencies. Mandatory reserves on funds denominated in USD and EUR are held in a special compulsory reserve account with NBM.

The exposure to Central Bank is classified at Stage 1.

As of 31 December 2022 the rate for calculation of the mandatory reserve in local currency was 37% (31 December 2021: 26%) and in foreign currencies 45% (31 December 2021: 30%).

As of 31 December 2022 the Bank had to maintain as mandatory reserve in MDL an average of MDL'000 2,830,198 (2021: MDL'000 1,620,759), in USD of USD'000 54,486 (2021: USD'000 27,728) and in EUR of EUR'000 110,501 (2021: EUR'000 68,388). As of 31 December 2022 and 2021 the Bank is in line with the above mentioned limits.

Notes to the Financial Statements

14 Due from banks

(in thousands MDL)	31 December 2022	31 December 2021
Current accounts	231,004	1,678,265
Overnight deposits	580,600	558,974
Term deposits	91,117	90,028
Total, gross	**902,721**	**2,327,267**
Allowances for Impairment for Current accounts	(1,455)	(6,347)
Allowances for Impairment for Overnight deposits	(2,564)	(1,990)
Allowances for Impairment for Term deposits	(402)	(328)
Total Allowances for Impairment	**(4,421)**	**(8,665)**
Total, net	**898,300**	**2,318,602**

14.1 Impairment allowances for due from banks

The tables below show gross amount, credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification of due to banks:

Current accounts

(in thousands MDL)	31 December 2022	31 December 2021
Current accounts	231,004	1,678,265
Less: Allowance for impairment losses	(1,455)	(6,347)
	229,549	**1,671,918**

Overnight deposits

(in thousands MDL)	31 December 2022	31 December 2021
Overnight deposits	580,600	558,974
Less: Allowance for impairment losses	(2,564)	(1,990)
	578,036	**556,984**

Term deposits

(in thousands MDL)	31 December 2022	31 December 2021
Term deposits (1)	91,117	90,028
Less: Allowance for impairment losses (2)	(402)	(328)
	90,715	**89,700**

Notes to the Financial Statements

14 Due from banks (continued)

14.1 Impairment allowances for due from banks (continued)

(1) Term deposits include short-term and long-term placements in RAIFFEISEN BANK INTERNATIONAL AG and SOCIETE GENERALE, PARIS, including accrued interest.

(2) ECL for term deposits is classified according to accounting policy as Stage 1 collective. By internal credit rating system term deposits are neither past due nor impaired.

An analysis of gross carrying amount in relation to due from banks is for the year ended 31 December 2022, as follows:

Current accounts

(in thousands MDL)	Stage 1 collective
Gross carrying amount as at 1 January 2022	**1,678,265**
New assets originated or purchased	-
Assets derecognized or repaid (excluding write offs)	(1,477,770)
Changes to contractual cash flows due to modifications not resulting in de-recognition	-
Amounts written off	-
Foreign exchange adjustments	30,509
Gross carrying amount as at 31 December 2022	**231,004**

Overnight deposits

(in thousands MDL)	Stage 1 collective
Gross carrying amount as at 1 January 2022	**558,974**
New assets originated or purchased	-
Assets derecognized or repaid (excluding write offs)	(22,878)
Changes to contractual cash flows due to modifications not resulting in de-recognition	-
Amounts written off	-
Foreign exchange adjustments	44,504
Gross carrying amount as at 31 December 2022	**580,600**

Term deposits

(in thousands MDL)	Stage 1 collective
Gross carrying amount as at 1 January 2022	**90,028**
New assets originated or purchased	-
Assets derecognized or repaid (excluding write offs)	(247)
Changes to contractual cash flows due to modifications not resulting in de-recognition	-
Amounts written off	-
Foreign exchange adjustments	1,336
Gross carrying amount as at 31 December 2022	**91,117**

Notes to the Financial Statements

Due from banks (continued)

14.1 Impairment allowances for due from banks (continued)

An analysis of charges in the gross carrying amount in relation to due from banks is for the year ended 31 December 2021, as follows:

Current accounts

	Stage 1 collective
(in thousands MDL)	
Gross carrying amount as at 1 January 2021	**331,113**
New assets originated or purchased	-
Assets derecognized or repaid (excluding write offs)	1,360,533
Changes to contractual cash flows due to modifications not resulting in de-recognition	-
Amounts written off	-
Foreign exchange adjustments	(13,381)
Gross carrying amount as at 31 December 2021	**1,678,265**

Overnight deposits

	Stage 1 collective
(in thousands MDL)	
Gross carrying amount as at 1 January 2021	**518,161**
New assets originated or purchased	24,846
Assets derecognized or repaid (excluding write offs)	-
Changes to contractual cash flows due to modifications not resulting in de-recognition	-
Amounts written off	-
Foreign exchange adjustments	15,967
Gross carrying amount as at 31 December 2021	**558,974**

Term deposits

	Stage 1 collective
(in thousands MDL)	
Gross carrying amount as at 1 January 2021	**266,290**
New assets originated or purchased	-
Assets derecognized or repaid (excluding write offs)	(163,237)
Changes to contractual cash flows due to modifications not resulting in de-recognition	-
Amounts written off	-
Foreign exchange adjustments	(13,025)
Gross carrying amount as at 31 December 2021	**90,028**

Notes to the Financial Statements

Due from banks (continued)

14.1 Impairment allowances for due from banks (continued)

An analysis of charges in the corresponding ECL allowances in relation to due from banks is for the year ended 31 December 2022, as follows:

Current accounts

(in thousands MDL)	Stage 1 collective
ECL allowance as at 1 January 2022 under IFRS 9	6,347
New assets originated or purchased	-
Methodology changes, including risk parameters changes	(5,003)
Net ECL Charge	**(5,003)**
Foreign exchange adjustments	111
ECL allowance as at 31 December 2022	**1,455**

Overnight deposits

(in thousands MDL)	Stage 1 collective
ECL allowance as at 1 January 2022 under IFRS 9	1,990
New assets originated or purchased	
Methodology changes, including risk parameters changes	416
Net ECL Charge	**416**
Foreign exchange adjustments	158
ECL allowance as at 31 December 2022	**2,564**

Term deposits

(in thousands MDL)	Stage 1 collective
ECL allowance as at 1 January 2022 under IFRS 9	**328**
New assets originated or purchased	
Methodology changes, including risk parameters changes	69
Net ECL Charge	**69**
Foreign exchange adjustments	5
ECL allowance as at 31 December 2022	**402**

Notes to the Financial Statements

14 Due from banks (continued)

14.1 Impairment allowances for due from banks (continued)

An analysis of charges in the corresponding ECL allowances in relation to due from banks is for the year ended 31 December 2021, as follows:

Current accounts

(in thousands MDL)	Stage 1 collective
ECL allowance as at 1 January 2021 under IFRS 9	**-**
New assets originated or purchased	-
Methodology changes, including risk parameters changes	(6,347)
Net ECL Charge	**(6,347)**
Foreign exchange adjustments	-
ECL allowance as at 31 December 2021	**(6,347)**

Overnight deposits

(in thousands MDL)	Stage 1 collective
ECL allowance as at 1 January 2021 under IFRS 9	-
New assets originated or purchased	-
Methodology changes, including risk parameters changes	(1,990)
Net ECL Charge	**(1,990)**
Foreign exchange adjustments	-
ECL allowance as at 31 December 2021	**(1,990)**

Term deposits

(in thousands MDL)	Stage 1 collective
ECL allowance as at 1 January 2021 under IFRS 9	**3,089**
New assets originated or purchased	-
Methodology changes, including risk parameters changes	(2,610)
Net ECL Charge	**(2,610)**
Foreign exchange adjustments	(151)
ECL allowance as at 31 December 2021	**328**

Notes to the Financial Statements

15 Loans and advances to customers and Leasing

The Bank's commercial lending is concentrated on companies and individuals domiciled in Moldova.

	31 December 2022	31 December 2021
(in thousands MDL)		
Loans and advances to customers, gross	8,757,665	9,098,159
Less: Allowance for impairment losses	(592,563)	(301,589)
	8,165,102	**8,796,570**
out of which:		
Leasing, gross	256,113	210,665
Less: Allowance for impairment losses	(10,103)	(6,306)
	246,010	**204,359**

As of 31 December 2022 the outstanding of loans granted to related parties amounted at MDL'000 2,464 (2021: MDL'000 3,450) at an average interest rate of 13.04% per annum (2021: 6.91% per annum) (Note 32).

Segments of loans and advances to customers are described in the table below:

	31 December 2022	31 December 2021
(in thousands MDL)		
MLE	4,091,865	3,851,203
Consumer	1,484,879	1,920,191
Mortgage	2,261,590	2,422,369
MSE	663,218	693,731
Leasing	256,113	210,665
	8,757,665	**9,098,159**
Less: Allowance for ECL/impairment losses	(592,563)	(301,589)
	8,165,102	**8,796,570**

Notes to the Financial Statements

15 Loans and advances to customers and Leasing (continued)

15.1 Impairment allowance for loans and advances to customers and Leasing

15.1.1 MLE

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification for Medium and Large Enterprises (MLE). The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 28 the policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 28.

	31 December 2022				
	Stage 1 Collective	**Stage 2 Collective**	**Stage 3 Collective**	**Stage 3 Individual**	**Total**
Probability of Default rates	**3.0%**	**26.2%**	**100%**	**100%**	
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	3,659,715	213,612	-	-	**3,873,327**
Past due but not impaired	86,678	34,650	-	-	**121,328**
Non-performing	-	-	7,963	-	**7,963**
Individually impaired	-	-	-	89,247	**89,247**
Total	**3,746,393**	**248,262**	**7,963**	**89,247**	**4,091,865**

	31 December 2021				
	Stage 1 Collective	**Stage 2 Collective**	**Stage 3 Collective**	**Stage 3 Individual**	**Total**
Probability of Default rates	**2.3%**	**21.4%**	**100%**	**100%**	
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	3,622,290	82,746	-	-	**3,705,036**
Past due but not impaired	25,377	41,313	-	-	**66,690**
Non-performing	-	-	9,690	-	**9,690**
Individually impaired	-	-	-	69,787	**69,787**
Total	**3,647,668**	**124,059**	**9,690**	**69,787**	**3,851,203**

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Notes to the Financial Statements

15 Loans and advances to customers and Leasing (continued)

15.1 Impairment allowance for loans and advances to customers and Leasing (continued)

15.1.1 MLE (continued)

An analysis of charges in the gross carrying amount in relation to MLE lending is for the year ended 31 December 2022, as follows:

(in thousands MDL)	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
Gross carrying amount as at 1 January 2022	**3,647,668**	**124,060**	**9,690**	**69,785**	**3,851,203**
New assets originated or purchased	2,076,615	-	-	-	**2,076,615**
Assets derecognized or repaid (excluding write offs)	(1,898,784)	(89,701)	(8,331)	(23,180)	**(2,019,996)**
Transfers to S1	23,940	(23,940)	-	-	-
Transfers to S2	(228,428)	232,714	(4,286)	-	-
Transfers to S3	(12,960)	(4,521)	89	17,392	-
Movements of accrued interest	11,155	619	(31)	3,855	**15,598**
Change in segmentation	89,131	7,389	13,036	19,175	**128,731**
Amounts written off	-	-	(2,416)	-	(2,416)
Foreign exchange adjustments	38,055	1,642	212	2,221	**42,130**
Gross carrying amount as at 31 December 2022	**3,746,392**	**248,262**	**7,963**	**89,248**	**4,091,865**

An analysis of charges in the gross carrying amount in relation to Corporate and SME lending is for the year ended 31 December 2021, as follows:

(in thousands MDL)	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
Gross carrying amount as at 1 January 2021	**3,089,037**	**158,425**	**40,675**	**62,246**	**3,350,382**
New assets originated or purchased	2,494,922				**2,494,922**
Assets derecognized or repaid (excluding write offs)	(1,916,898)	(51,988)	(12,498)	(1,663)	**(1,983,047)**
Transfers to S1	46,746	(46,747)	1	-	-
Transfers to S2	(79,570)	81,519	(1,948)	-	-
Transfers to S3	(15,320)	-	7,150	8,170	-
Movements of accrued interest	(9,145)	(8)	(172)	75	**(9,250)**
Change in segmentation	83,649	(12,595)	(23,518)	2,610	**50,146**
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	(45,753)	(4,546)	-	(1,653)	**(51,952)**
Gross carrying amount as at 31 December 2021	**3,647,668**	**124,060**	**9,690**	**69,785**	**3,851,203**

Notes to the Financial Statements

15 Loans and advances to customers and Leasing (continued)

15.1 Impairment allowance for loans and advances to customers and Leasing (continued)

15.1.1 MLE (continued)

An analysis of charges in the corresponding ECL allowances in relation to Corporate and SME lending is for the year ended 31 December 2022, as follows:

(in thousands MDL)	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
ECL allowance as at 1 January 2022 under IFRS 9	**59,857**	**16,867**	**6,235**	**41,135**	**124,094**
New assets originated or purchased	79,743	-	-	-	**79,743**
Assets derecognized or repaid (excluding write offs)	(31,001)	(7,192)	(6,676)	(181)	**(45,050)**
Transfers to S1	551	(4,611)	-	-	**(4,060)**
Transfers to S2	(24,424)	47,691	(3,364)	-	**19,903**
Transfers to S3	(7,868)	(2,802)	64	9,588	**(1,018)**
Impact on ECL of modifications	1,362	(317)	12,023	(2,255)	**10,813**
Unwinding	-	-	-	206	**206**
Changes to inputs used for ECL calculations	16,347	1,495	621	14,958	**33,421**
Amounts written off	-	-	(2,416)	-	**(2,416)**
Foreign exchange adjustments	698	122	172	995	**1,987**
Net ECL Charge	**35,408**	**34,386**	**424**	**23,311**	**93,529**
ECL allowance as at 31 December 2022	**95,265**	**51,253**	**6,659**	**64,446**	**217,623**

An analysis of charges in the corresponding ECL allowances in relation to Corporate and SME lending is for the year ended 31 December 2021, as follows:

(in thousands MDL)	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
ECL allowance as at 1 January 2021 under IFRS 9	**36,045**	**24,109**	**18,730**	**28,386**	**107,270**
New assets originated or purchased	56,509				**56,509**
Assets derecognized or repaid (excluding write offs)	(17,464)	(8,001)	(4,537)	7,767	**(22,234)**
Transfers to S1	1,089	(1,089)	-	-	-
Transfers to S2	(9,723)	10,301	(578)	-	-
Transfers to S3	(12,023)	0	3,760	8,262	-
Impact on ECL of modifications	7,670	(11,895)	(12,419)	(11,948)	**(28,593)**
Changes to inputs used for ECL calculations	(1,373)	4,018	1,279	9,326	**13,250**
Amounts written off			-	-	-
Foreign exchange adjustments	(874)	(576)	-	(660)	**(2,109)**
Net ECL Charge	**23,812**	**(7,243)**	**(12,495)**	**12,748**	**16,823**
ECL allowance as at 31 December 2021	**59,857**	**16,867**	**6,235**	**41,135**	**124,093**

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Notes to the Financial Statements

15 Loans and advances to customers and Leasing (continued)

15.1 Impairment allowance for loans and advances to customers and Leasing (continued)

15.1.2 Consumer

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 28 the policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 28.

	31 December 2022				
	Stage 1 Collective	**Stage 2 Collective**	**Stage 3 Collective**	**Stage 3 Individual**	**Total**
Probability of Default rates	**3.7%**	**33.2%**	**100%**	**100%**	
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	1,026,031	242,519	-	-	**1,268,550**
Past due but not impaired	61,275	107,425	-	-	**168,700**
Non-performing	-	-	47,629	-	**47,629**
Individually impaired	-	-	-	-	**-**
Total	**1,087,306**	**349,944**	**47,629**	**0**	**1,484,879**

	31 December 2021				
	Stage 1 Collective	**Stage 2 Collective**	**Stage 3 Collective**	**Stage 3 Individual**	**Total**
Probability of Default rates	**1.8%**	**22.1%**	**100%**	**100%**	
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	1,719,216	107,217	-	-	**1,826,432**
Past due but not impaired	26,279	48,073	-	-	**74,352**
Non-performing	-	-	19,406	-	**19,406**
Individually impaired	-	-	-	-	**-**
Total	**1,745,494**	**155,290**	**19,406**	**-**	**1,920,191**

Notes to the Financial Statements

15 Loans and advances to customers and Leasing (continued)

15.1 Impairment allowance for loans and advances to customers and Leasing (continued)

15.1.2 Consumer (continued)

An analysis of charges in the gross carrying amount in relation to consumer lending is for the year ended 31 December 2022, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
Gross carrying amount as at 1 January 2022	**1,745,494**	**155,290**	**19,406**	-	**1,920,190**
New assets originated or purchased	345,232	-	-	-	345,232
Assets derecognized or repaid (excluding write offs)	(683,320)	(111,353)	(12,560)	-	(807,233)
Transfers to S1	11,597	(11,538)	(59)	-	-
Transfers to S2	(268,115)	272,983	(4,868)	-	-
Transfers to S3	(31,084)	(12,208)	43,292	-	-
Movements of accrued interest	21,357	9,826	2,130	-	33,313
Change in segmentation	(53,888)	46,800	28,219	-	21,131
Amounts written off	-	-	(27,932)	-	(27,932)
Foreign exchange adjustments	35	143	-	-	178
Gross carrying amount as at 31 December 2022	**1,087,308**	**349,943**	**47,628**	-	**1,484,879**

An analysis of charges in the gross carrying amount in relation to consumer lending is for the year ended 31 December 2021, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
Gross carrying amount as at 1 January 2021	**1,482,332**	**74,571**	**46,859**	**492**	**1,604,254**
New assets originated or purchased	1,247,558				**1,247,558**
Assets derecognized or repaid (excluding write offs)	(759,614)	(32,651)	7,093	(66)	**(785,237)**
Transfers to S1	14,084	(12,598)	(1,485)	-	-
Transfers to S2	(138,749)	144,016	(5,267)	-	-
Transfers to S3	(13,443)	(2,905)	16,348	-	-
Movements of accrued interest	644	37	(797)	(17)	**(133)**
Change in segmentation	(87,303)	(15,147)	(8,892)	(410)	**(111,752)**
Amounts written off	-	-	(34,311)	-	**(34,311)**
Foreign exchange adjustments	(14)	(33)	(141)	-	**(189)**
Gross carrying amount as at 31 December 2021	**1,745,494**	**155,290**	**19,406**	-	**1,920,191**

Notes to the Financial Statements

15 Loans and advances to customers and Leasing (continued)

15.1 Impairment allowance for loans and advances to customers and Leasing (continued)

15.1.2 Consumer (continued)

An analysis of charges in the corresponding ECL allowances in relation to consumer lending is for the year ended 31 December 2022, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
ECL allowance as at 1 January 2022 under IFRS 9	**22,548**	**25,417**	**13,638**	**-**	**61,603**
New assets originated or purchased	29,844	-	-	-	**29,844**
Assets derecognized or repaid (excluding write offs)	(8,481)	(5,472)	(1,517)	-	**(15,470)**
Transfers to S1	292	(2,245)	(71)	-	**(2,024)**
Transfers to S2	(19,449)	59,381	(4,491)	-	**35,441**
Transfers to S3	(7,221)	(5,015)	41,733	-	**29,497**
Impact on ECL of modifications	120	2,432	12,136	-	**14,688**
Unwinding	-	-	23	-	**23**
Changes to inputs used for ECL calculations	10,362	4,925	350	-	**15,637**
Amounts written off	-	-	(27,932)	-	**(27,932)**
Foreign exchange adjustments	1	142	1	-	**144**
Net ECL Charge	**5,468**	**54,148**	**20,232**	**-**	**79,848**
ECL allowance as at 31 December 2022	**28,016**	**79,565**	**33,870**	**-**	**141,451**

An analysis of charges in the corresponding ECL allowances in relation to consumer lending is for the year ended 31 December 2021, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
ECL allowance as at 1 January 2021 under IFRS 9	**25,928**	**18,054**	**34,281**	**320**	**78,583**
New assets originated or purchased	27,383				**27,383**
Assets derecognized or repaid (excluding write offs)	(15,898)	(8,719)	13,086	(24)	**(11,555)**
Transfers to S1	183	(163)	(19)	-	**-**
Transfers to S2	(20,493)	23,498	(3,005)	-	**-**
Transfers to S3	(9,526)	(1,722)	11,248	-	**-**
Impact on ECL of modifications	21,256	(13,228)	(15,381)	(296)	**(7,649)**
Changes to inputs used for ECL calculations	(6,283)	7,683	7,744	-	**9,144**
Amounts written off			(34,311)	-	**(34,311)**
Foreign exchange adjustments	-	15	(5)	-	**9**
Net ECL Charge	**(3,380)**	**7,363**	**(20,643)**	**(320)**	**(16,980)**
ECL allowance as at 31 December 2021	**22,548**	**25,417**	**13,638**	**-**	**61,604**

Notes to the Financial Statements

15 Loans and advances to customers and Leasing (continued)

15.1 Impairment allowance for loans and advances to customers and Leasing (continued)

15.1.3 Mortgage

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 28 the policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 28.

