

OTP BANK S.A.

**Financial Statements
31 December 2022**


**Prepared in accordance with
International Financial
Reporting Standards**

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

FOR INFORMATION PURPOSES
ERNEST & YOUNG
Signed.....
Date..... 22/03/23

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of OTP Bank S.A.

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

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

Key audit matter

Impairment of loans and advances to customers

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

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

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

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

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

How our audit addressed the key audit matter

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

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

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

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

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

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

Key audit matter

Information Technology (IT) systems relevant for financial reporting

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

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

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

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

How our audit addressed the key audit matter

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

Our audit included, among others, the following procedures:

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

Emphasis of matter

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

Other information

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

Our audit opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

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

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

On behalf of

ICS Ernst & Young SRL

51 Alexandru cel Bun street, Chisinau, Republic of
Moldova

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Chisinau, Republic of Moldova

22 March 2023

Statement of Comprehensive Income for the year ended 31 December 2022

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

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

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

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

Ion VEVERIȚĂ
Chief Financial Officer
OTP BANK S.A.

22 March 2023



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Statement of Financial Position as at 31 December 2022

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

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

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

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

Ion VEVERIȚĂ
Chief Financial Officer
OTP BANK S.A.

22 March 2023



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

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

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

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

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

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Statement of Cash Flows for the year ended 31 December 2022

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

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

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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 Sfânt, 81A, Chisinau, Republic of Moldova.

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

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

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

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

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

2 Accounting policies

2.1 Basis of preparation

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

2.2 Statement of compliance

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

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Date..... 22/03/23

Notes to the Financial Statements

2 Accounting policies (continued)

2.3 Presentation of financial statements

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

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

2.4 Changes in accounting policies and disclosures

2.4.1 New and amended standards and interpretations

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

- **IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments)**

The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:

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

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

- **IFRS 16 Leases-Covid 19 Related Rent Concessions beyond 30 June 2021 (Amendment)**

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

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies

2.5.1 Foreign Currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

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

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

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

2.5.2 Recognition of interest income

(i) The effective interest rate method

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

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

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

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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)

(i) The effective interest rate method (continued)

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

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

(ii) Presentation of net interest income

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

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

(iii) Interest and similar income/expenses

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

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

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

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.3 Fees and commission income

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

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

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

2.5.4 Net trading income

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

2.5.5 Financial instruments – initial recognition

(i) Date of recognition

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

(ii) Initial measurement of financial instruments

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

(iii) Measurement categories of financial assets and liabilities

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

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

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

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Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.6 Financial assets and liabilities

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

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

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

The details of these conditions are outlined below:

(i) **Business model assessment**

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

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

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

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

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

(ii) **The SPPI Test**

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

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

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

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.6 Financial assets and liabilities (continued)

2.5.6.2 Due to customers, due to banks and borrowed funds

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

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

➤ Financial assets and liabilities

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

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

➤ Derivative Financial Instruments

- Foreign exchange swaps and interest rate swaps

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

- Foreign exchange options

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

2.5.6.4 Financial guarantees, letters of credit and undrawn loan commitments

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

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

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

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

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

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

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

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

2.5.7 Reclassification of financial assets and liabilities

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

2.5.8 Derecognition of financial assets and liabilities

2.5.8.1 Derecognition due to substantial modification of terms and conditions

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

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

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

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

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.8 Derecognition of financial assets and liabilities (continued)

2.5.8.2 Derecognition other than for substantial modification

(i) Financial assets

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

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

- The Bank has transferred its contractual rights to receive cash flows from the financial asset
- Or
- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement

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

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

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

A transfer only qualifies for derecognition if either:

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

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

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

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Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.8 Derecognition of financial assets and liabilities (continued)

Derecognition other than for substantial modification (continued)

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

(ii) Financial liabilities

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

2.5.9 Impairment of financial assets

2.5.9.1 Financial assets carried at amortized cost

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

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

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

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

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

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

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

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.9 Impairment of financial assets (continued)

2.5.9.1 Financial assets carried at amortized cost (continued)

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

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

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

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

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

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

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

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

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

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

This is explained in Notes 28.2 and 25.

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.9 Impairment of financial assets (continued)

2.5.9.1 Financial assets carried at amortized cost (continued)

(ii) The calculation of ECLs

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

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

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

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

The concept of PD is further explained in Note 28.2.

The mechanics of the ECL method are summarized below:

Stage 1:

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

Stage 2:

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

Stage 3:

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

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Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.9 Impairment of financial assets (continued)

2.5.9.1 Financial assets carried at amortized cost (continued)

(iii) Credit Cards and other revolving facility

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

(iv) Forward looking information

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

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

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

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

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

2.5.9.2 Forborne and modified loans

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

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

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Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.9.2 Forborne and modified loans (continued)

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

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

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

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

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

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

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

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.9 Impairment of financial assets (continued)

2.5.9.3 Credit enhancements: collateral valuation and financial guarantees

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

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

2.5.9.4 Collateral repossessed

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

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

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

2.5.9.5 Write-offs

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

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.9.6 Cash and cash equivalents

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

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

2.5.9.7 Property, plant and equipment

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

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

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

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

2.5.9.8 IFRS 16: Leases

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

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

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.9.8 IFRS 16: Leases (continued)

➤ Bank as a lessee

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

Right-of-use assets

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

Lease liabilities

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

➤ Bank as a lessor

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

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

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

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.9.9 Intangible assets

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on the basis of the expected useful lives up to 5 years. Costs associated with maintaining computer software programs are recognized as an expense when incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Bank, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognized as assets are amortized using the straight-line method over their useful lives over 5 years.

