Annual Report 2021

SUMMARY:

Message from 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 improving our customer centricity, delivering efficiency services, generating value and solutions for shareholders and employees in countries in which it operates. We are in direct contact with the market and the needs of over 16,3 million customers in the Central and Eastern European region, with the mission to innovate and support companies and individual customers with personalized banking services and solutions, while gradually strengthening our position and operations in the region.

In 2021, OTP Group recorded an HUF 496.9 billion (EUR 1,323 million) consolidated adjusted profit an increase of 60% due to better operating results and reduced risk costs. The adjusted ROE for the period reached 18.5% (+5.5 compared to the previous year). OTP Group maintained its position on the capital market with strong liquidity, remained stable in several business segments, as well as in terms of profitability.

We brought the OTP Group's experience and appetite for digitization in the Republic of Moldova through the acquisition in 2019 of Mobiasbanca, becoming a shareholder with 98.26%.
The development strategy of the Group is oriented towards the organic development of the bank, the consolidation of the position on the banking market, the increase of the profitability and the operational efficiency. All of this are in line with the Group's goal of contributing to the regional economy prosperity. The development of digital services, the modernization of the IT architecture and the optimization of processes, the renewal of the ATM network, the consolidation of the employer brand and the launch of ESG initiatives for environmental protection and eco products are the main directions on which the OTP Bank team focused all its energy and resources.

In 2021, OTP Bank Moldova rises in the top three systemic banks in the country by the volume of total assets, with a share of assets per sector of 14.2%, rising by one position compared to the previous year. The bank recorded an increase in assets of 17.1%, mainly due to the increase in the volume of loans granted by 16% and the attraction of financing resources.

The commercial and financial performance of OTP Bank in the context of transformations and integration in the Group, but also of the pandemic situation, is a worthy one to appreciate, the Bank registering during 2021 a sustainable evolution, demonstrating resilience and efficiency, with a solid balance sheet and a good liquidity, consolidating its third position in the top of financial institutions.

OTP Bank remained with CSR partners, financially and voluntarily supporting social projects and solidarity actions. We have continued to invest in the medical sector to protect physicians and rehabilitate patients with respiratory disabilities, we have supported and promoted culture, art, we have supported local communities through donations and sponsorships, and we have encouraged the adoption of active lifestyles and eco-friendly habits. At the same time, the Bank has contributed to increasing the level of financial education among children, young people and adults through financial education programs delivered by the „OK" Foundation for Financial Education in partnerships with educational institutions, NGOs, the medical sector, business, etc.

The bank has proven over the years that it deserves the trust of its customers and the appreciation of external partners. The very good results recorded by OTP Bank were possible thanks to an innovative and responsible team, a team that proved its integrity. The accumulated experience in more than 31 years by the team of OTP Bank Moldova on the banking market, combined with a business strategy aimed at generating value for customers, shareholders and employees - makes us confident in strengthening the bank's position on the financial market in Moldova.

Message from President of the Executive Committee - CEO

Bogdan Spuza

In 2021 we continued the process of integration and transformation of the OTP Bank subsidiary in Moldova. After a successful alignment of processes and adjustment of the organizational structure to the Group's business model, the full integration process is marked by the renaming of the bank from Mobiasbanca - OTP Group to OTP Bank S.A., supported by an extensive rebranding process.

Despite the situation caused by the pandemic, OTP Bank maintained a stable, well-capitalized and resilient position, own funds ratio registering 18.9%. Equity of the bank increased by 8.6% during 2021, and as of year-end constitutes over 2,202 million lei.

Moreover, at the year-end, the profit registered by the Bank was 271 million lei, increasing by 89.5% compared to the previous year, this being mainly determined by the increase of the net interest income by 105.6 million lei or 23%.

As a result, thanks to the joint efforts of the professional team and the agile management, the Bank managed to rank third in the banking system, with a share of assets per sector of 14.2%, rising one position compared to the previous year.

IT transformations, modernization of operating systems, product development and process optimization are the main objectives of the bank. OTP Bank continues its strategy of developing its products and applications, a high priority being the implementation of innovative solutions for providing online services, quickly and securely, to its customers. In less than a year, OTP Bank has implemented and launched a new Internet & Mobile Banking solution and begin the transformation of the branches and ATM networks. One of the bank's priorities is to develop a self-service banking channel through modern ATMs.

OTP Bank S.A. continued actively to promote funding programs among Young Entrepreneurs, especially those developing business in rural area, facilitating their access to funding under special conditions with discounted price, which was possible due to the initiative of Ministry of Finance of the Republic of Moldova and Management of External Assistance Programs Office (MEAPO).

In 2021, OTP Bank continues to develop alternative sales channels with the launch of the POS Lending project, an innovation in the banking field, which offers consumers the opportunity to purchase goods and services in installments directly in partners' stores.

Being a reliable financial partner, OTP Bank S.A. came up with fast and efficient lending solutions, aligned to the needs and specifics of the activity of companies in the field of agriculture, but also to support small and medium businesses.
OTP Bank S.A. also offers financial leasing services to SMEs on advantageous terms and possibilities to contract loans from international resources, with the grant component, being still one of the top providers on the local market.

OTP Bank S.A. became an associate member of the International Factoring Association (FCI), consequently the bank's customers with export activity will benefit from a new financing solution

The very good results of OTP Bank were possible due to an innovative and responsible team, a team that has shown integrity. In addition, this year, OTP Bank was recognized as one of the best employers, according to the results of the „Employer Brand Perception Survey 2021".

Another important distinction was „Golden Mercury" within the „Socially Responsible Trademark" nomination at the 2021 National Trademark Contest, confirming OTP Bank's status as a socially responsible company that invests in community welfare through sponsorships and donations, supporting initiatives and projects with social impact.

One of the priorities of 2021 in CSR activity was financial education. Through the „OK" Foundation for Financial Education we managed to reach 32 localities in the country, bringing financial education programs to over 3000 children, youth and adults. Following the same motivation, together with the European Business Association in Moldova (EBA), we launched the "Step in GDPR, Compliance and AML" Program, in collaboration with The Academy of Economic Studies of Moldova (ASEM) and The Moldova State University (USM), where we offered scholarships to participants with the best results, investing in their professional training.

In 2021, we continued to invest in the health sector, in the context of the COVID-19 pandemic, supporting the strengthening of the technical capacities of the medical institutions.

Promoting a healthy lifestyle and playing sports is one of the basic directions of the bank's CSR policy, by participating in the Chisinau International Marathon, Hospice Bike Tour and other social activities. OTP Bank S.A. is committed to supporting the development of the new generation of footballers, as the main partner of the „ZIMBRU - 1947" Children's Football Academy.

The bank continues to be a loyal partner of culture and arts, supporting institutions of national importance, such as the National Museum of Art of Moldova, being a reliable partner in organizing major cultural events such as the International Biennial of Painting and Museum Night.

The trust of the IFIs and the financing partners allow us to support the clients' business in conditions of controlled risk and unstable economic environment. Benefiting from the support of a stable and strong European shareholder such as OTP Group, allows OTP Bank S.A. to continue its growth and development ambitions, capitalizing on local human potential and expertise.

THE MANAGEMENT OF THE BANK

Members of the Supervisory Board

Zoltán Major - Chairman of the Supervisory Board

Attila Beer – Member of the Supervosy Board

Rodica Hîncu – Member of the Supervosy Board

Eszter Erika Huszár - Member of the Supervosy Board

Executive Committee of the bank

Bogdan Spuză - President of the Executive Committee
CEO

Elena Guzun - Commercial Director Corporate Banking
Deputy CEO

Petru Delinschi - Commercial Director Retail Banking Director
Deputy CEO

Ion Veveriță - Head of the Financial Division
Deputy CEO – CFO

Ruslan Cebotari - Head of RISC Management Division
Deputy CEO –CRO

Iurie Rusu - Head of IT & Operations Division
Deputy CEO – COO

Presentation of the OTP Bank S.A.

PRESENTATION OF THE OTP BANK S.A.

With over thirty years of activity, OTP Bank Moldova is one of the most stable and reliable financial institutions, a reputable financial advisor for both individuals and corporate clients, a supporter of entrepreneurs and the financial advisor of the largest multinational companies, while being a reputable partner of the International Financial Institutions.

The bank was founded in 1990 with legal status of Limited Liability Company. In 2007, the French financial group Société Générale became the majority shareholder of Mobiasbanca, which spurred the development of a universal banking model. 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 Bank may 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.

In 2019 Mobiasbanca joined the OTP Group - the largest independent banking group in Central and Eastern Europe. Following the acquisition, OTP Bank Nyrt Hungary became a 98.26% shareholder in the bank. It marks the beginning of a new chapter in the bank's history, with a strong vision of development, which is also marked by the new logo and identity of the bank, embracing new values and consolidating existing ones: stability, trust and responsibility.

Following the General Meeting of Shareholders of May 13, 2021, organized by correspondence, it was decided to change the name of the bank to OTP Bank S.A., which entered into force on June 17, 2021. The bank has maintained its universal banking model, continuing its development strategy, with the aim of becoming the main provider of financial services to its loyal customers and meeting their technological development needs and expectations. In the same time, were drawn priorities for the penetration of new customer segments, an extensive process of financial and technological consolidation continued, also the integration in the organizational culture of the OTP Group.

The year 2021 is marked by an extensive rebranding process, which will continue in 2022. In two years of belonging to OTP Group, the bank has managed to successfully align all processes and organizational structure with the Group's business model, taking from experience and good practices for full integration.

PRESENTATION OF THE OTP BANK S.A.

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 167,500 customers through its 52 branches and 900 employees across the country. 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 16.16%, and by share of assets in the banking system with a share of 14.2 %.

OTP Bank will continue to develop digital customer service channels, with an emphasis on increasing the quality of services. OTP Bank's strategy is focused on launching secure products and services, combined with advanced technologies. One of the bank's priorities is to develop a self-service banking channel through modern banks. Thus, in 2021, the renewal of the ATM fleet started with the cash recycling type, equipped with specialized software which offers new functionalities, security and control of cash balances.

IT transformations, modernization of operating systems, product development and process optimization are the main bank's objectives. OTP Bank continues its strategy of developing its products and applications, with a high priority being the implementation of innovative solutions for providing online services, quickly and safety to its customers. In less than a year, OTP Bank Moldova has implemented and launched a new Internet & Mobile Banking solution both for individuals and for legal entities and started a process of transformation of branches and ATMs. In April 2021, OTP Bank launched its new website which is aligned to OTP Group corporate identity and best practices.

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 2021, the bank having a very good capitalization, own funds ratio registering 18.9%, and an improved risk profile.

The very good results recorded by OTP Bank were possible thanks to an innovative and responsible team, a team that proved its integrity. OTP Bank was recognized as one of the best employers, according to the results of the „Employer Brand Perception Survey 2021".

As part of the community, OTP Bank act as a responsible player always concerned with contributing to the development of the community by supporting financial education, promoting culture and the arts, investing in the medical and sports fields, solidarity and volunteering. Concern for the environment and sustainable solutions for the rational use of resources is one of the directions that the bank will prioritize. As a socially responsible company, OTP Bank is loyal to the Group's CSR principles, aiming to become a responsible financial services provider, responsible employer and responsible consumer in terms of carry out its activities in order to build a better and sustainable future.

OTP GROUP

OTP Group is the largest banking institution in Hungary and the third largest in Central and Eastern Europe. With over 70 years of experience in banking sector, the OTP consistently pursues his business strategy focused on efficiency, generating value and solutions for shareholders, customers and employees in those 11 countries in which it operates.

PRESENTATION OF THE OTP BANK S.A.

Promoting innovation, stable growth and integrated financial services, OTP Group has become a dominant banking player in the Central and Eastern European region and an important banking group even on a European scale.

The community of approximately 38,000 employees serves nearly 16.3 million private, retail and corporate clients through its 1,455 branches, over 4700 ATMs, internet and electronic channels for remote services.

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 individuals and legal entities clients with personalized banking services and solutions, while strengthening its position and operations at the regional level, remains a priority.

OTP Group currently operates in 11 countries of the region: Hungary, Albania, Bulgaria, Croatia, Romania, Serbia, Slovenia, Ukraine, Montenegro, Russia and Moldova. On July 25, 2019, the OTP Group also entered the market of the Republic of Moldova, becoming a majority shareholder of Mobiasbanca, through the acquisition of the majority stake in the Société Générale Group.

OTP GROUP

- **11** COUNTRIES
- **38** K EMPLOYEES
- **16** MIL CLIENTS

In 2021, OTP Bank successfully adapted to the ever-changing operating environment, maintaining its position in the capital market with strong liquidity, remaining stable in several business segments, as well as in terms of profitability.

In 2021, OTP Group recorded HUF 497 billion consolidated adjusted profit (EUR 1,323 million), an increase of 60% due to better operating results and operating costs lower risk. The Group's capital and liquidity positions are remarkably stable. The adjusted ROE for the period reached 18.5% (+5.5 pps y-o-y).

The Group's ESG strategy for sustainability was implemented in several subsidiaries, and 2021 marks good results: the issuance of GREEN mortgage bonds, the green housing loan program, the launch of green loans for corporate clients, etc.

ECONOMIC ENVIRONMENT AND BANKING SYSTEM EVOLUTION

The rapid recovery in the economy, driven by aggregate demand, was fueled by a significant increase in the volume of granted loans, especially consumer loans by 40% and loans for the purchase or construction of real estate by 45%, as well as the intense flow of remittances and the state access to foreign funding as a result of the transparency of the political climate.

At the same time, the measures taken by the authorities were aimed to increase consumption, resulting in a 7.5% increase in GDP, which exceeded the initial forecasts. However, experts say that this growth will moderate in 2022, because of the consequences of the gas crisis and increased inflation, which significantly exceeded the range of 5% ± 1.5%, reaching the level of 14% at the end of 2021, and according to forecasts, it will reach its peak in the third quarter of 2022.

In this regard, the National Bank of Moldova continues to implement anti-inflationary measures. Thus, the base rate increased in 5 stages, in total by 985 basis points, to 12.5%. In addition, from February 2022, the established norm of required reserves from funds attracted in MDL and non-convertible currencies increases by 2 percentage points, up to 28%.

According to the World Bank forecasts, the medium-term fiscal deficit will be higher than in the pre-COVID-19 period until 2022, with an upward trend, although relatively low by international standards. Consistent with the recovery in the labor market and strong remittance earnings, poverty, as measured by purchasing power parity of $ 5.50 per day, is expected to decline from 17.3% in 2020 to 9.3% in 2022.

Banking system evolution

Despite the challenge posed by the pandemic, the banking system proved to be resilient and solid thanks to the high degree of liquidity and capital, and the upward trend in assets, loans, deposits and equity continued with confidence. Moreover, the non-performing loans indicator shows a considerable improvement in the loan portfolio, decreasing by 1.24 p.p. from 7.38% as of 31.12.2020 to 6.14% as of 31.12.2021, due to the higher growth rate of the loan portfolio compared to the growth of non-performing loans.

At the same time, the National Bank of Moldova remains focused on assessing credit risk, which is inherent in banking, and the significant increase in the loan portfolio by 23%, especially for consumer and for the purchase and construction of real estate, emphasizes the need for prudence and the continuous improvement of banks' governance practices.

In addition, in the context of the increase of the base rate, from 2.65% on 31.12.2020 to 6.50% on 31.12.2021, the cost of resources in MDL increased. Thus, the weighted average rate of new deposits attracted in MDL over total terms increased by 0.87 p.p. from 3.26% on 31.12.2020 to 4.13% on 31.12.2021 which increased the cost of new granted loans (weighted average interest rate on new granted loans in MDL over total terms) by 1p.p. from 7.85% to 8.84%.

As of 31 December 2021, the banking system constituted 11 banks licensed by the National Bank of Moldova, while the 4 largest banks

ECONOMIC ENVIRONMENT AND BANKING SYSTEM EVOLUTION

held 80.1% of assets, 80.7% of loans, 82% of attracted deposits, 77.3% of capital and 80.2% of net income.

As of 31 December 2021, the banking sector recorded the following performance:

- The total assets amounted to 118.5 billion lei, increasing during the year by over 14.6 billion lei or 14%.
- The gross (prudential) balance of loans represented 47.5% of total assets or 56.4 billion lei, increasing during the analyzed period by 23% or 10.7 billion lei.
- The most significant increases in the loan portfolio have been registered for loans granted for the purchase or construction of real estate - by 45% or 3.5 billion lei and for consumer loans - by 40% or 3 billion lei.

Banks have stepped up their efforts to attract resources by the end of the year to meet market demand for credit products. Thus, the outstanding deposits in December 2021 amounted 90 billion MDL, being by 13% or 10.4 billion MDL higher than in the same period of the previous year. Out of which, 62% are deposits attracted from individuals and 38% from legal entities (including banks). Concerning currency, 57.4% are in national currency and 42.6% in foreign currency respectively.

After the pandemic crisis of 2020, the banks together with the country's economy managed to recover and even to register increases. In December 2021, the profit recorded by the banking system was 2.3 billion MDL, which means an increase of 53% compared to the financial result of 2020 and a return to pre-crisis performance and even an overcome of 2%. The determining factors were the increase of the net interest income by 810 million MDL or 26.5%, and the increase of the net income from fees and commissions by 251 million MDL or 21.1%. As at 31 December 2021, the return on assets and the return on equity constituted 2% and 12.35% respectively, increasing by 0.35 p.p. and 2.75 p.p. comparing to the year-end 2020.

Bank's Performance

BANK'S PERFORMANCE

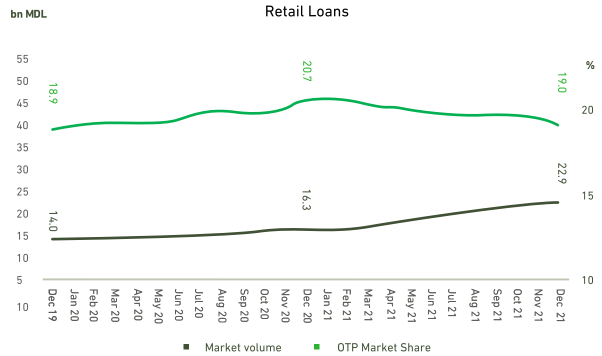
OTP Bank is a stable, well-capitalized and resilient bank with a capital adequacy ratio of 18.9%. Equity of the bank increased by 8.6% during 2021, and as of year-end constitutes over 2,202 million lei. At the year end, the profit registered by the Bank was 271 million lei, increasing by 89.5% compared to the previous year, this being mainly determined by the increase of the net interest income by 105.6 million lei or 23%. Thus, at the end of 2021, the registered return on capital was 12.74%, and the return on the bank's assets was 1.7%.

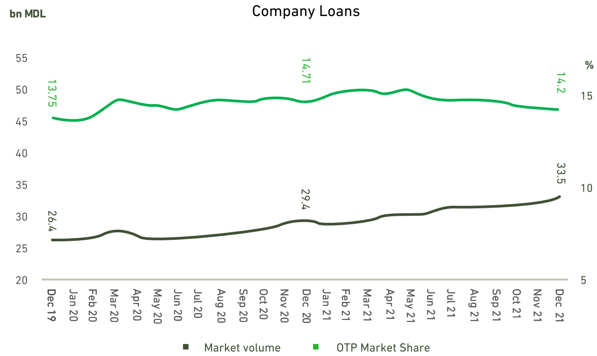
The bank is positioned in the top three banks in the banking system, with a share of assets of 14.17%, rising by one position compared to the previous year. In 2021, the bank recorded an increase in assets of 17.1%, mainly due to the increase in the volume of granted loans by 16% and attracting funding resources.