	31 December 2022				
	Stage 1 Collective	Stage 2 Collective	Stage 3 Collective	Stage 3 Individual	Total
Probability of Default rates	**2.4%**	**25.8%**	**100%**	**100%**	
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	1,632,001	424,018	-	-	**2,056,019**
Past due but not impaired	55,401	100,831	-	-	**156,232**
Non-performing	-	-	49,339	-	**49,339**
Individually impaired	-	-	-	-	**-**
Total	**1,687,402**	**524,849**	**49,339**	**-**	**2,261,590**

	31 December 2021				
	Stage 1 Collective	Stage 2 Collective	Stage 3 Collective	Stage 3 Individual	Total
Probability of Default rates	**0.7%**	**16.1%**	**100%**	**100%**	
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	2,180,104	165,778	-	-	**2,345,882**
Past due but not impaired	11,160	31,712	-	-	**42,871**
Non-performing	-	-	33,616	-	**33,616**
Individually impaired	-	-	-	-	**-**
Total	**2,191,263**	**197,490**	**33,616**	**-**	**2,422,369**

Notes to the Financial Statements

15 Loans and advances to customers and Leasing (continued)

15.1 Impairment allowance for loans and advances to customers and Leasing (continued)

15.1.3 Mortgage (continued)

An analysis of charges in the gross carrying amount in relation to mortgage lending is for the year ended 31 December 2022, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
Gross carrying amount as at 1 January 2022	**2,191,263**	**197,490**	**33,616**	**-**	**2,422,369**
New assets originated or purchased	253,796	-	-	-	**253,796**
Assets derecognized or repaid (excluding write offs)	(363,468)	(68,539)	(7,791)	-	**(439,798)**
Transfers to S1	36,049	(35,510)	(539)	-	**-**
Transfers to S2	(402,201)	404,346	(2,145)	-	**-**
Transfers to S3	(12,267)	(11,207)	23,474	-	**-**
Movements of accrued interest	12,302	4,037	759	-	**17,098**
Change in segmentation	(31,931)	33,583	1,868	-	**3,520**
Amounts written off	-	-	-	-	**-**
Foreign exchange adjustments	3,859	649	97	-	**4,605**
Gross carrying amount as at 31 December 2022	**1,687,402**	**524,849**	**49,339**	**-**	**2,261,590**

An analysis of charges in the gross carrying amount in relation to mortgage lending is for the year ended 31 December 2021, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
Gross carrying amount as at 1 January 2021	**1,655,855**	**68,273**	**31,274**	**5,759**	**1,761,160**
New assets originated or purchased	965,002				**965,002**
Assets derecognized or repaid (excluding write offs)	(335,471)	(9,453)	(9,435)	(26)	**(354,385)**
Transfers to S1	39,822	(31,609)	(8,213)	-	**-**
Transfers to S2	(170,280)	176,731	(6,451)	-	**-**
Transfers to S3	(9,875)	(6,566)	16,440	-	**-**
Movements of accrued interest	(4,948)	(387)	(294)	-	**(5,629)**
Change in segnmentation	56,827	766	10,302	(5,732)	**62,163**
Amounts written off	-	-	-	-	**-**
Foreign exchange adjustments	(5,670)	(265)	(8)	-	**(5,942)**
Gross carrying amount as at 31 December 2021	**2,191,263**	**197,490**	**33,616**	**-**	**2,422,369**

Notes to the Financial Statements

15 Loans and advances to customers and Leasing (continued)

15.1 Impairment allowance for loans and advances to customers and leasing (continued)

15.1.3 Mortgage (continued)

An analysis of charges in the corresponding ECL allowances in relation to mortgage lending is for the year ended 31 December 2022, as follows:

(in thousands MDL)	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
ECL allowance as at 1 January 2022 under IFRS 9	**10,823**	**19,477**	**17,393**	-	**47,693**
New assets originated or purchased	17,163	-	-	-	**17,163**
Assets derecognized or repaid (excluding write offs)	(1,713)	(2,353)	(2,255)	-	**(6,321)**
Transfers to S1	626	(4,015)	(324)	-	**(3,713)**
Transfers to S2	(15,260)	67,091	(1,037)	-	**50,794**
Transfers to S3	(739)	(1,569)	14,709	-	**12,401**
Impact on ECL of modifications	(5)	5	(271)	-	**(271)**
Unwinding	-	-	211	-	**211**
Changes to inputs used for ECL calculations	18,513	8,665	2,894	-	**30,072**
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	24	12	1	-	**37**
Net ECL Charge	**18,609**	**67,836**	**13,928**	-	**100,373**
ECL allowance as at 31 December 2022	**29,432**	**87,313**	**31,321**	-	**148,066**

An analysis of charges in the corresponding ECL allowances in relation to mortgage lending is for the year ended 31 December 2021, as follows:

(in thousands MDL)	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
ECL allowance as at 1 January 2021 under IFRS 9	**3,665**	**14,938**	**11,485**	**5,617**	**35,704**
New assets originated or purchased	11,705				**11,705**
Assets derecognized or repaid (excluding write offs)	1,838	(4,397)	(3,204)	(8)	**(5,770)**
Transfers to S1	188	(147)	(41)	-	-
Transfers to S2	(16,108)	17,072	(964	-	-
Transfers to S3	(3,937)	(2,907)	6,844	-	-
Impact on ECL of modifications	20,283	(10,315)	(1,351)	(5,609)	**3,009**
Changes to inputs used for ECL calculations	(6,807)	5,264	4,625	-	**3,081**
Amounts written off			-	-	**0**
Foreign exchange adjustments	(3)	(31)	(2)	-	**(36)**
Net ECL Charge	**7,159**	**4,539**	**5,908**	**(5,617)**	**11,989**
ECL allowance as at 31 December 2021	**10,823**	**19,477**	**17,393**	-	**47,693**

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Notes to the Financial Statements

15 Loans and advances to customers and Leasing (continued)

15.1 Impairment allowance for loans and advances to customers and Leasing (continued)

15.1.4 MSE

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification for Micro and Small Enterprises. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 28 the policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 28.

	31 December 2022				
	Stage 1 Collective	**Stage 2 Collective**	**Stage 3 Collective**	**Stage 3 Individual**	**Total**
Probability of Default rates	**3.4%**	**27.0%**	**100%**	**100%**	
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	332,498	205,932	-	-	**538,430**
Past due but not impaired	14,833	53,047	-	-	**67,880**
Non-performing	-	-	48,642	-	**48,642**
Individually impaired	-	-	-	8,266	**8266**
Total	**347,331**	**258,979**	**48,642**	**8266**	**663,218**

	31 December 2021				
	Stage 1 Collective	**Stage 2 Collective**	**Stage 3 Collective**	**Stage 3 Individual**	**Total**
Probability of Default rates	**2.5%**	**29.9%**	**100%**	**100%**	
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	552,171	70,325	-	-	**622,497**
Past due but not impaired	7,013	13,530	-	-	**20,543**
Non-performing	-	-	35,844	-	**35,844**
Individually impaired	-	-	-	14,847	**14,847**
Total	**559,185**	**83,855**	**35,844**	**14,847**	**693,731**

Notes to the Financial Statements

15 Loans and advances to customers and Leasing (continued)

15.1 Impairment allowance for loans and advances to customers and Leasing (continued)

15.1.4 MSE (continued)

An analysis of charges in the gross carrying amount in relation to MSE lending is for the year ended 31 December 2022, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
Gross carrying amount as at 1 January 2022	**559,185**	**83,855**	**35,844**	**14,847**	**693,731**
New assets originated or purchased	269,660	-	-	-	**269,660**
Assets derecognized or repaid (excluding write offs)	(254,560)	(73,558)	(18,653)	(197)	**(346,968)**
Transfers to S1	482	(354)	(128)	-	-
Transfers to S2	(223,140)	225,692	(2,552)	-	-
Transfers to S3	(15,071)	(13,802)	28,873	-	-
Movement of accrued interest	2,133	1,735	1,382	423	**5,673**
Change in segmentation	7,035	35,004	5,850	(6,807)	**41,082**
Amounts written off	-	-	(2,376)	-	**(2,376)**
Foreign exchange adjustments	1,606	407	403	-	**2,416**
Gross carrying amount as at 31 December 2022	**347,330**	**258,979**	**48,643**	**8,266**	**663,218**

An analysis of charges in the gross carrying amount in relation to MSE lending is for the year ended 31 December 2021, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
Gross carrying amount as at 1 January 2021	**601,952**	**81,122**	**58,242**	**12,438**	**753,753**
New assets originated or purchased	394,653				**394,653**
Assets derecognized or repaid (excluding write offs)	(294,909)	(29,462)	(16,827)	(10,246)	**(351,444)**
Transfers to S1	12,440	(12,333)	(108)	-	-
Transfers to S2	(45,870)	61,138	(15,268)	-	-
Transfers to S3	(8,286)	(1,953)	10,239	-	-
Movement of accrued interest	(422)	(23)	(186)	(1)	**(632)**
Change in segmentation	(95,523)	(12,922)	(150)	13,122	**(95,472)**
Amounts written off	-	-	-	(283)	**(283)**
Foreign exchange adjustments	(4,850)	(1,713)	(97)	(184)	**(6,844)**
Gross carrying amount as at 31 December 2021	**559,185**	**83,855**	**35,844**	**14,847**	**693,731**

Notes to the Financial Statements

15 Loans and advances to customers and Leasing (continued)

15.1 Impairment allowance for loans and advances to customers and Leasing (continued)

15.1.4 MSE (continued)

An analysis of charges in the corresponding ECL allowances in relation to MSE lending is for the year ended 31 December 2022, as follows:

(in thousands MDL)	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
ECL allowance as at 1 January 2022 under IFRS 9	**9,942**	**17,233**	**22,944**	**11,774**	**61,893**
New assets originated or purchased	21,698	-	-	-	**21,698**
Assets derecognized or repaid (excluding write offs)	(4,436)	(6,668)	(5,306)	(247)	**(16,657)**
Transfers to S1	10	(78)	(275)	-	**(343)**
Transfers to S2	(20,592)	32,860	(2,120)	-	**10,148**
Transfers to S3	(879)	(3,593)	15,719	-	**11,247**
Impact on ECL of modifications	699	623	(3,817)	(3,394)	**(5,889)**
Unwinding	-	-	878	62	**940**
Changes to inputs used for ECL calculations	625	(1,181)	(1,685)	(3,213)	**(5,454)**
Amounts written off	-	-	(2,376)	-	**(2,376)**
Foreign exchange adjustments	29	46	37	-	**112**
Net ECL Charge	**(2,846)**	**22,009**	**1,055**	**(6,792)**	**13,426**
ECL allowance as at 31 December 2022	**7,096**	**39,242**	**23,999**	**4,982**	**75,319**

An analysis of charges in the corresponding ECL allowances in relation to MSE lending is for the year ended 31 December 2021, as follows:

(in thousands MDL)	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
ECL allowance as at 1 January 2021 under IFRS 9	**11,768**	**18,267**	**34,673**	**12,368**	**77,075**
New assets originated or purchased	13,937				**13,937**
Assets derecognized or repaid (excluding write offs)	(5,997)	(6,817)	(9,228)	(8,310)	**(30,352)**
Transfers to S1	246	(244)	(2)	-	-
Transfers to S2	(7,104)	12,172	(5,068)	-	-
Transfers to S3	(4,751)	(1,086)	5,837	-	-
Impact on ECL of modifications	4,635	(2,706)	(6,487)	6,954	**2,396**
Changes to inputs used for ECL calculations	(2,675)	(2,087)	3,269	1,108	**(385)**
Amounts written off	-	-	-	(283)	**(283)**
Foreign exchange adjustments	(117)	(264)	(50)	(64)	**(495)**
Net ECL Charge	**(1,826)**	**(1,033)**	**(11,729)**	**(594)**	**(15,182)**
ECL allowance as at 31 December 2021	**9,942**	**17,233**	**22,944**	**11,774**	**61,893**

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15 Loans and advances to customers and Leasing (continued)

15.1 Impairment allowance for loans and advances to customers and Leasing (continued)

15.1.5 Leasing

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 28 the policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 28.

	31 December 2022				
	Stage 1 Collective	**Stage 2 Collective**	**Stage 3 Collective**	**Stage 3 Individual**	**Total**
Probability of Default rates	**3.1%**	**24.6%**	**100%**	**100%**	
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	225,588	20,254	-	-	**245,842**
Past due but not impaired	6,436	548	-	-	**6,984**
Non-performing	-	-	2,768	-	**2,768**
Individually impaired	-	-	-	519	**519**
Total	**232,024**	**20,802**	**2,768**	**519**	**256,113**

	31 December 2021				
	Stage 1 Collective	**Stage 2 Collective**	**Stage 3 Collective**	**Stage 3 Individual**	**Total**
Probability of Default rates	**2.4%**	**28.1%**	**100%**	**100%**	
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	200,862	5,728	-	-	**206,590**
Past due but not impaired	441	1,074	-	-	**1,515**
Non-performing	-	-	2,559	-	**2,559**
Individually impaired	-	-	-	-	**-**
Total	**201,304**	**6,802**	**2,559**	**-**	**210,665**

Notes to the Financial Statements

15 Loans and advances to customers and Leasing (continued)

15.1 Impairment allowance for leasing (continued)

15.1.5 Leasing (continued)

An analysis of charges in the gross carrying amount in relation to Leasing is for the year ended 31 December 2022, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
Gross carrying amount as at 1 January 2022	**201,304**	**6,802**	**2,559**	-	**210,665**
New assets originated or purchased	146,880	-	-	-	**146,880**
Assets derecognized or repaid (excluding write offs)	(95,459)	(6,191)	(1,082)	(311)	**(103,043)**
Transfers to S1	382	(382)	-	-	-
Transfers to S2	(18,904)	18,904	-	-	-
Transfers to S3	(89)	(1,372)	950	511	-
Movement of accrued interest	(546)	(142)	35	(2)	**(655)**
Change in segmentation	(3,656)	3,046	301	309	-
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	2,112	137	5	12	**2,266**
Gross carrying amount as at 31 December 2022	**232,024**	**20,802**	**2,768**	**519**	**256,113**

An analysis of charges in the gross carrying amount in relation to Leasing is for the year ended 31 December 2021, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
Gross carrying amount as at 1 January 2021	**202,242**	**4,476**	**6,945**	-	**213,663**
New assets originated or purchased	99,242			-	**99,242**
Assets derecognized or repaid (excluding write offs)	(88,076)	(1,839)	(1,670)	-	**(91,586)**
Transfers to S1	680	(680)	-	-	-
Transfers to S2	(3,576)	5,688	(2,112)	-	-
Transfers to S3	-	-	-	-	-
Movement of accrued interest	(682)	(9)	(5)	-	**(696)**
Change in segmentation	(764)	(634)	(579)	-	**(1,976)**
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	(7,763)	(199)	(21)	-	**(7,983)**
Gross carrying amount as at 31 December 2021	**201,304**	**6,802**	**2,559**	-	**210,665**

Notes to the Financial Statements

15 Loans and advances to customers and Leasing (continued)

15.1 Impairment allowance for loans and advances to customers and Leasing (continued)

15.1.5 Leasing (continued)

An analysis of charges in the corresponding ECL allowances in relation to Leasing is for the year ended 31 December 2022, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
ECL allowance as at 1 January 2022 under IFRS 9	**3,417**	**1,256**	**1,633**	**-**	**6,306**
New assets originated or purchased	5,684	-	-	-	**5,684**
Assets derecognized or repaid (excluding write offs)	(1,598)	(352)	(466)	-	**(2,416)**
Transfers to S1	8	(86)	-	-	**(78)**
Transfers to S2	(2,595)	2,951	-	-	**356**
Transfers to S3	(3)	(434)	442	40	**45**
Impact on ECL of modifications	-	-	(5)	-	**(5)**
Unwinding	-	-	7	-	**7**
Changes to inputs used for ECL calculations	791	(37)	(594)	-	**160**
Amounts written off	-	-	-	-	**-**
Foreign exchange adjustments	34	7	1	2	**44**
Net ECL Charge	**2,321**	**2,049**	**(615)**	**42**	**3,797**
ECL allowance as at 31 December 2022	**5,738**	**3,305**	**1,018**	**42**	**10,103**

An analysis of charges in the corresponding ECL allowances in relation to Leasing is for the year ended 31 December 2021, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
ECL allowance as at 1 January 2021 under IFRS 9	**2,759**	**895**	**4,104**	**-**	**7,758**
New assets originated or purchased	1,915			-	**1,915**
Assets derecognized or repaid (excluding write offs)	(856)	(391)	(868)	-	**(2,115)**
Transfers to S1	21	(21)	-	-	**-**
Transfers to S2	(474)	1,076	(602)	-	**-**
Transfers to S3	-	-	-	-	**-**
Impact on ECL of modifications	(90)	262	(1,112)	-	**(940)**
Changes to inputs used for ECL calculations	251	(538)	123	-	**(164)**
Amounts written off	-	-	-	-	**-**
Foreign exchange adjustments	(110)	(26)	(12)	-	**(149)**
Net ECL Charge	**658**	**361**	**(2,471)**	**-**	**(1,452)**
ECL allowance as at 31 December 2021	**3,417**	**1,256**	**1,633**	**-**	**6,306**

Notes to the Financial Statements

16 Debt instruments measured at amortized cost

	31 December 2022	31 December 2021
(in thousands MDL)		
Debt instruments at amortized cost:		
Treasury bills issued by the Ministry of Finance	1,203,231	855,268
State bonds issued by the Ministry of Finance	2,029	2,030
NBM certificates	991,635	499,626
Total gross amount of exposure	**2,196,895**	**1,356,924**
Less: Allowance for ECL/impairment losses	(34,686)	(10,731)
	2,162,209	**1,346,193**

Securities issued by the Ministry of Finance

As of 31 December 2022 treasury bills issued by the Ministry of Finance represent fixed rate MDL **treasury bills** issued with discount with original maturity between 91 and 364 days yielding an average interest rate of **21.41%** per annum (31 December 2021: **5.93%**per annum).

State bonds issued by the Ministry of Finance bear a revisable interest rate linked to weighted average rate on 6 months treasury bills. The average interest rate as of 31 December 2022 was **6.62%** per annum for 5 years and **6.50%** for 7 years (31 December 2021 was **6.62%** per annum for 5 years and **6.50%** for 7 years).

As of 31 December 2022 there are no REPO transactions with NBM. During the year there was 10 transactions: 2 transactions with interest rate **10.75%** per annum, 3 transactions with interest rate **12.75%** per annum, 2 transactions with interest rate **15.75%** and 3 transactions with interest rate **18.75%** per annum.