Licenses are capitalized on the basis of the costs incurred to acquire the specific license. These costs are amortized on the basis of the license period (5-20 years). Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

An intangible asset is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss.

2.5.9.10 Financial guarantees

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

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

2.5.9.11 Impairment of non-financial assets

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

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

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

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.9.12 Employee benefits

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

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

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

The Bank does not operate any independent pension scheme and, consequently, has no obligation in respect of pensions. The Bank does not operate any other defined benefit plan or postretirement benefit plan. The Bank has no obligation to provide further services to current or former employees.

2.5.9.13 Provisions

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

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

2.5.9.14 Taxes

(i) Current tax

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

(ii) Deferred tax

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

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

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

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.9.14 Taxes (continued)

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

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

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

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

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

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

2.5.9.15 Own shares

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

2.5.9.16 Dividends on ordinary shares

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

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

2.5.9.17 Equity reserves

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

2.5.9.18 Earnings per share

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

Notes to the Financial Statements

2 Accounting policies (continued)

2.6 Standards issued but not yet effective and not early adopted

- **IFRS 17: Insurance Contracts**

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

- **IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments)**

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

- **IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)**

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

- **IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments)**

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

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

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted, and will need to be applied retrospectively in accordance with IAS 8. The objective of the amendments is to clarify the principles in IAS 1 for the classification of liabilities as either current or non-current.

Notes to the Financial Statements

2 Accounting policies (continued)

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

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

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

- **IFRS 16 Leases: Lease Liability in a Sale and Leaseback (amendments)**

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

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

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

Notes to the Financial Statements

2 Accounting policies (continued)

2.7 Significant accounting judgements, estimates and assumptions

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

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

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

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

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

- Consumer with DTI>55%: +30.9 MMDL;
- Mortgage: +31.9 MMDL basis.

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

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

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

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

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

Notes to the Financial Statements

2 Accounting policies (continued)

2.7 Significant accounting judgements, estimates and assumptions

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

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

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

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

Notes to the Financial Statements

2 Accounting policies (continued)

2.7 Significant accounting judgements, estimates and assumptions

2.7.2 Going concern

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

2.7.3 Estimates and assumptions

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

2.7.4 Fair value of financial instruments

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

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

Determination of fair value

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

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

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

Notes to the Financial Statements

2 Accounting policies (continued)

2.7 Significant accounting judgements, estimates and assumptions (continued)

2.7.5 Impairment losses on financial instruments

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

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

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

2.7.6 Offsetting financial instruments

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

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

2.7.7 Provisions and other contingent liabilities

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

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

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

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

Notes to the Financial Statements

3 Segment information

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

- Retail banking - Individual customers 'deposits and consumer loans, overdrafts, credit card facilities;
- Corporate banking - Loans and other credit facilities and deposits and current 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 management primarily relies on net interest revenue as a performance measure, along with the gross income and expenses.

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

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

Profit segments

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

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

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

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

Notes to the Financial Statements

4 Net interest income

Interest and similar income calculated using the effective interest rate

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

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

Interest and similar expense calculated using the effective interest rate

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

Notes to the Financial Statements

5 Net fee and commission income

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

Fee and commission income

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

Notes to the Financial Statements

5 Net fee and commission income (continued)

	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	61,048	-	61,048
Transactions with cards	57,043	-	57,043
Cash transactions	27,954	-	27,954
Current accounts administration	13,892	13,892	-
Guarantee fee income	8,413	-	8,413
Early repayment fees	7,929	-	7,929
Remote banking	4,882	4,882	-
Cash collection fee	3,268	-	3,268
SMS banking	3,394	-	3,394
Transfers through international payment systems	3,593	-	3,593
Cash transactions in foreign currency-interbank	1,864	-	1,864
Distribution of social payments	3,198	-	3,198
Loans commitment fees	3,653	-	3,653
Loans renewal fees	1,430	-	1,430
Broker fees	200	-	200
Insurance fees	608	-	608
Letters of credit	714	-	714
Loans upfront fees	220	-	220
Other	5,968	-	5,968
	209,271	18,774	190,497

Fee and commission expense

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

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Notes to the Financial Statements

5 Net fee and commission income (continued)

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

6 Net trading income

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

7 Credit loss expense on financial assets

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

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

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

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Notes to the Financial Statements

7 Credit loss expense on financial assets (continued)

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

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

8 Other operating income

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

9 Personnel expenses

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

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

Notes to the Financial Statements

10 Other operating expenses

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

11 Income tax expense

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

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

Notes to the Financial Statements

11 Income tax expense (continued)

11.1 Reconciliation of the total tax charge

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

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

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

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

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

11.2 Deferred tax

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

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

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

Notes to the Financial Statements

12 Basic earnings per share

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

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

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

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

13 Cash and balances with Central Bank

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

Current account and obligatory reserves

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

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

The exposure to Central Bank is classified at Stage 1.