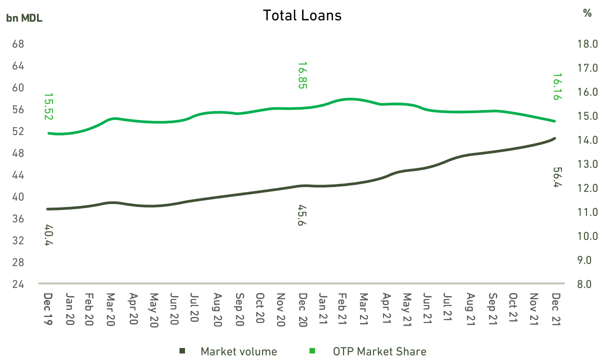
OTP Bank ranks 3rd in terms of the volume of granted loans to both individuals and legal entities, with a share of 16.16%. In 2021, the bank recorded a market share of 14.2% in the segment of legal entities and 19% in the segment of individuals, with a particular focus on providing resources for financing mortgage loans (20.12% market share) and on consumer loans (market share 18.63%).

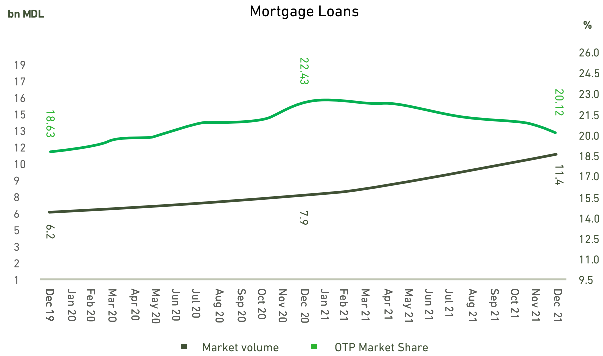
BANK'S PERFORMANCE

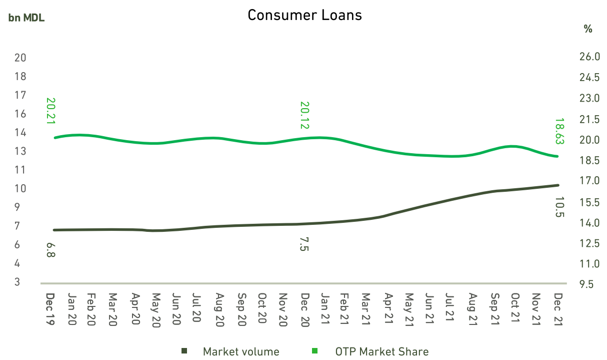
Fig.1. Evolution of the market volume of loans versus OTP Bank S.A. market share







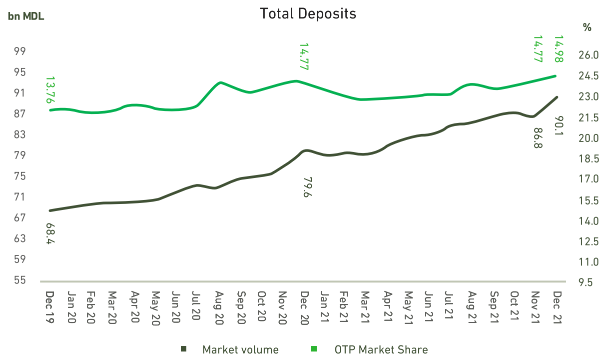


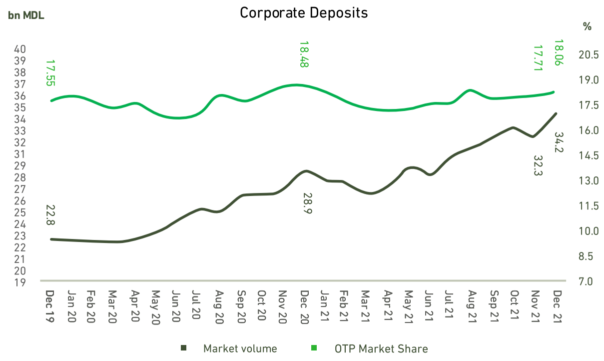


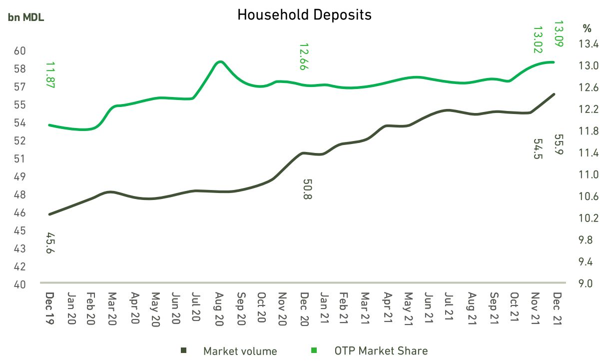
The advantageous interest rates proposed by the bank stimulated the increase of the volume of deposits by 1.7 billion MDL or 14.7%, amounting to 13.5 billion at the end of 2021. OTP Bank has a market share of 15% of the volume of deposits attracted (resources attracted from legal entities - 18%, resources attracted from individuals - 13.1%). Ranking 3rd among market favorites.

BANK'S PERFORMANCE

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







BANK'S PERFORMANCE

The main projects and events in 2021:

- Official change of name from Mobiasbanca to OTP Bank S.A.;
- Launching the extensive rebranding process accompanied by an information campaign;
- Relocation and rearrangement in the stylistic OTP Group of the Muncesti, Mateevici and Mircea cel Batran branches in the capital, as well as the Falesti branch;
- The OTP Bank Training Center has been completely renovated;
- Modernization of the OTP Bank ATM network;
- Signing the strategic partnership contract with the Visa payment system;
- Launch of the new OTP Internet and Mobile Banking service for legal entities;
- Signing of a new EUR 15 million, SME financing agreement between OTP Bank and the EBRD under the EU4Business-EBRD credit line. At least 70% of this loan is intended to finance investments in green technologies.
- OTP Bank became an associate member of the international factoring association „Factors Chain International", so that the bank's customers with export activity can benefit from a new financing solution;
- OTP Bank is a partner in educational progress supporting the first TEDx event in Moldova dedicated exclusively to education - „Education is the Key"
- OTP Bank joined the "Financial Education - a Personal, Social and Economic Benefit" campaign launched by the NBM, with a series of financial education activities;
- The Bank continued to sponsor the "Regional Economy" section of the economic magazine Logos Press, promoting local business;
- As an active member of the profile associations: the European Business Association, the Association of Banks of Moldova, the Association of Romanian Investors in the Republic of Moldova, OTP Bank develops sustainable partnerships for the development of the economic environment.
- OTP Bank was awarded with the Premium Care 2020 Trophy for the quality of its card portfolio by its long-term partner - the international payment company MasterCard.

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 body, 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://bit.ly/3Msa4O1

- The Corporate Governance Code
https://bit.ly/3LbGewU

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

CORPORATE GOVERNANCE

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 Governance, 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.

CORPORATE GOVERNANCE

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 2021, 179 internal normative documents were updated and/or elaborated, which constitute 36.1% of the total issued documents.

Ownership structure:

The Bank's shareholding structure as of December 31, 2021 was modified compared to the end of 2020, only in the list of minority shareholders as follows:

+ 4 new individuals
- 2 individuals

By the end of 2021, the Bank had 131 shareholders, of which 130 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.

CORPORATE GOVERNANCE

Structure of shareholders of the Bank:

Category	Holding in social capital, %	Number of shareholders
Legal persons >= 1%	98.26 %	1
Physical persons >=1%	0.00	0
Legal persons < 1%	0.10 %	14
Physical persons <1%	1.59 %	116
Treasury shares	0.06 %	x
TOTAL	100 %	131

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.

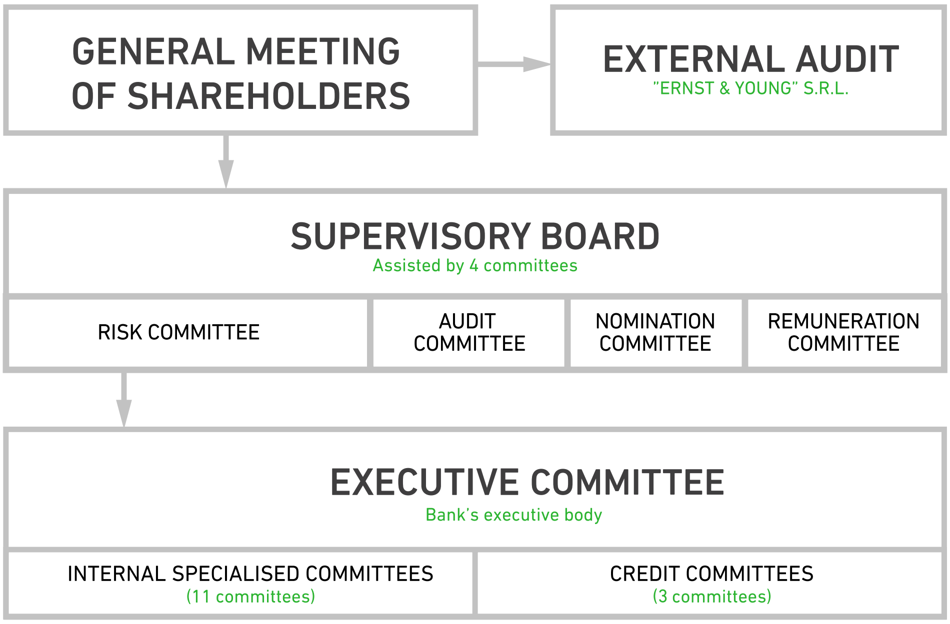
Keeping of the shareholders' records is performed by the „Central Single Depository of Securities" S.A.

Type and the class of securities	Ordinary shares
Country	Moldova
Code 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

CORPORATE GOVERNANCE

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 influencing 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.

CORPORATE GOVERNANCE

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 2021 there have been convoked and held one General Meeting of Shareholders. In the context of the pandemic crisis, the Annual General Meeting of the Bank's Shareholders was held by correspondence on 13.05.2021. The meeting was attended by shareholders and their representatives who hold 98.69% 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. The 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://www.otpbank.md/actionari/

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

Taking into account the results recorded by the Bank in 2019 and 2020, the bank's shareholders decided to pay dividends in the amount of MDL 9,748 per share to the bank's shareholders in proportion to the number of shares belonging to them, which amounted to a total of MDL 97.6 million. At the same time, the General Meeting of Shareholders decided that the profit remaining after the payment of dividends should be transferred to the chapter „Undistributed profit" to support the bank in the complex economic environment, ensuring that the Bank continues to grow.

CORPORATE GOVERNANCE

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.

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

Supervisory Board members		Start of Supervisory Board Member	Mandate start	Mandate end	Is the member independent or not
President	Zoltan Major	25.07.2019	27.11.2020	27.11.2024	Non-independent
Members	Attila Beer	19.11.2020	27.11.2020	27.11.2024	Independent
	Eszter Erika Huszár	20.03.2020	27.11.2020	27.11.2024	Independent
	Rodica Hîncu	20.05.2015	27.11.2020	27.11.2024	Independent
	Taras Prots	27.11.2020	18.02.2021	18.02.2025	Non-independent

CORPORATE GOVERNANCE

Supervisory Board Members hold 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 2021, the Supervisory Board had 24 meetings, 4 in mixed form and 20 via correspondence, during which 187 issues were discussed. Thus, Supervisory Board activity in 2021, 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.

CORPORATE GOVERNANCE

Members of the Executive Committee of OTP Bank S.A. as of 31.12.2021:

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)**	**Mandate's end**
Elena Guzun Interim President of the Executive Committee - CEO	19.06.2015	18.06.2021 / 19.06.2015	18.06.2024
Petru Delinschi Vice president of the Executive Committee – Commercial Director Retail Banking	30.01.2020	20.11.2019 / 30.01.2020	20.11.2022
Iurie Rusu Vice president of the Executive Committee – COO, Head of IT&Operations Division	01.04.2020.	28.01.2020 / 27.03.2020	28.01.2023
Ruslan Cebotari Vice president of the Executive Committee – CRO, Head of Retail Banking Divizion	22.02.2021	11.11.2020 / 18.02.2021	11.11.2023
Ion Veverita Vice president of the Executive Committee – CFO, Head of Financial Divizion	08.10.2021	29.06.2021 / 07.10.2021	29.06.2024

CORPORATE GOVERNANCE

During 2021, the nominal composition of the Executive Body was modified as follows:

- 18.02.2021: Mr. Ruslan Cebotari was approved as a Member of the Executive Body based on the NBM decision of 18.02.2021;
- 27.05.2021- during the meeting of the Supervisory Board was decided to modify the organizational structure of Mobiasbanca - OTP Group S.A. according to the rules of the OTP Group. Thus, the General Secretariat Division was dissolved, the term of office of Mrs. Stela Ciobanu in the position of Deputy CEO of the Executive Committee - General Secretary ceased.
- 01.10.2021: Mr. DIOSI Laszlo ceased to be a Member of the Bank's Executive Committee;
- 02.10.2021: Mrs. Elena Guzun was approved as Interim President of the Executive Committee;
- Mr. Ion Veverita was approved as a Member of the Bank's Executive Committee, Chief Financial Officer, by NBM Decision no. 197 of 07.10.2021

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 2021, the Executive Committee had 46 meetings, 26 being with presence or video conference and 20 via correspondence, during which there had been discussed 432 issues.

CORPORATE GOVERNANCE

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
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 2021,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. The Audit Committee had 5 meetings in 2021.
There had been presented and examined the following issues within the committee: examination of the Ernst & Young External Audit Report for 2020, 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.

CORPORATE GOVERNANCE

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 6 meetings in 2021, 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 3 meetings in 2021, 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 & Pricing Committee
4. Credit Risk Monitoring Committee
5. IT & Investments Committee
6. Operational risks Committee
7. Assets and Liability management Committee
8. Crisis Situation Management Committee
9. Work-out Committee
10. Customer Experience Management Committee
11. Main Credit Committee

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 2021, depending on the settled competences:

Bank's Credit Committee
Retail Banking Credit Committee
Private 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.

Thus, starting with 29.11.2021, the NBM carried out a thematic control regarding the activity of OTP Bank SA, including aspects regarding internal governance, credit risk, the area related to the payment system, the associated risk of ICT, as well as the fulfillment of measures during for the 30.09.2019 - 31.10.2021 period, prescribed by the Executive Committee of the NBM following the previous controls.

Management Risk and Conformity

MANAGEMENT RISK AND CONFORMITY

OTP Bank approach in terms of risk management is in line with the business strategy and, therefore, the actions planned in order to achieve the business objectives are aligned with the goals of the risk strategy. The Bank aims to obtain a balanced ratio between risks and profitability in order to generate a sustained growth and an adequate return on capital.

The bank's policies in the field of risk management are meant to ensure that the risks are assumed in the context of businesses, being recognized at an early stage and properly managed. This objective is achieved by integrating the risk management into daily business activities, in strategic planning and business development in accordance with the defined risk appetite.

Risk management includes the entire planning activity, respectively, the way in which the major risks will be reduced and managed once they are identified. Monitoring of the risk mitigation process includes tracking of identified risks, identifying new risks and the evaluation of the effectiveness of the entire process at the Bank level.

OTP Bank uses several risk mitigation techniques or - where possible – is avoiding the risk. This includes a framework of the internal control system and strict limits on risk-taking in accordance with the bank's risk appetite framework.

The main objectives of the risk management activities are the following:

- Establishing, within the Bank, a set of fundamental standards for risk management, while maximizing potential gains and protecting the depositors interests;
- Supporting the Bank's business strategy, in order to reach the commercial objectives in a prudent manner, in order to maintain the income stability and to cover against unexpected losses;
- Supporting the decision-making process at the Bank's level, by providing a global view on the risks to which the Bank is exposed;
- Ensuring the compliance with the best practices in risk management and complying with the requirements of legislation in force;
- Promoting a risk of a knowledge and risk management culture, integrated at the overall Bank's level, based on a full understanding of the risks faced by the Bank and the way they are managed, taking into account the Bank's risk tolerance / appetite;
- Ensuring of adequate capital levels, as required by normative requirements;
- Development and implementation of a transparent risk management process for risks identification and management;
- Adequate monitoring, stress testing tools and escalation processes for relevant capital and liquidity limits and indicators.

To ensure an efficient risk management process, the control activities are implemented at all levels and functions within the bank. These include activities such as approvals, authorizations, verifications, dual control, reconciliations, reviews of operating methods, asset security and separation of responsibilities.

MANAGEMENT RISK AND CONFORMITY

An important element of the Bank's internal control system is also the establishment and maintenance of information security management systems to cover the full spectrum of activities of the Bank. The bank must have an adequate back-up facilities, to ensure the recovery of critical information and applications in case of disaster or system interruptions, which are tested periodically.

Internal control of the bank is organized in 3 lines of defense:

- Level 1, or operational control (on-line), is intended to ensure that transactions are executed correctly. These controls are performed by the staff of the business subdivisions and the operational management of the Bank, at the front-office and back-office levels, and are incorporated into the Bank's internal regulatory documents.
- Level 2, control of risk management functions, performed by Finance, Compliance, Risk Management, Information Security, Legal, whose responsibilities are distinct and independent from those of the Bank's business subdivisions.
- Level 3, controls performed by the Internal Audit of the Bank, which periodically evaluates and verifies the sufficiency, functionality and efficiency of the Bank's internal control system. The Internal Audit function is independent from other 2 levels.

OTP Bank ensures a proper governance in the field of risk's management and in setting the standards for each main risk category, for which the risk approaches are consistently defined and implemented:

A. Credit Risk Management

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

The objective pursued in the credit risk management process is to promote a responsible and prudent risk approach, in accordance with the provisions of the local legislation and best practices. The lending activity within OTP Bank respects the principles of adequate separation of attributions and responsibilities, in order to avoid conflicts of interest.

In 2021, the Bank continued to develop and improve its lending policies, with a key focus on the following development directions:

- alignment of internal processes and approaches with the OTP Group standards,
- application of moratorium instruments for loans granted to customers in accordance with the recommendations of the NBM and internally developed approaches for providing customer support,
- adjusting of the credit policy in line with the economic trends imposed by the pandemic crisis and adverse climatic conditions
- analysis and monitoring of the customer exposures operating in economic sectors affected by the pandemic crisis,
- implementation of customer support instruments whose activity has been negatively impacted by weather conditions and macroeconomic effects as a result of the pandemic crisis
- actions to reduce the concentration in the loan portfolio, being established exposure limits to different economic sectors as well as to foreign currency exposures,
- active examination of the portfolio, including the use of an early warning framework, allows early signaling of negative developments, in order to implement risk mitigation measures in a timely and appropriate manner

MANAGEMENT RISK AND CONFORMITY

In 2021, the Bank focused on lending to legal entities clients and individuals with a strong financial standing.

For the credit products granted to individuals, the Bank aims to implement the standardized, simple, transparent and easy approach in order to be understood by customers, bank consultants and all employees involved in the lending processes. The lending agreements in the Corporate and SME area must contain an adequate financial and non-financial protection degree.

B. Market Risk Management

Market risk is defined as the risk of losses for on balance sheet or off-balance sheet items caused by changes in the market prices of financial instruments and securities held for trading, interest rates and the exchange rate.

Market risk within OTP Bank is managed in accordance with the provisions of the *Instruction on market risk management,* which establishes the governance, measures and reporting standards for this risk. The existing processes, content, responsibilities and principles are specified in this internal normative document

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

The bank's reporting framework covers regulatory reporting requirements, internal reporting requirements and processes, and the reporting framework to third parties. The main developments regarding market risk management are covered by a series of dedicated reports

C. Operational Risk Management

The main operational risk management levers applied within the bank are:

- Self-assessment of risk's and internal control framework (Risk Control Self - Assessment) by identifying and assessing the inherent risks related to the bank's processes, assessment of the quality of implemented internal control system including identified vulnerabilities in prevention and control devices, as well as assessment / measurement the exposure to residual risks of each activity.
- Monitoring of Key Risk Indicators on sensitive processes, by early identification of risk areas
- Scenario Analysis - prospective assessments of exposure to losses with significant impact but with a low probability of occurrence.
- Business Impact Analysis (BIA), which determines the criticality of the banking activity and the necessary resources to ensure the continuity plan of the bank's activity, serving as a legal basis for the restoration of critical business processes.