NBM certificates

As of 31 December 2022 NBM certificates represent fixed rate financial instruments issued with discount with original maturity of up to 14 days yielding an average interest rate of **20.00%** per annum (31 December 2021: **6.50%** per annum).

Notes to the Financial Statements

16 Debt instruments measured at amortized cost (continued)

16.1 Impairment losses on financial investments subject to impairment

Debt instruments at amortized cost

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's year-end stage classification. The amounts presented below are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 28.2.3. By internal credit rating system debt instruments at amortized cost are neither past due nor impaired:

An analysis of changes in the gross carrying amount for the year ended 31 December 2022 is, as follows:

	Stage 1 collective
(in thousands MDL)	
Gross carrying amount as at 1 January 2022	**1,356,924**
New assets originated or purchased	7,835,456
Assets derecognized or repaid (excluding write offs)	(6,995,508)
Accrued interest	23
Gross carrying amount as at 31 December 2022	**2,196,895**

An analysis of changes in the gross carrying amount for the year ended 31 December 2021 is, as follows:

	Stage 1 collective
(in thousands MDL)	
Gross carrying amount as at 1 January 2021	**1,358,584**
New assets originated or purchased	313,918
Assets derecognized or repaid (excluding write offs)	(315,602)
Accrued interest	24
Gross carrying amount as at 31 December 2021	**1,356,924**

An analysis of changes in the corresponding ECLs for the year ended 31 December 2022 is, as follows:

	Stage 1 collective
(in thousands MDL)	
ECL allowance as at 1 January 2022	**10,731**
New assets originated or purchased	46,615
Assets derecognized or repaid (excluding write offs)	(22,660)
Net ECL Charge	**23,955**
ECL allowance as at 31 December 2022	**34,686**

An analysis of changes in the corresponding ECLs for the year ended 31 December 2021 is, as follows:

	Stage 1 collective
(in thousands MDL)	
ECL allowance as at 1 January 2021	**15,760**
New assets originated or purchased	4,580
Assets derecognized or repaid (excluding write offs)	(9,609)
Net ECL Charge	**(5,029)**
ECL allowance as at 31 December 2021	**10,731**

Notes to the Financial Statements

17 Financial assets measured at FVPL

Financial assets at fair value through profit or loss

(in thousands MDL)	31 December 2022	31 December 2021
Financial assets at fair value through profit or loss		
Treasury bills issued by the Ministry of Finance	1,552	2,918
Equity investments at FVPL	1,031	1,031
	2,583	**3,949**

Equity investments at fair value through profit or loss

The Bank has designated its equity as equity investments at FVPL. Investments include mandatory shares in institutions mentioned below in the table.

All equity investments as of the end of 2022 and 2021 are classified at FVPL as presented below:

(in thousands MDL)	Field of activity	Ownership 2022, %	31 December 2022	31 December 2021
Credit Bureau S.R.L.	Research of credit information	6.7%	1,019	1,019
Bursa de Valori a Moldovei	Stock Exchange	2.56%	7	7
IM "Tirex Petrol" S.A.	Downstream	0.01%	4	4
Equity investments in commercial banks (Moldova) (less than 1 % ownership)	Banking		1	1
Carrying amount			**1,031**	**1,031**

All equity investments at FVPL as of 31 December 2022 and 2021 are unquoted and are recorded at fair value.

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Notes to the Financial Statements

18 Property, equipment and right-of-use assets

(in thousands MDL)	Land and buildings	Assets under construction	Vehicles	Computers and equipment	Others	Right-of-use Assets	Total
Cost							
At 1 January 2021	**146,682**	**40,536**	**15,856**	**143,452**	**56,821**	**84,553**	**487,900**
Additions	5,903	156,921	81	4	651	16,610	**180,170**
Disposals	(1,669)	(90,768)	(843)	(6,557)	(6,099)	(7,200)	**(113,136)**
Transfers	8,120	(76,321)	6,569	39,396	22,235	-	**(1)**
At 31 December 2021	**159,036**	**30,368**	**21,663**	**176,295**	**73,608**	**93,963**	**554,933**
Additions	8,753	66,397	52	3,560	71	25,787	**104,620**
Disposals	(802)	(29,646)	(200)	(6,638)	(1,467)	(26,204)	**(64,957)**
Transfers	3,344	(29,534)	761	21,902	3,527	-	**-**
At 31 December 2022	**170,331**	**37,585**	**22,276**	**195,119**	**75,739**	**93,546**	**594,596**
Depreciation and impairment							
At 1 January 2021	**63,480**	-	**3,869**	**114,766**	**44,234**	**22,490**	**248,839**
Disposals	6,625	-	2,378	14,029	3,073	18,896	**45,001**
Depreciation charge for the year	(1,575)	-	(843)	(6,555)	(5,466)	(3,817)	**(18,256)**
Balance at 31 December 2021	**68,530**	-	**5,404**	**122,240**	**41,841**	**37,569**	**275,584**
Depreciation charge for the year	6,862	-	3,390	17,921	5,057	19,206	**52,436**
Disposals	(775)	-	(200)	(6,632)	(1,389)	(16,782)	**(25,778)**
Impairment	2,025	-	-	-	-	-	**2,025**
Balance at 31 December 2022	**76,642**	-	**8,594**	**133,529**	**45,509**	**39,993**	**304,267**
Carrying amount							
at 1 January 2021	**83,202**	**40,536**	**11,987**	**28,686**	**12,587**	**62,063**	**239,061**
at 31 December 2021	**90,506**	**30,368**	**16,259**	**54,055**	**31,767**	**56,394**	**279,349**
at 31 December 2022	**93,689**	**37,585**	**13,682**	**61,590**	**30,230**	**53,553**	**290,329**

Notes to the Financial Statements

18 Property, equipment and right-of-use assets (continued)

As of 31 December 2022 the cost of fully depreciated assets amounted at MDL'000 130,297 (31 December 2021: MDL'000 135,448).

During 2022 and 2021 the Bank carried capital construction works in the rented premises in line with the network development plan. As of 31 December 2022 the cost of such investments included in "Land and buildings" category amounts to MDL'000 8,753 (2021: MDL'000 9,252) and included in "Assets under construction" category of MDL'000 3,344 (2021: MDL'000 4,771). These investments are being amortized over the period lower of useful life or rent agreement term starting from date of opening of the point of sale.

Right-Of-Use assets includes only one category of assets - the branches that the bank leases.

Set out below are the carrying amounts of lease liabilities (included under 'Other liabilities' in Note 24) and the movements during the period:

	Note	2022	2021
(in thousands MDL)			
As at 1 January		**59,144**	**68,132**
Additions	18	25,787	16,610
Payments	18	(28,644)	(22,502)
Accrued interest on lease liabilities		-	23
Exchange rate difference		669	(3,119)
As at 31 December	24	**56,956**	**59,144**

The Bank had total cash outflows for leases of MDL'000 28,644. The detailed maturity split of lease liability is presented in Note 31. The expenses relating to low value items for the year 2022 amounted MDL'000 3,867 (31 December 2021: MDL'000 2,289) and represents mainly ATM rentals amounting MDL'000 1,589 as at 31 December 2022 (31 December 2021: MDL'000 1,517).

Notes to the Financial Statements

19 Intangible assets

(in thousands MDL)	Informational System development costs	Software	Licenses	Other	Total
Cost					
At 1 January 2021	**154,840**	**18,197**	**17,653**	**18,853**	**209,543**
Additions	89,170	33,782	5,270	1,448	**129,670**
Disposals	(53,386)	-	-	-	**(53,386)**
Transfers	0	-	-	-	**-**
Balance at 31 December 2021	**190,624**	**51,979**	**22,923**	**20,301**	**285,827**
Additions	22,847	3,208	12	0	**26,067**
Transfers	(64,887)	36,687	27,667	533	**0**
Balance at 31 December 2022	**148,584**	**91,874**	**50,602**	**20,834**	**311,894**
Amortization and impairment					
Balance at 1 January 2021	**121,108**	**16,795**	**10,687**	**18,471**	**167,061**
Disposals	-	-	-	-	**-**
Amortization charge for the year	3,177	-	3,726	1,213	**12,089**
Impairment	(1,579)	-	-	-	**(1,579)**
Balance at 31 December 2021	**122,706**	**16,795**	**14,413**	**19,684**	**173,598**
Disposals	-	-	-	-	**-**
Amortization charge for the year	4,693	8,852	4,160	812	**18,517**
Balance at 31 December 2022	**127,399**	**25,647**	**18,573**	**20,496**	**192,115**
Carrying amount					
at 1 January 2021	**33,732**	**1,402**	**6,966**	**382**	**42,482**
at 31 December 2021	**67,918**	**35,184**	**8,510**	**617**	**108,256**
at 31 December 2022	**21,185**	**66,227**	**32,029**	**338**	**119,779**

As of 31 December 2022 the cost of fully amortized intangible assets amounts at MDL'000 160,025 and mainly represents the cost of Cards Module and iBank (old core banking system – CBS - iBank amounted MDL'000 97,630, which will be written off in 2023).

In August 2022 the Bank has migrated to a new core banking system B2. The total cost of the new CBS as at 31.12.2022 represents MDL '000 51,457, including the B2 license.

Notes to the Financial Statements

20 Other assets

(in thousands MDL)	31 December 2022	31 December 2021
Other Financial Assets		
Operations with payment cards (Master Card and VISA)	39,010	12,149
Commission fees receivable	6,657	9,175
Other receivables	7,362	8,267
Clearing and transit amounts (1)	1,964	3,829
Due from employees	292	519
Total Other Financial Assets	**55,285**	**33,939**
Less allowance for ECL (2)	(9,578)	(9,554)
Total Other Financial Assets Net	**45,707**	**24,385**
Other Assets		
Income and other taxes receivable	16,747	17,523
Other prepayments	234	9,615
Prepaid insurance	11,187	4,050
Consumables and LVA	1,582	1,524
Total Other Assets	**29,750**	**32,712**
Less allowance for impairment losses	-	-
Total Other Assets Net	**29,750**	**32,712**
Total Other and Other Financial Assets	**75,457**	**57,097**

(1) Clearing and transit amounts represent transactions through international payment systems as of 31 December 2022 amounting MDL'000 1,964 (as of 31 December 2021 MDL'000 3,829) and the remaining amount relates to operations with cards.

(2) Allowance (2) Allowance for impairment losses relates to non-recoverable commission fees receivable amounting MDL'000 6,239 (as of 31 December 2021 MDL'000 8,975), ECL Stage 1 under IFRS 9 for other assets measured at amortized cost MDL'000 3,258 (as of 31 December 2021 MDL'000 350) and ECL Stage 3 under IFRS 9 for other assets measured at amortized cost MDL'000 81 (as of 31 December 2021 MDL'000 229).

Notes to the Financial Statements

20 Other assets (continued)

	31 December 2022		
	Stage 1 collective	**Stage 3 collective**	**Total**
(in thousands MDL)			
Internal rating grade			
Neither past due nor impaired	48,550	-	**48,550**
Past due but not impaired	-	-	**-**
Non-performing	-	-	**-**
Individually impaired	-	6,735	**6,735**
Grand Total	**48,550**	**6,735**	**55,285**

	31 December 2021		
	Stage 1 collective	**Stage 3 collective**	**Total**
(in thousands MDL)			
Internal rating grade			
Neither past due nor impaired	24,735	-	**24,735**
Past due but not impaired	-	-	-
Non-performing	-	-	-
Individually impaired	-	9,204	**9,204**
Grand Total	**24,735**	**9,204**	**33,939**

An analysis of changes in the gross carrying amount for the year ending 31 December 2022 is, as follows:

	Stage 1 collective	**Stage 3 collective**	**Total**
(in thousands MDL)			
Gross carrying amount as at 1 January 2022	24,735	9,204	**33,939**
New assets originated or purchased	29,108	331	**29,439**
Assets derecognized or repaid (excluding write off)	(5,293)	(2,800)	**(8,093)**
Gross carrying amount as at 31 December 2022	**48,550**	**6,735**	**55,285**

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Notes to the Financial Statements

20 Other assets (continued)

An analysis of changes in the gross carrying amount or the year ending 31 December 2021 is, as follows:

(in thousands MDL)	Stage 1 collective	Stage 3 collective	Total
Gross carrying amount as at 1 January 2021	19,826	7,050	**26,876**
New assets originated or purchased	7,986	2,175	**10,161**
Assets derecognized or repaid (excluding write off)	(3,077)	(21)	**(3,098)**
Gross carrying amount as at 31 December 2021	**24,735**	**9,204**	**33,939**

An analysis of changes in the corresponding ECLs or the year ending 31 December 2022 is, as follows:

(in thousands MDL)	Stage 1 collective	Stage 3 collective	Total
ECL allowance as at 1 January 2022 under IFRS 9	343	9,211	**9,554**
New assets originated or purchased	2,950	5	**2,955**
Assets derecognized or repaid (excluding write off)	(35)	(2,896)	**(2,931)**
Net ECL Charge	2,915	(2,891)	**24**
ECL allowance as at 31 December 2022	**3,258**	**6,320**	**9,578**

An analysis of changes in corresponding ECLs or the year ending 31 December 2021 is, as follows:

(in thousands MDL)	Stage 1 collective	Stage 3 collective	Total
ECL allowance as at 1 January 2021 under IFRS 9	**411**	**7,031**	**7,442**
New assets originated or purchased	126	2,190	**2,316**
Assets derecognized or repaid (excluding write off)	(194)	(10)	**(204)**
Net ECL Charge	(68)	2,180	**2,112**
ECL allowance as at 31 December 2021	**343**	**9,211**	**9,554**

Notes to the Financial Statements

21 Due to banks

(in thousands MDL)	31 December 2022	31 December 2021
Current accounts	2,588	2,530
Term deposits	24	41
Term deposit held by OTP Nyrt.	407,910	-
	410,522	**2,571**

22 Due to customers

(in thousands MDL)	31 December 2022	31 December 2021
Retail customers		
Current/savings accounts	3,531,539	3,931,097
Term deposits	3,927,804	3,390,362
	7,459,343	**7,321,459**
Corporate customers		
Current/savings accounts	4,977,495	5,471,617
Term deposits	1,056,183	704,030
	6,033,678	**6,175,649**
	13,493,021	**13,497,108**

Included in Due to customers were deposits of MDL'000 282,267 (2021: MDL'000 118,007) held as collateral for loans and guarantees.

23 Borrowed funds from IFI's

(in thousands MDL)	31 December 2022	31 December 2021
European Bank for Reconstruction and Development (EBRD)	525,932	218,854
"Filere du Vin" and "Fruit of garden" (UCIP - EIB)	161,312	184,352
Management of External Assistance Programs Office (MEAPO)	635,003	439,195
International Fund for Agricultural Development (FIDA)	14,932	20,506
European Fund for South East Europe (EFSE)	393,750	-
	1,730,929	**862,907**

The loans are secured with the right to collect receivables under sub-loans granted by the Bank.

Below are the descriptions of the main financing lines:

Notes to the Financial Statements

23 Borrowed funds from IFI's (continued)

(1.1) On 8 December 2016 the Bank signed the EU4BUSINESS EBRD Credit Line (DCFTA Programme) in amount of EUR 10.0 million. The maturity of the loan falls on December 2020. The purpose of facility is strengthening MSME capacity and meets the EU standards. By 31 December 2018 the Bank disbursed full amount. The loan was secured by financial guarantee issued by Societe Generale but by 25.07.2019 following the change of controlling shareholder and prospective integration of Mobiasbanca in OTP Group, Societe Generale has released its issued guarantee.

(1.2) On 15 December 2017 the Bank signed the EU4BUSINESS EBRD Credit Line (DCFTA Programme) in amount of EUR 20.0 million. The maturity of the loan falls on December 2020. The purpose of facility is strengthening MSME capacity and meets the EU standards. By 31 December 2019 the Bank disbursed full amount. The loan was secured by financial guarantee issued by Societe Generale but by 25.07.2019 following the change of controlling shareholder and prospective integration of Mobiasbanca in OTP Group, Societe Generale has released its issued guarantee.

(1.3) On 28 May 2020 the Bank signed the MSME facility in amount of EUR 5.0 million. The purpose of facility is strengthening MSME capacity and to fund loans structured with a high degree of flexibility to provide loan profiles that match client and project needs. By 31 December 2021 the Bank has disbursed EUR 1.0 million from MSME facility with an Interest Rate of 3,25%+EURIBOR3M. By 09 September 2022 the Bank has disbursed EUR 4.0 million from MSME facility with an Interest Rate of 3,25%+EURIBOR3M. The loan is not secured by any financial guarantee having the "Stand Alone" status.

(1.4) On 29 July 2020 the Bank extended the loan limit under EU4BUSINESS EBRD Credit Line (DCFTA Programme) in amount of EUR 5.0 million. The purpose of facility is strengthening MSME capacity and meets the EU standards. By 31 December 2021 the Bank has disbursed EUR 5.0 million from DCFTA facility with an Interest Rate of 3,25%+EURIBOR3M. The loan is not secured by any financial guarantee having the "Stand Alone" status.

(1.5) On 28 April 2021 the Bank has signed a new loan agreement with EBRD in order to release a new credit line EaP SMEC, under DCFTA Programme in amount of EUR 15.0 million. The purpose of facility is strengthening MSME capacity and meets the EU standards. By 31 December 2021 the Bank has disbursed first tranche of EUR 5.0 million from EaP SMEC facility with an Interest Rate of 3,25%+EURIBOR3M. By 28 March 2022 the Bank has disbursed the second tranche of EUR 5.0 million from EaP SMEC facility with an Interest Rate of 3%+EURIBOR3M. By 1 July 2022 the Bank has disbursed the third tranche of EUR 5.0 million from EaP SMEC facility with an Interest Rate of 3%+EURIBOR3M. The loan is not secured by any financial guarantee having the "Stand Alone" status.

(1.6) On 12 December 2022 the Bank has signed a new loan agreement with EBRD under EaP SMEC (DCFTA Programme) in amount of EUR 15.0 million. The purpose of the facility is strengthening MSME capacity and meets the EU standards. The loan is not secured by any financial guarantee having the "Stand alone" status. By 28 December 2022 the Bank has disbursed the first tranche of EUR 5.0 million from EaP SMEC facility with an Interest Rate of 3,5%+EURIBOR3M.

Loan from EFSE

On 21 October 2022 the Bank has signed a new loan agreement with "The European Fund for Southeast Europe S.A., SICAV-SIF" in amount of equivalent of EUR 20.0 million in national currency. The purpose of the facility is to support the development of MSMEs focusing on creating a favourable development environment, which would support private sector. By 26 October 2022 the Bank disbursed first tranche of EUR 10 million in national currency and by 22 December 2022 the Bank has disbursed EUR 10.0 million in national currency from EFSE facility with an Interest Rate of 3,25%+TDR6-12M+1%. The loan is not secured by any financial guarantee having the "Stand Alone" status.

Loan from EIB

On 18 November 2013 the Bank signed a Loan Agreement with EIB in amount of EUR 20 million for on-lending Small, Medium and Mid Cap Sized Enterprises. The tranches to be disbursed under the Loan Agreement may take up 10 years. By 01 August 2019 the Bank reimbursed full amount. The loan was secured by financial guarantee issued by Societe Generale.

Notes to the Financial Statements

23 Borrowed funds from IFI's (continued)

Loans from UCIP – EIB

On December 2011 and July 2016 the Bank signed the Framework Agreements with the Ministry of Finance and became the Participant Bank in "Filiere du Vin" and, respectively, "Orchard of Moldova" facilities. The total amount of Framework Agreements on "Filiere du Vin" is EUR 75.0 million and is directed for stimulation of wine industry and connected industries. The total amount of Framework Agreement "Orchard of Moldova" a facility is EUR 120.0 million and is directed for stimulation fruit-growers, as well as, in connected industries. The purpose of facilities are financing investments and working capital denominated in EUR. The Ministry of Finance acts as a representative of the Republic of Moldova under the loan agreements signed with EIB. By 04.10.2018 EIB closed "Filiere du Vin" program and extended the "Orchard of Moldova" program with the purposes afferent to winemakers.