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

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

Notes to the Financial Statements

14 Due from banks

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

14.1 Impairment allowances for due from banks

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

Current accounts

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

Overnight deposits

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

Term deposits

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

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Notes to the Financial Statements

14 Due from banks (continued)

14.1 Impairment allowances for due from banks (continued)

- (1) Term deposits include short-term and long-term placements in RAIFFEISEN BANK INTERNATIONAL AG and SOCIETE GENERALE, PARIS, including accrued interest.
- (2) ECL for term deposits is classified according to accounting policy as Stage 1 collective. By internal credit rating system term deposits are neither past due nor impaired.

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

Current accounts

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

Overnight deposits

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

Term deposits

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

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Notes to the Financial Statements

Due from banks (continued)

14.1 Impairment allowances for due from banks (continued)

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

Current accounts

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

Overnight deposits

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

Term deposits

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

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Notes to the Financial Statements

Due from banks (continued)

14.1 Impairment allowances for due from banks (continued)

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

Current accounts

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

Overnight deposits

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

Term deposits

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

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Notes to the Financial Statements

14 Due from banks (continued)

14.1 Impairment allowances for due from banks (continued)

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

Current accounts

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

Overnight deposits

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

Term deposits

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

Notes to the Financial Statements

15 Loans and advances to customers and Leasing

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

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

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

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

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

Notes to the Financial Statements

15 Loans and advances to customers and Leasing (continued)

15.1 Impairment allowance for loans and advances to customers and Leasing

15.1.1 MLE

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

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

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

Notes to the Financial Statements

15 Loans and advances to customers and Leasing (continued)

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

15.1.1 MLE (continued)

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

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

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

	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)
Change in segmentation	83,649	(12,595)	(23,518)	2,610	50,146
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	(45,753)	(4,546)	-	(1,653)	(51,952)
Gross carrying amount as at 31 December 2021	3,647,668	124,060	9,690	69,785	3,851,203

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

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

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

	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	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

Notes to the Financial Statements

15 Loans and advances to customers and Leasing (continued)

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

15.1.2 Consumer

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

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

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

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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 (continued)

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

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

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

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

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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 (continued)

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

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

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

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

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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)

15.1.3 Mortgage

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

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

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

Notes to the Financial Statements

15 Loans and advances to customers and Leasing (continued)

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

15.1.3 Mortgage (continued)

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

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

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

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

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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)

15.1.3 Mortgage (continued)

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

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

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

	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	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

Notes to the Financial Statements

15 Loans and advances to customers and Leasing (continued)

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

15.1.4 MSE

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

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

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

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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 2022, as follows:

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

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

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

Notes to the Financial Statements

15 Loans and advances to customers and Leasing (continued)

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

15.1.4 MSE (continued)

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

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

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

	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

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15 Loans and advances to customers and Leasing (continued)

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

15.1.5 Leasing

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

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

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

Notes to the Financial Statements

15 Loans and advances to customers and Leasing (continued)

15.1 Impairment allowance for leasing (continued)

15.1.5 Leasing (continued)

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

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

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

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

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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 2022, as follows:

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

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

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

Notes to the Financial Statements

16 Debt instruments measured at amortized cost

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

Securities issued by the Ministry of Finance

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

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

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

NBM certificates

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

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Notes to the Financial Statements

16 Debt instruments measured at amortized cost (continued)

16.1 Impairment losses on financial investments subject to impairment

Debt instruments at amortized cost

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements

17 Financial assets measured at FVPL

Financial assets at fair value through profit or loss

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

Equity investments at fair value through profit or loss

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

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

	Field of activity	Ownership 2022, %	31 December 2022	31 December 2021
(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 2022 and 2021 are unquoted and are recorded at fair value.

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18 Property, equipment and right-of-use assets

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

Notes to the Financial Statements

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

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

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

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

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

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

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

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Notes to the Financial Statements

19 Intangible assets

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

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

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

Notes to the Financial Statements

20 Other assets

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

- (1) Clearing and transit amounts represent transactions through international payment systems as of 31 December 2022 amounting MDL'000 1,964 (as of 31 December 2021 MDL'000 3,829) and the remaining amount relates to operations with cards.
- (2) Allowance (2) Allowance for impairment losses relates to non-recoverable commission fees receivable amounting MDL'000 6,239 (as of 31 December 2021 MDL'000 8,975), ECL Stage 1 under IFRS 9 for other assets measured at amortized cost MDL'000 3,258 (as of 31 December 2021 MDL'000 350) and ECL Stage 3 under IFRS 9 for other assets measured at amortized cost MDL'000 81 (as of 31 December 2021 MDL'000 229).