In 2021, once with the occurrence of pandemic crisis (SARS-VOC-2), the Bank focused a special attention to manage the crisis by developing an actions plan and measures which continuously were adjusted according to the Crisis evolution and the decisions issued by authorities, aimed to:

- Ensuring the business continuity of activities
- Protecting customers,
- Protecting employees.

MANAGEMENT RISK AND CONFORMITY

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.

On a short term basis the 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.

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;
- Establishing minimum limits for liquidity indicators.

E. Interest rate Risk Management

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 of the economic value of capital takes into account the effect of a fluctuation of +/- 100 basis points on the present value of cash flows related to interest rate sensitive assets and liabilities.

The GAPs between interest rate-sensitive assets and liabilities on maturity bands are used to support the sensitivity calculation and the distribution on each band is made according to the closest time between the maturity date and the interest adjustment date.

CONFORMITY

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.

MANAGEMENT RISK AND CONFORMITY

In 2021, OTP Bank adhered to OTP best practices and standards regarding compliance, ethics, conflicts of interest (including in investment services), the fight against bribery and corruption, assessment and evaluation of the compliance related risks, sanctions and sensitive transactions, due diligence, customer protection, personal data protection, investment services, identification and prevention of insider dealing and market manipulation, international tax compliance - FATCA by implementing new compliance related processes and redesigned/updated some of the existing ones.

Bank's Compliance function provides as a main function the elaboration and consolidation of an internal normative framework, necessary for the prevention and early identification of frauds, situations of conflict of interest or situations of abuse by the bank's employees.

In this context, the Compliance function comes with a set of proposals for measures, regulations, procedures and instructions, aimed at systematic and permanent control of the bank's activity, to prevent exposure to the risk of legal and regulatory sanctions, the risk of financial losses or damage to reputation, due to 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.

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.

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.

MANAGEMENT RISK AND CONFORMITY

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

2021 continued to be a year of challenges for Retail, the commercial activity being oriented both to support individual and legal clients in the context of a new social and economic reality, generated by the COVID-19 pandemic. In addition, to consolidate the top position held in the key activity segments: III-rd. place by total volume of loans granted and total volume of deposits attracted by banking sector.

During 2021, the portfolio of term deposits attracted from individuals and legal entities increased by over 75% compared to the previous year, registering the highest increase per banking sector, which illustrates both customer confidence in the bank and the correctness of the implemented strategy. It is important to note that OTP Bank deposits have become more accessible and advantageous with the launch of the new Online Banking application, which allows any customer to open a deposit in MDL - online, simple and convenient and with a bonus on the interest rate.

Guided by the desire to be closer to our customers, to offer them security and convenience in the use of banking services, we launched in less than a year a new internet and mobile banking application. The launch of this app comes in response to customer requests for reliable and modern solutions, inspired by the Group's rich experience as well as the latest trends in banking and information security.

Mobile-first is the definition of the new OTP Internet and Mobile Banking app, which has gained the trust of over 47 thousand users (individuals and businesses) in its first year of launch, thanks to its accessibility, innovative functionality and unique design. It is in fact the only solution on the banking market in the Republic of Moldova that allows the management of personal and business bank accounts in a single application, accessible from anywhere in the world and from any device connected to the Internet.

The ability to manage all accounts simultaneously turns the app into an accurate budgeting tool that allows our clients to make smart financial decisions. Customers can view account balances and loan rates in real time, open current and deposit accounts at great rates, make transfers between their accounts, exchange currency 24/7, pay utility bills, set up scheduled payments, make domestic and international transfers and even treasury payments in a few simple steps and with complete security.

With OTP Internet and Mobile Banking, legal entities can carry out and authorize various banking operations securely: payments in MDL and foreign currency, currency exchange operations, salary transfers, transfers between own accounts, requests to open products, etc. More than 1800 new customers who use the service confirm the correctness of the strategy implemented by OTP Bank in the context of the new economic paradigm.

COMMERCIAL ACTIVITY

With the launch of this solution, OTP Bank is taking another step towards improving the quality of service and increasing customer satisfaction, as well as in the process of digitizing the bank. The application will be constantly improved with new functionalities.

In 2021, we have focused our efforts on modernizing our ATM network, following the OTP Group's lead and embracing *state-of-the-art* solutions and technologies. The transition to the new generation of ATM's involved the gradual installation of a new series of smart ATM's with new functionalities such as cash-in (52 units) and cash recycling (23 units).

The world is changing, adapting to new economic and social realities, and the speed at which we do things has increased, as have customer demands. So new ATMs are equipped with NFC technology, cash-up to 200 banknotes per transaction, and process cash transactions instantly, so money reach one's account in seconds. Moreover, the accurate banknote tracking monitoring system enables precise cash management and provides solid proofs of transactions.

At the same time, for the first time in the Republic of Moldova, the new ATMs are equipped with the most secure safes. They comply with the CEN 4 and CEN 3 protection standard, block attempted break-ins and guarantee both reliability and permanent availability for customers.

OTP Bank has opted not only for modern and reliable ATMs, but also for low-energy machines. Maximizing banknote storage capacity in ATMs significantly reduces the frequency of cash handling and transport operations, thus reducing the carbon footprint. Moreover, some ATMs are equipped with Braille keypads, making them accessible to the visually impaired persons.

This year OTP Bank came up with a different approach for entrepreneurs, who have a business in agriculture, so during the year, two raffles were organized, where farmers had the opportunity to win useful prizes for their business activity. Therefore, in spring 2021, the Bank together with its partners organized a raffle with more than 100 prizes: certificates for the purchase of fuel, seeds, discounts for fertilizers, machinery and equipment, as well as and many other prizes. Within the autumn campaign, OTP Bank rewarded the hardworking farmers with a travel/holiday certificate.

As a reliable partner for agricultural businesses, in addition to the prizes offered in the raffles, OTP Bank continued this year to offer fast and efficient credit solutions, aligned with the needs and specific activity of agricultural companies.

OTP Bank continues to develop lending solutions suitable for small and medium-sized businesses, helping them to grow. Thus, in 2020 OTP Bank launched a new financing concept with an innovative approach to the lending process for legal entities, facilitating the access and speeding up lending processes for both current activity and investment needs.

COMMERCIAL ACTIVITY

Thus, entrepreneurs can benefit from a fast approval process, which provides a preliminary financing decision in maximum 1 working day, up to MDL 1 000 000 without collateral, for financing current activity, and a minimum set of required documents with a simplified financial analysis.

At the same time, OTP Bank also offers financial leasing services to SMEs on favorable terms and the possibility of borrowing from international resources with a Grant facility. Moreover, at the Leasing Centre, clients benefit from the full spectrum of leasing services, bundled with the necessary advice and support. Thus, during the year, two promotional campaigns were launched for the lease financing of the commercial vehicle & car fleet renewal. During the campaigns, customers benefited from favorable interest rates and other advantages. In addition, at the end of the second campaign, vouchers for the purchase of tires were offered by drawing lots.

The new version of the institutional website allows customers to access all the information about OTP Bank products / services and to apply online for consumer loans.

OTP Internet and Mobile Banking

OTP Bank is a modern bank that looks to offer high-performance products to its customers, taking the opportunities and the trend of digitalization of banking services. Thus, in February 2021 OTP Bank launched the new OTP Internet and Mobile Banking service for legal entities. The new solution is the result of the wide experience gained along the way of offering remote services, customer requests in relation to their use, the latest internet and mobile banking technologies and information security.

Customers have access to accounts from both a computer and a mobile phone, they can perform and authorize banking operations in complete security conditions such as payments in MDL and FCY, FOREX operations, salary transfers, transfers between own accounts, opening accounts, product requests.

Over 1800 of new customers subscribed to OTP Internet and mobile Banking solution, which confirm the appropriate Bank's strategy in the context of changing of market needs.

In order to facilitate customer access to banking services, the Bank has developed and launched a set of packages for daily banking activities for SME customers, BASIC and BASIC+, which include essential banking services and products. At the same time, the Bank has developed complex and reliable packages of banking services for state institutions, which meet the needs of both them and their employees.

Large Corporate activity

Large Corporate client's business line generated a consistent profitability in 2021, supported both by the lending activities and by the general banking products and services offered to Corporate clients, successfully capitalizing the bank's cross-selling potential.

The most important national and multinational companies present in the country represent our clientele, and OTP Bank has maintained its position as a reference bank for this market segment, which reconfirms the trust of our clients.

COMMERCIAL ACTIVITY

We also have a good presence in the small and medium business segment, facilitating the development of businesses with potential for future growth.

The key-sectors of the national economy who have received priority funding were agriculture and the processing industry, telecommunications, public services, trade and infrastructure development. At the same time, OTP Bank is recognized by foreign banks as a reliable local partner for in the most relevant financing transactions on the market.

In 2021, there were challenges related to the COVID pandemic, but also those related to monetary credit policy and inflationary pressures. Despite the difficult external environment, trade indicators continued their positive trend, and the quality of the bank's investments was maintained at a high level, confirming the prudency of lending activity. The commercial activity on the Corporate clients segment was robust, registering an increase of over 10% of the loan portfolio, accompanied by an ascending dynamics of the Net Bank Income.

Our concern remains the continuous modernization of the range of products and services designated for Corporate customers, facilitating access to modern financing technologies and cash-management platforms connected to the latest trends in international banking.

Retail Customer Service

The total number of active clients served by branch network reached out 166 470 in the end of 2021, including 158 516 individuals and 7 954 legal entities.

The consumer loans portfolio increased by 27%, reaching MDL 2,040 billion, and the mortgage loans portfolio increased by 30% compared to 2020, amounting to MDL 2,298 billion.

The portfolio of loans to legal entities reached MDL 933 billion, an increase of about 12% compared to 2020.

In 2021, OTP Bank continued to modernize its branch network in all regions of the country, in order to create comfortable working conditions for employees and to align with the corporate identity standards of the OTP Group, which is distinguished by a modern and European interior and exterior style. During the year, branches Mircea cel Batran, Muncești and Mateevici from Chisinau and one branch in Falesti were relocated in order to increase to increase the comfort and access of the bank's customers as well as the quality of service for individuals and legal entities.

In the end of 2021, OTP Bank operates through a network of 52 points of sale, consisting of 49 branches, 1 agency, 1 Corporate Branch and 1 dedicated Private Banking Branch.

An important point of contact for the bank is the Mortgage Center, whose activity has grown following the demand from customers. The team of advisors continued to promote the services offered by the mortgage advisors by consulting mortgage transactions, granting mortgages and providing ancillary services including property valuation, support for completing the package of documents, notary verification, real estate insurance and registration at the cadastral office.

COMMERCIAL ACTIVITY

An important objective of the Mortgage Center is launching of the new partnerships with construction companies and reliable real estate agents, in order to offer advantageous solutions to the bank's clients.

The new economic environment, caused by the pandemic, has driven the bank to innovation. Thus, the commercial action was promoted - Bank @ Work, developed to facilitate the promotion and sale of OTP Bank products and services, especially for clients within salary projects. This service involves the travel of branch employees to the headquarters of companies with which the bank has concluded a contract for salary projects, in order to promote the bank's offers and provide banking services to customer's right at their place of work.

Continued the development of the concept of Direct Sales Agents, Direct Sales Agent concept is simple and allows the identification of potential customers through traditional face-to-face promotion channels, distribution of promotional materials, events, calls and emails, then serves as a first point of contact between OTP Bank and the customer. The efficiency of this alternative channel has already been confirmed by animating inactive existing customers and attracting new customers simultaneously, with some sales agents achieving monthly production performance at 30% of the comparable volume of a branch.

In 2021, OTP Bank SA continues to develop alternative sales channels by launching the POS Lending project, being an innovation in the banking field, which offers consumers the opportunity to purchase goods and services in installments directly in the Partners' stores. The strategic objective of the project was the development of the functional used by the Partner and the implementation of the offer with a competitive price for credit products intended exclusively for individuals.

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 remains one of the top leasing service providers, offering financing into business segment, especially for equipment and specialized vehicles procurement.

Being the pandemic, OTP Bank has registered an increased number (vs 2020) of active leasing contract and has financed assets in total amount of 166 Mio MDL, maintaining as stable the portfolio volume. During the year was granted financing based on active and new partnership programs, specifically into equipment and machinery area. The Bank offered its clients advantageous financing conditions and terms, and special financing programs, like DCFTA EU4business, EIB and CEB.

The 2021 year was one of major changes for the Bank, because of important IT projects, which also involved the participation of leasing team, leading to the possibility to launch in the next year and IT Tool for leasing purposes, that will allow the presence of the OTP Leasing products into the Retail and Consumer market.

COMMERCIAL ACTIVITY

Relationship with International Financial Institutions

In 2021, OTP Bank S.A. continued to remain a reference bank for IFIs and EU in the Republic of Moldova, playing a significant role in financial projects implementing for business development of the country.

OTP Bank's bilateral collaboration with the local executive authorities and the IFIs vividly progressed, especially due to the new credit line financed by the Government of the Republic of Moldova, from the CEB resources with subsidized interest rate (10% of the loan with 0%), to aid the SMEs with the necessary liquidity for investment growth and carry out their activity. As one of the leading bank in Moldova in CEB funding, OTP Bank S.A. in 2021 year has disbursed about EUR 11.84 Mil. to its clients focused on creating or maintaining viable jobs.

Meanwhile, after successful assimilation of EUR 35 Mil. under EU4busines EBRD Credit Line program, in 2021, OTP Bank has signed with EBRD a new loan agreement under EaP SMEC facility with Grant component, increasing its loans Portfolio with EUR 15 Mil.

Likewise, in 2021, OTP bank continued actively to promote funding programs among Young Entrepreneurs, especially those developing business in rural area, facilitating their access to funding under special conditions with discounted price, which was possible thanks to the initiative of Ministry of Finance of Moldova and Management of External Assistance Programs Office (MEAPO). The bank has a fruitful collaboration with the MEAPO, IFAD Implementation Unit (dedicated to agro-industrial companies), EIB (Fruit Garden of Moldova), 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.

Cash Management

In 2021 the effort of Cash Management team was fully allocated to development and fine tune of "OTP Internet & Mobile Banking" for legal entities, including Multinational Companies. For local market, this is a higher-level solution as this combine "2 in 1 platform" as this is fully customized for individual, as well as, for legal entities. As this service was fully customized to this kind of users (legal entities) it allows uploading the payments files, download statement in various format; multilevel access or, vice versa, restricting access to some functionalities / accounts depends on company' hierarchy and level of approval.

Bank' team demonstrated commitment to support clients in migration exercise by offering individualized support (visit, zoom) as well as online work shop and webinars to ensure the smooth migration of clients from old rigid system to the new one *OTP Internet & Mobile Banking.*

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).

COMMERCIAL ACTIVITY

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.

Given the backdrop of stricter regulations, each existing or potential correspondent bank is subject to an appropriate due diligence, in the area of anti-money laundering and terrorism financing in line with national and international requirements and best-practices, in order to ensure that OTP Bank S.A. is comfortable undertaking business with the bank concerned.

Trade Finance

OTP Bank S.A. is actively supporting the foreign trade activities of the clients by providing a full product package that reduces to a minimum the risks and help them explore and conquer new markets offering a full range of Trade Finance that represent risk mitigation instruments, as Letters of Credit, Forfaiting, International Guarantees or Stand-By Letters of Credit, as well financing through Letter of Credit discounting and Forfaiting.

Having established relationships with first-class banks and being included in the EBRD and IFC trade facilitation programs, OTP Bank offers Trade Finance products of the highest international standards, being awarded for the 6th year in a row by the EBRD as „The most active issuing bank in Moldova in 2020".

In line with digitalization trends, in 2021 was launched e-Guarantee; a unique product on the market and eco- friendly by promoting the concept of „zero paper" when issuing Bank Guarantees.

In 2021 OTP Bank expanded its trade-related portfolio by launching new product Commercial Factoring in Pilot phase. An enthusiastic new project for the bank with high potential on the market.

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.

COMMERCIAL ACTIVITY

In 2021, based on the availability of liquidity, the Bank's total investments in SS and NBC compared to 2020 decreased by about 6.8% (especially for NBC the decrease was by 10.6%, and for SS – an increase by over 40%). As a result of management of the available liquid assets within the aforementioned operations, a 17.8% higher income was obtained compared to the level of the last year.

The average volume of SS portfolio maintained for the Bank's clients was 260 million MDL, representing an increase of about 28% compared to 2020.

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 almost 21.6% compared to the level of 2020. The turnover of monetary transactions with foreign currency (especially overnight deposit placements in USD) had a decrease of 26%.

Monetary Market (Forex)

In 2021, Forex market were driven by active growth of consumption with a pronounced effect in real estate sector, which had a strong reflection in macroeconomic environment. Therefore according to National Bank of Moldova at the end of 2021 annual rate of inflation reached 13.94%

Under this circumstances OTP Bank have managed to generate a growth of +22.8% in volume of FX transactions compare to previous year. At the same time due to concentration of competitive environment, it had mark down a decrease in Forex net banking income of – 6.5% compare to previous year.

Non-Financial Statement

NON-FINANCIAL STATEMENT

For OTP Bank (Moldova), Corporate Social Responsibility is a business philosophy integrated in the business strategy, which influences the decisions that the Bank adopts in many aspects of its activity.

OTP Bank S.A. is a social responsible bank through a solid management system and responsible human resources policies, through its commitment to supporting a sustainable environment, assuming the values to which it has adhered, being a reliable business and social partner, which ensures better eco-social and cultural conditions for all interested parties, contributing to improving life at both individual and community level. The bank is an integral part of society committed to support a suitable environment, acting consciously about the impact that its activity has on the environment and the communities to which it belongs.

OTP Bank's vision focuses on the main aspects of activity:

- to become the reference bank and the main provider of automated financial services and banking solutions for clients;
- to become a responsible provider of financial services by providing education and financial advice;
- to become the desirable employer through the continuous development of the bank's team.

The Bank's mission is to support the sustainable development of society and to promote social responsibility among civil society and companies, to understand client's needs and to support them to reach their maximum potential, providing security and easy to use financial services, to contribute to the social, cultural, educational and environmental progress of the country.

Socially responsible conduct is materialized in the bank's actions by:

- taking responsibility for the impact of actions on the environment, on its staff and the community in which the bank operates;
- minimizing the negative effects which the bank could have on the environment by controlling pollution and using natural resources.
- Improving the quality of life for its employees, the local community and society as a whole, by contributing to the development of society.

Reliable business partner

As a responsible service provider, OTP Bank ensures the maintenance of the bank's financial stability, prudent risk management and complete security, transparency in all bank actions, ethical provision of services and good business practices, continuous creation of quality of services, encouraging responsible and sustainable consumption. Our commitment and openness to clients throughout the service delivery period has determined the extent of our long-term relationships with them, including after the actual sale, providing support and advice.

In support of its business and corporate clients, OTP Bank offers a full range of international financing programs with attractive lending facilities and grant components, and a stable relationship with the most important international financial institutions.

NON-FINANCIAL STATEMENT

For the fourth consecutive year, the Bank for Business Development by supporting the project *Regional Economy,* in economic „Logos Press", with the mission of discovering business opportunities and attracting investments to support regional development.

Corporate Social Responsibility

The priority axes of CSR are:

- art and culture
- sports and healthy living
- financial education
- protecting the environment

At the same time, the Bank supports local communities through sponsorships and donations, but also through volunteer and solidarity actions.

One of the priorities of 2021 in the activity of CSR was to support financial education. Through the Foundation for Financial Education „OK" we managed to reach 32 localities of the country, bringing financial education programs and games to over 3000 children, young people and adults. At the same time, 22 national and international partnerships were concluded. At the beginning of the school year, OTP Bank together with the Foundation team donated 100 backpacks with school supplies for first grade students from socially vulnerable families, as well as a placement center for children in Chisinau, Gratiesti and the gymnasium in Cristesti village, Nisporeni.