Loans from IDA

Starting with November 2004 the Bank joined the programs (RISP 1 and RISP 2) launched by International Development Association (IDA). The Ministry of Finance, which acts as a representative of the Republic of Moldova under the loan agreements signed with IDA, granted to the Bank sub-loans denominated in local currency, USD and EUR. The facilities were available for finance of entrepreneurs, SME in rural area as well as agribusiness. By 23.12.2019 the Council of Credit Line Directorate decided to close the programs RISP 1, RISP 2 and Competitiveness Enhancement Project (CEP I).

On November 2014 the Bank became the partner bank of the Competitiveness Enhancement Project (CEP II) launched by World Bank (WB). The purpose of facility is financing of investment and working capital needs of exporters and economic activity related to generation of exports revenue. The sub-loans may be denominated in local currency, USD and EUR. The loan is unsecured.

Loans from IFAD

On December 2014, the Bank signed a long-term Loan Agreement with the Ministry of Finance, which acts as a representative of the Republic of Moldova under the loan agreement signed with International Fund for Agricultural Development (IFAD). The facility was targeting to finance small and medium agricultural enterprises, as well as for young entrepreneurs, program which includes a grant-component. In 2018, the limit of grant component fully assimilated by local banks. The facility (IFAD VI) is in the final stage and the Implementation Unit in 2019 has implemented a new facility IFAD VII. In 2021, IFAD has launched a new loan facility with Grant component in order to support Women in Business from rural area. In 2022 IFAD continued to support micro and small businesses oriented to companies involved in rural development, especially agriculture, awarding with grant component Young Entrepreneurs and Enterprises founded and driven by Women, following IFAD VII and starting IFAD VIII program.

Loans from OEAPM (Office for External Assistance Programs Management)

The Bank has become partner bank of the Office for External Assistance Programs Management (former Credit Line Directorate) starting with 2004. The Ministry of Finance, which acts as a representative of the Republic of Moldova under the loan agreements signed with IFIs has granted to the bank sub-loans denominated in MDL, USD and EUR. The facilities are available for financing MSMEs activating covering the entire territory of the country and financing all eligible fields (agro, production, services, and trade). In 2020, to overcome the crisis caused by the COVID-19 pandemic, the Government of the Republic of Moldova in collaboration with Council of Europe Development Bank (CEB) has released a new credit line, offering necessary liquidity for continuing the positive trend of business and job creation, and a subsidy of 0% interest applied for 10% of the total sub-loan amount. Throughout 2022 the demand for CEB resources has been maintained. Also during 2022 the Bank, with support of OEAPM allocation of funds destined for Young Entrepreneurs in competitive conditions with fixed and attractive interest rate, in local currency, and, inclusive with grant component came from OED (Organization for Entrepreneurship Development), aimed to encourage amplification of young business market positions.

Loans from OTP Financing Malta

In March 2021, the Bank signed two loan facilities agreements with OTP Financing Malta Company LTD in amount of USD 8.0 million and EUR 7.0 million. The purpose of the facilities was general corporate purposes for financing operating activity. As of December 31, 2021, the bank has not used the facilities under these agreements.

Notes to the Financial Statements

24 Other liabilities

	Note	31 December 2022	31 December 2021
(in thousands MDL)			
Lease liability	18	56,956	59,144
Money transfers pending execution (1)		34,991	9,834
Due to budget		23,768	20,209
Other liabilities on financial leasing (2)		21,208	21,047
Other accruals		16,198	15,553
IT maintenance (3)		9,627	1,089
Accrued audit and consulting fees		8,831	13,203
Money waiting approval		7,374	1,775
Non-performing loans management account		6,660	-
Credit transit account		5,590	-
Documentary transactions		3,946	1,184
Settlements on FCY swap transaction		3,694	645
Settlements related to intangible assets		2,414	
Guarantees for safe deposits		1,846	1,405
Dividends payable		1,126	1,137
Due to international payment systems		1,110	181
Due to suppliers of property and equipment		543	549
Other liabilities (4)		12,416	5,839
		218,298	**152,794**

(1) Amount pending clarification represents transfers which are above a certain limit, under investigation. After the investigation the clients receive their transfers in case if they are not declined.

(2) Other liabilities on financial leasing represents the deductible VAT, according to the Fiscal Code, from financial leasing operations.

(3) Represents post migration maintenance related to card processing centre and new core banking soft.

(4) Other liabilities represents mainly payables through an intermediary account for broker services for clients.

The amounts disclosed in the table below represent undiscounted Lease liabilities at 31 December 2022 by the amount of the lease liabilities expected to be settled within no more than twelve months after the reporting period and of the lease liabilities expected to be settled within more than twelve months after the reporting period.

	31 December 2022	31 December 2021
(in thousands MDL)		
Lease liabilities Within one year	21,835	18,811
Lease liability over one year	53,348	40,333
	75,183	**59,144**

Notes to the Financial Statements

25 Provisions

The movement in liability-side provisions during 2022 and 2021 respectively is, as follows:

(in thousands MDL)	Provision for employee benefits	Legal	Commitments and guarantees given	Total
1 January 2021	**31,180**	**239**	**12,229**	**43,648**
Provision arising during the year	88,760	(239)	61,601	**150,122**
Release of provision	(81,588)	-	25,801	**(129,345)**
Foreign exchange adjustments	-	-	(272)	**(272)**
31 December 2021	**38,352**	**-**	**25,801**	**64,153**
Provision arising during the year	98,554	475	41,069	140,098
Release of provision	(94,189)	-	(41,188)	(135,377)
Foreign exchange adjustments	-	-	730	730
31 December 2022	**42,717**	**475**	**26,412**	**69,604**

25.1 Financial guarantees, letters of credit and other undrawn commitments

To the financial needs of customers, the Bank enters into various commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other commitments to lend. Even though these obligations may not be recognized on the statement of financial position, they contain credit risk and therefore, form part of the overall risk of the Bank.

At any time, the Bank has outstanding commitments to extend credit. These commitments take the form of approved loans and credit lines.

The Bank provides letters of guarantee and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for up to one year. The guarantees are secured with cession of money agreements and other type of collateral.

The amounts reflected in the table of guarantees and letters of credit represent the maximum loss that would be recognized at the balance sheet date if counterparties failed completely to perform as contracted and no guarantees are provided to the Bank. The credit risk amounts are minimized by the quality of collateral (deposits, real estate, etc.).

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for commitments assume that amount is fully advanced.

(in thousands MDL)	31 December 2022	31 December 2021
Commitments to grant loans	586,289	1,286,654
Financial guarantees	555,131	484,467
Letters of credit	23,340	13,978
	1,164,760	**1,785,099**

Notes to the Financial Statements

25 Provisions (continued)

25.1 Financial guarantees, letters of credit and other undrawn commitments (continued)

These commitments and contingent liabilities have off-balance-sheet risk because only organization fees and accruals for probable losses are recognized in the balance sheet until the commitments are fulfilled or expire. Many of the contingent liabilities and commitments will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows. The policy of the Bank provides that only fully secured letters of credit are issued, i.e. all letters of credit are secured with a blocked deposit on the clients' accounts and other types of security.

25.1.1 Impairment losses on guarantees and other commitments

An analysis of changes in the gross carrying amount and the corresponding allowance for impairment losses in relation to guarantees and other commitments is, as follows:

(i) Commitments to grant loans

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. Details of the Bank's internal grading system are explained in Note 28 and policies on whether ECLs are calculated on an individual or collective basis are set out in Note 28:

	31 December 2022				
	Stage 1 Collective	Stage 2 Collective	Stage 3 Collective	Stage 3 Individual	Total
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	559,210	16,847	-	-	576,057
Past due but not impaired	5,424	4,687	-	-	10,111
Non-performing	-	-	121	-	121
Individually impaired	-	-	-	-	-
Total	**564,634**	**21,534**	**121**	**-**	**586,289**

	31 December 2021				
	Stage 1 Collective	Stage 2 Collective	Stage 3 Collective	Stage 3 Individual	Total
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	1,242,881	39,294	-	-	1,282,175
Past due but not impaired	3,285	604	-	-	3,889
Non-performing	-	-	590	-	590
Individually impaired	-	-	-	-	-
Total	**1,246,165**	**39,898**	**590**	**-**	**1,286,654**

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Notes to the Financial Statements

25 Provisions (continued)

25.1 Financial guarantees, letters of credit and other undrawn commitments (continued)

25.1.1 Impairment losses on guarantees and other commitments (continued)

An analysis of charges in the gross carrying amount in relation to Commitments to grant loans is for the year ended 31 December 2022, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
Gross carrying amount as at 1 January 2022	**1,246,165**	**39,898**	**590**	**-**	**1,286,653**
New assets originated or purchased	385,405	-	-	-	**385,405**
Assets derecognized or repaid (excluding write offs)	(1,076,563)	(36,621)	(590)	-	**(1,113,774)**
Transfers to S1	2,156	(2,156)	-	-	**-**
Transfers to S2	(18,986)	18,986	-	-	**-**
Transfers to S3	(98)	(25)	123	-	**-**
Impact of modifications	24,768	1,442	(2)	-	**26,208**
Amounts written off	-	-	-	-	**-**
Foreign exchange adjustments	1,787	10	-	-	**1,797**
Outstanding exposure as at 31 December 2022	**564,634**	**21,534**	**121**	**-**	**586,289**

An analysis of charges in the gross carrying amount in relation to Commitments to grant loans is for the year ended 31 December 2021, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
Gross carrying amount as at 1 January 2021	**946,546**	**21,145**	**350**	**-**	**968,041**
New assets originated or purchased	1,033,495			-	**1,033,495**
Assets derecognized or repaid (excluding write offs)	(719,300)	10,752	(144)	-	**(708,692)**
Transfers to S1	4,533	(3,793)	(740)	-	**-**
Transfers to S2	(14,358)	14,358	-	-	**-**
Transfers to S3	(590)	-	590	-	**-**
Impact of modifications	(1,378)	(2,159)	533	-	**(3,004)**
Amounts written off	-	-	-	-	**-**
Foreign exchange adjustments	(2,782)	(404)	-	-	**(3,187)**
Outstanding exposure as at 31 December 2021	**1,246,165**	**39,898**	**590**	**-**	**1,286,654**

Notes to the Financial Statements

25 Provisions (continued)

25.1 Financial guarantees, letters of credit and other undrawn commitments (continued)

25.1.1 Impairment losses on guarantees and other commitments (continued)

An analysis of charges in the corresponding ECL allowances in relation to Commitments to grant loans is for the year ended 31 December 2022, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
ECL allowance as at 1 January 2022 under IFRS 9	**14,669**	**3,991**	**321**	-	**18,981**
New assets originated or purchased	8,283	-	-	-	**8,283**
Assets derecognized or repaid (excluding write offs)	(12,775)	(3,677)	(320)	-	**(16,772)**
Transfers to S1	22	(171)	-	-	**(149)**
Transfers to S2	(1,757)	2,571	-	-	**814**
Transfers to S3	(19)	(13)	78	-	**46**
Impact on ECL of modifications	525	97	-	-	**622**
Changes to inputs used for ECL calculations	813	41	-	-	**854**
Foreign exchange adjustments	22	1	-	-	**23**
Net ECL Charge	**(4,886)**	**(1,151)**	**(242)**	-	**(6,279)**
ECL allowance as at 31 December 2022	**9,783**	**2,840**	**79**	-	**12,702**

An analysis of charges in the corresponding ECL allowances in relation to Commitments to grant loans is for the year ended 31 December 2021, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
ECL allowance as at 1 January 2021 under IFRS 9	**5,914**	**1,795**	**127**	-	**7,836**
New assets originated or purchased	13,137			-	13,137
Assets derecognized or repaid (excluding write offs)	(3,245)	1,576	(56)	-	(1,725)
Transfers to S1	66	(57)	(9)	-	-
Transfers to S2	(1,170)	1,170	-	-	-
Transfers to S3	(321)	-	321	-	-
Impact on ECL of modifications	(330)	(1,825)	(62)	-	(2,217)
Changes to inputs used for ECL calculations	644	1,362	-	-	2,006
Foreign exchange adjustments	(26)	(30)	-	-	(56)
Net ECL Charge	**8,755**	**2,196**	**194**	-	**11,145**
ECL allowance as at 31 December 2021	**14,669**	**3,991**	**321**	-	**18,981**

Notes to the Financial Statements

25 Provisions (continued)

25.1 Financial guarantees, letters of credit and other undrawn commitments (continued)

25.1.1 Impairment losses on guarantees and other commitments (continued)

(ii) Guarantees issued

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. Details of the Bank's internal grading system are explained in Note 28 and policies on whether ECLs are calculated on an individual or collective basis are set out in Note 28:

	31 December 2022				
	Stage 1 Collective	**Stage 2 Collective**	**Stage 3 Collective**	**Stage 3 Individual**	**Total**
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	511,891	41,251	-	-	553,142
Past due but not impaired	-	-	-	-	-
Non-performing	-	-	1,989	-	1,989
Individually impaired	-	-	-	-	-
Total	**511,891**	**41,251**	**1,989**	**-**	**555,131**

	31 December 2021				
	Stage 1 Collective	**Stage 2 Collective**	**Stage 3 Collective**	**Stage 3 Individual**	**Total**
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	452,369	30,811	-	-	**483,181**
Past due but not impaired	-	-	-	-	**-**
Non-performing	-	-	1,286	-	**1,286**
Individually impaired	-	-	-	-	**-**
Total	**452,369**	**30,811**	**1,286**	**-**	**484,467**

Notes to the Financial Statements

25 Provisions (continued)

25.1 Financial guarantees, letters of credit and other undrawn commitments (continued)

25.1.1 Impairment losses on guarantees and other commitments (continued)

An analysis of charges in the gross carrying amount in relation to guarantees issued is for the year ended 31 December 2022, as follows:

(in thousands MDL)	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
Gross carrying amount as at 1 January 2022	**452,369**	**30,812**	**1,286**	-	**484,467**
New assets originated or purchased	142,312	-	-	-	**142,312**
Assets derecognized or repaid (excluding write offs)	(83,423)	(6)	(1,286)	-	**(84,715)**
Transfers to S1	12,777	(12,777)	-	-	-
Transfers to S2	(21,445)	21,445	-	-	-
Transfers to S3	(1,989)	-	1,989	-	-
Effects of Modifications	6,000	969	-	-	**6,969**
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	5,290	808	-	-	**6,098**
Gross carrying amount as at 31 December 2022	**511,891**	**41,251**	**1,989**	-	**555,131**

An analysis of charges in the gross carrying amount in relation to guarantees issued is for the year ended 31 December 2021, as follows:

(in thousands MDL)	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
Gross carrying amount as at 1 January 2021	**477,958**	**17,653**	-	-	**495,611**
New assets originated or purchased	74,448		-	-	**74,448**
Assets derecognized or repaid (excluding write offs)	(70,331)	(348)	-	-	**(70,679)**
Transfers to S1	-	-	-	-	-
Transfers to S2	(14,078)	14,078	-	-	-
Transfers to S3	(1,286)	-	1,286	-	-
Effects of Modifications	(835)	-	-	-	**(835)**
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	(13,507)	(571)	-	-	**(14,078)**
Gross carrying amount as at 31 December 2021	**452,369**	**30,812**	**1,286**	-	**484,467**

Notes to the Financial Statements

25 Provisions (continued)

25.1 Financial guarantees, letters of credit and other undrawn commitments (continued)

25.1.1 Impairment losses on guarantees and other commitments (continued)

An analysis of charges in the corresponding ECL allowances in relation to guarantees issued is for the year ended 31 December 2022, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
ECL allowance as at 1 January 2022 under IFRS 9	**3,501**	**2,391**	**670**	**-**	**6,562**
New assets originated or purchased	4,798	-	-	-	**4,798**
Assets derecognized or repaid (excluding write offs)	(693)	-	(670)	-	**(1,363)**
Transfers to S1	300	(639)	-	-	**(339)**
Transfers to S2	(1,541)	3,224	-	-	**1,683**
Transfers to S3	(1,312)	-	1,312	-	**-**
Impact on ECL of modifications	35	52	-	-	**87**
Changes to inputs used for ECL calculations	709	538	-	-	**1,247**
Foreign exchange adjustments	86	29	-	-	**115**
Net ECL Charge	**2,382**	**3,204**	**642**	**-**	**6,228**
ECL allowance as at 31 December 2022	**5,883**	**5,595**	**1,312**	**-**	**12,790**

An analysis of charges in the corresponding ECL allowances in relation to guarantees issued is for the year ended 31 December 2021, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
ECL allowance as at 1 January 2021 under IFRS 9	**2,802**	**1,344**	**-**	**-**	**4,146**
New assets originated or purchased	1,335		-	-	**1,335**
Assets derecognized or repaid (excluding write offs)	263	348	-	-	**612**
Transfers to S1	-	-	-	-	**-**
Transfers to S2	-762	762	-	-	**-**
Transfers to S3	-670	-	670	-	**-**
Impact on ECL of modifications	-74	-1,012	-	-	**-1,086**
Changes to inputs used for ECL calculations	686	1,007	-	-	**1,692**
Foreign exchange adjustments	-79	-58	-	-	**-136**
Net ECL Charge	**699**	**1,047**	**670**	**-**	**2,416**
ECL allowance as at 31 December 2021	**3,501**	**2,391**	**670**	**-**	**6,562**

Notes to the Financial Statements

25 Provisions (continued)

25.1 Financial guarantees, letters of credit and other undrawn commitments (continued)

25.1.1 Impairment losses on guarantees and other commitments (continued)

(iii) Letters of credit

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. Details of the Bank's internal grading system are explained in Note 28 and policies on whether ECLs are calculated on an individual or collective basis are set out in Note 28:

	31 December 2022				
	Stage 1 Collective	**Stage 2 Collective**	**Stage 3 Collective**	**Stage 3 Individual**	**Total**
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	14,406	8,934	-	-	23,340
Past due but not impaired	-	-	-	-	-
Non-performing	-	-	-	-	-
Individually impaired	-	-	-	-	-
Total	**14,406**	**8,934**	**-**	**-**	**23,340**

	31 December 2021				
	Stage 1 Collective	**Stage 2 Collective**	**Stage 3 Collective**	**Stage 3 Individual**	**Total**
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	11,514	2,464	-	-	13,978
Past due but not impaired	-	-	-	-	-
Non-performing	-	-	-	-	-
Individually impaired	-	-	-	-	-
Total	**11,514**	**2,464**	**-**	**-**	**13,978**

Notes to the Financial Statements

25 Provisions (continued)

25.1 Financial guarantees, letters of credit and other undrawn commitments (continued)

25.1.1 Impairment losses on guarantees and other commitments (continued)

An analysis of charges in the gross carrying amount in relation to letters of credit is for the year ended 31 December 2022, as follows:

(in thousands MDL)	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
Gross carrying amount as at 1 January 2022	**11,514**	**2,464**	**-**	**-**	**13,978**
New assets originated or purchased	11,927	-	-	-	**11,927**
Assets derecognized or repaid (excluding write offs)	(842)	(2,464)	-	-	**(3,306)**
Transfers to S1	-	-	-	-	-
Transfers to S2	(8,934)	8,934	-	-	-
Transfers to S3	-	-	-	-	-
Effects of Modifications	-	-	-	-	-
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	741	-	-	-	**741**
Gross carrying amount as at 31 December 2022	**14,406**	**8,934**	**-**	**-**	**23,340**

An analysis of charges in the gross carrying amount in relation to letters of credit is for the year ended 31 December 2021, as follows:

(in thousands MDL)	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
Gross carrying amount as at 1 January 2021	**12,237**	**2,352**	**-**	**-**	**14,589**
New assets originated or purchased	2,695		-	-	**2,695**
Assets derecognized or repaid (excluding write offs)	(1,095)	(2,352)	-	-	**(3,447)**
Transfers to S1	-	-	-	-	-
Transfers to S2	(2,464)	2,464	-	-	-
Transfers to S3	-	-	-	-	-
Effects of Modifications	-	-	-	-	-
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	141	-	-	-	**141**
Gross carrying amount as at 31 December 2021	**11,514**	**2,464**	**-**	**-**	**13,978**

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Notes to the Financial Statements

25 Provisions (continued)

25.1 Financial guarantees, letters of credit and other undrawn commitments (continued)

25.1.1 Impairment losses on guarantees and other commitments (continued)

An analysis of charges in the corresponding ECL allowances in relation to letters of credit is for the year ended 31 December 2022, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
ECL allowance as at 1 January 2022 under IFRS 9	**97**	**247**	**-**	**-**	**344**
New assets originated or purchased	631	-	-	-	**631**
Assets derecognized or repaid (excluding write offs)	(9)	(247)	-	-	**(256)**
Transfers to S1	-	-	-	-	**-**
Transfers to S2	(593)	593	-	-	**-**
Transfers to S3	-	-	-	-	**-**
Impact on ECL of modifications	-	-	-	-	**-**
Changes to inputs used for ECL calculations	197	-	-	-	**197**
Foreign exchange adjustments	6	-	-	- 6	
Net ECL Charge	**232**	**346**	**-**	**-**	**578**
ECL allowance as at 31 December 2022	**329**	**593**	**-**	**-**	**922**

An analysis of charges in the corresponding ECL allowances in relation to letters of credit is for the year ended 31 December 2021, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
ECL allowance as at 1 January 2021 under IFRS 9	**71**	**177**	-	-	**248**
New assets originated or purchased	251		-	-	**251**
Assets derecognized or repaid (excluding write offs)	21	(177)	-	-	**(156)**
Transfers to S1	-	-	-	-	-
Transfers to S2	(247)	247	-	-	-
Transfers to S3	-	-	-	-	-
Impact on ECL of modifications	(25)	-	-	-	**(25)**
Changes to inputs used for ECL calculations	28	-	-	-	**28**
Foreign exchange adjustments	(2)	-	-	-	**(2)**
Net ECL Charge	**26**	**70**	**-**	**-**	**96**
ECL allowance as at 31 December 2021	**97**	**247**	-	-	**344**

Notes to the Financial Statements

25 Provisions (continued)

25.2 Other provisions and contingent liabilities

Contingent liabilities

As of 31 December 2022, and 2021 the Bank acts as plaintiff in a number of litigation cases.