Notes to the Financial Statements

20 Other assets (continued)

31 December 2022			
	Stage 1 collective	Stage 3 collective	Total
(in thousands MDL)			
Internal rating grade			
Neither past due nor impaired	48,550	-	48,550
Past due but not impaired	-	-	-
Non-performing	-	-	-
Individually impaired	-	6,735	6,735
Grand Total	48,550	6,735	55,285
31 December 2021			
	Stage 1 collective	Stage 3 collective	Total
(in thousands MDL)			
Internal rating grade			
Neither past due nor impaired	24,735	-	24,735
Past due but not impaired	-	-	-
Non-performing	-	-	-
Individually impaired	-	9,204	9,204
Grand Total	24,735	9,204	33,939

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

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

Notes to the Financial Statements

20 Other assets (continued)

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

	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

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

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

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

	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

Notes to the Financial Statements

21 Due to banks

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

22 Due to customers

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

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

23 Borrowed funds from IFI's

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

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

Below are the descriptions of the main financing lines:

Notes to the Financial Statements

23 Borrowed funds from IFI's (continued)

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

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

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

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

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

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

Loan from EFSE

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

Loan from EIB

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

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23 Borrowed funds from IFI's (continued)

Loans from UCIP – EIB

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

Loans from IDA

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

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

Loans from IFAD

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

Loans from OEAPM (Office for External Assistance Programs Management)

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

Loans from OTP Financing Malta

In March 2021, the Bank signed two loan facilities agreements with OTP Financing Malta Company LTD in amount of USD 8.0 million and EUR 7.0 million. The purpose of the facilities was general corporate purposes for financing operating activity. As of December 31, 2021, the bank has not used the facilities under these agreements.

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Notes to the Financial Statements

24 Other liabilities

	Note	31 December 2022	31 December 2021
(in thousands MDL)			
Lease liability	18	56,956	59,144
Money transfers pending execution (1)		34,991	9,834
Due to budget		23,768	20,209
Other liabilities on financial leasing (2)		21,208	21,047
Other accruals		16,198	15,553
IT maintenance (3)		9,627	1,089
Accrued audit and consulting fees		8,831	13,203
Money waiting approval		7,374	1,775
Non-performing loans management account		6,660	-
Credit transit account		5,590	-
Documentary transactions		3,946	1,184
Settlements on FCY swap transaction		3,694	645
Settlements related to intangible assets		2,414	
Guarantees for safe deposits		1,846	1,405
Dividends payable		1,126	1,137
Due to international payment systems		1,110	181
Due to suppliers of property and equipment		543	549
Other liabilities (4)		12,416	5,839
		218,298	152,794

- (1) Amount pending clarification represents transfers which are above a certain limit, under investigation. After the investigation the clients receive their transfers in case if they are not declined.
- (2) Other liabilities on financial leasing represents the deductible VAT, according to the Fiscal Code, from financial leasing operations.
- (3) Represents post migration maintenance related to card processing centre and new core banking soft.
- (4) Other liabilities represents mainly payables through an intermediary account for broker services for clients.

The amounts disclosed in the table below represent undiscounted Lease liabilities at 31 December 2022 by the amount of the lease liabilities expected to be settled within no more than twelve months after the reporting period and of the lease liabilities expected to be settled within more than twelve months after the reporting period.

	31 December 2022	31 December 2021
(in thousands MDL)		
Lease liabilities Within one year	21,835	18,811
Lease liability over one year	53,348	40,333
	75,183	59,144

Notes to the Financial Statements

25 Provisions

The movement in liability-side provisions during 2022 and 2021 respectively is, as follows:

	Provision for employee benefits	Legal	Commitments and guarantees given	Total
(in thousands MDL)				
1 January 2021	31,180	239	12,229	43,648
Provision arising during the year	88,760	(239)	61,601	150,122
Release of provision	(81,588)	-	25,801	(129,345)
Foreign exchange adjustments	-	-	(272)	(272)
31 December 2021	38,352	-	25,801	64,153
Provision arising during the year	98,554	475	41,069	140,098
Release of provision	(94,189)	-	(41,188)	(135,377)
Foreign exchange adjustments	-	-	730	730
31 December 2022	42,717	475	26,412	69,604

25.1 Financial guarantees, letters of credit and other undrawn commitments

To the financial needs of customers, the Bank enters into various commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other commitments to lend. Even though these obligations may not be recognized on the statement of financial position, they contain credit risk and therefore, form part of the overall risk of the Bank.

At any time, the Bank has outstanding commitments to extend credit. These commitments take the form of approved loans and credit lines.

The Bank provides letters of guarantee and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for up to one year. The guarantees are secured with cession of money agreements and other type of collateral.

The amounts reflected in the table of guarantees and letters of credit represent the maximum loss that would be recognized at the balance sheet date if counterparties failed completely to perform as contracted and no guarantees are provided to the Bank. The credit risk amounts are minimized by the quality of collateral (deposits, real estate, etc.).