In 2022, the Foundation for Financial Education „OK", in collaboration with OTP Bank Moldova, will continue to contribute to changing the perspective of generations on money management by implementing new projects and programs of quality financial education, accessible and personalized practices.

Together with the Association of European Affairs of Moldova (EBA), OTP Bank launched the "Step in GDPR, Compliance and AML" Program, in collaboration with the Academy of Economic Studies (ASEM) and the State University of Moldova (USM). During the 10 webinars the participants - students, master students, but also professors from USM and ASEM, were initiated in the norms of the European legislation on data protection (GDPR), the legal, national and international framework, international sanctions and risk assessment for compliance, preventing and combating money laundering by independent experts in GDPR and OTP Bank experts in the field of AML. Seven scholarships were awarded to the best performing participants as support and investment in their further training.

A particular attention was paid to the health sector, in the context of the COVID-19 pandemic, further supporting the strengthening of the technical capacities of public medical institutions, through financial involvement in the Easy Breathing project, together with the „Valeriu Ghereg" Medical Foundation. Thus, with the support of OTP Bank, four high-flow oxygen therapy devices were purchased for non-invasive breathing, which are used for respiratory failure and oxygenation of the lungs to prevent aggravation of patients and to avoid oro-tracheal intubation, but also for the recovery of patients infected with SARS-Cov-2.

Promoting a healthy lifestyle and playing sports is one of the basic directions of the bank's CSR policy. OTP Bank is committed to supporting the development of the new generation of footballers, as the main partner, by signing a long-term sponsorship agreement

NON-FINANCIAL STATEMENT

with the Children's Football Academy „ZIMBRU - 1947". In addition, for the sixth consecutive year, OTP Bank was the partner of the charity event Hospice Bike Tour, to support people suffering from terminal illnesses in Orhei, Cahul, Ocnita, Soroca, Taraclia, organized by Hospice of Hope Moldova.

OTP Bank has supported local communities through local sponsorships and donations. Thus, we contributed to the creation of the educational process by donating a laptop, printer to primary schools in Comrat and Chisinau, but also purchasing a special printer that allows the printing of Braille front pages. At the same time, I have the sports support of the youth performance of the "Senshi no kokoro" club from Ceadir-Lunga.

For the second year in a row, the bank is running the *"I'm Santa Claus"* internal social campaign, which aims to unite employees in a common social action to Christmas gifts to children from boarding schools and placement centers. In the two years of the campaign, thanks to the involvement of OTP Bank volunteers, we reached about 600 children from over 8 placement centers in the capital and regions.

The bank continues to be a loyal partner of culture and the arts, supporting institutions of national importance, such as the National Museum of Art of Moldova. The valorization of art was reflected by the support of the International Biennial of Painting and the celebration of the International Museum Day with the launch of a podcast for the permanent exhibitions of the museum. In addition, a series of events such as poetry and piano recitals or guided tours were aimed at promoting art and culture.

The „Golden Mercury" award for „Socially Responsible Trademark" nomination at the 2021 National Trademark Competition confirms OTP Bank's status as a socially responsible company that invests in community welfare 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, whose purpose is to support the development of a sustainable environment of ethics, professionalism and responsibility

- Investing in the development and continuous trainings for employees
- Fair pay and career advancement opportunities based on merit
- Retaining talents in the organization
- Equal rights, treating employees with respect and fairness, without discrimination
- Information and involvement in the bank's activities
- Health and safety at work
- Work in quality conditions and endowment with modern equipment

OTP Bank's strategy in the field of human resources is aimed at consolidating the status of reference employer on the local market, with the following strategic directions as priorities:

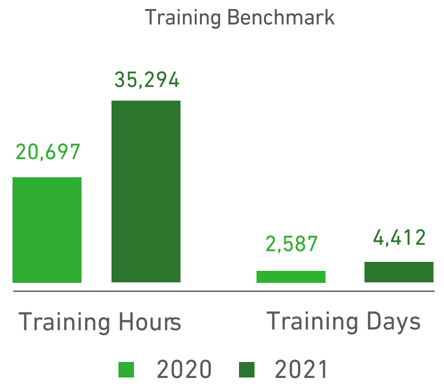
- Training and continuous development of bank employees through the implementation of new training programs, tools and modern means of professional and personal development;

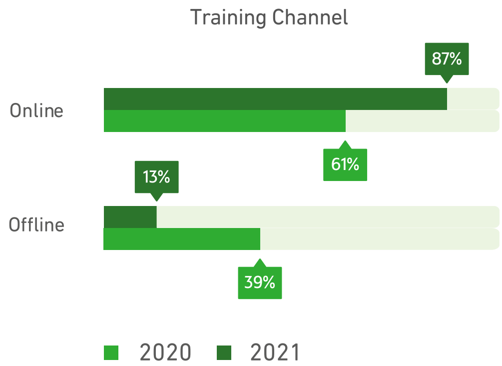
- Supporting internal mobility and developing career programs;
- Development of organizational culture and continuous improvement of the working environment and conditions;
- Increasing the commitment of the team and promoting the values that unite us;
- Developing and promoting a Desirable Employer Brand in the local market, being nominated in 2021 in the Top 10 Desirable Employers;
- Promoting and achieving the level of constructive collaboration, through transparent communication and focused on the sustainable development of the team and the bank.

Despite the specific constraints that appeared in 2021, the Department of Human Resources and Institutional Communication continued to implement various projects and actions in the mentioned strategic directions:

A. Training and continuous development of employees

In this direction, the objective of increasing the number of training hours delivered to teams in both traditional and online formats was established and achieved, using the internal distance learning application - Mobias e-Learning:





During the year, several trainings were organized, a total of 35,294 training hours were provided, an average of 41 hours / per employee. The main directions of development are:

- Supporting the development of business skills;
- Promoting the knowledge and culture of risk management and compliance at all levels of the bank;
- Implementation of the Leadership Development Strategy, aiming to create an internal corporate culture of constructive style:

B. Supporting internal mobility and developing career programs

OTP Bank S.A. continues to support employee development by encouraging internal mobility by establishing a career development framework and organizing development programs aimed at ensuring business continuity (providing qualified staff for key front office positions) and ensuring the training of capable leaders in the future. to support the sustainable development of the bank, such as:

- CLIPRI School - program dedicated to the training of future Individual Client Counselors
- CLIPRO School - a specialized program for the training of future Legal Advisers
- Leadership Academy - a program designed to identify leaders and train them

Thus, during the year, 62 employees successfully graduated from a program that offers them the opportunity to advance in their careers.

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 2021 several HR projects and initiatives were implemented, such as:

- OTP Group Engagement Survey - the first centrally launched questionnaire at OTP Group level that covered all employees. The results help us to measure commitment, satisfaction and other important elements in relation to the people who make up the OTP Group team;
- Leadership Transformation Program 2021 - internal program launched in order to support leaders in transforming the internal corporate culture towards a constructive style that matters for a sustainable development of the bank;
- Developing team spirit by organizing internal corporate, thematic events and involving open colleagues for development and contribution;
- Appreciation of the loyalty and performance of the people who contribute to the development of the bank during the last 14 years;
- Implementation of the internal program OTPerson, which aims to develop a community of ambassadors consisting of employees of the bank that promotes the name of OTP Bank on social media networks;

NON-FINANCIAL STATEMENT

- We invest daily in the financial education of the bank's employees in order to develop the company's ambassadors who will promote good practices and knowledge in families and close circles, so over 367 colleagues benefiting from this investment in their own development;
- Open Day - an exercise to introduce colleagues and subdivisions of the bank in which they exercise their roles, on a monthly basis, in order to facilitate the understanding of activities and collaboration between subdivisions;
- Mobias Hobby Club - online, monthly events on various non-banking topics of common interest to bank employees;
- Dress Code Front Office - providing Front Office employees with business-style clothing accompanied by elements of corporate identity (scarf-tie, badge);
- Psychological assistance service provided for bank employees by a qualified specialist.

As a strategic business partner, the Human Resources and Institutional Communication Department works with the bank's subdivisions to implement the bank's objectives, motivate and retain employees, provide opportunities for career growth and professional development.

As a responsible employer for its team, in 2021, the bank gave priority to employee health security during the pandemic, ensuring a safe and comfortable working environment, by providing all the necessary elements for protection measures. Frontline employees have been given options to reduce or adjust their work schedule, free testing and full financial compensation promised by the employer.

The strong team spirit prepared for the strategic challenges was also demonstrated during the corporate event that brought together 670 colleagues who chose to actively participate in the hottest Olympic adventure organized by OTP Bank S.A. with the generic # OlimpicDay2021.

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 S.A. 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 2021, trainings were organized through mandatory e-learning courses, which ended with tests successfully passed by the bank's employees.

Appendix

OTP BANK S.A.

Financial Statements
31 December 2021

Prepared in accordance with
International Financial
Reporting Standards

Contents

FOR IDENTIFICATION PURPOSES
ERNST & YOUNG
Signed.......
Date 05/04/22

EY
Building a better working world

Ernst & Young SRL
51 Alexandru cel Bun Street
Chisinau MD+2012
Republic of Moldova

Tel: +373 22 214040
Fax: +373 22 214044
ey.com

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, 2021, 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, 2021, 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 8,796,570 thousand MDL represents a significant part (52.42%) of the total assets of the Bank as at 31 December 2021. 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 impact of Covid-19 and related governments actions, including supply chain issues and price increases have affected the economic conditions in certain industries, increasing the uncertainty around macro-economic scenarios and weights. The unprecedented economic conditions 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, 2.7.4 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.

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 of notes to the financial statements, which describes the risk and potential impact of the uncertainties in regard to subsequent events. 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.

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.

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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, 2021;
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, 2021, 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

Alina Dimitriu

Partener: Alina Dimitriu

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

Chisinau, Republic of Moldova
05 April 2022

The English version of the audit report represents a translation of the original audit report issued in Romanian language

Statement of Comprehensive Income for the year ended 31 December 2021

	Note	2021	2020
(in thousands MDL)			
Interest income	4	757,117	653,559
Interest expense	4	(203,726)	(205,832)
Net interest income		**553,391**	**447,727**
Fee and commission income	5	209,271	182,965
Fee and commission expense	5	(74,423)	(67,820)
Net fee and commission income		**134,848**	**115,145**
Net trading income	6	178,795	189,107
Credit loss expense on financial assets	7	(34,117)	(120,749)
Other operating income	8	11,556	2,279
Net operating income		**844,473**	**633,509**
Personnel expenses	9	(283,569)	(233,457)
Depreciation of property, equipment and right-of-use assets	18	(45,001)	(48,536)
Amortization of intangible assets	19	(10,511)	(11,463)
Other operating expenses	10	(197,988)	(175,880)
Profit before tax		**307,404**	**164,173**
Income tax expense	11	(36,036)	(20,637)
Profit for the year		**271,368**	**143,536**
Basic and diluted earnings per share (in MDL)	12	**27.15**	**14.35**

The accounting policies and Notes on pages 8 to 130 form part of, and should be read in conjunction with, these financial statements.

Elena GUZUN
Interim President of the Executive Committee
OTP BANK S.A.

Ion VEVERIȚĂ
Chief Financial Officer
OTP BANK S.A.

5 April 2022

FOR IDENTIFICATION PURPOSES
ERNST & YOUNG
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Date 05/04/22

Statement of Financial Position as at 31 December 2021

(in thousands MDL)	Note	31 December 2021	31 December 2020
Assets			
Cash and balances with Central Bank	13	3,866,208	4,155,523
Due from banks	14	2,318,602	1,112,475
Derivative financial instruments		311	311
Financial assets at fair value through profit or loss	17	3,949	4,528
Loans and advances to customers	15	8,796,570	7,376,823
Debt instruments at amortized cost	16	1,346,193	1,342,824
Other assets	20	57,097	59,925
Property and equipment	18	279,349	239,061
Deferred tax assets	11	5,678	4,987
Intangible assets	19	108,256	42,482
Total assets		**16,782,213**	**14,338,939**
Liabilities			
Due to banks	21	2,571	2,565
Derivative financial instruments		659	1,769
Due to customers	22	13,497,108	11,767,700
Borrowed funds from IFIs	23	862,907	339,314
Other liabilities	24	152,794	155,697
Provisions	25	64,153	43,648
Total liabilities		**14,580,192**	**12,310,693**
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		134,684	155,701
Retained earnings		1,805,309	1,610,517
Total equity		**2,202,021**	**2,028,246**
Total liabilities and equity		**16,782,213**	**14,338,939**

The accounting policies and Notes on pages 8 to 130 form part of, and should be read in conjunction with, these financial statements.

Elena GUZUN
Interim President of the Executive Committee
OTP BANK S.A.

Ion VEVERIȚĂ
Chief Financial Officer
OTP BANK S.A.

5 April 2022

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Date 05/04/22

Statement of Changes in Equity for the year ended 31 December 2021

(in thousands MDL)	Issued capital	Treasury shares	Share premium	General reserve	Prudential reserve	Retained earnings	Total
At 31 December 2019	**100,000**	**(56)**	**151,410**	**10,674**	**139,498**	**1,483,184**	**1,884,710**
Profit	-	-	-	-		143,536	**143,536**
Prudential reserves allocation	-	-	-	-	16,203	(16,203)	-
At 31 December 2020	**100,000**	**(56)**	**151,410**	**10,674**	**155,701**	**1,610,517**	**2,028,246**
Profit	-	-	-	-	-	271,368	**271,368**
Prudential reserves allocation	-	-	-	-	(21,017)	21,017	-
Dividends	-	-	-	-	-	(97,593)	**(97,593)**
At 31 December 2021	**100,000**	**(56)**	**151,410**	**10,674**	**134,684**	**1,805,309**	**2,202,021**

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 130 form an integral part of the financial statements.

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Date 05/04/22

Statement of Cash Flows for the year ended 31 December 2021

(in thousands MDL)	Note	2021	2020
Cash flows from operating activities			
Profit before tax		307,404	164,173
Adjustments for:			
Depreciation and amortization	18,19	55,512	59,999
Loss on disposal of property and equipment	9	205	(464)
Net impairment gain on financial assets	7	(34,117)	(120,749)
Foreign exchange loss/(gain)		(10,303)	(2,682)
Interest income		(757,117)	(653,559)
Interest expenses		203,726	205,832
Tax expense	11	(36,036)	(20,637)
Changes in:			
Mandatory reserves		(9,339)	(766,850)
Due from Banks		10,293	(3,999)
Loans and advances to customers		(1,413,302)	(1,241,933)
Other assets		3,786	2,082
Deposits from banks		4,073	2,137
Deposits from customers		1,728,084	2,357,511
Other liabilities		34,877	57,577
Cash received/(used) in operating activities before interest		**87,746**	**38,438**
Interest paid		(198,420)	(207,516)
Interest received		758,361	665,233
Income tax paid		18,344	(11,105)
Cash received in operating activities		**666,031**	**485,050**
Investing activities			
Purchase of property and equipment		(84,943)	(93,243)
Purchase of intangible assets		(76,285)	(29,532)
Proceeds from sale of property and equipment		(370)	(992)
Purchase of securities		(12,219,456)	(12,842,904)
Proceeds from securities		11,967,695	12,721,041
Cash received/(used) from investing activities		**(413,359)**	**(245,630)**
Financing activities			
Proceeds from loans from banks and IFI's		664,710	(375,580)
Repayment of loans from banks and IFI's		(134,796)	(1,068)
Lease liabilities payments		(22,502)	(39,197)
Dividends paid		(97,593)	
Cash received/(used) from financing activities		**409,819**	**(415,845)**
Increase in cash and cash equivalents		**662,491**	**(176,425)**
Cash and cash equivalents at 1 January	30	**2,521,443**	**2,697,868**
Cash and cash equivalents at 31 December	30	**3,183,934**	**2,521,443**

The accounting policies and Notes on pages 8 to 130 form part of, and should be read in conjunction with, these financial statements.

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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 2021 the bank has 52 points of sale, out of which 50 universal points of sale, 1 VIP branch and 1 specialized (2020: 51 points of sale, out of which 49 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 recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortised 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 recognised 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. Changes in accounting policies and disclosures.

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 2020:

- **Interest Rate Benchmark Reform - IFRS 9, IAS 39, IFRS 7 , IFRS 4 and IFRS 16 (Amendments)**
  In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). In particular, the amendments provide for a practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, to require the effective interest rate to be adjusted, equivalent to a movement in a market rate of interest. Also, the amendments introduce reliefs from discontinuing hedge relationships including a temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. There are also amendments to IFRS 7 Financial Instruments: Disclosures to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. While application is retrospective, an entity is not required to restate prior periods. The amendments did not have impact of the financial position or performance of the Bank.

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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 2021	31 December 2020
(in Moldovan Lei per unit of foreign currency)		
US dollar	17.7452	17.2146
EUR	20.0938	21.1266
Russian Rouble	0.2369	0.2312

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.

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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)

(ii) Presentation of net interest income

With effect from 1 January 2018, paragraph 82(a) of IAS 1 requires interest revenue calculated using the effective interest rate (EIR) method to be presented separately on the face of the income statement. This implies that interest revenue calculated using the EIR method is to be differentiated and presented separately from interest revenue calculated using other methods.

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 3,949 thousand as at 31 December 2021. 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) below.

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.

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, then the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the balance sheet with an increase or reduction in interest income. The adjustment is subsequently amortized through Interest and similar income in the income statement. The Bank calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets.

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Date 05/04/22

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 2.5.7.4 and 2.5.7.5. 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 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.

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ERNST & YOUNG
Signed........
Date 05/04/22

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 financial liabilities at fair value through profit or loss

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.

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 (within Provisions) 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 – an ECL provision as set out in Note 2.5.1.9.

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.

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

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.

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. 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.

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 2.5.10(ii) 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 2021-2023 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 (2021-2023) 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 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.

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 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. Assets determined to be useful for the internal operations are transferred to Bank property according to legal local rules. 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.

In its normal course of business, the Bank does not physically repossess properties or other assets in its portfolio. During 2021, the Bank did not repossessed assets from its customers.

2.5.9.4 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.

2.5.9.5 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.

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. 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.

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Signed
Date 05/04/22

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)

2.5.9.5 Forborne and modified loans (continued)

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.

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ERNST & YOUNG
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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, equipment and right-of-use assets

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.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Bank is the lessor.

The Bank adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Bank elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 1 January 2019.

The Bank has lease contracts for various branches. Before the adoption of IFRS 16, the Bank classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease.

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 derecognised 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.

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.

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Notes to the Financial Statements

2 Accounting policies (continued)

2.6 Standards issued but not yet effective and not early adopted

- **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.

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

  The amendments were initially effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. However, in response to the covid-19 pandemic, the Board has deferred the effective date by one year, i.e. 1 January 2023, to provide companies with more time to implement any classification changes resulting from the amendments. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. In November 2021, the Board issued an exposure draft (ED), which clarifies how to treat liabilities that are subject to covenants to be complied with, at a date subsequent to the reporting period. In particular, the Board proposes narrow scope amendments to IAS 1 which effectively reverse the 2020 amendments requiring entities to classify as current, liabilities subject to covenants that must only be complied with within the next twelve months after the reporting period, if those covenants are not met at the end of the reporting period. Instead, the proposals would require entities to present separately all non-current liabilities subject to covenants to be complied with only within twelve months after the reporting period. Furthermore, if entities do not comply with such future covenants at the end of the reporting period, additional disclosures will be required. The proposals will become effective for annual reporting periods beginning on or after 1 January 2024 and will need be applied retrospectively in accordance with IAS 8, while early adoption is permitted. The Board has also proposed to delay the effective date of the 2020 amendments accordingly, such that entities will not be required to change current practice before the proposed amendments come into effect. The amendments will not have impact on the financial position or performance of the Bank.

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Notes to the Financial Statements

2 Accounting policies (continued)

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

- **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 Conceptual Framework for Financial Reporting without 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 amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize 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;
  - 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 have not yet been endorsed by the EU. The amendments will not have impact on 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 will not have impact on the financial position or performance of the Bank.

- **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 amendments will not have impact on the financial position or performance of the Bank.