Legal claims

Litigation is a common occurrence in the Banking industry due to the nature of the business undertaken.

The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year-end, the Bank had 5 (five) unresolved legal claims, but for which provisions were not necessary to be made. The most significant one being in respect of a claim raised by an shareholder, who request from the bank to be paid the „non paid" dividends, without taking into consideration the fact that the same claim was raised earlier and the court rejected it entirely.

Notes to the Financial Statements

26 Issued capital

The list of major shareholders as of 31 December 2022 is presented below:

	2022		
	Shareholding	Number of shares '000	Value
(in thousands MDL)			
OTP BANK NYRT, Hungary	98.26%	9,826	98,258
Other legal entities (<10%)	0.10%	9	98
Other individuals (<10%)	1.58%	159	1,588
Treasury shares	0.06%	6	56
	100.00%	**10,000**	**100,000**
Less: Treasury shares			(56)
Issued capital			**99,944**

The list of major shareholders as of 31 December 2021 is presented below:

	2021		
	Shareholding	Number of shares '000	Value
(in thousands MDL)			
OTP BANK NYRT, Hungary	98.26%	9,826	98,258
Other legal entities (<10%)	0.10%	9	98
Other individuals (<10%)	1.58%	159	1,588
Treasury shares	0.06%	6	56
	100.00%	**10,000**	**100,000**
Less: Treasury shares			(56)
Issued capital			**99,944**

As of 31 December 2022 all shares are ordinary and have a nominal value of MDL 10 (31 December 2021: MDL 10). As of 31 December 2022 the total authorized share capital in amount of 10 million of ordinary shares was fully paid in.

Notes to the Financial Statements

27 Fair value of financial instruments

27.1 Fair value estimations

The following is a description of how fair values are determined for financial instruments using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

***Placement with Central Bank and other banks*:** These include inter-bank placements and items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. Fixed interest-bearing deposits mature in less than three months and it is assumed that their fair value is not significantly different from its carrying value because these instruments have short maturity terms and are convertible into cash or are settled without significant transaction costs.

***Loans and advances to customers*:** These are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. To determine the fair value the expected cash flows are discounted at rates available in industry publications and other industry materials published by the National Bank of Moldova. For loans and advances to customers maturing within one-year it is assumed that their fair value is not significantly different from carrying value. For non-performing loans the fair value approximates the net book value.

***Debt instruments at amortized cost*:** Fair value for financial investments classified as loans and receivable is based on prices obtained from new issue market and are included in the Level 2 fair value hierarchy. The National Bank Certificates and State Securities above 1year are generally highly liquid, but not actively traded in active markets, thus the Bank considered that the fair value of these instruments are presumed to be equal to the carrying amount.

***Deposits from banks and customers*:** For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the balance sheet date. The estimated fair value of fixed-maturity deposits is based on discounted cash flows using rates available in industry publications and other industry materials.

***Borrowings from IFI's*:** Loans from banks and companies are carried at cost which approximates their fair value because these instruments have short maturity terms or bear a floating interest rate to reflect the market changes. The estimated fair value of borrowings from IFI's represents the discounted amount of future cash flows expected to be paid. The discounted rate represents average interest rate of deposits with maturity up to 1 year which is published by National Bank of Moldova.

27.2 Determination of fair value and fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices from active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data. In arriving at fair value for the items in this hierarchy the Bank is using industry publications and other industry materials with relevant data on pricing. The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

Notes to the Financial Statements

27 Fair value of financial instruments (continued)

27.2 Determination of fair value and fair value hierarchy (continued)

	Level 1	Level 2	Level 3	Total
(in thousands MDL)				
31 December 2022				
Financial assets				
Assets measured at fair value on a recurring basis				
Treasury bills issued by the Ministry of Finance	-	1,552	-	**1,552**
Equity investments at FVPL	-	-	1,031	**1,031**
Other financial assets not measured at Fair Value on a recurring basis	-	-	-	
Placements with Central Bank	6,807,269	-	-	**6,807,269**
Due from banks	898,300	-	-	**898,300**
Debt instruments at amortized cost	-	2,281,572	-	**2,281,572**
Loans and advances to customers	-	-	7,741,716	**7,741,716**
	7,705,569	**2,283,124**	**7,742,747**	**17,731,440**
Financial liabilities				
Deposits from banks	-	-	410,523	**410,523**
Borrowings from IFI's	-	1,731,279	-	**1,731,279**
Deposits from customers	-	-	13,677,257	**13,677,257**
	-	**1,731,279**	**14,087,779**	**15,819,058**

	Level 1	Level 2	Level 3	Total
(in thousands MDL)				
31 December 2021				
Financial assets				
Assets measured at fair value on a recurring basis				
Treasury bills issued by the Ministry of Finance	-	2,918	-	**2,918**
Equity investments at FVPL	-	-	1,031	**1,031**
Other financial assets not measured at Fair Value on a recurring basis				
Placements with Central Bank	3,332,834	-	-	**3,332,834**
Due from banks	2,318,602	-	-	**2,318,602**
Debt instruments at amortized cost	-	1,351,130	-	**1,351,130**
Loans and advances to customers	-	-	8,685,047	**8,685,047**
	5,651,436	**1,354,048**	**8,686,078**	**15,91,562**
Financial liabilities				
Deposits from banks	-	-	2,571	**2,571**
Borrowings from IFI's	-	866,314	-	**866,314**
Deposits from customers	-	-	13,514,722	**13,514,722**
	-	**866,314**	**13,517,293**	**14,383,607**

Notes to the Financial Statements

27 Fair value of financial instruments (continued)

27.2 Determination of fair value and fair value hierarchy (continued)

The table below sets out the Bank's classification of each class of financial assets and liabilities, and their fair values:

	2022		2021	
	Total carrying amount	**Fair value**	**Total carrying amount**	**Fair value**
(in thousands MDL)				
Financial assets				
Placements with Central Bank	6,807,269	6,807,269	3,332,834	3,332,834
Due from banks	898,300	898,300	2,318,602	2,318,602
Debt instruments at amortized cost	2,162,209	2,281,572	1,346,193	1,351,130
Loans and advances to customers	8,165,102	7,741,716	8,796,570	8,685,047
	18,032,880	**17,728,857**	**15,794,199**	**15,687,613**
Financial liabilities				
Due to banks	410,522	410,522	2,571	2,571
Borrowed funds from IFIs	1,730,929	1,731,279	862,907	866,314
Deposits from customers	13,493,021	13,677,257	13,497,038	13,514,722
	15,634,472	**15,819,058**	**14,362,516**	**14,383,607**

There were no reclassifications between financial assets and liabilities categories done in 2022 and 2021.

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Notes to the Financial Statements

28 Risk management

28.1 Introduction and overview

The Bank has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Interest rate risk
- Operational risks
- Currency risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Business environment and country risk

The Bank's operations are subject to country risk being the economic, political, and social risks inherent in doing business in the Republic of Moldova. These risks include matters arising out of the policies of the government, economic conditions, imposition of or changes to taxes and regulations, foreign exchange fluctuations and the enforceability of contract rights. The accompanying financial statements reflect management's assessment of the impact of the Moldovan business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment. The impact of such differences on the operations and financial position of the Bank may be hard to estimate.

Risk management framework

The Executive Board has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Risk Management Committee, Assets and Liabilities Management Committee, Audit Committee, Credit and Operational Risk Committees, Retail and Corporate Monitoring Committees, which are responsible for developing and monitoring Group risk management policies in their specified areas. All committees report regularly to the Executive Board on their activities.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures set up at the OTP Group level, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

28.2 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks and investment securities. Also, the Bank exposes itself to a credit risk in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees.
The Bank Risk Division manages and controls credit risk having a complex matrix of individual competencies, monitoring the evolution of risk indicators per market segments and products, by setting limits on the share of portfolio per industry concentrations, and by monitoring exposures in relation to such limits.

Notes to the Financial Statements

28 Risk management (continued)

28.2 Credit risk (continued)

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty risk level is established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process aims to allow the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

The Bank has also an Early Warning System (EWS) in place, which represents a mechanism that analyses and turns information into signals to identify the risk at an early stage and has also the purpose to take effective action in the event of EWS signalization and to prevent customers from transitioning to default status. The EWS-based monitoring process ensures the efficient and prompt identification of high-risk debtors.

28.2.1 Impairment assessment

The references below show where the Bank's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the Summary of significant accounting policies.

- The Bank's definition and assessment of default and cure (Note 28.2.2);
- An explanation of the Bank's internal grading system (Note 28.2.3);
- How the Bank defines, calculates and monitors the probability of default, exposure at default and loss given default) (Notes 28.2.4 and 28.2.5);
- When the Bank considers there has been a significant increase in credit risk of an exposure (Note 28.2.6);
- The Bank's policy of segmenting financial assets where ECL is assessed on a collective basis (Note: 28.2.7);
- The details of the ECL calculations for Stage 1, Stage 2 and Stage 3 assets (Note: 2.5.9.1(ii)).

For accounting purposes, the Bank uses an expected credit loss model for the recognition of losses on financial assets (Note 2.5.9.1 (ii)).

Depending on the factors below, the Bank calculates ECLs either on a collective or an individual basis.

Notes to the Financial Statements

28 Risk management (continued)

28.2 Credit risk (continued)

28.2.2 Definition of default and cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) in all cases when the borrower becomes 90 past due on any material credit obligation.

In the case of the non-enterprise segment it is defined as:

- Absolute threshold: 100 EUR (equivalent to the NBM exchange rate) on transaction level, and
- Relative threshold: the ratio of the transaction's overdue debt exceeds 1% of the on-balance sheet exposure on transaction (In case of credit facility /revolving type contracts (e.g: overdraft) it means the contracted amount).

In the case of the enterprise segment it is defined as:

- The absolute threshold: 500 EUR (equivalent to the NBM exchange rate) on client level, and
- Relative threshold: the ratio of the client's total overdue debt exceeds 1% of the total amount of all on-balance sheet exposures (In case of credit facility /revolving type contracts (e.g: overdraft) it means the contracted amount).

As part of quality assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the events should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL or whether Stage 2 is appropriate. Such events include:

- Identifying a risk event that is likely to result in partial or total non-recovery of amounts due by the counterparty under the initial contract (irrespective of the sufficiency of the Guarantees or the existence of a Guarantor / Fiduciary), the cause being the significant deterioration of the debtor's financial situation; the exceeding of limits established for financial indicators mentioned below can be used as trigger for transferring into default, however the bank will not rely only on the value of those indicators and an individual analysis will be performed in order to assess the counterparty' financial situation and the necessity to transfer it in Stage 3.
- The counterparty is the subject of legal proceedings in connection with the company's administrative difficulties (appointment of special administrator, seizure, winding-up by court order, summons to an international court, etc.) or an equivalent procedure under the law applicable in the debtor's country.
- Identify a situation requiring a restructuring agreement for a forborne credit (any situation / event that results in credit restructuring) (except in cases of "commercial renegotiation": credits for performing (healthy) clients for which the bank for commercial reasons agrees to modify the conditions stipulated in the Initial Loan Agreement) generates the customer's inevitable reclassification in the default category).
- The occurrence of any situation that is defined in the credit agreement as a Non-Execution Event such as a covenant breach not waived by the Bank.
- The loan is put for selling at a material credit related economic loss.
- Other triggers that can be considered as default event (based on expert assessment): information from public sources, breach of important covenants for other borrowing facilities not originated by the Bank, registered default in other banking/financial institution etc.

Notes to the Financial Statements

28 Risk management (continued)

28.2 Credit risk (continued)

28.2.2 Definition of default and cure (continued)

It is the Bank's policy to consider a financial instrument/exposure as "cured" and therefore re-classified out of Stage 3 when they no longer meet any of the above conditions, which means in particular that all late payments will be made. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of cure, and whether this there has been a significant increase in credit risk compared to initial recognition. The healing period for "non-performing forborne" loans is 12 months after any grace periods granted after restructuring event. The probation period for default is 3 months and for non-performing forborne is 24 months considering all necessary criteria are met.

The Bank is in continuous monitoring of any specific industry/BASEL/EBA/OTP Group requirements regarding classification of loans in risk categories to apply best market practice.

28.2.3 The bank's internal rating and PD estimation process

The Bank's independent Credit Underwriting Department operates its internal rating models. The Bank runs separate models for its key portfolios in which its customers are rated. Following key portfolios are monitored:

NON-RETAIL:

MLE

This category includes loans granted to Corporate clients with turnover more that 100 million MDL and transnational companies and Small and Medium Enterprises with turnover between 30 and 100 million MDL, Banks and Sovereign, including State Securities portfolio.

For MLE the borrowers are assessed by specialize credit risk employees of the Bank. The credit risk assessment is based on a credit scoring model that takes into account various quantitative and qualitative factors regarding historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client: realized and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention;
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports or press releases and articles;
- Presence of legal cases, their status at assessment date;
- Whether the loan is secured or unsecured;
- Existence of indicator of forborne/non-forborne;
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance: insolvency process.

Notes to the Financial Statements

28 Risk management (continued)

28.2 Credit risk (continued)

28.2.3 The bank's internal rating and PD estimation process (continued)

Classification of NON-RETAIL loans in risk stages

Stage 1 – exposure of the counterparties that are not in Stage 2 or Stage 3, on regular basis have a maximum of days past due of 10 days. Under internal rating these exposures have the rating of:

- S1 Neither past due nor impaired – when the DPD is 0 days;
- S1 Past due but not impaired – when the DPD is up to 10 days.

Stage 2 – exposures presenting signs of significant deterioration of credit risk since origination. Triggers considered by the Bank to show deterioration of credit risk for a counterparty to be moved from Stage 1 to Stage 2 are :

- Watch List Flag WL2;
- Overdue payments of more than 30 days;
- Overdue payments of more than 10 days during the last 6 months;
- Restructured loans under probation period (the ones migrated from Stage 3 to Stage 2);
- Restructured loans as performing forborne;
- Rating 8 or 9;
- Other qualitative factors taken into account such as deterioration of financial situation, breach of covenants etc.

Under internal rating these exposures have the rating of S2 Past due but not impaired – when the DPD is more than 10 days.

Stage 3 – exposures that are in "default" as detailed in Note 28.2.4. Under internal rating these exposures have the rating of "impaired".

RETAIL:

Consumer

Consumer lending comprise personal loans, credit cards and overdrafts and less complex small business lending. These products are rated for ECL calculation purposes using less complex indicators, the main one being driven by days past due.

Mortgage

Mortgage loans includes loans granted to individuals for financing a mortgage. These products are rated for ECL calculation purposes using less complex indicators, the main ones being driven by days past due and LTV.

MSE

MSE complies loans granted to less complex small business lending. These products are rated using similar risk indicators and for MLE.

Notes to the Financial Statements

28 Risk management (continued)

28.2 Credit risk (continued)

28.2.3 The bank's internal rating and PD estimation process (continued)

Classification of RETAIL loans in risk stages

Stage 1 – exposure of the counterparties that are not in Stage 2 or Stage 3, on regular basis have a maximum of days past due of 10 days. Under internal rating these exposures have the rating of:

- S1 Neither past due nor impaired – when the DPD is 0 days;
- S1 Past due but not impaired – when the DPD is up to 10 days.

Stage 2 – exposures presenting signs of significant deterioration of credit risk since origination. Triggers considered by the Bank to show deterioration of credit risk for a counterparty to be moved from Stage 1 to Stage 2 are:

- Overdue payments of more than 30 days;
- Restructured loans under probation period (the ones migrated from Stage 3 to Stage 2);
- LTV > 125% for mortgage products;
- DTI > 55% for consumer loans;
- Restructured loans as performing forborne;
- Overdue payments of more than 10 days at least once in the last 6 months;
- Mortgage loans with variable interest rate: (i) for which the degree of indebtedness estimated after the interest rate change from September 2022 exceeds the limits regulated by the NBM - 40% (clients with incomes below 19,800 MDL) and 55% (clients with incomes above 19,800 MDL), and (ii) granted to private individuals in the PRO category whose incomes are not of an official nature and were estimated according to MICRO technology.

Under internal rating these exposures have the rating of S2 Past due but not impaired – when the DPD is more than 10 days.

Stage 3 – exposures that are in "default" as detailed in Note 28.2.4. Under internal rating these exposures have the rating of "impaired loans and securities". Specifically, the following indicators of default are monitored (the list is not limited to these):

- Overdue payments of more than 90 days over the materiality threshold;
- Restructured loans;
- The hard recovery procedures started;
- Death of the debtor;
- Fraud events identified.

Notes to the Financial Statements

28 Risk management (continued)

28.2 Credit risk (continued)

28.2.4 Exposure at default

Exposure at Default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation and is equal to the current exposure including drawn part (corresponding to principal accounted in on balance sheet) and undrawn part (corresponding to the off-balance sheet adjusted with CCF) to which adjustment coefficients may be applied depending on the residual maturity (integrated into the provisioning rate).

To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. However, if a Stage 1 loan that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2 and Stage 3 the exposure at default is considered for events over the lifetime of the instruments.

The Bank determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Bank's models.

PD models are based on a two-step approach:

- Construction of the marginal curve of the TTC PD for each homogenous group;

  Calculation is based on the number of defaults on a quarterly basis from period starting with 01/01/2012. The survival rate is ignored, meaning that any default incurred during the observation period was considered as default in the calculation of PD, even at the reporting date the client's performance improved and any default that was recovered during the observation period was also considered in the calculation of PD.