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for commitments assume that amount is fully advanced.

	31 December 2022	31 December 2021
(in thousands MDL)		
Commitments to grant loans	586,289	1,286,654
Financial guarantees	555,131	484,467
Letters of credit	23,340	13,978
	1,164,760	1,785,099

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Notes to the Financial Statements

25 Provisions (continued)

25.1 Financial guarantees, letters of credit and other undrawn commitments (continued)

These commitments and contingent liabilities have off-balance-sheet risk because only organization fees and accruals for probable losses are recognized in the balance sheet until the commitments are fulfilled or expire. Many of the contingent liabilities and commitments will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows. The policy of the Bank provides that only fully secured letters of credit are issued, i.e. all letters of credit are secured with a blocked deposit on the clients' accounts and other types of security.

25.1.1 Impairment losses on guarantees and other commitments

An analysis of changes in the gross carrying amount and the corresponding allowance for impairment losses in relation to guarantees and other commitments is, as follows:

(i) Commitments to grant loans

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

31 December 2022					
	Stage 1 Collective	Stage 2 Collective	Stage 3 Collective	Stage 3 Individual	Total
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	559,210	16,847	-	-	576,057
Past due but not impaired	5,424	4,687	-	-	10,111
Non-performing	-	-	121	-	121
Individually impaired	-	-	-	-	-
Total	564,634	21,534	121	-	586,289
31 December 2021					
	Stage 1 Collective	Stage 2 Collective	Stage 3 Collective	Stage 3 Individual	Total
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	1,242,881	39,294	-	-	1,282,175
Past due but not impaired	3,285	604	-	-	3,889
Non-performing	-	-	590	-	590
Individually impaired	-	-	-	-	-
Total	1,246,165	39,898	590	-	1,286,654

Notes to the Financial Statements

25 Provisions (continued)

25.1 Financial guarantees, letters of credit and other undrawn commitments (continued)

25.1.1 Impairment losses on guarantees and other commitments (continued)

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

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
Gross carrying amount as at 1 January 2022	1,246,165	39,898	590	-	1,286,653
New assets originated or purchased	385,405	-	-	-	385,405
Assets derecognized or repaid (excluding write offs)	(1,076,563)	(36,621)	(590)	-	(1,113,774)
Transfers to S1	2,156	(2,156)	-	-	-
Transfers to S2	(18,986)	18,986	-	-	-
Transfers to S3	(98)	(25)	123	-	-
Impact of modifications	24,768	1,442	(2)	-	26,208
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	1,787	10	-	-	1,797
Outstanding exposure as at 31 December 2022	564,634	21,534	121	-	586,289

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

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
Gross carrying amount as at 1 January 2021	946,546	21,145	350	-	968,041
New assets originated or purchased	1,033,495	-	-	-	1,033,495
Assets derecognized or repaid (excluding write offs)	(719,300)	10,752	(144)	-	(708,692)
Transfers to S1	4,533	(3,793)	(740)	-	-
Transfers to S2	(14,358)	14,358	-	-	-
Transfers to S3	(590)	-	590	-	-
Impact of modifications	(1,378)	(2,159)	533	-	(3,004)
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	(2,782)	(404)	-	-	(3,187)
Outstanding exposure as at 31 December 2021	1,246,165	39,898	590	-	1,286,654

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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 Commitments to grant loans is for the year ended 31 December 2022, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
ECL allowance as at 1 January 2022 under IFRS 9	14,669	3,991	321	-	18,981
New assets originated or purchased	8,283	-	-	-	8,283
Assets derecognized or repaid (excluding write offs)	(12,775)	(3,677)	(320)	-	(16,772)
Transfers to S1	22	(171)	-	-	(149)
Transfers to S2	(1,757)	2,571	-	-	814
Transfers to S3	(19)	(13)	78	-	46
Impact on ECL of modifications	525	97	-	-	622
Changes to inputs used for ECL calculations	813	41	-	-	854
Foreign exchange adjustments	22	1	-	-	23
Net ECL Charge	(4,886)	(1,151)	(242)	-	(6,279)
ECL allowance as at 31 December 2022	9,783	2,840	79	-	12,702

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

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
ECL allowance as at 1 January 2021 under IFRS 9	5,914	1,795	127	-	7,836
New assets originated or purchased	13,137	-	-	-	13,137
Assets derecognized or repaid (excluding write offs)	(3,245)	1,576	(56)	-	(1,725)
Transfers to S1	66	(57)	(9)	-	-
Transfers to S2	(1,170)	1,170	-	-	-
Transfers to S3	(321)	-	321	-	-
Impact on ECL of modifications	(330)	(1,825)	(62)	-	(2,217)
Changes to inputs used for ECL calculations	644	1,362	-	-	2,006
Foreign exchange adjustments	(26)	(30)	-	-	(56)
Net ECL Charge	8,755	2,196	194	-	11,145
ECL allowance as at 31 December 2021	14,669	3,991	321	-	18,981