Notes to the Financial Statements

2 Accounting policies (continued)

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

- **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. 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. In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12 and specify how companies should account for deferred tax on transactions such as leases and decommissioning obligations. 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 amendments will not have impact on the financial position or performance of the Bank.

2.7 Significant accounting judgements, estimates and assumptions

2.7.1 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.

2.7.2 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.

Notes to the Financial Statements

2 Accounting policies (continued)

2.7 Significant accounting judgements, estimates and assumptions (continued)

2.7.3 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 24.

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.

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Notes to the Financial Statements

2 Accounting policies (continued)

2.7 Significant accounting judgements, estimates and assumptions (continued)

2.7.4 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.

2.7.5 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.

2.7.6 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 2021 and 2020 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 2021 or 2020.

Profit segments

An analysis of the bank's income, for 2021 and 2020 is presented, as follows:

	Total	Retail	Non-Retail
(in thousands MDL)			
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
2020			
Interest income	**653,559**	383,585	269,974
Interest expense	**(205,832)**	(149,128)	(56,704)
Fee and commission income	**182,965**	118,750	64,215

An analysis of the bank's assets and liabilities for 2021 and 2020 is presented, as follows:

	Total	Retail	Non-Retail
(in thousands MDL)			
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
31 December 2020			
Loans and advances to customers	**7,376,823**	3,931,035	3,445,788
Due to customers	**11,767,700**	7,722,343	4,045,357

Notes to the Financial Statements

4 Net interest income

Interest and similar income calculated using the effective interest rate

	2021	2020
(in thousands MDL)		
Cash and balances with Central Bank	18,120	12,454
Due from banks	167	1,510
Debt instruments at amortized cost	49,870	42,552
Loans and advances to customers	688,960	597,043
	757,117	**653,559**

The interest income accrued on impaired (Stage 3) Loans and advances to customers during 2021 amounted to MDL'000 12,513 (2020: MDL'000 17,157).

Interest and similar expense calculated using the effective interest rate

	2021	2020
(in thousands MDL)		
Due to Central Bank	-	28
Due to customers	172,757	181,195
Borrowed funds from IFI's	21,920	17,634
Due to banks	5,451	5,511
Interest-related expenses on operating lease from customers	1,808	1,222
REPO with NBM	1,790	242
	203,726	**205,832**

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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 2021	
		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	61,115	-	61,115
Transactions with cards	57,030	-	57,030
Cash transactions	27,954	-	27,954
Current accounts administration	13,825	13,825	-
Early repayment fees	13,357	-	13,357
Other	16,325	-	16,325
Financial guarantees, Letters of credits, Other undrawn Commitments	8,413	-	8,413
Transfers through international payment systems	3,598	-	3,598
Remote banking	4,876	4,876	-
Cash transactions in foreign currency- interbank	1,864	-	1,864
Letters of credit	714	-	714
Broker fees	200	-	200
	209,271	**18,701**	**190,570**

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Notes to the Financial Statements

5 Net fee and commission income (continued)

	Total	31 December 2020	
		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	53,153	-	53,153
Transactions with cards	44,790	-	44,790
Cash transactions	24,473	-	24,473
Current accounts administration	13,758	13,758	-
Changes in loans terms and conditions	10,521	-	10,521
Other	8,668	-	8,668
Financial guarantees, Letters of credits, Other undrawn commitments	7,625	-	7,625
Transfers through international payment systems	4,204		4,204
Remote banking	4,958	4,958	-
SMS Banking services	3,019		3,019
Distribution of social payments	2,758		2,758
Cash receipts received	2,833		2,833
Cash transactions in foreign currency-interbank	1,050	-	1,050
Letters of credit	875	-	875
Broker fees	253	-	253
Commissions from services rendering on finance lease	27	-	27
	182,965	**18,716**	**164,249**

Fee and commission expense

	2021	2020
(in thousands MDL)		
Transactions with cards	47,916	42,063
Commissions on interbank transfers	14,614	12,094
Cash transactions in foreign currency - interbank	4,479	4,056
Contributions to deposit guarantee fund (1)	6,101	7,209
Leasing services	2	-
Other	1,311	2,398
	74,423	**67,820**

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 0.10% 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

(in thousands MDL)	2021	2020
Foreign exchange result on transactions with:		
Corporate clients	32,238	43,590
Individuals	140,735	146,474
Banks	13,926	343
Result from revaluation	(8,104)	(1,300)
	178,795	**189,107**

7 Credit loss expense on financial assets

(in thousands MDL)	2021	2020
Loans and advance to customers	9,967	112,012
Financial guarantee contracts	14,416	394
Other assets	1,640	(153)
Due from banks	4,570	287
Debt instruments at amortized cost	3,524	8,209
	34,117	**120,749**

The table below shows the ECL charges (Note 7) on financial instruments for 31 December 2021 recorded in the income statement under IFRS 9:

(in thousands MDL)	Note	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
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, Letters of credits, Other undrawn commitments	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**

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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 2020:

	Note	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)						
Due from banks	14	287	-	-	-	287
Loans and advances to customers	15	(42,951)	56,423	97,978	562	112,012
Debt instruments measured at amortized cost	16	8,209	-	-	-	8,209
Other assets	20	(1,815)	-	1,662	-	(153)
Financial guarantees	25	230	258	-	-	487
Loan commitments	25	(2,491)	2,258	(15)	-	(248)
Letters of credit	25	(23)	177	-	-	154
Total impairment loss		**(38,554)**	**59,116**	**99,625**	**562**	**120,749**

8 Other operating income

	2021	2020
(in thousands MDL)		
Payables write off	370	992
Penalties charged to the clients for late payment	347	134
Other income from dormant accounts	8,810	158
Other operating income	2,029	995
Total other operating income	**11,556**	**2,279**

Payables write off mainly represents the cancelation of payables related to corporate service fees following the revision of the above.

9 Personnel expenses

	2021	2020
(in thousands MDL)		
Wages and salaries	161,687	135,246
Bonuses	35,538	30,279
Social security costs	49,376	31,660
Accrual for employee benefits and related contribution	26,513	18,999
Meal tickets	8,902	7,970
Medical insurance contributions	-	7,425
Other payments	1,553	1,878
	283,569	**233,457**

The average number of staff employed by the Bank in 2021 was 870 (2020: 803).

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Notes to the Financial Statements

10 Other operating expenses

(in thousands MDL)	2021	2020
Maintenance of intangibles	44,954	42,597
Consulting and auditing	28,980	26,505
Repair and maintenance of fixed assets	21,180	19,103
Contribution to resolution fund	20,318	7,705
Advertising and publishing	16,815	13,649
Telecommunication	10,476	9,308
Rent and utilities	8,529	8,333
Insurance	7,460	7,612
Security costs	6,604	9,283
Information cost	4,748	3,673
Training	4,706	1,863
Consumables and LVA	4,169	4,069
Taxes and duties	3,073	3,624
OK Foundation contribution	2,100	5,019
Charity	1,322	2,232
Travel and transportation	1,314	1,340
Representation expenses	243	308
Result of disposal of fixed assets	205	528
Other provision for operational risk	(239)	0
Other	11,031	9,129
	197,988	**175,880**

11 Income tax expense

(in thousands MDL)	2021	2020
Current tax		
Current income tax	36,727	21,823
Deferred tax		
Relating to origination and reversal of temporary differences	(691)	(1,186)
Income tax expense	**36,036**	**20,637**

During 2021 the corporate income tax rate was 12% (2020: 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 2021 and 2020 is, as follows:

	2021	2020
(in thousands MDL)		
Accounting profit before tax	308,040	164,173
At statutory income tax rate of 12% (2020: 12%)	36,965	19,701
Adjustment in respect of current income tax of prior years	(1,724)	-
Income not subject to tax	(1,786)	(3,254)
Non–deductible expenses	2,581	4,190
Income tax expense reported in the income statement	**36,036**	**20,637**

The effective income tax rate for 2021 is 11.8% (2020: 12.5%).

Effective 2021 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 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)**

31 December 2020	Deferred tax Assets	Deferred tax Liabilities	NET	Charge in Income statement
(in thousands MDL)				
Property and equipment	-	(1)	(1)	(1,027)
Other liabilities	(4,986)		(4,986)	(159)
	(4,986)	**(1)**	**(4,987)**	**(1,186)**

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.

(in thousands MDL)	2021	2020
Net profit attributable to ordinary equity holders	271,368	143,536
Weighted average number of ordinary shares	9,994,394	9,994,394
Basic earnings per share (MDL/share)	27.15	14.35
Dividends per share (MDL/share)	9.7648	-

No diluted earnings per share were calculated 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

(in thousands MDL)	31 December 2021	31 December 2020
Cash on hand	533,374	639,081
Current account with Central bank	1,444,426	1,857,496
Mandatory reserve deposit held in foreign currency	1,895,922	1,658,946
Impairment on balances with Central bank	(7,514)	-
	3,866,208	**4,155,523**

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.

As of 31 December 2021 the rate for calculation of the mandatory reserve in local currency was 26% (31 December 2020: 32%) and in foreign currencies 30% (31 December 2020: 30%).

As of 31 December 2021 the Bank had to maintain as mandatory reserve in MDL an average of MDL'000 1,620,759 (2020: MDL'000 1,840,881), in USD of USD'000 27,728 (2020: USD'000 27,076) and in EUR of EUR'000 68,388 (2020: EUR'000 56,377). As of 31 December 2021 and 2020 the Bank is in line with the above mentioned limits.

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Notes to the Financial Statements

14 Due from banks

	31 December 2021	31 December 2020
(in thousands MDL)		
Current accounts	1,678,265	331,113
Overnight deposits	558,974	518,161
Term deposits	90,028	266,290
Total, gross	**2,327,267**	**1,115,564**
Allowances for Impairment for Current accounts	(6,347)	-
Allowances for Impairment for Overnight deposits	(1,990)	-
Allowances for Impairment for Term deposits	(328)	(3,089)
Total Allowances for Impairment	**(8,665)**	**(3,089)**
Total, net	**2,318,602**	**1,112,475**

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

	31 December 2021	31 December 2020
(in thousands MDL)		
Current accounts	1,678,265	331,113
Less: Allowance for impairment losses	(6,347)	-
	1,671,918	**331,113**

Overnight deposits

	31 December 2021	31 December 2020
(in thousands MDL)		
Overnight deposits	558,974	518,161
Less: Allowance for impairment losses	(1,990)	-
	556,984	**518,161**

Term deposits

	31 December 2021	31 December 2020
(in thousands MDL)		
Term deposits (1)	90,028	266,290
Less: Allowance for impairment losses (2)	(328)	(3,089)
	89,700	**263,201**

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 2021, as follows:

Current accounts

(in thousands MDL)	Stage 1 collective
Gross carrying amount as at 1 January 2021	**331.113**
New assets originated or purchased	-
Assets derecognized or repaid (excluding write offs)	1,347,152
Changes to contractual cash flows due to modifications not resulting in de-recognition	-
Amounts written off	-
Foreign exchange adjustments	-
Gross carrying amount as at 31 December 2021	**1,678,265**

Overnight deposits

(in thousands MDL)	Stage 1 collective
Gross carrying amount as at 1 January 2021	**518,161**
New assets originated or purchased	-
Assets derecognized or repaid (excluding write offs)	40,813
Changes to contractual cash flows due to modifications not resulting in de-recognition	-
Amounts written off	-
Foreign exchange adjustments	-
Gross carrying amount as at 31 December 2021	**558,974**

Term deposits

(in thousands MDL)	Stage 1 collective
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 gross carrying amount in relation to due from banks is for the year ended 31 December 2020, as follows:

(in thousands MDL)	Stage 1 collective
Gross carrying amount as at 1 January 2020	**233,496**
New assets originated or purchased	10,566
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	22,228
Gross carrying amount as at 31 December 2020	**266,290**

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	(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	(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	(2,610)
Net ECL Charge	**(2,610)**
Foreign exchange adjustments	-151
ECL allowance as at 31 December 2021	**328**

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 2020, as follows:

(in thousands MDL)	Stage 1 collective
ECL allowance as at 1 January 2020 under IFRS 9	**2,545**
New assets originated or purchased	302
Assets derecognized or repaid (excluding write offs)	-
Net ECL Charge	**287**
Foreign exchange adjustments	(45)
ECL allowance as at 31 December 2020	**3,089**

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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 2021	31 December 2020
(in thousands MDL)		
Loans and advances to customers, gross	9,098,159	7,683,213
Less: Allowance for impairment losses	-301,589	-306,390
	8,796,570	**7,376,823**
out of which:		
Leasing, gross	210,665	213,663
Less: Allowance for impairment losses	-6,306	-7,758
	204,359	**205,905**

As of 31 December 2021 the outstanding of loans granted to related parties amounted at MDL'000 3,450 (2020: MDL'000 1,271) at an average interest rate of 6.91% per annum (2020: 7.98% per annum) (Note 29).

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

	31 December 2021	31 December 2020
(in thousands MDL)		
MLE	3,851,203	3,350,382
Consumer	1,920,191	1,604,254
Mortgage	2,422,369	1,761,160
MSE	693,731	753,753
Leasing	210,665	213,663
	9,098,159	**7,683,212**
Less: Allowance for ECL/impairment losses	-301,589	-306,389
	8,796,570	**7,376,823**

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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

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 2021				
	Stage 1 Collective	**Stage 2 Collective**	**Stage 3 Collective**	**Stage 3 Individual**	**Total**
Probability of Default rates (in thousands MDL)	**2.3%**	**21.4%**	**100%**	**100%**	
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**

	31 December 2020				
	Stage 1 Collective	**Stage 2 Collective**	**Stage 3 Collective**	**Stage 3 Individual**	**Total**
Probability of Default rates (in thousands MDL)	**1.9%**	**23.6%**	**100%**	**100%**	
Internal rating grade					
Neither past due nor impaired	3,022,238	158,222	-	-	**3,180,460**
Past due but not impaired	66,798	203	-	-	**67,001**
Non-performing	-	-	40,675	-	**40,675**
Individually impaired	-	-	-	62,246	**62,246**
Total	**3,089,037**	**158,425**	**40,675**	**62,246**	**3,350,382**

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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 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	**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**
Effect of modifications	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**

An analysis of charges in the gross carrying amount in relation to Corporate and SME lending is for the year ended 31 December 2020, 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 2020	**2,385,704**	**239,417**	**27,172**	**81,164**	**2,733,457**
New assets originated or purchased	2,577,232				**2,577,232**
Assets derecognized or repaid (excluding write offs)	-1,775,792	-205,476	-12,965	-2,062	**-1,996,296**
Transfers to S1	22,196	-22,199	2	-	-
Transfers to S2	-155,342	155,342	-	-	-
Transfers to S3	-18,250	-	18,250	-	-
Movements of accrued interest	-2,110	-703	70	-1,682	**-4,425**
Effect of modifications	9,076	-10,267	6,250	-4,717	**342**
Amounts written off	-	-	-	(13,211)	**-13,211**
Foreign exchange adjustments	46,322	2,311	1,896	2,755	**53,284**
Gross carrying amount as at 31 December 2020	**3,089,037**	**158,425**	**40,675**	**62,246**	**3,350,382**

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 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**

An analysis of charges in the corresponding ECL allowances in relation to Corporate and SME lending is for the year ended 31 December 2020, as follows:

(in thousands MDL)	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
ECL allowance as at 1 January 2020 under IFRS 9	**26,208**	**50,442**	**12,126**	**45,634**	**134,410**
New assets originated or purchased	54,807				**54,807**
Assets derecognized or repaid (excluding write offs)	-18,971	-43,380	-6,711	-2,025	**-71,087**
Transfers to S1	-139	139	-	-	-
Transfers to S2	-23,787	23,787	-	-	-
Transfers to S3	-8,448	0	8,448	-	-
Impact on ECL of modifications	7,363	-11,820	3,256	-3,834	**-5,034**
Changes to inputs used for ECL calculations	-1,863	4,798	764	810	**4,510**
Amounts written off	-	-	-	-13,211	**-13,211**
Foreign exchange adjustments	874	143	847	1,012	**2,876**
Net ECL Charge	9,837	-26,333	6,604	-17,248	**-27,140**
ECL allowance as at 31 December 2020	**36,045**	**24,109**	**18,730**	**28,386**	**107,270**

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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 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**

	31 December 2020				
	Stage 1 Collective	**Stage 2 Collective**	**Stage 3 Collective**	**Stage 3 Individual**	**Total**
Probability of Default rates	**2.8%**	**37.9%**	**100%**	**100%**	
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	1,427,501	41,108	-	-	**1,468,609**
Past due but not impaired	54,831	33,463	-	-	**88,294**
Non-performing	-	-	46,859	-	**46,859**
Individually impaired	-	-	-	492	**492**
Total	**1,482,332**	**74,571**	**46,859**	**492**	**1,604,254**

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 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	**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**
Effects of modifications	-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**	**0**	**1,920,191**

An analysis of charges in the gross carrying amount in relation to consumer lending is for the year ended 31 December 2020, 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 2020	**1,427,826**	**37,725**	**15,778**	**499**	**1,481,828**
New assets originated or purchased	926,510				**926,510**
Assets derecognized or repaid (excluding write offs)	-740,955	-22,735	31,496	-7	**-732,201**
Transfers to S1	3,125	-3,097	-28	-	-
Transfers to S2	-68,758	69,065	-307	-	-
Transfers to S3	-39,054	-3,191	42,245	-	-
Movements of accrued interest	-6	-256	-189	-	**-451**
Effects of modifications	-26,655	-2,940	-161	-	**-29,757**
Amounts written off	-	-	(42,002)	-	**-42,002**
Foreign exchange adjustments	298	-	27	-	**326**
Gross carrying amount as at 31 December 2020	**1,482,332**	**74,571**	**46,859**	**492**	**1,604,254**

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 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	**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**

An analysis of charges in the corresponding ECL allowances in relation to consumer lending is for the year ended 31 December 2020, as follows:

(in thousands MDL)	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
ECL allowance as at 1 January 2020 under IFRS 9	**21,310**	**8,553**	**12,257**	**241**	**42,360**
New assets originated or purchased	33,749				**33,749**
Assets derecognized or repaid (excluding write offs)	-9,525	-5,153	33,958	79	**19,358**
Transfers to S1	55	-54	-	-	-
Transfers to S2	-16,677	16,752	-75	-	-
Transfers to S3	-27,843	-2,511	30,354	-	-
Impact on ECL of modifications	23,930	-8,639	-18,061	-81	**-2,851**
Changes to inputs used for ECL calculations	925	9,108	17,834	81	**27,948**
Amounts written off	-	-	-42,002	-	**-42,002**
Foreign exchange adjustments	4	-	16	-	**20**
Net ECL Charge	4,618	9,502	22,024	79	**36,223**
ECL allowance as at 31 December 2020	**25,928**	**18,054**	**34,281**	**320**	**78,583**

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 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**

	31 December 2020				
	Stage 1 Collective	Stage 2 Collective	Stage 3 Collective	Stage 3 Individual	Total
Probability of Default rates	**0.6%**	**52.9%**	**100%**	**100%**	
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	1,605,234	35,290	-	-	**1,640,524**
Past due but not impaired	50,621	32,983	-	-	**83,603**
Non-performing	-	-	31,274	-	**31,274**
Individually impaired	-	-	-	5,759	**5,759**
Total	**1,655,855**	**68,273**	**31,274**	**5,759**	**1,761,160**

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 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**
Effects of modifications	56,827	766	10,302	-5,732	**62,163**
Amounts written off	-	-	-	-	**0**
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**