- Adjusting the TTC PD curve taking into consideration the current situation and the impact of the forward-looking information.

PD at 12m is applied for 12mECL; life time PD is applied for LTECL.

28.2.5 Loss given default

The LGDs used for ECL calculation in the context of IFRS9 are based on internal LGD model using historic recoveries adjusted with forward looking coefficient.

28.2.6 Significant increase in credit risk

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition.

The Bank applies quantitative and qualitative methods for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watchlist, or the account becoming forborne. In certain cases, the Bank may also consider that events explained in Note 28.2.2 are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due as of reporting date or more than 10 days during the last 6 months, the credit risk is deemed to have increased significantly since initial recognition.

As a response to the COVID-19 pandemic crisis and as a result of other identified negative factors, the list of heavily affected sectors is periodically reviewed at Group level and these sectors are declared with significant increase in credit risk, the enterprise clients being transferred to Stage 2.

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Notes to the Financial Statements

28 Risk management (continued)

28.2 Credit risk (continued)

28.2.6 Significant increase in credit risk (continued)

For 2022, an additional trigger for the migration to stage 2 was considered for legal entities, whose main activity is Cultivation of plants (CAEN 01.1 Growing of non-perennial crops, CAEN 01.2 Growing of perennial crops and CAEN 01.3 Plant propagation), being seriously affected by the climatic conditions (the current year's drought) and the macro-economic circumstances induced by the conflict in Ukraine, The criteria not being applied to:

- Clients with exposures above the threshold of the exposure managed by the Corporate Credit Risk Monitoring Committee, they being evaluated individually based on Instruction No. I_000751 regarding the monitoring of clients with the CORPORATE commercial approach, based on the Early Warning System (EWS).
- Clients analysed by the Credit Risk Underwriting Department between July and December 2022 in the exposure analysis/review process and not considered affected.

28.2.7 Grouping financial assets measured on a collective basis

As explained in Note 28.2.1 and 2.5.9.1 dependent on the factors below the Bank calculates ECLs either on a collective or an individual basis.

Impairment assessment on individual basis

Asset classes where the Bank calculates ECL on an individual basis include Stage 3 assets, except unsecured portfolios and collectively assessed secured loans.

Impairment assessment on collective basis
The bank had classified loan portfolio in several homogeneous groups:

MLE

This category includes loans granted to Corporate clients with turnover more that 100 million MDL and transnational companies and Small and Medium Enterprises with turnover between 30 and 100 million MDL, Banks and Sovereign, including State Securities portfolio.

Consumer

Consumer lending comprise personal loans, credit cards and overdrafts and less complex small business lending.

Mortgage

Mortgage loans includes loans granted to individuals for financing a mortgage.

MSE

This category complies loans granted to less complex small business lending.

Asset classes where the Bank calculates ECL on a collective basis include:

- Performing assets (Stage 1 and 2) from all segments;
- S3 assets from unsecured portfolios;
- S3 assets from secured portfolio (usually forborne loans or not significant exposures).

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Notes to the Financial Statements

28 Risk management (continued)

28.2 Credit risk (continued)

28.2.8 Analysis of collectively impaired assets

(i) Analysis of inputs to the ECL under multiple economic scenarios

Measurement of Bank's ECL reflects an unbiased and probability-weighted amount that is determined by evaluating the range of possible outcomes. The model considers reasonable and supportable information about past events, current conditions and reasonable and supportable forecasts of future economic conditions when measuring ECL.

Main macroeconomic highlights
The Moldovan economy is already under strong pressures due to energy prices, the government forecasts sizeable recession in 2022 of 3% and a modest recovery in 2023. The highest decrease of 29.8% is registered in the agricultural production. Average inflation for 2022 was 28.7%, with a sharp decrease in 2023 to 13.7%. The external deficit had increased in 2022 by more than 21% from an already elevated level. Without the sizable support from the IMF and the EU, vulnerability would be very high.

Main risks
- Exchange rate risks - the MDL looks to be overvalued, the current account deficit exceeds 10% of GDP, which is mainly covered by credit. The central bank does its best to keep the MDL stable, but a 10%+ depreciation cannot be ruled out on the forecasting horizon;
- Geopolitical risks - war might reach Moldova in case of Russia push forward
- Political risks - the crisis might undermine the pre-West government;
- Energetic risks - energy shortage deepens recession.

Three scenarios are used for ECL calculations
1. Optimistic Scenario
   - ✓ Gas price fall sharply to 40 EUR/MWh by 2024
   - ✓ Strong disinflation due to falling commodity prices
   - ✓ Interest rates to be cut soon
   - ✓ Moldovan growth reaccelerates quickly to an increase of 6.1% of the GDP in Q4 2023.
2. Forecast Scenario
   - ✓ Gas price: 180 EUR/MWh in 2023
   - ✓ Gradual disinflation without second-round effects
   - ✓ No surprise in interest rates compared to pricing: high rates stay for a while
   - ✓ Moderate economic growth, with an increase of 3% of the GDP in Q4 2023.
3. Stress scenario
   - ✓ Extremely high energy prices
   - ✓ Endured inflation shock
   - ✓ Higher peak in interest rates on core markets rates
   - ✓ Eurozone faces deep recession in 2023 and the recovery would be sluggish
   - ✓ Moldova's GDP still in negative are in Q4 2023 of -0.7%

Notes to the Financial Statements

28 Risk management (continued)

28.2 Credit risk (continued)

28.2.8 Analysis of collectively impaired assets (continued)

The main scenario inputs are included in the table below:

Gross Domestic Product (GDP), q-o-q growth	Assigned Weight	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025 Q1	2025 Q2	2025 Q3	2025 Q4
Optimistic scenario	5%	-5.3%	- 1.6%	1.4%	6.1%	5.6%	5.1%	4.6%	3.9%	3.6%	3.4%	3.2%	3.2%
Stress scenario	75%	-8.1%	- 5.9%	-3.0%	-0.7%	0.8%	1.3%	1.8%	2.2%	2.7%	3.2%	3.8%	4.1%
Forecast scenario	20%	-6.2%	- 3.2%	-0.9%	-3.0%	3.4%	3.6%	4.0%	4.3%	4.6%	4.8%	4.9%	4.9%

(ii) Sensitivity Analysis of inputs to the ECL

The Bank elaborated four scenarios for sensitivity analysis, two are based on increasing/decreasing of PD by 500 basis points while LGD remains the same, and the last two are based on increasing/decreasing of LGD by 1000 basis points while PD remains the same.

(in thousands MDL)	Total Provision 2022 Real Booked	Change of PD	Total Provision Simulation	Increase/Decrease in Total Stock of Provision, MDL	Increase/Decrease in Total Stock of Provision, %
		+ 500 bps	439,035	147,226	50%
Retail	291,809	- 500 bps	217,424	-74,385	-25%
		+ 500 bps	555,451	228,284	70%
Non-Retail	327,167	- 500 bps	191,053	-136,114	-42%
	618,976				

(in thousands MDL)	Total Provision 2022 Real Booked	Change in basis points of LGD	Total Provision Simulation	Increase/Decrease in Total Stock of Provision, MDL	Increase/Decrease in Total Stock of Provision, %
		+ 1000 bps	344,478	52,669	18%
Retail	291,809	- 1000 bps	264,064	-27,745	-10%
		+ 1000 bps	366,008	38,841	12%
Non-Retail	327,167	- 1000 bps	296,316	-30,851	-9%
	618,976				

Notes to the Financial Statements

28 Risk management (continued)

28.2 Credit risk (continued)

28.2.8 Analysis of collectively impaired assets (continued)

(in thousands MDL)	Total Provision 2021 Real Booked	Change of PD	Total Provision Simulation	Increase/Decrease in Total Stock of Provision, MDL	Increase/Decrease in Total Stock of Provision, %
Retail	177,544	+ 500 bps	357,467	179,923	55%
		- 500 bps	120,451	(57,093)	-17%
Non-Retail	149,931	+ 500 bps	316,388	166,457	51%
		- 500 bps	67,894	(82,037)	-25%
	327,475				

(in thousands MDL)	Total Provision 2021 Real Booked	Change of LGD	Total Provision Simulation	Increase/Decrease in Total Stock of Provision, MDL	Increase/Decrease in Total Stock of Provision, %
Retail	177,544	+ 1000 bps	200,284	22,740	7%
		- 1000 bps	155,884	(21,660)	-7%
Non-Retail	149,931	+ 1000 bps	161,924	11,993	4%
		- 1000 bps	130,518	(19,413)	-6%
	327,475				

28.2.9 Overview of modified and forborne loans

The table below shows the gross carrying amount of previously modified financial assets for which loss allowance has changed between 12mECL and LTECL measurement during the period:

	as at 31 December 2022		as at 31 December 2021	
	Gross carrying amount	**Corresponding ECL**	**Gross carrying amount**	**Corresponding ECL**
Facilities that have cured since modification and are now measured using 12mECLs (Stage 1)	1,321	(29)	379	2
Facilities that reverted to (Stage 2/3) LTECLs having once cured	2,824	(1,190)	-	-

Notes to the Financial Statements

28 Risk management (continued)

28.2 Credit risk (continued)

28.2.9 Overview of modified and forborne loans (continued)

Carrying amount by class of financial assets that had the forborne status as of 31 December 2022 and 2021 is analyzed below:

Forborne Loans (in thousands MDL)	31 December 2022	Of which: forborne in 2022	31 December 2021	Of which: forborne in 2021
Loans and advances to customers				
Performing				
MLE	44,249	39,917	9,197	5,061
Consumer	1,376	727	4,787	209
Mortgage	3,187	719	4,911	311
MSE	21,836	11,299	30,474	4,975
Leasing	731	-	1,995	-
	71,379	**52,662**	**51,364**	**10,556**
NON-Performing				
MLE	11,566	-	19,379	7,086
Consumer	1,033	-	1,637	296
Mortgage	3,191	-	4,109	2,415
MSE	19,415	7,091	18,012	4,840
Leasing	1,841	1,048	1,649	-
	37,046	**8,139**	**44,786**	**14,637**

28.2.10 Analysis of risk concentration

The major concentrations of credit risk arise by location and type of customer in relation to the Bank investments, loans and advances and guarantees issued. The Bank has no significant exposure to any individual customer or counterparty. The Bank's lending activities are conducted in the Republic of Moldova. The ability of borrowers to repay their debt is dependent on a number of factors including the overall financial wealth of the borrower and the Moldovan economy. The loan portfolio comprises loans to approximately 3,748 legal entities (2021: 3,899) and 83,018 individuals (2021: 81,657), out of which 377 legal entities and 38,224 individuals have only unauthorized overdrafts.

The maximum credit on-balance exposure to any client or counterparty in the loan portfolio as of 31 December 2022 was at MDL'000 196,694 (2021: MDL'000 196,424).

As at 31 December 2022 ten major gross loans have a total on-balance exposure of MDL'000 1,269,004 (31 December 2021: MDL'000 1,096,319).

Notes to the Financial Statements

28 Risk management (continued)

28.2 Credit risk (continued)

28.2.10 Analysis of risk concentration (continued)

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk for the components of the balance sheet. The maximum exposure is shown net of ECL, before the effect of mitigation through the use of master netting and collateral agreements.

(in thousands MDL)	Note	31 December 2022	31 December 2021
Placements with Central Bank	13	6,233,016	3,332,834
Due from banks	14	898,252	2,318,602
Debt instruments at amortized cost	16	2,162,209	1,346,193
Loans and advances to customers	15	7,919,092	8,592,211
Leasing	15	246,010	204,359
Other assets		75,457	57,097
Total		**17,534,036**	**15,851,296**
Financial guarantees, letters of credit and other undrawn commitments	28.3	1,138,347	1,759,212
Total credit risk exposure		**18,672,383**	**17,610,508**

Notes to the Financial Statements

28 Risk management (continued)

28.2 Credit risk (continued)

28.2.10 Analysis of risk concentration (continued)

Industry analysis

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

An analysis of concentrations of credit risk gross exposure as of 31 December 2022 is shown below:

(in thousands MDL)	Loans and advances to customers	Leasing	Due from banks	Debt instruments at amortized cost	Financial assets at FV through PL
Concentration by sector					
Sovereign	-	-	-	993,664	-
Central Bank	-	-	6,251,739	1,203,231	-
Commercial banks	0	0		0	0
Individuals	-	-	902,673	-	-
Legal entities	3,756,356	-	-	-	-
Off balance sheet items:	4,745,196	256,113	0	0	1,031
Individuals	95,029	-	-	-	-
Legal entities	1,068,906	825	-	-	-
	9,665,487	**256,938**	**7,154,412**	**2,196,895**	**1,031**
Concentration by location					
Moldova	9,043,622	256,938	6,251,739	2,196,895	1,031
CIS*[1]	2,593	-	18,106	-	-
EU	422,608	-	875,757	-	-
USA	-	-	8,810	-	-
Other	196,662	-	-	-	-
Total gross amount of exposure	**9,665,485**	**256,938**	**7,154,412**	**2,196,895**	**1,031**
Less: Allowance for ECL/impairment losses	(608,857)	(10,119)	(23,144)	(34,686)	-
	9,056,628	**246,819**	**7,131,268**	**2,162,209**	**1,031**

[1] CIS - Commonwealth of Independent States, free association of sovereign states that was formed in 1991 by Russia and 11 other republics that were formerly part of the Soviet Union.

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Notes to the Financial Statements

28 Risk management (continued)

28.2 Credit risk (continued)

28.2.10 Analysis of risk concentration (continued)

An analysis of concentrations of credit risk gross exposure as of 31 December 2021 is shown below:

(in thousands MDL)	Loans and advances to customers	Leasing	Due from banks	Debt instruments at amortized cost	Financial assets at FV through PL
Concentration by sector					
Sovereign	-	-		1,356,923	-
Central Bank	-	-	3,340,348	-	-
Commercial banks	-	-	2,327,267	-	-
Individuals	4,359,052		-	-	-
Legal entities	4,528,442	210,665			1,031
Off balance sheet items:					
Individuals	114,101	-	-	-	-
Legal entities	1,667,395	3,603	-	-	-
	10,668,990	**214,268**	**5,667,615**	**1,356,923**	**1,031**
Concentration by location					
Moldova	10,014,762	214,268	3,340,348	1,356,923	1,031
CIS*[2]	1,278	-	6,721	-	-
EU	454,057	-	2,081,021	-	-
USA	-	-	200,684	-	-
Other	198,893	-	38,842	-	-
	10,668,990	**214,268**	**5,667,616**	**1,356,923**	**1,031**
Less: Allowance for ECL/impairment losses	(321,169)	(6,306)	(16,179)	(10,731)	-
	10,347,821	**207,962**	**5,651,437**	**1,346,192**	**1,031**

[2] CIS - Commonwealth of Independent States, free association of sovereign states that was formed in 1991 by Russia and 11 other republics that were formerly part of the Soviet Union.

Notes to the Financial Statements

28 Risk management (continued)

28.2 Credit risk (continued)

28.2.10 Analysis of risk concentration (continued)

An analysis of concentrations of ECL as of 31 December 2022 is shown below:

(in thousands MDL)	Loans and advances to customers	Leasing	Due from banks	Debt instruments at amortized cost	Financial assets at FV through PL
Concentration by sector					
Sovereign	-	-	-	34,158	-
Central Bank	-	-	18,723	528	-
Commercial banks	-	-	4,421	-	-
Individuals	291,856	-	-	-	-
Legal entities	290,604	10,103	-	-	-
Off balance sheet items:	-	-	-	-	-
Individuals	2,292	-	-	-	-
Legal entities	24,105	16	-	-	-
	608,857	**10,119**	**23,144**	**34,686**	-
Concentration by location					
Moldova	597,910	10,119	18,723	34,686	-
CIS*	355	-	494	-	-
EU	5,481	-	3,883	-	-
USA	-	-	44	-	-
Other	5,111	-	-	-	-
	608,857	**10,119**	**23,144**	**34,686**	**0**

An analysis of concentrations of ECL as of 31 December 2021, shown below:

(in thousands MDL)	Loans and advances to customers	Leasing	Due from banks	Debt instruments at amortized cost	Financial assets at FV through PL
Concentration by sector					
Sovereign	-	-	-	10,731	-
Central Bank	-	-	7,514	-	-
Commercial banks	-	-	8,665	-	-
Individuals	112,068		-	-	
Legal entities	183,215	6,306	-	-	-
Off balance sheet items:					
Individuals	1,508	-	-	-	-
Legal entities	24,379	-	-	-	-
	321,169	**6,306**	**16,179**	**10,731**	-
Concentration by location					
Moldova	312,786	6,306	7,514	10,731	-
CIS*	58	-	25	-	-
EU	4,950	-	7,837	-	-
USA	-	-	664	-	-
Other	3,375	-	137	-	-
	321,169	**6,306**	**16,179**	**10,731**	-

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Ageing analysis of loans by class of financial assets as of 31 December 2022 and 2021 is presented below:

	Stage 1		Stage 2					Stage 3					
(in thousands MDL)	Not past due	Less than 30 days	Not past due	Less than 30 days	31 to 60 days	61 to 90 days	More than 90	Not past due	Less than 30 days	31 to 60 days	61 to 90 days	More than 90	Total
31-Dec-22 Loans and advances to customers													
MLE	3,659,716	86,678	213,612	24,546	10104	-	-	2,230	10478	4373	2,013	78,115	**4,091,865**
Consumer	1,026,031	61,275	242,519	61,375	20,285	9,959	15,806	3,728	3803	5,094	5,003	30,001	**1,484,879**
Mortgage	1,632,002	55,401	424,018	87,713	10,837	2281	-	5,218	9,194	9,616	5,687	19,624	**2,261,591**
MSE	332,498	14,833	205,932	29,220	22,236	700	891	12,219	4,734	3,006	7,869	29,079	**663,217**
Total Loans and advances to customers	**6,650,247**	**218,187**	**1,086,081**	**202,854**	**63,462**	**12,940**	**16,697**	**23,395**	**28,209**	**22,089**	**20,572**	**156,819**	**8,501,552**
Leasing	***225,588***	***6,436***	***20,254***	***548***	-	-	-	***1,568***	-	***885***	-	***834***	***256,113***
Total Loans and advances to customers and Leasing	**6,875,835**	**224,623**	**1,106,335**	**203,402**	**63,462**	**12,940**	**16,697**	**24,963**	**28,209**	**22,974**	**20,572**	**157,653**	**8,757,665**
31-Dec-21 Loans and advances to customers													
MLE	3,622,290	25,378	82,746	41,313	-	-	-	6,685	512	-	6,794	65,486	**3,851,203**
Consumer	1,719,215	26,279	107,217	24,867	10,677	4,443	8,086	1,229	803	1,211	1,588	14,575	**1,920,191**
Mortgage	2,180,104	11,160	165,778	25,165	6,440	106	-	4,886	3,506	2,030	5,860	17,335	**2,422,369**
MSE	552,171	7,013	70,325	11,390	1,191	4	946	7,731	3,141	3,582	3,865	32,371	693,731
Total Loans and advances to customers	**8,073,780**	**69,830**	**426,067**	**102,735**	**18,308**	**4,553**	**9,032**	**20,531**	**7,962**	**6,823**	**18,107**	**129,767**	**8,887,494**
Leasing	***200,862***	***441***	***5,728***	***929***	-	***145***	-	***1,447***	***202***	-	-	***911***	***210,665***
Total Loans and advances to customers and Leasing	8,274,643	70,271	431,794	103,663	18,308	4,699	9,032	21,978	8,164	6,823	18,107	130,677	9,098,158

Notes to the Financial Statements

28 Risk management (continued)

28.2 Credit risk (continued)

28.2.10 Analysis of risk concentration (continued)

An analysis of loans and advances to customers by customer type and industry as of 31 December 2022 and 2021 is presented below:

(in thousands MDL)	31 December 2022	31 December 2021
Loans to individuals		
Consumer loans	1,484,879	1,920,191
Mortgage loans	2,261,590	2,422,369
	3,746,469	**4,342,560**
Less allowance for impairment losses Consumer Loans	(141,451)	(61,604)
Less allowance for impairment losses Mortgage Loans	(148,066)	(47,693)
Net loans to individuals	**3,456,952**	**4,233,263**
Loans to legal entities		
Industry and commerce	3,294,857	3,053,474
Agriculture and food industry	852,013	778,694
Fuel and energy	9,259	15,253
Construction	64,237	77,216
Transportation, telecommunications and development	305,874	309,723
Overdrafts	-	663
Micro-enterprises	145,876	143,937
Leasing	256,113	210,665
Other	82,968	165,973
	5,011,197	**4,755,598**
Less allowance for impairment losses		
Industry and commerce	(189,936)	(127,374)
Agriculture and food industry	(58,359)	(31,344)
Fuel and energy	(205)	(260)
Construction	(9,729)	(1,376)
Transportation, telecommunications and development	(10,127)	(6,557)
Overdrafts	-	(642)
Micro-enterprises	(21,201)	(15,949)
Leasing	(10,103)	(6,306)
Other	(3,387)	(2,483)
Net loans to legal entities	**4,708,150**	**4,563,307**
	8,165,102	**8,796,570**

The Bank's lending activities are conducted in Moldova. The ability of borrowers to repay their debt is dependent on a number of factors including the overall financial wealth of the borrower and the Moldovan economy.