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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 2022					
	Stage 1 Collective	Stage 2 Collective	Stage 3 Collective	Stage 3 Individual	Total
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	511,891	41,251	-	-	553,142
Past due but not impaired	-	-	-	-	-
Non-performing	-	-	1,989	-	1,989
Individually impaired	-	-	-	-	-
Total	511,891	41,251	1,989	-	555,131

31 December 2021					
	Stage 1 Collective	Stage 2 Collective	Stage 3 Collective	Stage 3 Individual	Total
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	452,369	30,811	-	-	483,181
Past due but not impaired	-	-	-	-	-
Non-performing	-	-	1,286	-	1,286
Individually impaired	-	-	-	-	-
Total	452,369	30,811	1,286	-	484,467

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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 2022, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
Gross carrying amount as at 1 January 2022	452,369	30,812	1,286	-	484,467
New assets originated or purchased	142,312	-	-	-	142,312
Assets derecognized or repaid (excluding write offs)	(83,423)	(6)	(1,286)	-	(84,715)
Transfers to S1	12,777	(12,777)	-	-	-
Transfers to S2	(21,445)	21,445	-	-	-
Transfers to S3	(1,989)	-	1,989	-	-
Effects of Modifications	6,000	969	-	-	6,969
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	5,290	808	-	-	6,098
Gross carrying amount as at 31 December 2022	511,891	41,251	1,989	-	555,131

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

	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

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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 2022, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
ECL allowance as at 1 January 2022 under IFRS 9	3,501	2,391	670	-	6,562
New assets originated or purchased	4,798	-	-	-	4,798
Assets derecognized or repaid (excluding write offs)	(693)	-	(670)	-	(1,363)
Transfers to S1	300	(639)	-	-	(339)
Transfers to S2	(1,541)	3,224	-	-	1,683
Transfers to S3	(1,312)	-	1,312	-	-
Impact on ECL of modifications	35	52	-	-	87
Changes to inputs used for ECL calculations	709	538	-	-	1,247
Foreign exchange adjustments	86	29	-	-	115
Net ECL Charge	2,382	3,204	642	-	6,228
ECL allowance as at 31 December 2022	5,883	5,595	1,312	-	12,790

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

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
ECL allowance as at 1 January 2021 under IFRS 9	2,802	1,344	-	-	4,146
New assets originated or purchased	1,335	-	-	-	1,335
Assets derecognized or repaid (excluding write offs)	263	348	-	-	612
Transfers to S1	-	-	-	-	-
Transfers to S2	-762	762	-	-	-
Transfers to S3	-670	-	670	-	-
Impact on ECL of modifications	-74	-1,012	-	-	-1,086
Changes to inputs used for ECL calculations	686	1,007	-	-	1,692
Foreign exchange adjustments	-79	-58	-	-	-136
Net ECL Charge	699	1,047	670	-	2,416
ECL allowance as at 31 December 2021	3,501	2,391	670	-	6,562

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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 2022					
	Stage 1 Collective	Stage 2 Collective	Stage 3 Collective	Stage 3 Individual	Total
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	14,406	8,934	-	-	23,340
Past due but not impaired	-	-	-	-	-
Non-performing	-	-	-	-	-
Individually impaired	-	-	-	-	-
Total	14,406	8,934	-	-	23,340
31 December 2021					
	Stage 1 Collective	Stage 2 Collective	Stage 3 Collective	Stage 3 Individual	Total
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	11,514	2,464	-	-	13,978
Past due but not impaired	-	-	-	-	-
Non-performing	-	-	-	-	-
Individually impaired	-	-	-	-	-
Total	11,514	2,464	-	-	13,978

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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 2022, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
Gross carrying amount as at 1 January 2022	11,514	2,464	-	-	13,978
New assets originated or purchased	11,927	-	-	-	11,927
Assets derecognized or repaid (excluding write offs)	(842)	(2,464)	-	-	(3,306)
Transfers to S1	-	-	-	-	-
Transfers to S2	(8,934)	8,934	-	-	-
Transfers to S3	-	-	-	-	-
Effects of Modifications	-	-	-	-	-
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	741	-	-	-	741
Gross carrying amount as at 31 December 2022	14,406	8,934	-	-	23,340

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

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
Gross carrying amount as at 1 January 2021	12,237	2,352	-	-	14,589
New assets originated or purchased	2,695	-	-	-	2,695
Assets derecognized or repaid (excluding write offs)	(1,095)	(2,352)	-	-	(3,447)
Transfers to S1	-	-	-	-	-
Transfers to S2	(2,464)	2,464	-	-	-
Transfers to S3	-	-	-	-	-
Effects of Modifications	-	-	-	-	-
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	141	-	-	-	141
Gross carrying amount as at 31 December 2021	11,514	2,464	-	-	13,978

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Notes to the Financial Statements