An analysis of charges in the gross carrying amount in relation to mortgage lending is for the year ended 31 December 2020, 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 2020	**1,110,377**	**37,732**	**2,493**	**6,101**	**1,156,703**
New assets originated or purchased	847,651				**847,651**
Assets derecognized or repaid (excluding write offs)	-235,686	-9,054	-847	-325	**-245,912**
Transfers to S1	6,875	-6,875	-	-	-
Transfers to S2	-53,138	54,155	-1,017	-	-
Transfers to S3	-24,159	-6,759	30,918	-	-
Movements of accrued interest	222	-11	24	-18	**217**
Effects of modifications	-6,644	-1,341	-240	-	**-8,225**
Amounts written off	-	-	(57)	-	**-57**
Foreign exchange adjustments	10,357	426	-	-	**10,783**
Gross carrying amount as at 31 December 2020	**1,655,855**	**68,273**	**31,274**	**5,759**	**1,761,160**

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 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**

An analysis of charges in the corresponding ECL allowances in relation to mortgage lending is for the year ended 31 December 2020, as follows:

(in thousands MDL)	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
ECL allowance as at 1 January 2020 under IFRS 9	**1,680**	**9,439**	**962**	**5,436**	**17,517**
New assets originated or purchased	7,067				**7,067**
Assets derecognized or repaid (excluding write offs)	223	-2,693	-300	181	**-2,589**
Transfers to S1	15	-15	-	-	-
Transfers to S2	-11,698	11,920	-223	-	-
Transfers to S3	-8,878	-2,485	11,363	-	-
Impact on ECL of modifications	16,351	-10,356	-6,587	-519	**-1,111**
Changes to inputs used for ECL calculations	-1,112	9,109	6,326	519	**14,842**
Amounts written off	-	-	-57	-	**-57**
Foreign exchange adjustments	16	20	-	-	**35**
Net ECL Charge	1,985	5,499	10,523	181	**18,187**
ECL allowance as at 31 December 2020	**3,665**	**14,938**	**11,485**	**5,617**	**35,704**

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 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**

	31 December 2020				
	Stage 1 Collective	Stage 2 Collective	Stage 3 Collective	Stage 3 Individual	Total
Probability of Default rates	3.3%	38.2%	100%	100%	
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	570,952	62,220	-	-	633,172
Past due but not impaired	31,000	18,902	-	-	49,902
Non-performing	-	-	58,242	-	58,242
Individually impaired	-	-	-	12,438	12,438
Total	**601,952**	**81,122**	**58,242**	**12,438**	**753,753**

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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 (continued)

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**
Effects of modifications	-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**

An analysis of charges in the gross carrying amount in relation to MSE lending is for the year ended 31 December 2020, 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 2020	**649,124**	**27,625**	**9,270**	**19,834**	**705,853**
New assets originated or purchased	502,566				**502,566**
Assets derecognized or repaid (excluding write offs)	-418,559	-14,978	-4,236	381	**-437,392**
Transfers to S1	3,156	-3,146	-9	-	-
Transfers to S2	-76,208	76,208	-	-	-
Transfers to S3	-48,905	-3,847	52,752	-	-
Movement of accrued interest	-134	-163	155	-750	**-892**
Effects of modifications	-19,360	-1,882	-105	-1,537	**-22,884**
Amounts written off	-	-	-	(6,320)	**-6,320**
Foreign exchange adjustments	10,273	1,304	416	830	**12,823**
Gross carrying amount as at 31 December 2020	**601,952**	**81,122**	**58,242**	**12,438**	**753,753**

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 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	**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**

An analysis of charges in the corresponding ECL allowances in relation to MSE lending is for the year ended 31 December 2020, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
ECL allowance as at 1 January 2020 under IFRS 9	**6,238**	**6,877**	**5,179**	**18,610**	**36,905**
New assets originated or purchased	43,227				**43,227**
Assets derecognized or repaid (excluding write offs)	-2,157	-3,825	-1,882	246	**(7,619)**
Transfers to S1	-28	28	-	-	-
Transfers to S2	-17,415	17,415	-	-	-
Transfers to S3	-29,167	-2,257	31,424	-	-
Impact on ECL of modifications	9,805	-6,469	-6,178	-1,204	**(4,045)**
Changes to inputs used for ECL calculations	1,072	6,484	6,119	205	**13,881**
Amounts written off	-	-	-	-6,320	**(6,320)**
Foreign exchange adjustments	193	12	10	831	**1,046**
Net ECL Charge	5,529	11,389	29,493	-6,242	**40,170**
ECL allowance as at 31 December 2020	**11,768**	**18,267**	**34,673**	**12,368**	**77,075**

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 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**

	31 December 2020				
	Stage 1 Collective	Stage 2 Collective	Stage 3 Collective	Stage 3 Individual	Total
Probability of Default rates	**2.6%**	**30.9%**	**100%**	**100%**	
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	197,588	4,247	-	-	**201,835**
Past due but not impaired	4,653	230	-	-	**4,883**
Non-performing	-	-	6,945	-	**6,945**
Individually impaired	-	-	-	-	-
Total	**202,242**	**4,476**	**6,945**	-	**213,663**

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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 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**
Effects of modifications	-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**

An analysis of charges in the gross carrying amount in relation to Leasing is for the year ended 31 December 2020, 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 2020	**162,985**	**13,361**	**804**	**363**	**177,514**
New assets originated or purchased	122,937				**122,937**
Assets derecognized or repaid (excluding write offs)	-88,979	-1,855	-5	-358	**-91,196**
Transfers to S1	6,959	-6,959	-	-	-
Transfers to S2	-4,214	4,214	-	-	-
Transfers to S3	-5,136	-1,020	6,156	-	-
Movement of accrued interest	-686	-10	-45	-6	**-746**
Effects of modifications	-1,887	-3,543	-	-	**-5,431**
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	10,263	288	35	-	**10,585**
Gross carrying amount as at 31 December 2020	**202,242**	**4,476**	**6,945**	-	**213,663**

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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)

15.1.5 Leasing (continued)

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	-	**(0)**
Transfers to S3	0	0	0	-	**-**
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**

An analysis of charges in the corresponding ECL allowances in relation to Leasing is for the year ended 31 December 2020, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
ECL allowance as at 1 January 2020 under IFRS 9	**1,742**	**2,880**	**415**	**133**	**5,169**
New assets originated or purchased	5,030				**5,030**
Assets derecognized or repaid (excluding write offs)	-757	-390	62	-133	**(1,218)**
Transfers to S1	11	-11	-	-	-
Transfers to S2	-892	892	-	-	-
Transfers to S3	-3,027	-600	3,627	-	-
Impact on ECL of modifications	1,749	-2,155	-623	-	**(1,030)**
Changes to inputs used for ECL calculations	-1,279	277	623	-	**(379)**
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	182	3	-	-	**186**
Net ECL Charge	1,017	-1,985	3,690	-133	**2,589**
ECL allowance as at 31 December 2020	**2,759**	**895**	**4,104**	-	**7,758**

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Notes to the Financial Statements

16 Debt instruments measured at amortized cost

	31 December 2021	31 December 2020
(in thousands MDL)		
Debt instruments at amortized cost:		
Treasury bills issued by the Ministry of Finance	855,268	608,388
State bonds issued by the Ministry of Finance	2,030	12
NBM certificates	499,626	750,184
Total gross amount of exposure	**1,356,924**	**1,358,584**
Less: Allowance for ECL/impairment losses	(10,731)	(15,760)
	1,346,193	**1,342,824**

Securities issued by the Ministry of Finance

As of 31 December 2021 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 **5.93%** per annum (31 December 2020: **5.01%**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 2021 was **6.62%** per annum for 5 years and **6.50%** for 7 years (31 December 2020: **6.21%** per annum for 3 years and **6.62%** per annum for 5 years).

As of 31 December 2021 there are no REPO transactions with NBM. During the year there was 3 transactions: 1 transaction with interest rate **4.90%** per annum, 1 transaction with interest rate **5.75%** per annum and 1 transaction with interest rate **6.75%** per annum.

NBM certificates

As of 31 December 2021 NBM certificates represent fixed rate financial instruments issued with discount with original maturity of up to 14 days yielding an average interest rate of **6.50%** per annum (31 December 2020: **2.65%** per annum).

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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 2021 is, as follows:

(in thousands MDL)	**Stage 1 collective**
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 gross carrying amount for the year ended 31 December 2020 is, as follows:

(in thousands MDL)	**Stage 1 collective**
Gross carrying amount as at 1 January 2020	**692,696**
New assets originated or purchased	12,615,920
Assets derecognized or repaid (excluding write offs)	(11,992,585)
Accrued interest	42,551
Gross carrying amount as at 31 December 2020	**1,358,584**

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

(in thousands MDL)	**Stage 1 collective**
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**

An analysis of changes in the corresponding ECLs for the year ended 31 December 2020 is, as follows:

(in thousands MDL)	**Stage 1 collective**
ECL allowance as at 1 January 2020	**7,550**
New assets originated or purchased	15,500
Assets derecognized or repaid (excluding write offs)	(7,290)
Net ECL Charge	**8,210**
ECL allowance as at 31 December 2020	**15,760**

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17 Financial assets measured at FVPL

Financial assets at fair value through profit or loss

	31 December 2021	31 December 2020
(in thousands MDL)		
Financial assets at fair value through profit or loss		
Treasury bills issued by the Ministry of Finance	2,918	3,497
Equity investments at FVPL	1,031	1,031
	3,949	**4,528**

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 2021 and 2020 are classified at FVPL as presented below:

	Field of activity	Ownership 2021, %	31 December 2021	31 December 2020
(in thousands MDL)				
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 2021 and 2020 are unquoted and are recorded at fair value.

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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 2020	**134,822**	**6,381**	**9,326**	**123,385**	**63,114**	**77,297**	**414,325**
Additions	7,258	66,865		2,237	1,265	-	**77,625**
Disposals	(804)		(3,385)	(1,075)	(6,042)	-	**(11,306)**
Changes from reassessment and modification	-	-	-	-	-	7,256	**7,256**
Transfers	5,406	(32,710)	9,915	18,905	(1,516)	-	**-**
At 31 December 2020	**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**
Depreciation and impairment							
At 1 January 2020	**57,672**	-	**5,910**	**100,793**	**41,819**	**15,550**	**221,744**
Disposals	(710)	-	(3,345)	(1,075)	(4,423)	(11,888)	**(21,441)**
Depreciation charge for the year	5,368	-	1,304	13,424	8,462	18,828	**47,386**
Transfers	-	-	-	1,624	(1,624)	-	**-**
Impairment	1,150	-	-	-	-	-	**1,150**
Balance at 31 December 2020	**63,480**	-	**3,869**	**114,766**	**44,234**	**22,490**	**248,839**
Depreciation charge for the year	6,625	-	2,378	14,029	3,073	18,896	**45,001**
Disposals	(1,575)	- (843)		(6,555)	(5,466)	(3,817)	**(18,256)**
Transfers	-	-	-	-	-	-	-
Impairment	-	-	-	-	-	-	-
Balance at 31 December 2021	**68,530**	-	**5,404**	**122,240**	**41,841**	**37,569**	**275,584**
Carrying amount							
at 1 January 2020	**77,150**	**6,381**	**3,416**	**22,592**	**21,295**	**61,747**	**192,581**
at 31 December 2020	**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**

Notes to the Financial Statements

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

As of 31 December 2021 the cost of fully depreciated assets amounted at MDL'000 135,448 (31 December 2020: MDL'000 146,390).

During 2021 and 2020 the Bank carried capital construction works in the rented premises in line with the network development plan. As of 31 December 2021 the cost of such investments included in "Land and buildings" category amounts to MDL'000 9,252 (2020: MDL'000 6,128) and included in "Assets under construction" category of MDL'000 4,771 (2020: MDL'000 6,149). 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	2021	2020
(in thousands MDL)			
As at 1 January 2021		**68,132**	**60,819**
Additions	18	16,610	43,535
Payments	18	(22,502)	(39,197)
Accrued interest on lease liabilities		23	64
Exchange rate difference		(3,119)	2,975
As at 31 December 2021	24	**59,144**	**68,196**

The Bank had total cash outflows for leases of MDL'000 22,502. Accretion of interest on lease liability amounted MDL'000 1,808 (31 December 2020: MDL'000 1,222). The expenses relating to low value items for the year 2021 amounted MDL'000 2,289 (31 December 2020: MDL'000 1,949) and represents mainly ATM rentals.

Notes to the Financial Statements

19 Intangible assets

(in thousands MDL)	Informational System development costs	Software	Licenses	Other	Total
Cost					
At 1 January 2020	**130,482**	**17,599**	**14,416**	**17,515**	**180,012**
Additions	30,010	448	1,908	94	**32,460**
Disposals	(2,929)				**(2,929)**
Transfers	(2,723)	150	1,329	1,244	-
Balance at 31 December 2020	**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**
Amortization and impairment					
Balance at 1 January 2020	**118,762**	**12,575**	**7,300**	**16,962**	**155,599**
Disposals					
Amortization charge for the year	2,346	4,220	3,387	1,509	**11,462**
Impairment	-	-	-	-	-
Balance at 31 December 2020	**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**	**20,768**	**14,413**	**19,684**	**177,571**
Carrying amount					
at 1 January 2020	**11,720**	**5,024**	**7,116**	**553**	**24,413**
at 31 December 2020	**33,732**	**1,402**	**6,966**	**382**	**42,482**
at 31 December 2021	**67,918**	**31,211**	**8,510**	**617**	**108,256**

As of 31 December 2021 the cost of fully amortized intangible assets amounts at MDL'000 153,240 and mainly represents the cost of Cards Module and iBank (core bank iBank amounted MDL'000 97,630).

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Notes to the Financial Statements

20 Other assets

(in thousands MDL)	31 December 2021	31 December 2020
Other Financial Assets		
Operations with payment cards (Master Card and VISA)	12,149	8,415
Commission fees receivable	9,175	7,000
Other receivables	8,267	6,284
Clearing and transit amounts (1)	3,829	4,727
Due from employees	519	450
Total Other Financial Assets	**33,939**	**26,876**
Less allowance for ECL (2)	(9,554)	(7,442)
Total Other Financial Assets Net	**24,385**	**19,434**
Other Assets		
Income and other taxes receivable	17,523	28,943
Other prepayments	9,615	6,191
Prepaid insurance	4,050	3,758
Consumables and LVA	1,524	1,599
Repossessed assets (3)	-	946
Total Other Assets	**32,712**	**41,437**
Less allowance for impairment losses	-	(946)
Total Other Assets Net	**32,712**	**40,491**
Total Other and Other Financial Assets	**57,097**	**59,925**

(1) Clearing and transit amounts represent transactions through international payment systems as of 31 December 2021 amounting MDL'000 3,829 (as of 31 December 2020 MDL'000 4,727) and the remaining amount relates to operations with cards.

(2) Allowance for impairment losses relates to non-recoverable commission fees receivable amounting MDL'000 8,975 (as of 31 December 2020 MDL'000 7,000), ECL Stage 1 under IFRS 9 for other assets measured at amortized cost MDL'000 350 (as of 31 December 2020 MDL'000 418) and ECL Stage 3 under IFRS 9 for other assets measured at amortized cost MDL'000 229 (as of 31 December 2020 MDL'000 24).

(3) As of 31 December 2021 no repossessed assets were registered (as of 31 December 2020 amounting MDL'000 946, with impairment in the same amount).

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Notes to the Financial Statements

20 Other assets (continued)

	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**

	31 December 2020		
	Stage 1 collective	**Stage 3 collective**	**Total**
(in thousands MDL)			
Internal rating grade			
Neither past due nor impaired	19,826	-	**19,826**
Past due but not impaired	-	-	-
Non-performing	-	-	-
Individually impaired	-	7,050	**7,050**
Grand Total	**19,826**	**7,050**	**26,876**

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

	Stage 1 collective	**Stage 3 collective**	**Total**
(in thousands MDL)			
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**

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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 2020 is, as follows:

	Stage 1 collective	Stage 3 collective	Total
(in thousands MDL)			
Gross carrying amount as at 1 January 2020	20,483	6,053	**26,536**
New assets originated or purchased	5,336	1,866	**7,202**
Assets derecognized or repaid (excluding write off)	(5,993)	(869)	**(6,862)**
Gross carrying amount as at 31 December 2020	**19,826**	**7,050**	**26,876**

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

	Stage 1 collective	Stage 3 collective	Total
(in thousands MDL)			
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**

An analysis of changes in corresponding ECLs or the year ending 31 December 2020 is, as follows:

	Stage 1 collective	Stage 3 collective	Total
(in thousands MDL)			
ECL allowance as at 1 January 2020 under IFRS 9	**271**	**6,053**	**6,324**
New assets originated or purchased	200	1,843	**2,043**
Assets derecognized or repaid (excluding write off)	(60)	(865)	**(925)**
Net ECL Charge	140	978	**1,118**
ECL allowance as at 31 December 2020	**411**	**7,031**	**7,442**

Notes to the Financial Statements

21 Due to banks

(in thousands MDL)	31 December 2021	31 December 2020
Current accounts	2,530	2,384
Term deposits	41	181
	2,571	**2,565**

22 Due to customers

(in thousands MDL)	31 December 2021	31 December 2020
Retail customers		
Current/savings accounts	3,931,097	3,675,349
Term deposits	3,390,362	2,757,498
	7,321,459	**6,432,847**
Corporate customers		
Current/savings accounts	5,471,617	4,893,357
Term deposits	704,030	441,497
	6,175,649	**5,334,854**
	13,497,108	**11,767,700**

Included in Due to customers were deposits of MDL'000 118,007 (2020: MDL'000 56,793) held as collateral for loans and guarantees.

23 Borrowed funds from IFI's

(in thousands MDL)	31 December 2021	31 December 2020
European Bank for Reconstruction and Development (EBRD)	218,854	(2,819)
"Filere du Vin" and "Fruit of garden" (UCIP - EIB)	184,352	220,589
Management of External Assistance Programs Office (MEAPO)	439,195	103,921
International Fund for Agricultural Development (FIDA)	20,506	17,623
	862,907	**339,314**

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 EU4BUSINESSEBRD 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 EU4BUSINESSEBRD 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 form MSME facility. 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 EU4BUSINESSEBRD 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. 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 EUR 5.0 million from EaP SMEC facility. 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.

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.

Notes to the Financial Statements

23 Borrowed funds from IFI's (continued)

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.

Loans from EAPMO (External Assistance Projects Management Office)

The Bank has become partner bank of the External Assistance Projects Management Office (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 in rural area as well as agribusiness and in cities. 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.

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 2021	31 December 2020
(in thousands MDL)			
Lease liability	18	59,144	68,196
Other liabilities on financial leasing		21,047	20,694
Due to budget		20,209	1,927
Other accruals		15,553	17,018
Accrued audit and consulting fees		13,203	8,690
Money transfers pending execution (1)		9,834	13,691
AML Investigation		1,775	9,738
Guarantees for safe deposits		1,405	1,568
Documentary transactions		1,184	323
Dividends payable		1,137	467
IT maintenance (2)		1,089	6,869
Settlements on FCY swap transaction		645	696
Due to suppliers of property and equipment		549	300
Due to international payment systems		181	173
Other liabilities (3)		5,839	5,347
		152,794	**155,697**

(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) Represents payables to previous shareholder in relation to maintenance of applications and is applicable to the year ending 31 December 2021.

(3) Other liabilities represents mainly payables through an intermediary account for broker services for clients.

Set out below are carrying amounts of lease liabilities and the amount of the lease liabilities expected to be settled within no more than twelve months after the reporting period and the amount of the lease liabilities expected to be settled within more than twelve months after the reporting period.

	31 December 2021	31 December 2020
(in thousands MDL)		
Lease liabilities Within one year	18,811	663
Lease liability over one year	40,333	67,533
	59,144	**68,196**

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Notes to the Financial Statements

25 Provisions

The movement in liability-side provisions during 2021 and 2020 respectively is, as follows:

(in thousands MDL)	Provision for employee benefits	Legal	Commitments and guarantees given	Total
1 January 2020	**36,108**	**239**	**11,231**	**47,578**
Provision arising during the year	72,689	-	37,740	**110,429**
Release of provision	-77,617	-	-37,099	**-114,716**
Foreign exchange adjustments	-	-	357	**357**
31 December 2020	**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**

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 security.