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Notes to the Financial Statements

28 Risk management (continued)

28.2 Credit risk (continued)

28.2.11 Collateral and other enhancements

The main types of collateral obtained are as follows: real estate premises (residential, commercial, land), stock of goods and materials, trade receivables, securities, cash and other types (if object can be identified, evaluated and pledged).

The Bank also obtains guarantees from parent companies for loans to their subsidiaries. The Bank monitors the market value of collateral and request additional collateral in accordance with the underlying agreement.

Bank's policy is to avoid repossession of assets and to use this tool as an exceptional one, due to the fact that legislation offers the possibility to take under legal possession the collaterals in order to manage them for selling, from clients' name, and repay the debt. In order to recover the debt where are set collaterals that are under legal possession, Bank uses several ways:

- Selling of collateral with Bank's permission;
- Cession of debts (that includes the selling of rights legal possession);
- Selling of collaterals by Bank – direct negotiations (by Bank or involving a real estate company) or auction (auction organized by third parties – dedicated company / bailiff / notary);
- Selling of collaterals in enforced execution procedure.

All information regarding the collaterals available for selling is published on Bank's website as well as in a dedicated Newspaper.

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, stock of materials and equipment as well as corporate guarantees and cash deposits. The fair value of collateral placed against individually impaired loans as of 31 December 2022 is estimated at MDL'000 28,562 (31 December 2021: MDL'000 33,021). The fair value of collateral placed against past due but not impaired loans as of 31 December 2022 is estimated at MDL'000 300,230 (31 December 2021: MDL'000 116,252).

Collateral generally is held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held as of 31 December 2022 and 2021.

The tables on the following pages show the maximum exposure to credit risk by class of financial assets.

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Notes to the Financial Statements

28 Risk management (continued)

28.2 Credit risk (continued)

28.2.11 Collateral and other enhancements (continued)

(in thousands MDL)	Maximum exposure to credit risk	Cash	Securities	3rd party guarantees	Property	Other	Surplus of collateral	Total collateral	Net exposure	Associated ECLs
31 December 2022										
MLE	3,874,242	79,597	231,178	941,169	2,533,136	4,237,409	-4,443,185	8,022,488		217,623
Consumer	1,343,428	1,445	0	0	11,246	2,747	-12,731	15,437	1,327,990	141,451
Mortgage	2,113,524	20,003	0	262,282	3,088,403	9,332	-1,273,917	3,380,019		148,066
MSE	587,899	9,899	0	65,700	665,260	481,591	-640,684	1,222,450		75,319
Leasing	246,010	0	0	596	11,991	356,623	-187,778	369,210		10,103
Commitments to grant loans	573,587	10,613	0	2,498	103,573	91,338	-51,325	208,023	365,564	12,702
Financial guarantees	542,343	35,221	0	6,541	174,720	122,575	-122,171	339,057	203,286	12,788
Letters of credit	22,418	0	0	1,539	7,841	9,551	-4,298	18,931	3,487	922
Total	**9,303,449**	**156,777**	**231,178**	**1,280,324**	**6,596,168**	**5,311,167**	**-6,736,089**	**13,575,615**	**1,900,327**	**618,976**
31 December 2021										
MLE	3,727,110	81,005	229,729	1,084,252	2,436,669	3,728,593	-3,834,697	7,560,248		124,093
Consumer	1,858,587	12,385	-	-	4,253	334	-12,724	16,973	1,841,614	61,604
Mortgage	2,374,676	20,198	-	266,618	3,131,474	13,274	-1,068,317	3,431,563		47,693
MSE	631,838	4,573	-	50,262	739,632	404,959	-592,865	1,199,426		61,893
Leasing	204,359	-	-	2,476	8,603	380,810	-187,994	391,889		6,306
Commitments to grant loans	1,267,673	434	13	45,827	157,604	117,778	-78,618	321,656	946,017	18,981
Financial guarantees	477,904	35,840	-	15,257	141,095	85,140	-72,799	277,332	200,573	6,562
Letters of credit	13,635	230	-	2,012	7,004	4,977	-1,190	14,223		344
Total	**10,555,782**	**154,665**	**229,742**	**1,466,704**	**6,626,334**	**4,735,865**	**-5,849,204**	**13,213,310**	**2,988,204**	**327,476**

Notes to the Financial Statements

28 Risk management (continued)

28.2 Credit risk (continued)

28.2.11 Collateral and other enhancements (continued)

The below tables provide an analysis of the current fair values of collateral held and credit enhancements for stage 3 assets:

(in thousands MDL)	Maximum exposure to credit risk	Cash	Securities	3rd party guarantees	Property	Other	Surplus of collateral	Total collateral	Net exposure	Associated ECLs
31 December 2022										
MLE	26,105	-	-	10,840	103,607	125,485	(213,858)	239,931	-	71,105
Consumer	13,758	-	-	-	8,437	2,377	(10,806)	10,815	2,943	33,871
Mortgage	18,017	-	-	2,754	75,641	890	(61,262)	79,284	-	31,322
MSE	-	-	-	9,531	112,288	69,504	(163,861)	191,322	-	28,983
Leasing	2,227	-	-	-	-	9,780	(7,552)	9,780	-	1,060
Commitments to grant loans	42	-	-	-	-	-	-	-	42	79
Financial guarantees	677	1,989	-	-	-	-	(1,312)	1,989	-	1,312
Letters of credit	-	-	-	-	-	-	-	-	-	-
Total	60,826	1,989	-	23,125	299,973	208,036	(458,651)	533,121	2,985	167,732
31 December 2021										
MLE	32,107	-	-	13,717	49,491	27,057	(56,841)	90,263	-	47,369
Consumer	5,768	-	-	-	113	-	(113)	113	5,654	13,638
Mortgage	16,223	-	-	470	52,327	1,422	(38,053)	54,220	-	17,393
MSE	15,973	49	-	3,428	50,815	31,643	(69,995)	85,935	-	34,718
Leasing	926	-	-	-	-	7,680	(6,754)	7,680	-	1,633
Commitments to grant loans	270	-	-	-	679	-	(410)	679	-	321
Financial guarantees	616	1,286	-	-	-	-	(670)	1,286	-	670
Letters of credit	-	-	-	-	-	-	-	-	-	-
Total	**71,883**	**1,335**	**-**	**17,615**	**153,425**	**67,802**	**(172,837)**	**240,177**	**5,654**	**115,741**

Notes to the Financial Statements

28 Risk management (continued)

28.3 Liquidity risk and funding management

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities.

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

Intraday liquidity is managed by the Treasury based on received information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short term liquid assets, largely made up of short term liquid investment securities, loans and advance to banks and other interbank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

On a medium to long term basis the liquidity is managed through ALM function reporting to ALCO on the funding needs in the future.

Notes to the Financial Statements

28 Risk management (continued)

28.3 Liquidity risk and funding management (continued)

The table below summarizes the maturity profile of the Bank's financial assets and liabilities at 31 December 2022 based on undiscounted repayment obligations.

(in thousands MDL)	Total	Less 1 month	Between 1 month and 1 year	Between 1 and 5 years	More than 5 years
Financial assets					
Cash and balances with Central Bank	6,807,269	6,807,269	-	-	-
Due from banks	898,300	898,300	-	-	-
Derivative financial instruments	1,629	1,629	-	-	-
Financial assets at fair value through profit or loss	2,583	1,552	-	-	1,031
Debt instruments at amortized cost	2,162,209	1,167,017	993,192		2,000
Loans and advances to customers	8,165,102	454,093	3,162,228	3,303,279	1,245,502
Other financial assets	45,707	45,707	-	-	-
Total financial assets	**18,082,799**	**9,375,567**	**4,155,420**	**3,303,279**	**1,248,533**
Financial Liabilities					
Due to banks	410,522	410,522	-	-	-
Due to customers	13,493,021	1,309,414	5,086,576	5,591,271	1,505,760
Debt issued and other borrowings	1,730,929	29,652	621,640	1,047,397	32,240
Lease liabilities	75,183	-	21,835	53,348	-
Derivative financial instruments	41	41	-	-	-
Total financial liabilities	**15,709,696**	**1,749,629**	**5,730,051**	**6,692,016**	**1,538,000**
GAP	**2,373,103**	**7,625,938**	**(1,574,631)**	**(3,388,737)**	**(289,467)**

Notes to the Financial Statements

28 Risk management (continued)

28.3 Liquidity risk and funding management (continued)

The table below summarizes the maturity profile of the Bank's financial assets and liabilities at 31 December 2021 based on undiscounted repayment obligations.

(in thousands MDL)	Total	Less 1 month	Between 1 month and 1 year	Between 1 and 5 years	More than 5 years
Financial assets					
Cash and balances with Central Bank	3,866,208	3,866,208	-	-	-
Due from banks	2,318,602	2,318,602	-	-	-
Derivative financial instruments	311	311	-	-	-
Financial assets at fair value through profit or loss	3,949	2,918	-	-	1,031
Debt instruments at amortized cost	1,346,193	566,581	777,607	5	2,000
Loans and advances to customers	8,796,570	272,108	3,080,740	3,812,087	1,631,635
Other financial assets	24,385	24,385	-	-	-
Total financial assets	**16,356,218**	**7,051,113**	**3,858,347**	**3,812,092**	**1,634,666**
Financial Liabilities					
Due to banks	2,571	2,571	-	-	-
Due to customers	13,641,955	9,462,536	2,618,463	1,489,333	71,623
Debt issued and other borrowings	874,615	82,715	513,695	272,447	5,758
Lease liabilities	59,121	-	18,811	34,596	5,714
Derivative financial instruments	659	659	-	-	-
Total financial liabilities	**14,578,921**	**9,548,481**	**3,150,969**	**1,796,376**	**83,095**
GAP	**1,777,297**	**(2,497,368)**	**707,378**	**2,015,716**	**1,551,571**

Notes to the Financial Statements

29 Risk management (continued)

28.3 Liquidity risk and funding management (continued)

Table below is related to off-balance assets as of 31.12.2022 and 31.12.2021. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

(in thousands MDL)	Total	Less 1 month	Between 1 month and 1 year	Between 1 and 5 years	More than 5 years
As at 31 December 2022					
Loan commitments	586,289	586,289	-	-	-
Financial guarantees	555,131	555,131	-	-	-
Letter of credit	23,340	23,340	-	-	-
Total commitments and guarantees	**1,164,760**	**1,164,760**	**-**	**-**	**-**
As at 31 December 2021					
Loan commitments	1,312,456	1,312,456	-	-	-
Financial guarantees	484,467	484,467	-	-	-
Letter of credit	13,978	13,978	-	-	-
Total commitments and guarantees	**1,810,901**	**1,810,901**	**-**	**-**	**-**

Notes to the Financial Statements

28 Risk management (continued)

28.4 Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads will affect the Bank's or the value of its holdings of financial instruments. The objective of the market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

As of the end of 2022 did hold a small trading portfolio of State Securities (1.7 million MDL). This portfolio was constituted considering the regulatory requirements imposed by Ministry of Finance for the banks who have the license of primary dealer. In Q3 2018, NBM updated its Regulation related to placement, trading and redemption of state securities, within which new requirements for primary dealers (the Bank has the license of primary dealer) have been established, including the minimum obligation for daily listing/quotation of State Securities. The obligation of daily listing provides 2 conditions to be respected:

- mandatory daily listing of State Securities bought in last 2 auctions (auctions are organized twice per month for treasury bills and once per month for government bonds with fixed rate and for government bonds with variable rate);
- minimum portfolio to be listed is 100 K MDL (at notional value).

Considering the amount of portfolio and the nature of financial instruments, the related market risk is considered as not significant.

28.4.1 Interest rate risk

The Bank's operations are subject to risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature at different times or in different amounts. Risk management activities are aimed at optimizing net interest income, given market interest rate levels consistent with the Bank's business strategies.

The sensitivity on net interest income of the Bank is analyzed separately for variable rates (as effect of interest rate changes for variable rate assets and liabilities) and fixed rates (by revaluing fixed rate financial assets for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve). According to financial market evolution, the Bank estimates 2 main scenarios for interest rate sensitivity analysis:

1. Parallel increase/decrease of +/- 100/200/300 basis points for interest bearing assets and liabilities with subsequent impact of such fluctuations on net interest income;
2. Non-Parallel increase/decrease of +/- 100/200/300 basis points for interest bearing assets and liabilities with subsequent impact of such fluctuations on net interest income;

Power of fluctuations is determined based on market conditions and Banks assumptions in forecasted environment.

The potential change of the Bank's EVE due to changes:

(in thousands MDL)	31 December 2022	31 December 2021
Own Funds	**2,077,465**	**1,685,381**
Potential decline in EVE +/- X bps		
Absolute value	42,495	59,611
Impact on Own Funds	2.04%	3.54%

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Notes to the Financial Statements

28 Risk management (continued)

28.4 Market risk (continued)

28.4.1 Interest rate risk (continued)

The following table provide an analysis of the Bank's interest rate risk exposure on non-trading financial assets and liabilities. The bank assets and liabilities are included at carrying amount and categorized by the earlier of contractual repricing or maturity dates.

(in thousands MDL)	Carrying amount	Less than 3 month	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing
As at 31 December 2022						
Assets						
Cash and Balances with Central Bank	**6,807,269**	6,233,016	-	-	-	574,253
Due from Banks	**898,300**	898,300	-	-	-	-
Financial assets at fair value through profit and loss	**2,583**	1,552	-	-	-	1,031
Loans and advances to customers	**8,165,102**	4,460,480	2,255,936	1,375,062	73,624	-
Debt instruments at amortized cost	**2,162,209**	1,167,017	993,192	-	2,000	-
	18,035,463	**12,760,365**	**3,249,128**	**1,375,062**	**75,624**	**575,284**
Liabilities						
Due to Banks	**410,522**	410,522	-	-	-	-
Due to Customers	**13,493,021**	4,889,646	1,348,462	1,820,909	-	5,434,004
Debt issued and other borrowed funds	**1,730,929**	36,018	1,694,407	504	-	-
	15,634,472	**5,336,186**	**3,042,869**	**1,821,413**	**-**	**5,434,004**
Total interest sensitivity gap	**2,400,991**	**7,424,179**	**206,259**	**(446,351)**	**75,624**	**(4,858,720)**
Derivative used for risk management	-	-	-	-	-	-
Total interest sensitivity gap after risk management	**2,400,991**	**7,424,179**	**206,259**	**(446,351)**	**75,624**	**(4,858,720)**

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Notes to the Financial Statements

28 Risk management (continued)

28.4 Market risk (continued)

28.4.1 Interest rate risk (continued)

The following table provide an analysis of the Bank's interest rate risk exposure on non-trading financial assets and liabilities. The bank assets and liabilities are included at carrying amount and categorized by the earlier of contractual repricing or maturity dates.

	Carrying amount	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing
(in thousands MDL)						
As at 31 December 2021						
Assets						
Cash and Balances with Central Bank	**3,866,208**	3,307,134	-	-	-	559,074
Due from Banks	**2,318,602**	2,318,602	-	-	-	-
Financial assets at fair value through profit and loss	**3,949**	2,918	-	-	-	1,031
Loans and advances to customers	**8,796,570**	5,333,171	1,001,967	1,640,132	757,141	64,159
Debt instruments at amortized cost	**1,346,193**	875,829	468,359	5	2,000	-
	16,331,522	**11,837,654**	**1,470,326**	**1,640,137**	**759,141**	**624,264**
Liabilities						
Due to Banks	**2,571**	2,571	-	-	-	-
Due to Customers	**13,497,108**	8,867,195	485,964	316,290	23,797	3,803,862
Debt issued and other borrowed funds	**862,907**	303,969	557,983	955	-	-
	14,362,586	**9,173,735**	**1,043,947**	**317,245**	**23,797**	**3,803,862**
Total interest sensitivity gap	**1,968,936**	**2,663,919**	**426,379**	**1,322,892**	**735,344**	**(3,179,598)**
Derivative used for risk management	-	-	-	-	-	-
Total interest sensitivity gap after risk management	**1,968,936**	**2,663,919**	**426,379**	**1,322,892**	**735,344**	**(3,179,598)**

Notes to the Financial Statements

28 Risk management (continued)

28.4 Market risk (continued)

28.4.2 Currency risk

The Bank is exposed to currency risk through transactions in foreign currencies against MDL. There is also a balance sheet risk that the net monetary assets/liabilities in foreign currencies will take a lower/higher value when translated into MDL as a result of currency movements.

The Bank is analysing permanently the structure of assets and liabilities in different currencies. The principal foreign currencies held by the Bank are EUR, USD and RUB. The Bank carries out operations in both the local currency and hard currencies and monitors its foreign currency exposure on a daily basis and close out its positions within individually defined limits set up by NBM for each and all currencies together. It is the Bank's policy to minimize its exposure to currency risk by maintaining an open currency position at a minimum level.

The Bank's transactional exposures give rise to foreign currency gains and losses that are recognized in the income statement. These exposures comprise the monetary assets and monetary liabilities of the Bank that are not denominated in the measurement currency of the Bank.