25 Provisions (continued)

25.1 Financial guarantees, letters of credit and other undrawn commitments (continued)

25.1.1 Impairment losses on guarantees and other commitments (continued)

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

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
ECL allowance as at 1 January 2022 under IFRS 9	97	247	-	-	344
New assets originated or purchased	631	-	-	-	631
Assets derecognized or repaid (excluding write offs)	(9)	(247)	-	-	(256)
Transfers to S1	-	-	-	-	-
Transfers to S2	(593)	593	-	-	-
Transfers to S3	-	-	-	-	-
Impact on ECL of modifications	-	-	-	-	-
Changes to inputs used for ECL calculations	197	-	-	-	197
Foreign exchange adjustments	6	-	-	- 6	-
Net ECL Charge	232	346	-	-	578
ECL allowance as at 31 December 2022	329	593	-	-	922

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

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
ECL allowance as at 1 January 2021 under IFRS 9	71	177	-	-	248
New assets originated or purchased	251	-	-	-	251
Assets derecognized or repaid (excluding write offs)	21	(177)	-	-	(156)
Transfers to S1	-	-	-	-	-
Transfers to S2	(247)	247	-	-	-
Transfers to S3	-	-	-	-	-
Impact on ECL of modifications	(25)	-	-	-	(25)
Changes to inputs used for ECL calculations	28	-	-	-	28
Foreign exchange adjustments	(2)	-	-	-	(2)
Net ECL Charge	26	70	-	-	96
ECL allowance as at 31 December 2021	97	247	-	-	344

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Notes to the Financial Statements

25 Provisions (continued)

25.2 Other provisions and contingent liabilities

Contingent liabilities

As of 31 December 2022, and 2021 the Bank acts as plaintiff in a number of litigation cases.

Legal claims

Litigation is a common occurrence in the Banking industry due to the nature of the business undertaken.

The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year-end, the Bank had 5 (five) unresolved legal claims, but for which provisions were not necessary to be made. The most significant one being in respect of a claim raised by an shareholder, who request from the bank to be paid the „non paid” dividends, without taking into consideration the fact that the same claim was raised earlier and the court rejected it entirely.

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Notes to the Financial Statements

26 Issued capital

The list of major shareholders as of 31 December 2022 is presented below:

	Shareholding	2022 Number of shares '000	Value
(in thousands MDL)			
OTP BANK NYRT, Hungary	98.26%	9,826	98,258
Other legal entities (<10%)	0.10%	9	98
Other individuals (<10%)	1.58%	159	1,588
Treasury shares	0.06%	6	56
	100.00%	10,000	100,000
Less: Treasury shares			(56)
Issued capital			99,944

The list of major shareholders as of 31 December 2021 is presented below:

	Shareholding	2021 Number of shares '000	Value
(in thousands MDL)			
OTP BANK NYRT, Hungary	98.26%	9,826	98,258
Other legal entities (<10%)	0.10%	9	98
Other individuals (<10%)	1.58%	159	1,588
Treasury shares	0.06%	6	56
	100.00%	10,000	100,000
Less: Treasury shares			(56)
Issued capital			99,944

As of 31 December 2022 all shares are ordinary and have a nominal value of MDL 10 (31 December 2021: MDL 10). As of 31 December 2022 the total authorized share capital in amount of 10 million of ordinary shares was fully paid in.

Notes to the Financial Statements

27 Fair value of financial instruments

27.1 Fair value estimations

The following is a description of how fair values are determined for financial instruments using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

Placement with Central Bank and other banks: These include inter-bank placements and items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. Fixed interest-bearing deposits mature in less than three months and it is assumed that their fair value is not significantly different from its carrying value because these instruments have short maturity terms and are convertible into cash or are settled without significant transaction costs.

Loans and advances to customers: These are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. To determine the fair value the expected cash flows are discounted at rates available in industry publications and other industry materials published by the National Bank of Moldova. For loans and advances to customers maturing within one-year it is assumed that their fair value is not significantly different from carrying value. For non-performing loans the fair value approximates the net book value.

Debt instruments at amortized cost: Fair value for financial investments classified as loans and receivable is based on prices obtained from new issue market and are included in the Level 2 fair value hierarchy. The National Bank Certificates and State Securities above 1 year 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:

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27 Fair value of financial instruments (continued)

27.2 Determination of fair value and fair value hierarchy (continued)

	Level 1	Level 2	Level 3	Total
(in thousands MDL)				
31 December 2022				
Financial assets				
Assets measured at fair value on a recurring basis				
Treasury bills issued by the Ministry of Finance	-	1,552	-	1,552
Equity investments at FVPL	-	-	1,031	1,031
Other financial assets not measured at Fair Value on a recurring basis				
Placements with Central Bank	6,807,269	-	-	6,807,269
Due from banks	898,300	-	-	898,300
Debt instruments at amortized cost	-	2,281,572	-	2,281,572
Loans and advances to customers	-	-	7,741,716	7,741,716
	7,705,569	2,283,124	7,742,747	17,731,440
Financial liabilities				
Deposits from banks	-	-	410,523	410,523
Borrowings from IFI's	-	1,731,279	-	1,731,279
Deposits from customers	-	-	13,677,257	13,677,257
	-	1,731,279	14,087,779	15,819,058
	Level 1	Level 2	Level 3	Total