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 security (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 2021	31 December 2020
Commitments to grant loans	1,286,654	968,041
Financial guarantees	484,467	495,611
Letters of credit	13,978	14,589
	1,785,099	**1,478,241**

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 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**

	31 December 2020				
	Stage 1 Collective	**Stage 2 Collective**	**Stage 3 Collective**	**Stage 3 Individual**	**Total**
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	943,685	20,653	-	-	**964,338**
Past due but not impaired	2,861	492	-	-	**3,353**
Non-performing	-	-	350	-	**350**
Individually impaired	-	-	-	-	**-**
Total	**946,546**	**21,145**	**350**	-	**968,041**

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 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	**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**

An analysis of charges in the gross carrying amount in relation to Commitments to grant loans is for the year ended 31 December 2020, 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 2020	**1,042,754**	**15,783**	**243**	-	**1,058,780**
New assets originated or purchased	699,287			-	**699,287**
Assets derecognized or repaid (excluding write offs)	-777,563	-12,239	-103	-	**-789,905**
Transfers to S1	5,093	-5,093	-	-	-
Transfers to S2	-20,524	20,524	-	-	-
Transfers to S3	-210	-	210	-	-
Impact of modifications	-5,514	2,135	-	-	**-3,380**
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	3,224	35	-	-	**3,259**
Outstanding exposure as at 31 December 2020	**946,546**	**21,145**	**350**	-	**968,041**

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 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	**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**

An analysis of charges in the corresponding ECL allowances in relation to Commitments to grant loans is for the year ended 31 December 2020, as follows:

(in thousands MDL)	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
ECL allowance as at 1 January 2020 under IFRS 9	**5,739**	**1,688**	**40**	-	**7,467**
New assets originated or purchased	5,433			-	**5,433**
Assets derecognized or repaid (excluding write offs)	-3,945	-1,285	18	-	**-5,213**
Transfers to S1	35	-35	-	-	-
Transfers to S2	-1,724	1,724	-	-	-
Transfers to S3	-69	-	69	-	-
Impact on ECL of modifications	637	-709	-95	-	**-167**
Changes to inputs used for ECL calculations	-205	412	95	-	**303**
Foreign exchange adjustments	12	-	-	-	**12**
Net ECL Charge	**175**	**107**	**86**	-	**368**
ECL allowance as at 31 December 2020	**5,914**	**1,795**	**127**	-	**7,835**

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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)

(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 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**

	31 December 2020				
	Stage 1 Collective	Stage 2 Collective	Stage 3 Collective	Stage 3 Individual	Total
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	477,958	17,653	-	-	**495,611**
Past due but not impaired	-	-	-	-	-
Non-performing	-	-	-	-	-
Individually impaired	-	-	-	-	-
Total	**477,958**	**17,653**	-	-	**495,611**

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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 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)					
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**

An analysis of charges in the gross carrying amount in relation to guarantees issued is for the year ended 31 December 2020, 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 2020	**473,033**	**10,361**	-	-	**483,395**
New assets originated or purchased	80,428		-	-	**80,428**
Assets derecognized or repaid (excluding write offs)	-89,887	-5,198	-	-	**-95,085)**
Transfers to S1	6,024	-6,024	-	-	-
Transfers to S2	-16,160	16,160	-	-	-
Transfers to S3	-	-	-	-	-
Effects of Modifications	-	861	-	-	**861**
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	24,521	1,493	-	-	**26,014**
Gross carrying amount as at 31 December 2020	**477,958**	**17,653**	-	-	**495,611**

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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 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
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**

An analysis of charges in the corresponding ECL allowances in relation to guarantees issued is for the year ended 31 December 2020, as follows:

(in thousands MDL)	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
ECL allowance as at 1 January 2020 under IFRS 9	**2,572**	**1,086**	-	-	**3,658**
New assets originated or purchased	546		-	-	**546**
Assets derecognized or repaid (excluding write offs)	-332	-545	-	-	**-876**
Transfers to S1	35	-35	-	-	-
Transfers to S2	-1,336	1,336	-	-	-
Transfers to S3	-	-	-	-	-
Impact on ECL of modifications	1,623	-1,689	-	-	**-66**
Changes to inputs used for ECL calculations	-440	1,182	-	-	**742**
Foreign exchange adjustments	134	8	-	-	**142**
Net ECL Charge	230	258	-	-	**487**
ECL allowance as at 31 December 2020	**2,802**	**1,344**	-	-	**4,146**

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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)

(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 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

	31 December 2020				
	Stage 1 Collective	**Stage 2 Collective**	**Stage 3 Collective**	**Stage 3 Individual**	**Total**
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	12,237	2,352	-	-	**14,589**
Past due but not impaired	-	-	-	-	-
Non-performing	-	-	-	-	-
Individually impaired	-	-	-	-	-
Total	**12,237**	**2,352**	-	-	**14,589**

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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 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**

An analysis of charges in the gross carrying amount in relation to letters of credit is for the year ended 31 December 2020, 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 2020	**17,289**	-	-	-	**17,289**
New assets originated or purchased	2,352	-	-	-	**2,352**
Assets derecognized or repaid (excluding write offs)	-5,607	-	-	-	**-5,607**
Transfers to S1	-	-	-	-	-
Transfers to S2	-2,352	2,352	-	-	-
Transfers to S3	-	-	-	-	-
Effects of Modifications	-	-	-	-	-
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	555	-	-	-	**555**
Gross carrying amount as at 31 December 2020	**12,237**	**2,352**	-	-	**14,589**

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 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**

An analysis of charges in the corresponding ECL allowances in relation to letters of credit is for the year ended 31 December 2020, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
ECL allowance as at 1 January 2020 under IFRS 9	**94**	-	-	-	**94**
New assets originated or purchased	177	-	-	-	**177**
Assets derecognized or repaid (excluding write offs)	-26	-	-	-	**-26**
Transfers to S1	-	-	-	-	-
Transfers to S2	-177	177	-	-	-
Transfers to S3	-	-	-	-	-
Impact on ECL of modifications	-4	-	-	-	**-4**
Changes to inputs used for ECL calculations	4	-	-	-	**4**
Foreign exchange adjustments	3	-	-	-	**3**
Net ECL Charge	-23	177	-	-	**154**
ECL allowance as at 31 December 2020	**71**	**177**	-	-	**248**

Notes to the Financial Statements

25 Provisions (continued)

25.2 Other provisions and contingent liabilities

Contingent liabilities

As of 31 December 2021, and 2020 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 several unresolved legal claims, for which provisions have been made in these financial statements. The two most significant ones being in respect of a claim on disputed unauthorized withdrawal of means from a third party current account, disputed penalties due to tax authorities and another related to claims from a third party on removal of sequester from its' debtors account.

Notes to the Financial Statements

26 Issued capital

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**

The list of major shareholders as of 31 December 2020 is presented below:

	2020		
	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 2021 all shares are ordinary and have a nominal value of MDL 10 (31 December 2020: MDL 10). As of 31 December 2021 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)

(in thousands MDL)	Level 1	Level 2	Level 3	Total
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**

(in thousands MDL)	Level 1	Level 2	Level 3	Total
31 December 2020				
Financial assets				
Assets measured at fair value on a recurring basis				
Treasury bills issued by the Ministry of Finance	-	3,496	-	3,496
Equity investments at FVPL	-	-	1,031	1,031
Other financial assets not measured at Fair Value on a recurring basis				-
Placements with Central Bank	3,516,247	-	-	3,516,247
Due from banks	1,112,427	-	-	1,112,427
Debt instruments at amortized cost	-	1,342,223	-	1,342,223
Loans and advances to customers	-	-	7,710,196	7,710,196
	4,628,674	**1,345,719**	**7,711,227**	**13,685,620**
Financial liabilities				
Deposits from banks	-	-	2,565	2,565
Borrowings from IFI's	-	338,461		338,461
Deposits from customers	-	-	12,226,436	12,226,436
	-	**338,461**	**12,229,001**	**12,567,462**

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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:

	2021		2020	
	Total carrying amount	Fair value	Total carrying amount	Fair value
(in thousands MDL)				
Financial assets				
Placements with Central Bank	3,332,834	3,332,834	3,516,247	3,516,247
Due from banks	2,318,602	2,318,602	1,112,427	1,112,427
Debt instruments at amortized cost	1,346,193	1,351,130	1,342,819	1,342,223
Loans and advances to customers	8,796,570	8,685,047	7,376,823	7,710,196
	15,794,199	**15,687,613**	**13,348,317**	**13,681,093**
Financial liabilities				
Due to banks	2,571	2,571	2,565	2,565
Borrowed funds from IFIs	862,907	866,314	339,314	338,461
Deposits from customers	13,497,038	13,514,722	11,767,700	12,226,436
	14,362,516	**14,383,607**	**12,109,579**	**12,567,462**

There were no reclassifications between financial assets and liabilities categories done in 2021 and 2020.

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, 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 level risk are 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: 18.1.2.6);
- The details of the ECL calculations for Stage 1, Stage 2 and Stage 3 assets (Note: 2.5.1.9.1(i)).

For accounting purposes, the Bank uses an expected credit loss model for the recognition of losses on financial assets (Note 2.5.1.9 (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), 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).

In the case of the enterprise segment it is defined as:

- The absolute threshold: 500 EUR (equivalent to the NBM exchange rate), and
- Relative threshold: the ratio of the client's total overdue debt exceeds 1% of the total amount of all on-balance sheet exposures.

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 S3.
- 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 S2 or S3, 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 S1 to S2 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 S3 to S2);
- Restructured loans as performing forborne;
- 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 S2 or S3, 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 PDP 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 S1 to S2 are:

- Overdue payments of more than 30 days;
- Restructured loans under probation period (the ones migrated from S3 to S2);
- LTV > 125% for mortgage products;
- DTI > 60% for consumer loans;
- Restructured loans as performing forborne;
- Overdue payments of more than 10 days at least once in the last 6 months.

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 watch list, 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 identification of heavily affected sectors (mainly HORECA, tourism and recreation services providers) declared as significant increased credit risk, the enterprise clients were transferred to Stage 2.

Notes to the Financial Statements

28 Risk management (continued)

28.2 Credit risk (continued)

28.2.7 Grouping financial assets measured on a collective basis

As explained in Note 28.2.2 and 2.5.1.9.1 (i) 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).

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.

Notes to the Financial Statements

28 Risk management (continued)

28.2 Credit risk (continued)

28.2.8 Analysis of collectively impaired assets (continued)

Main macroeconomic highlights

The Moldovan economy has been facing many very special and strong shocks since 2020. In addition to Covid, the weak harvest in 2020 was also a drag on growth, explaining 4 percentage points from the 7% recession. GDP, supported by loose policies, rebounded to the pre-Covid peak by Q2 2021, labour market tightness and fast wage growth returned. This year's growth could exceed 10%, as the effect of good agricultural production will not materialize before the second half of 2021. However, the outlook for 2022 is gloomier. The price of gas bought from Russia has more than doubled, additional import bill will reach 5-8% of GDP, and inflation will rise to around 15%, which is expected to trigger further sharp rate hikes and a within-year recession. Furthermore, the external deficit is expected to rise further 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 massive depreciation cannot be ruled out on the forecasting horizon;
- Political risks - the current pro-EU government might easily lose popularity due to the skyrocketing energy bill and the often-painful IMF programme;
- Inflation risks - credibility is low, the gas price shock and the tight labour market could easily result in an endured inflation shock.

Three scenarios are used for ECL calculations

1. Forecast Scenario
   - ✓ Developed economies will grow by 4% in 2022, in line with analysts' consensus and the forecasts of large international institutions;
   - ✓ Inflation will not be a serious problem;
   - ✓ Gradual rise in yields on core markets, real interest rates will remain negative;
   - ✓ Strong GDP growth in OTP universe, 4-5% in 2022; 3-4% in 2023;
   - ✓ In this scenario loan growth will remain high, corporate and consumer loan growth could reach 10%, mortgages 16%.
2. Mild stress Scenario
   - ✓ Policy stimulus will result in more inflation and less growth;
   - ✓ Developed economies will grow by the 2% in 2022;
   - ✓ Inflation will be roughly 2 percentage points higher than in the baseline;
   - ✓ Further rate hikes in OTP universe as well as in developed economies;
   - ✓ Due to lower real GDP and wage growth and higher rates, we expect loan growth to be about 1-2% lower than in the baseline scenario.
3. Severe stress scenario
   - ✓ In the stress scenario we expect a sharp (-3/-8% recession next year) and slower growth thereafter;
   - ✓ Zero/negative interest rates would be kept in major developed economies;
   - ✓ Rate hikes to be reversed in OTP Universe;
   - ✓ We think this scenario is less likely, currently we do not see events that could trigger such a scenario;
   - ✓ However, in the medium term the current inflationary and very stimulative approach of decision makers in developed economies could overheat loan and real-estate markets, which could make this scenario more likely in a few years' time.

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	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4
Forecast	5%	4.3%	-1.3%	3.0%	3.0%	3.5%	4.1%	4.2%	4.3%	4.4%	4.5%	4.5%	4.4%
Mild stress	60%	3.3%	-3.3%	0.0%	-0.5%	0.5%	1.5%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Severe stress	35%	-0.3%	-7.6%	-4.9%	-4.9%	-1.8%	0.1%	1.2%	1.9%	2.4%	2.6%	2.8%	2.8%

(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 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 in basis points 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				

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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 (continued)

(in thousands MDL)	Total Provision 2020 Real Booked	Change of PD	Total Provision Simulation	Increase/Decrease in Total Stock of Provision, MDL	Increase/Decrease in Total Stock of Provision, %
Retail	199,205	+ 500 bps	289,411	90,206	45%
		- 500 bps	179,229	(19,976)	-10%
Non-Retail	119,415	+ 500 bps	190,507	71,093	60%
		- 500 bps	95,753	(23,662)	-20%
	318,619				

(in thousands MDL)	Total Provision 2020 Real Booked	Change of LGD	Total Provision Simulation	Increase/Decrease in Total Stock of Provision, MDL	Increase/Decrease in Total Stock of Provision, %
Retail	199,205	+ 1000 bps	219,792	20,587	10%
		- 1000 bps	158,879	(40,325)	-20%
Non-Retail	119,415	+ 1000 bps	115,266	(4,149)	-3%
		- 1000 bps	84,587	(34,827)	-29%
	318,619				

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 2021		as at 31 December 2020	
	Gross carrying amount	Corresponding ECL	Gross carrying amount	Corresponding ECL
Facilities that have cured since modification and are now measured using 12mECLs (Stage 1)	379	2	-	-
Facilities that reverted to (Stage 2/3) LTECLs having once cured	-	-	190	114

The above mentioned changes had an impact in the year PL in amount of -92.3 KMDL in 2021.

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Notes to the Financial Statements

28 Risk management (continued)

28.2 Credit risk (continued)

Carrying amount by class of financial assets that had the forborne status as of 31 December 2021 and 2020 is analyzed below:

Forborne Loans (in thousands MDL)	31 December 2021	Of which: forborne in 2021	31 December 2020	Of which: forborne in 2020
Loans and advances to customers				
Performing				
MLE	9,197	5,061	17,177	17,177
Consumer	4,787	209	7,581	7,541
Mortgage	4,911	311	979	45
MSE	30,474	4,975	24,211	20,340
Leasing	1,995	-	-	-
	51,364	**10,557**	**49,948**	**45,103**
NON-Performing				
MLE	19,379	7,086	22,020	8,718
Consumer	1,637	296	9,164	8,624
Mortgage	4,109	2,415	4,823	4,823
MSE	18,012	4,840	36,582	35,464
Leasing	1,649	-	5,557	4,758
	44,786	**14,638**	**78,146**	**62,386**

28.2.10 Covid-19 Client aid programs and Credit policy adjustments

On March 17, 2020, the Government of Moldova declared a state of emergency throughout the Republic of Moldova in connection with the epidemiological situation due to COVID-19 infection, and in March economic decisions were taken to respond to the economic effects of COVID-19. The NBM provides banks with the necessary tools to support the operational continuity of the banking system and adopted measures to mitigate the impact of the general coronavirus epidemic on the banking sector, the population and the business environment.

As a result, NBM adopted the following measures:

1. Approved a decision allowing licensed banks to defer or change the due dates of payments and / or the amounts of payments due by June 30, 2020 to loans to economic operators. The modification of the mentioned terms will not have the effect of automatically classifying the respective credits in a tougher category than the one existing at the date of adoption of this decision. Related to this NBM decision the bank performed the modification of terms for the 181 clients with an exposure of MDL'000 697,015.

2. It approved a decision allowing the licensed banks to flexibly manage the payment obligations of individuals in difficulty of paying for the contracted loans, in conditions of urgency. Changing the payment deadlines and / or the amounts of payments on these appropriations by 31 July 2020 will not have the effect of classifying them in a tougher category than the one existing at the date of adoption of this Decision. The decision does not concern new appropriations granted during that period. Related to this NBM decision the bank performed the modification of terms for the 2,246 clients with an exposure of MDL'000 288,940.

Measures adopted by Bank as a response to COVID-19 crises:

- For enterprise clients there was adopted a payment moratoria for instalments due till 31 of May, and with the possibility to request modification of terms for this instalments till 30 of June 2020. This measure was adopted in accordance with NBM decision;

- For private individual clients there was adopted a payment moratoria for instalments due till 31 of May, and with the possibility to request modification of terms for this instalments till 30 of June 2020. This measure was adopted in accordance with NBM decision;

- The calculation of the overdue penalties were cancelled till 31 of December 2020, for the period starting with declared a state of emergency throughout the Republic of Moldova in connection with the epidemiological situation due to COVID-19 infection;

- Related to Credit Policy in order to reduce the risk appetite in pandemic period, Bank adopted new temporary restrictions mainly related to heavily impact economic sectors, refinancing activities, FX lending for enterprise clients. For private individuals the temporary restrictions where mainly related to heavily impact economic sectors/professions, employment type, income elements and residential status.

28.2.11 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 3,899 legal entities (2020: 2,822) and 81,657 individuals (2020: 75,657).

The maximum credit on-balance exposure to any client or counterparty in the loan portfolio as of 31 December 2021 was at MDL'000 196,424 (2020: MDL'000 202,413).

As at 31 December 2021 ten major gross loans have a total on-balance exposure of MDL'000 1,096,319 (31 December 2020: MDL'000 1,086,927).

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 2021	31 December 2020
Placements with Central Bank	13	3,332,834	3,516,442
Due from banks	14	2,318,602	1,112,475
Debt instruments at amortized cost	16	1,346,193	1,342,824
Loans and advances to customers	15	8,592,211	7,170,918
Leasing	15	204,359	205,906
Other assets		57,097	59,925
Total		**15,851,296**	**13,408,490**
Financial guarantees, letters of credit and other undrawn commitments	28.3	1,759,212	1,466,013
Total credit risk exposure		**17,610,508**	**14,874,503**

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Notes to the Financial Statements

28 Risk management (continued)

28.2 Credit risk (continued)

28.2.11 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 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	-	-	-
	10,668,989	**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*[1]	1,278	-	6,721	-	-
EU	454,057	-	2,081,021	-	-
USA	-	-	200,684	-	-
Other	198,893	-	38,842	-	-
Total gross amount of exposure	**10,668,989**	**214,268**	**5,667,615**	**1,356,923**	**1,031**
Less: Allowance for ECL/impairment losses	(321,169)	(6,306)	(16,179)	(10,731)	-
	10,347,820	**207,962**	**5,651,436**	**1,346,193**	**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.