The table below provides the information on the effect to profit before tax and effect in equity of the change in foreign currency rates against MDL:

	FCY gap	Possible rate increase	Income / (loss) effect	Effect in equity	Possible rate decrease	Income / (loss) effect	Effect in equity
(in thousand MDL)							
31 December 2022							
EUR	20,545	10%	2,055	1,808	-10%	-2,055	-1,808
US Dollars	114,485	10%	11,449	10,075	-10%	-11,449	-10,075
31 December 2021							
EUR	4,918	10%	492	433	-10%	-492	-433
US Dollars	-429	10%	-43	-38	-10%	43	38

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Notes to the Financial Statements

28 Risk management (continued)

28.4 Market risk (continued)

28.4.2 Currency risk (continued)

The amounts of assets and liabilities held in MDL and in foreign currencies at 31 December 2022 can be analysed as follows:

31 December 2022	Euro	US dollar	MDL	Other	Total
(in thousand MDL)					
Assets					
Cash and balances with Central Bank	2,368,901	1,104,227	3,291,356	42,786	**6,807,270**
Due from banks	264,343	586,925	(1)	47,033	**898,301**
Derivative financial instruments	-	-	1,629	-	**1,629**
Financial assets at FVPL	-	-	2,583	-	**2,583**
Loans and advances to customers, net	2,859,069	474,641	4,831,392	-	**8,165,102**
Debt instruments at amortized cost	-	-	2,162,209	-	**2,162,209**
Other assets	18,215	2,158	55,083	-	**75,456**
Property and equipment	-	-	290,329	-	**290,329**
Deferred tax assets	-	-	4,886	-	**4,886**
Intangible assets	-	-	119,779	-	**119,779**
Total assets	**5,510,528**	**2,167,951**	**10,759,245**	**89,819**	**18,527,543**
Liabilities					
Derivative financial instruments	-	-	41,	-	**41**
Due to banks	407,935	-	2,588	-	**410,523**
Due to customers	3,771,925	2,153,500	7,530,467	37,129	**13,493,021**
Borrowed funds from IFI's	771,128	8,531	951,270	-	**1,730,929**
Other liabilities	96,459	16,025	105,812	3	**218,299**
Provisions	13,289	4,045	52,269	-	**69,603**
Total liabilities	**5,060,736**	**2,182,101**	**8,642,447**	**37,132**	**15,922,416**
OFF BS liabilities: EUR/RUB, USD/RUB, USD/RON swaps	408,603	(145,540)	(309,179)	42,624	**(3,492)**
Net position 31 December 2022	**41,189**	**131,390**	**2,425,977**	**10,063**	**2,608,619**

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Notes to the Financial Statements

28 Risk management (continued)

28.4 Market risk (continued)

28.4.2 Currency risk (continued)

The amounts of assets and liabilities held in MDL and in foreign currencies at 31 December 2021 can be analysed as follows:

31 December 2021	Euro	US dollar	MDL	Other	Total
(in thousand MDL)					
Assets					
Cash and balances with Central Bank	1,504,982	550,495	1,766,618	44,113	**3,866,208**
Due from banks	1,379,911	751,979	-	186,712	**2,318,602**
Derivative financial instruments	-	-	311	-	**311**
Debt instruments at amortized cost	-	-	3,949	-	**3,949**
Financial assets at FVPL	2,133,896	479,431	6,183,243	-	**8,796,570**
Loans and advances to customers, net	-	-	1,346,193	-	**1,346,193**
Other assets	5,323	1,278	48,474	2,022	**57,097**
Property and equipment	39	-	279,310	-	**279,349**
Deferred tax assets	-	-	5,678	-	**5,678**
Intangible assets	-	-	108,256	-	**108,256**
Total assets	**5,024,151**	**1,783,183**	**9,742,032**	**232,847**	**16,782,213**
Liabilities					
Derivative financial instruments	-	-	659	-	**659**
Due to banks	41	-	2,530	-	**2,571**
Due to customers	4,673,134	1,785,526	6,978,994	59,454	**13,497,108**
Borrowed funds from IFI's	431,669	3,705	427,533	-	**862,907**
Other liabilities	82,164	8,519	73,287	(11,176)	**152,794**
Provisions	11,359	2,255	50,521	18	**64,153**
Total liabilities	**5,198,367**	**1,800,005**	**7,533,524**	**48,296**	**14,580,192**
OFF BS liabilities: EUR/RUB, USD/RUB, USD/RON swaps	159,529	9,302	-	-168,887	**-56**
Net position 31 December 2021	**(333,745)**	**(26,124)**	**2,208,508**	**353,438**	**2,202,077**

Notes to the Financial Statements

28 Risk management (continued)

28.5 Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risk such those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations and are faced by all business entities.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties including the independent authorization of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risk faced and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action;
- Development of business continuity plans;
- Training and professional development;
- Ethical and business standards;
- Risk mitigation including insurance where this is effective.

Notes to the Financial Statements

29 Capital management

Capital management

The primary objective of the capital management of the Bank is to ensure the prudent operation, the entire compliance with the prescriptions of the regulator for a persistent business operation and maximising the shareholder value, accompanied by an optimal financing structure.

The capital management of the Bank includes the management and evaluation of the shareholders` equity available for hedging risks, other types of funds to be recorded in the equity and all material risks to be covered by the capital.

The basis of the capital management of the Bank in the short run is the continuous monitoring of its capital position, in the long run the strategic and the business planning, which includes the monitoring and forecast of the capital position.

The Bank maintains the capital adequacy required by the regulatory bodies and the planned risk taking mainly by means of ensuring and developing their profitability. In case the planned risk level of the Bank exceeded its Core and the previously raised Supplementary capital, it ensures the prudent operation by occasional measures. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. No changes were made in the objectives, policies and processes from the previous years.

Capital Adequacy

The Capital Requirements Directive package (CRDIV/CRR) is the new global standards on banking regulation (known as the Basel III agreement). In the context of the NBM strategy of Basel III implementation in the Republic of Moldova in terms of European legislative framework (CDR IV/ CRR package), in May 2018, the National Bank of Moldova approved the Regulation on bank's own funds and capital requirements. It sets stronger prudential requirements for institutions, requiring them to keep sufficient capital reserves and liquidity.

The National Bank of Moldova requires each bank to maintain a ratio of total regulatory capital to the risk-weighted asset at minimum of 14.25 % of which 2.50% are linked to the Capital Conservation Buffer, 1% to the Systemic Risk Buffer and 0.50% to the Other Systemically Important Institutions Buffer.

The bank has entirely complied with the regulatory capital requirements in year 2022 as well as in year 2021.

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Notes to the Financial Statements

29 Capital management (continued)

Capital adequacy and the use of regulatory capital are monitored by the Bank's management, employing techniques based on the guidelines developed by the National Bank of Moldova.

The Bank was compliant with all the regulatory limits throughout the year.

The calculation of the Capital Adequacy Ratio as at 31 December 2022 is as follows:

(in thousands MDL)	31 December 2022
Total Capital	**2,077,465**
Tier1 Capital	**2,077,466**
Tier 1 Base Capital	2,077,466
Equity instruments eligible for Tier 1 Base Capital	**251,354**
Paid capital instruments	99,944
Of which: Capital instruments subscribed by public authorities in emergency situations	99,944
Share premium	**151,410**
Retained Earnings	**1,939,992**
Retained Earnings from previous years	1,939,992
Current year results	-
Profit or loss attributable to owners of the parent's equity	403,107
(-) Part of the interim or end-of-year financial results that are not eligible	(403,107)
Other reserves	**10,674**
Adjustments to core Tier 1 own funds due to prudential reserves	(3,385)
(-) The positive difference between asset write-downs and contingent liabilities and the amount of write-downs for impairment losses and provisions for losses	(3,385)
(-) Goodwill	**(116,283)**
(-) Goodwill accounted for as intangible assets	(116,283)
(-) Deferred tax assets that are based on future profitability and do not arise from temporary differences from which associated deferred tax liabilities are deducted	(4,886)
Tier 2 Capital	**(1)**
(-) Equity investments Tier 2 into entities from financial sector where the Bank does not have a significant share of investment	(1)
Capital adequacy ratio	**24.75%**

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Notes to the Financial Statements

29 Capital management (continued)

The calculation of the Capital Adequacy Ratio as at 31 December 2021 is as follows:

(in thousands MDL)	31 December 2021
Total Capital	**1,685,381**
Tier1 Capital	**1,685,381**
Tier 1 Base Capital	1,685,381
Equity instruments eligible for Tier 1 Base Capital	**251,354**
Paid capital instruments	99,944
Of which: Capital instruments subscribed by public authorities in emergency situations	99,944
Share premium	**151,410**
Retained Earnings	**1,533,941**
Retained Earnings from previous years	1,533,941
Current year results	-
Profit or loss attributable to owners of the parent's equity	271,368
(-) Part of the interim or end-of-year financial results that are not eligible	(271,368)
Other reserves	**145,357**
Adjustments to core Tier 1 own funds due to prudential reserves	(131,337)
(-) The positive difference between asset write-downs and contingent liabilities and the amount of write-downs for impairment losses and provisions for losses	(131,337)
(-) Goodwill	**(108,256)**
(-) Goodwill accounted for as intangible assets	(108,256)
(-) Deferred tax assets that are based on future profitability and do not arise from temporary differences from which associated deferred tax liabilities are deducted	(5,678)
Tier 2 Capital	**(1)**
(-) Equity investments Tier 2 into entities from financial sector where the Bank does not have a significant share of investment	(1)
Capital adequacy ratio	**18.87%**

Notes to the Financial Statements

30 Cash and cash equivalents

	Note	31 December 2022	31 December 2021
(in thousands MDL)			
Cash and balances with Central Bank	13	721,031	357,041
Due from banks	14	811,488	2,237,239
Debt instruments at amortized cost	16	991,635	499,626
		2,524,154	**3,093,906**

The placement with the Central Bank which represent mandatory reserves requirements are not available to finance the Bank's day–to–day operations and, therefore, are not part of cash and cash equivalents. This includes the balance of current accounts with Central bank disclosed in Note 13 amounting MDL'000 2,976,976 reduced by the level of mandatory reserves held in MDL (MDL'000 2,830,198).
Financial investments – loans and receivables are NBM certificates and represents short-term, investments that are up to two weeks, which are subject to an insignificant risk of changes in value.

31 Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

31 December 2022	Within 12 months	After 12 months	Total
(in thousand MDL)			
Assets			
Cash and balances with Central Bank	6,807,269	-	**6,807,269**
Due from banks	807,635	90,665	**898,300**
Derivative financial instruments	1,629	-	**1,629**
Debt instruments at amortized cost	2,160,209	2,000	**2,162,209**
Financial assets at fair value through profit or loss	1,552	1,031	**2,583**
Loans and advances to customers, net	3,616,321	4,548,781	**8,165,102**
Other assets	75,457	-	**75,457**
Property and equipment	87,886	202,443	**290,329**
Deferred tax assets	4,886	-	**4,886**
Intangible assets	107,855	11,924	**119,779**
Total assets	**13,670,699**	**4,856,844**	**18,527,543**
Liabilities			
Due to Central Bank	-	-	**-**
Due to banks	410,522	-	**410,522**
Due to customers	11,210,497	2,282,524	**13,493,021**
Borrowed funds from IFI's	847,212	883,717	**1,730,929**
Other liabilities	161,342	-	**161,342**
Provisions	69,604	-	**69,604**
Lease liabilities	17,103	39,853	**56,956**
Derivative financial instruments	41	-	**-**
Total liabilities	**12,716,321**	**3,206,094**	**15,922,415**
Net	**954,378**	**1,650,750**	**2,605,128**

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Notes to the Financial Statements

31 Maturity analysis of assets and liabilities (continued)

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

31 December 2021	Within 12 months	After 12 months	Total
(in thousand MDL)			
Assets			
Cash and balances with Central Bank	3,866,208	-	**3,866,208**
Due from banks	2,318,602	-	**2,318,602**
Derivative financial instruments	311	-	**311**
Debt instruments at amortized cost	1,343,157	3,036	**1,346,193**
Financial assets at fair value through profit or loss	2,918	1,031	**3,949**
Loans and advances to customers, net	3,352,848	5,443,722	**8,796,570**
Other assets	57,097	-	**57,097**
Property and equipment	85,328	194,021	**279,349**
Deferred tax assets	5,678	-	**5,678**
Intangible assets	65,677	42,579	**108,256**
Total assets	**11,097,824**	**5,684,389**	**16,782,213**
Liabilities			
Due to Central Bank	2,571	-	**2,571**
Due to banks	659	-	**659**
Due to customers	12,102,317	1,394,791	**13,497,108**
Borrowed funds from IFI's	584,704	278,203	**862,907**
Other liabilities	93,014	-	**93,014**
Provisions	64,153	-	**64,153**
Lease liabilities	18,811	40,310	**59,121**
Derivative financial instruments	659	-	**659**
Total liabilities	**12,866,888**	**1,713,304**	**14,580,192**
Net	**(1,769,064)**	**3,971,085**	**2,202,021**

Notes to the Financial Statements

32 Related party transactions

The list of related parties, with whom the Bank entered into transactions during 2022 were as follows:

- OTP Bank NYRT (companies within the group, including major shareholder);
- Key management including Executive Board and Supervisory Board members (significant influence);
- Other categories include: parties related to those above, affiliates to bank through the function of administrator and their affiliates.

During 2022 a number of banking transactions were entered into with related parties in the normal course of business. The results of the transactions are presented in the table below:

(in thousands MDL)	Total 2022	OTP BANK NYRT	Key management	Other
Balance sheet items as of 31 December 2022				
Due from banks	**18,303**	-	-	18,303
Loans and advances to customers, net	**2,464**	-	873	1,591
Other assets (Note 20)	**80**	79	-	1
Due to banks	**407,910**	407,910	-	-
Due to clients	**23,196**	-	66,502	19,694
Other liabilities	**36**	36	-	-
Result from transactions during 2022				
Interest and similar income	**493**	84	101	308
Interest and similar expense	**8,081**	7,785	113	183
Compensation of key management personnel::	**18,480**	-	18,480	-
Salaries - base salaries and wages	**15,456**	-	15,456	-
Salaries - bonuses and premiums	**3,024**	-	3,024	-
Other non-interest expenses	**6,844**	6,238	83	523
Off balance sheet items				
Guarantees and commitments	**101,091**	100,283	-	808

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Notes to the Financial Statements

32 Related party transactions (continued)

The list of related parties, with whom the Bank entered into transactions during 2021 were as follows:
- OTP Bank NYRT (companies within the group, including major shareholder);
- Key management including Executive Board and Supervisory Board members (significant influence);
- Other categories include: parties related to those above, affiliates to bank through the function of administrator and their affiliates.

During 2021 a number of banking transactions were entered into with related parties in the normal course of business. The results of the transactions are presented in the table below:

(in thousands MDL)	**Total 2021**	OTP BANK NYRT	Key management	Other
Balance sheet items as of 31 December 2021				
Due from banks	**2,583**	-	-	2,583
Loans and advances to customers, net	**1,806**	-	453	1,353
Other assets (Note 20)	**1,430**	1,427	3	0.2
Due to clients	**16,803**	-	8,939	7,863
Other liabilities	**1,306**	1,304	-	2
Result from transactions during 2021				
Interest and similar income	**161**	-	69	92
Interest and similar expense	**2,231**	1,151	93	986
Compensation of key management personnel::	**13,357**	-	13,357	
Salaries - base salaries and wages	**11,453**	-	11,453	-
Salaries - bonuses and premiums	**1,896**	-	1,896	-
Other non-interest expenses	**5**	-	1	4
Off balance sheet items				
Counter guarantees	**190**	-	1	190

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Notes to the Financial Statements

33 Assessment of going concern

In the context of the conflict between Russia and Ukraine, started on February 24, 2022, the EU, USA, UK and other countries imposed various sanctions against Russia, including financing restrictions on certain Russian banks and state-owned companies as well as personal sanctions against a number of individuals.
Considering the geopolitical tensions, since February 2022, there has been an increase in financial markets volatility and exchange rate depreciation pressure.
These events affected the activities in various sectors of the economy, also resulting in increases in European energy prices and increased risk of supply chain disturbances.
However, the Bank has limited direct exposures to related parties and/or suppliers (considered to be manageable) from those countries and indirect exposure through the loan portfolio.

After the beginning of the conflict, the Bank starting analyzing the impact of changing micro- and macroeconomic conditions, as well as the impact of Russia-Ukraine conflict on the Bank's debtors in order to identify a potential downward pressure on Bank's projected cash flows as a result of factors outside the Bank's control. Analyzing the clients with an exposure of over 1 MEUR per group, out of 114 companies with a total exposure of 4,537 MMDL, which represented 81% of the total Corporate loan portfolio on 28.02.2022, 26 companies with an exposure of about 1,223 MMDL were identified as affected by the Russia-Ukraine conflict, with the export or import dependence of materials on the Russian or Ukrainian counterparties.

Currently, the Bank monitors its clients continuously and uses a decision engine for identifying, on a monthly basis, how clients are affected by:

- the Russian-Ukrainian conflict;
- other external factors/impacts (FX changes, interest rate increase, energy price increase, inflation, draught, other factors).

Analyzing the clients with an exposure of over 1 MEUR per group, out of 113 companies in normal business administration (not in Workout) with a total exposure of 3,991 MMDL, which represents 75% of the total Corporate loan portfolio on 31.12.2022, 40 companies with an exposure of about 667 MMDL are affected by the Russia-Ukraine conflict, as follows:

- fully affected: 1 company with an exposure of 11 MMDL;
- heavily affected: 2 companies with a total exposure of 69 MMDL;
- lightly affected: 37 companies with a total exposure of 587 MMDL.

The major part of companies replaced the supply countries and at the moment do not have any problems with supplies. Fully and heavily affected clients have their import/export activity originating from/transiting through/destined to Russia/Belarus.

Out of all the companies identified as affected in February 2022, 16 companies remained affected at the end of December 2022, with a total exposure of 320 MMDL. However, the Bank's assessment showed that 11 companies identified as not affected in February 2022 were lightly affected at the end of December 2022, with a total exposure of 199.7 MMDL.

From the same portfolio of December 2022 (113 companies with a total exposure of 3,991 MMDL), 86 companies with a total exposure of 3,210 MDL are affected by other external factors/impacts, as follows:

- heavily affected: 1 company with an exposure of 41 MMDL;
- lightly affected: 85 companies with a total exposure of 3,169 MMDL.

Taking into consideration the above-mentioned impacts, and also the assessment of clients' debt service, the Bank identifies the credit risk status assigned to the clients and in case of clients assigned to Watchlist 2, their exposure is migrated to Stage 2. Assignment of Watchlist 1 does not trigger the migration to Stage 2.

As of December 2022, 7 out of analyzed 113 clients were assigned to Watchlist 2 (with a total exposure of 138.6 MMDL), 4 of them being assigned to Normal at the beginning of the conflict between Russia and Ukraine. The additional provisions calculated as a result of the migration to Stage 2 of those 4 clients, with a total exposure of 57.1 MMDL, amounted 13.5 MMDL, including the impact from risk parameters changes during the year.

Notes to the Financial Statements

33 Assessment of going concern (continued)

Thus, the impact of the Russian-Ukrainian conflict and other external factors, estimated within 3 potential scenarios identified in February 2022 for the evolution of the affected exposures during 2022, was lower than expected, the Bank's clients managing to keep their activity well running.

OTP Bank S.A. reassessed the recovery severe stress scenario, in order to evaluate the bank's resilience from liquidity and capital perspectives, recovery indicators, package of recovery measures to be implemented and their impact. The results show that the recovery options are efficient and applied would absorb the shock. As of 31 December 2022, the Bank was in compliance with all prudential indicators.

From the resilience point of view, on an annual base, the Bank is establishing a Recovery plan, which is analyzing the recovery capacity in case of recovery indicators breach. The recovery indicators are set up internally, according to a traffic light system. The recovery indicators are monitored at least monthly, in ALCO Committee. In case of breach of any indicator, the Recovery plan also includes the measures that have to be taken in order to assure the recovery of the Bank in a timely manner.

In its Recovery plan, the Bank considered as well the risks and potential impact that the war between Ukraine and Russia could have over the Bank's activity. In this context, on 1 March 2023 the Bank obtained a support letter from the parent company, OTP Nyrt, which confirms that the parent company will provide financial support in case it is needed for a period of 12 months from the date of approving the financial statement.

From an operational point of view, for crises, the Bank holds a Business Continuity Plan, which clearly prescribes the actions that should be implemented during crisis periods, in order to assure the Bank's ability to operate without any risks. Until now, there were no situation which could threat the Bank's activity;

Taking into account all factors described above, the management considers that the Bank has the capacity to continue its activity following the going concern principle.

34 Events after reporting date

In March 2023, following the massive withdrawal of money from its depositors and the capital crisis, two banks from the United States, Silicon Valley Bank and Signature Bank, went bankrupt. Following, the collapse of these banks, the second largest bank from Switzerland, Credit Suisse also faced liquidity issues. In this context, it is important to mention that as of the date of approving the financial statements, OTP Bank S.A. does not have any exposure with the above mentioned banks, it is not subject to any contagion risk and do not in any way affect it's operational activity.