Notes to the Financial Statements

28 Risk management (continued)

28.2 Credit risk (continued)

28.2.11 Analysis of risk concentration (continued)

An analysis of concentrations of credit risk gross exposure as of 31 December 2020 is shown below:

	Loans and advances to customers	Leasing	Due from banks	Debt instruments at amortized cost	Financial assets at FV through PL
(in thousands MDL)					
Concentration by sector					
Sovereign	-	-	-	1,358,584	-
Central Bank	-	-	3,516,442	-	-
Commercial banks	-	-	1,115,564	-	-
Individuals	3,392,809		-	-	
Legal entities	4,076,741	213,663	-	-	1,031
Off balance sheet items:					
Individuals	108,008	-	-	-	-
Legal entities	1,370,234	-	-	-	-
	8,947,792	**213,663**	**4,632,006**	**1,358,584**	**1,031**
Concentration by location					
Moldova	8,240,678	213,663	3,516,442	1,358,584	1,031
CIS*[2]	1,962	-	4,560	-	-
EU	504,326	-	1,083,376	-	-
USA	-	-	15,795	-	-
Other	200,826	-	11,833	-	-
	8,947,792	**213,663**	**4,632,006**	**1,358,584**	**1,031**
Less: Allowance for ECL/impairment losses	(310,862)	(7,758)	(3,089)	(15,760)	-
	8,636,930	**205,906**	**4,628,917**	**1,342,824**	**1,031**

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[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)

28.2.11 Analysis of risk concentration (continued)

An analysis of concentrations of ECL 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	-	-	-	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**	-

An analysis of concentrations of ECL as of 31 December 2020, 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	-	-	-	15,760	-
Central Bank	-	-	-	-	-
Commercial banks	-	-	3,089	-	-
Individuals	118,724		-	-	
Legal entities	179,909	7,758	-	-	-
Off balance sheet items:					
Individuals	1,245	-	-	-	-
Legal entities	10,984	-	-	-	-
	310,862	**7,758**	**3,089**	15,760	-
Concentration by location					
Moldova	304,582	7,758	-	15,760	-
CIS*	30	-	-	-	-
EU	4,234	-	3,089	-	-
USA	-	-	-	-	-
Other	2,016	-	-	-	-
	310,862	**7,758**	**3,089**	**15,760**	-

Ageing analysis of loans by class of financial assets as of 31 December 2021 and 2020 is presented below:

	Stage 1		Stage 2					Stage 3					Total
(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	
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**
31-Dec-20													
Loans and advances to customers													
MLE	3,022,238	66,799	158,222	203	-	-	-	9,477	11,675	1,404	728	79,637	**3,350,382**
Consumer	1,427,501	54,831	41,108	16,461	11,502	5,499	-	11,743	3,320	1,485	2,513	28,292	**1,604,254**
Mortgage	1,605,234	50,621	35,290	18,194	11,012	3,777	-	12,384	1,730	2,682	860	19,376	**1,761,160**
MSE	570,952	31,000	62,220	13,304	2,703	2,895	-	28,276	5,179	7,319	2,847	27,059	**753,753**
Total Loans and advances to customers	***6,625,925***	***203,250***	***296,840***	***48,162***	***25,217***	***12,171***	-	***61,880***	***21,903***	***12,889***	***6,948***	***154,364***	***7,469,550***
Leasing	**197,588**	**4,653**	**4,247**	**230**	-	-	-	**4,905**	-	-	**1,045**	**996**	**213,663**
Total Loans and advances to customers and Leasing	**6,823,513**	**207,903**	**301,087**	**48,392**	**25,217**	**12,171**	-	**66,785**	**21,903**	**12,889**	**7,992**	**155,360**	**7,683,213**

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Notes to the Financial Statements

28 Risk management (continued)

28.2 Credit risk (continued)

28.2.11 Analysis of risk concentration (continued)

An analysis of loans and advances to customers by customer type and industry as of 31 December 2021 and 2020 is presented below:

(in thousands MDL)	31 December 2021	31 December 2020
Loans to individuals		
Consumer loans	1,920,191	1,604,254
Mortgage loans	2,422,369	1,761,160
	4,342,560	**3,365,414**
Less allowance for impairment losses Consumer Loans	(61,604)	(78,583)
Less allowance for impairment losses Mortgage Loans	(47,693)	(35,704)
Net loans to individuals	**4,233,263**	**3,251,127**
Loans to legal entities		
Industry and commerce	3,053,474	2,795,282
Agriculture and food industry	778,694	628,834
Fuel and energy	15,253	11,149
Construction	77,216	67,953
Transportation, telecommunications and development	309,723	394,410
Overdrafts	663	553
Micro-enterprises	143,937	155,902
Leasing	210,665	213,663
Other	165,973	50,053
	4,755,598	**4,317,799**
Less allowance for impairment losses		
Industry and commerce	(127,374)	(117,045)
Agriculture and food industry	(31,344)	(30,363)
Fuel and energy	(260)	(163)
Construction	(1,376)	(1,070)
Transportation, telecommunications and development	(6,557)	(9,522)
Overdrafts	(642)	(477)
Micro-enterprises	(15,949)	(24,594)
Leasing	(6,306)	(7,758)
Other	(2,483)	(1,111)
Net loans to legal entities	**4,563,307**	**4,125,696**
	8,796,570	**7,376,823**

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.

Notes to the Financial Statements

28 Risk management (continued)

28.2 Credit risk (continued)

28.2.12 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 for selling is published on Bank's website and 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 2021 is estimated at MDL'000 33,021 (31 December 2020: MDL'000 34,435). The fair value of collateral placed against past due but not impaired loans as of 31 December 2021 is estimated at MDL'000 116,252 (31 December 2020: MDL'000 194,824).

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 2021 and 2020.

The tables on the following pages show the maximum exposure to credit risk by class of financial assets.

Notes to the Financial Statements

28 Risk management (continued)

28.2 Credit risk (continued)

28.2.12 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 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**
31 December 2020										
MLE	3,243,112	60,753	39,578	929,407	2,068,163	1,972,081	(1,822,258)	5,069,981		107,270
Consumer	1,525,671	19,446	-	1,183	146,358	13,384	(89,201)	180,371	1,345,300	78,583
Mortgage	1,725,456	18,582	-	150,175	2,246,485	5,430	(705,802)	2,420,673		35,704
MSE	205,906	400	-	4,714	3,735	351,714	(159,204)	360,563		7,758
Leasing	676,679	4,274	-	65,591	757,289	351,263	(511,747)	1,178,417		77,075
Commitments to grant loans	960,205	-	1	15,994	224,983	339,531	(284,849)	580,509	379,696	7,835
Financial guarantees	491,466	26,311	-	16,004	119,245	66,916	(59,483)	228,475	262,990	4,146
Letters of credit	14,341	-	-	1,882	14,281	18,258	(20,877)	34,421		248
Total	**8,842,836**	**129,766**	**39,579**	**1,184,950**	**5,580,539**	**3,118,577**	**(3,653,421)**	**10,053,410**	**1,987,986**	**318,619**

Notes to the Financial Statements

28 Risk management (continued)

28.2 Credit risk (continued)

28.2.12 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 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**
31 December 2020										
MLE	55,804	-	-	14,505	84,203	47,319	(90,332)	146,028	-	47,116
Consumer	12,750	2,958	-	-	11,056	834	(11,694)	14,847	-	34,601
Mortgage	19,931	-	-	1,426	54,658	-	(36,135)	56,085	-	17,102
MSE	23,640	46	-	4,316	63,023	31,240	(75,482)	98,625	-	47,040
Leasing	2,841	-	-	-	-	13,856	(11,015)	13,856	-	4,104
Commitments to grant loans	224	-	-	-	1	-	(1)	1	222	127
Financial guarantees	-	-	-	-	-	-	-	-	-	-
Letters of credit	-	-	-	-	-	-	-	-	-	-
Total	**115,190**	**3,004**	-	**20,247**	**212,942**	**93,250**	**(224,659)**	**329,442**	**222**	**150,090**

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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.

On a short term basis the 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.

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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 contractual 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

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 2020 based on contractual 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	4,155,329	4,155,329	-	-	-
Due from banks	1,112,669	1,112,669	-	-	-
Derivative financial instruments	-	-	-	-	-
Financial assets at fair value through profit or loss	4,528	3,496	-	-	1,031
Debt instruments at amortized cost	1,342,824	878,638	464,181	5	-
Loans and advances to customers	7,376,823	89,638	2,143,360	3,822,378	1,321,447
Other financial assets	19,434	19,434	-	-	-
Total financial assets	**14,011,607**	**6,259,204**	**2,607,541**	**3,822,383**	**1,322,478**
Financial Liabilities					
Due to banks	2,565	2,565	-	-	-
Due to customers	11,770,404	1,031,551	4,851,150	4,099,281	1,926,613
Debt issued and other borrowings	339,314	26,866	180,100	130,684	1,682
Lease liabilities	68,131	-	7,653	52,429	8,049
Derivative financial instruments	1,769	1,769	-	-	-
Total financial liabilities	**12,320,392**	**1,062,751**	**5,038,903**	**4,282,394**	**1,936,344**
GAP	**1,691,214**	**5,196,453**	**-2,431,362**	**-460,011**	**-613,866**

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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 31.12.2021 and 31.12.2020. 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 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**	-	-	-
As at 31 December 2020					
Loan commitments	980,270	980,270	-	-	-
Financial guarantees	495,611	495,611	-	-	-
Letter of credit	14,589	14,589	-	-	-
Total commitments and guarantees	**1,490,470**	**1,490,470**	-	-	-

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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 2021 did hold a small trading portfolio of State Securities (3 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 2021	31 December 2020
Own Funds	**1,685,381**	**1,683,247**
Potential decline in EVE +/- X bps		
Absolute value	59,611	22,625
Impact on Own Funds	3.54%	1.34%

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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 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)

28.4.1 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 2020						
Assets						
Cash and Balances with Central Bank	**4,155,522**	3,516,441	-	-	-	639,081
Due from Banks	**1,112,475**	1,112,475	-	-	-	-
Financial assets at fair value through profit and loss	**4,528**	3,497	-	-	-	1,031
Loans and advances to customers	**7,376,823**	1,937,073	1,799,602	3,247,088	278,872	114,188
Debt instruments at amortized cost	**1,342,824**	1,135,058	207,761	5	-	-
	13,992,172	**7,704,544**	**2,007,363**	**3,247,093**	**278,872**	**754,300**
Liabilities						
Due to Banks	**2,565**	2,565	-	-	-	-
Due to Customers	**11,767,700**	7,875,914	529,172	26,079	17,543	3,318,992
Debt issued and other borrowed funds	**339,314**	128,586	202,197	8,531	-	-
	12,109,579	**8,007,065**	**731,369**	**34,610**	**17,543**	**3,318,992**
Total interest sensitivity gap	**1,882,593**	**-302,521**	**1,275,994**	**3,212,483**	**261,329**	**-2,564,692**
Derivative used for risk management	-	-	-	-	-	-
Total interest sensitivity gap after risk management	**1,882,593**	**-302,521**	**1,275,994**	**3,212,483**	**261,329**	**-2,564,692**

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:

(in thousand MDL)	FCY gap	Possible rate increase	Income / (loss) effect	Effect in equity	Possible rate decrease	Income / (loss) effect	Effect in equity
31 December 2021							
EUR	4,918	10%	492	433	-10%	-492	-433
US Dollars	-429	10%	-43	-38	-10%	43	38
31 December 2020							
EUR	2,971	10%	297	261	-10%	(297)	(261)
US Dollars	48,691	10%	4,869	4,285	-10%	(4,869)	(4,285)

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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**
Financial assets at FVPL	-	-	3,949	-	**3,949**
Loans and advances to customers, net	2,133,896	479,431	6,183,243	-	**8,796,570**
Debt instruments at amortized cost	-	-	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**

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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 2020 can be analysed as follows:

31 December 2020	Euro	US dollar	MDL	Other	Total
(in thousand MDL)					
Assets					
Cash and balances with Central Bank	1,362,963	497,924	2,153,948	140,688	**4,155,523**
Due from banks	550,169	535,342	-	26,963	**1,112,474**
Derivative financial instruments	-	-	311	-	**311**
Debt instruments at amortized cost	-	-	4,528	-	**4,528**
Financial assets at FVPL	2,100,904	450,345	4,825,575	-	**7,376,824**
Loans and advances to customers, net	-	-	1,342,824	-	**1,342,824**
Other assets	4,722	1,700	52,973	532	**59,927**
Property and equipment	2,030	-	237,031	-	**239,061**
Deferred tax assets	-	-	4,987	-	**4,987**
Intangible assets	-	-	42,482	-	**42,482**
Total assets	**4,020,788**	**1,485,311**	**8,664,659**	**168,183**	**14,338,941**
Liabilities					
Derivative financial instruments	-	-	1,769	-	**1,769**
Due to banks	181	-	2,384	-	**2,565**
Due to customers	3,816,175	1,475,759	6,449,629	26,137	**11,767,700**
Borrowed funds from IFI's	191,313	-	148,001	-	**339,314**
Other liabilities	103,397	3,649	48,638	13	**155,697**
Provisions	6,144	939	36,551	14	**43,648**
Total liabilities	4,117,210	1,480,347	6,686,972	26,164	**12,310,693**
OFF BS liabilities: EUR/RUB, USD/RUB, USD/RON swaps	2,213	-	-	143,883	**146,096**
Net position 31 December 2020	**(98,635)**	**4,964**	**1,977,687**	**(1,864)**	**1,882,152**

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 2021 as well as in year 2020.

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 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%**

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Notes to the Financial Statements

29 Capital management (continued)

The calculation of the Capital Adequacy Ratio as at 31 December 2020 is as follows:

	31 December 2020
(in thousands MDL)	
Total Capital	**1,683,247**
Tier1 Capital	**1,683,248**
Tier 1 Base Capital	1,683,248
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	**1,466,982**
Retained Earnings from previous years	1,466,982
Current year results	-
Profit or loss attributable to owners of the parent's equity	143,536
(-) Part of the interim or end-of-year financial results that are not eligible	(145,536)
Other reserves	**166,375**
Adjustments to core Tier 1 own funds due to prudential reserves	(152,415)
(-) The positive difference between asset write-downs and contingent liabilities and the amount of write-downs for impairment losses and provisions for losses	(152,415)
(-) Goodwill	(44,060)
(-) Goodwill accounted for as intangible assets	(44,060)
(-) Deferred tax assets that are based on future profitability and do not arise from temporary differences from which associated deferred tax liabilities are deducted	(4,987)
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	**21,39%**

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Notes to the Financial Statements

30 Cash and cash equivalents

	Note	31 December 2021	31 December 2020
(in thousands MDL)			
Cash and balances with Central Bank	13	357,041	655,695
Due from banks	14	2,237,239	849,274
Debt instruments at amortized cost	16	499,626	750,184
		3,093,906	**2,255,153**

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 1,444,426 reduced by the level of mandatory reserves held in MDL (MDL'000 1,620,759).
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 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**

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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 2020	Within 12 months	After 12 months	Total
(in thousand MDL)			
Assets			
Cash and balances with Central Bank	2,383,315	1,772,014	**4,155,329**
Due from banks	1,112,669	-	**1,112,669**
Derivative financial instruments	311	-	**311**
Debt instruments at amortized cost	1,342,819	5	**1,342,824**
Financial assets at fair value through profit or loss	3,496	1,031	**4,528**
Loans and advances to customers, net	2,232,998	5,143,825	**7,376,823**
Other assets	60,557	-	**60,557**
Property and equipment	60,399	178,662	**239,061**
Deferred tax assets	4,987	-	**4,987**
Intangible assets	18,684	23,798	**42,482**
Total assets	**7,219,603**	**7,095,537**	**14,338,939**
Liabilities			
Due to Central Bank	-	-	-
Due to banks	2,565	-	**2,565**
Due to customers	5,788,495	5,979,205	**11,767,700**
Borrowed funds from IFI's	206,961	132,353	**339,314**
Other liabilities	-26,252	-	**-26,252**
Provisions	157,466	-	**157,466**
Lease liabilities	7,653	60,478	**68,131**
Derivative financial instruments	1,769	-	**1,769**
Total liabilities	**6,138,657**	**6,172,036**	**12,310,693**
Net	**1,080,946**	**947,299**	**2,028,246**

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Notes to the Financial Statements

32 Related party transactions

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				
Guarantees and commitments	**190**	-	1	190

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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 2020 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 2020 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 2020**	OTP BANK NYRT	Key management	Other
Balance sheet items as of 31 December 2020				
Due from banks	**6,144**	5,915	-	229
Loans and advances to customers, net	**1,272**		752	520
Other assets (Note 20)	**1,663**	1,660	2	1
Due to clients	**13,532**		6,627	6,905
Other liabilities	**2,346**	2,341	3	2
Result from transactions during 2020				
Interest and similar income	**105**	-	68	37
Interest and similar expense	**1,965**	1,814	63	88
Compensation of key management personnel::	**17,739**	-	17,739	-
Salaries - base salaries and wages	**14,106**	-	14,106	-
Salaries - bonuses and premiums	**3,633**	-	3,633	-
Other non-interest expenses	**554**	91	463	(147)
Off balance sheet items				
Counter guarantees	**146,436**	146,011	341	84

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33 Post reporting date events

Conflict between Russia and Ukraine

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.
It is expected that these events may affect the activities in various sectors of the economy, could result in further increases in European energy prices and increased risk of supply chain disturbances.
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.

Currently, the Bank's management is analyzing the possible impact of changing micro- and macroeconomic conditions on the Bank's financial position and results of operations considering potential stress-test scenarios that could exert a downward pressure on projected cash flows as a result of factors outside the Bank's control

In this context the Bank has analyzed its loan portfolio exposure and has identified the possible financial impact of the situation from the region on its activity, following the evolution of the conflict.

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 represents 81% of the total Corporate loan portfolio on 28.02.2022, 26 companies with an exposure of about 1,223 MMDL are affected by the Russia-Ukraine conflict, with the export or import dependence of materials on the Russian or Ukrainian counterparties. Of these debtors, 97% have a material dependency of up to 50%, and 3% - over 50% (debtors identified as significantly affected at the moment, but with alternative solutions for changes in suppliers/clients, have been considered to have a material dependency of up to 50%).

The Bank has identified 3 potential scenarios for the evolution of the affected exposures during 2022, as follows:
Scenario 1 - the companies with exposure per group > 1MEUR on 28.02.2022 identified as affected according to the performed analysis:

- Affected by dependence on export or import of materials with to Russian or Ukrainian counterparties <50% -> allocation in Watchlist 1;
- Affected by the dependence of export or import of materials with the Russian or Ukrainian counterparties > 50% -> allocation in Watchlist 2, respectively migration in Stage 2.

The significant increase in credit risk identified in the respective scenario will result in additional IFRS provisions in amount of 4.3 MMDL.

Scenario 2 - the companies with exposure per group > 1MEUR on 28.02.2022 identified as affected, according to the performed analysis, by the dependence of export or import of materials with the Russian or Ukrainian counterparties -> allocation in Watchlist 2, respectively migration in Stage 2.

The significant increase in credit risk identified in the respective scenario will result in the formation of additional IFRS provisions in amount of 182.7 MMDL.

Scenario 3 - the companies with exposure per group > 1MEUR on 28.02.2022 identified as affected according to the performed analysis:

- Affected by the dependence of export or import of materials with the Russian or Ukrainian counterparties <50% -> allocation in Watchlist 2, respectively migration in Stage 2;
- Affected by dependence on export or import of materials with to Russian or Ukrainian counterparties >50% -> downgrade to default (with contamination of other group members).

The significant increase in credit risk identified in the respective scenario will result in the formation of additional IFRS provisions in amount of 213.9 MMDL.

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33 Post reporting date events (continued)

Inspection from National Bank of Moldova

During 29.11.2021- 24.12.2022 the Bank was subject to an inspection of NBM covering the period 30.09.2019 – 31.10.2021. The decisions of the NBM on the report issued on 25 February 2022 are not yet available.

Management assessment is that these events do not have a significant impact on the financial statements for the year ended 31 December 2021.

The Bank regards these events as non-adjusting events after the reporting period, the quantitative effect of which cannot be estimated at the moment with a sufficient degree of confidence.

The parent is expected to continue to support the Bank as indicated in the letter of support received on 23 March 2022.

The Bank anticipates having sufficient liquid resources to continue to fund ongoing operations and development thus the management assessment is that the going concern principle remains applicable for these financial statements.

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