(in thousands MDL)

31 December 2021

Financial assets

Assets measured at fair value on a recurring basis

Treasury bills issued by the Ministry of Finance	-	2,918	-	2,918
Equity investments at FVPL	-	-	1,031	1,031
Other financial assets not measured at Fair Value on a recurring basis				
Placements with Central Bank	3,332,834	-	-	3,332,834
Due from banks	2,318,602	-	-	2,318,602
Debt instruments at amortized cost	-	1,351,130	-	1,351,130
Loans and advances to customers	-	-	8,685,047	8,685,047
	5,651,436	1,354,048	8,686,078	15,91,562

Financial liabilities

Deposits from banks	-	-	2,571	2,571
Borrowings from IFI's	-	866,314	-	866,314
Deposits from customers	-	-	13,514,722	13,514,722
	-	866,314	13,517,293	14,383,607

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27 Fair value of financial instruments (continued)

27.2 Determination of fair value and fair value hierarchy (continued)

The table below sets out the Bank's classification of each class of financial assets and liabilities, and their fair values:

	2022		2021	
	Total carrying amount	Fair value	Total carrying amount	Fair value
(in thousands MDL)				
Financial assets				
Placements with Central Bank	6,807,269	6,807,269	3,332,834	3,332,834
Due from banks	898,300	898,300	2,318,602	2,318,602
Debt instruments at amortized cost	2,162,209	2,281,572	1,346,193	1,351,130
Loans and advances to customers	8,165,102	7,741,716	8,796,570	8,685,047
	18,032,880	17,728,857	15,794,199	15,687,613
Financial liabilities				
Due to banks	410,522	410,522	2,571	2,571
Borrowed funds from IFIs	1,730,929	1,731,279	862,907	866,314
Deposits from customers	13,493,021	13,677,257	13,497,038	13,514,722
	15,634,472	15,819,058	14,362,516	14,383,607

There were no reclassifications between financial assets and liabilities categories done in 2022 and 2021.

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28 Risk management

28.1 Introduction and overview

The Bank has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Interest rate risk
- Operational risks
- Currency risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Business environment and country risk

The Bank's operations are subject to country risk being the economic, political, and social risks inherent in doing business in the Republic of Moldova. These risks include matters arising out of the policies of the government, economic conditions, imposition of or changes to taxes and regulations, foreign exchange fluctuations and the enforceability of contract rights. The accompanying financial statements reflect management's assessment of the impact of the Moldovan business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment. The impact of such differences on the operations and financial position of the Bank may be hard to estimate.

Risk management framework

The Executive Board has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Risk Management Committee, Assets and Liabilities Management Committee, Audit Committee, Credit and Operational Risk Committees, Retail and Corporate Monitoring Committees, which are responsible for developing and monitoring Group risk management policies in their specified areas. All committees report regularly to the Executive Board on their activities.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures set up at the OTP Group level, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

28.2 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks and investment securities. Also, the Bank exposes itself to a credit risk in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees.

The Bank Risk Division manages and controls credit risk having a complex matrix of individual competencies, monitoring the evolution of risk indicators per market segments and products, by setting limits on the share of portfolio per industry concentrations, and by monitoring exposures in relation to such limits.

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28 Risk management (continued)

28.2 Credit risk (continued)

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty risk level is established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process aims to allow the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

The Bank has also an Early Warning System (EWS) in place, which represents a mechanism that analyses and turns information into signals to identify the risk at an early stage and has also the purpose to take effective action in the event of EWS signalization and to prevent customers from transitioning to default status. The EWS-based monitoring process ensures the efficient and prompt identification of high-risk debtors.

28.2.1 Impairment assessment

The references below show where the Bank's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the Summary of significant accounting policies.

- The Bank's definition and assessment of default and cure (Note 28.2.2);
- An explanation of the Bank's internal grading system (Note 28.2.3);
- How the Bank defines, calculates and monitors the probability of default, exposure at default and loss given default) (Notes 28.2.4 and 28.2.5);
- When the Bank considers there has been a significant increase in credit risk of an exposure (Note 28.2.6);
- The Bank's policy of segmenting financial assets where ECL is assessed on a collective basis (Note: 28.2.7);
- The details of the ECL calculations for Stage 1, Stage 2 and Stage 3 assets (Note: 2.5.9.1(ii)).

For accounting purposes, the Bank uses an expected credit loss model for the recognition of losses on financial assets (Note 2.5.9.1 (ii)).

Depending on the factors below, the Bank calculates ECLs either on a collective or an individual basis.

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28 Risk management (continued)

28.2 Credit risk (continued)

28.2.2 Definition of default and cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) in all cases when the borrower becomes 90 past due on any material credit obligation.

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

- Absolute threshold: 100 EUR (equivalent to the NBM exchange rate) on transaction level, and
- Relative threshold: the ratio of the transaction's overdue debt exceeds 1% of the on-balance sheet exposure on transaction (In case of credit facility /revolving type contracts (e.g: overdraft) it means the contracted amount).

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

- The absolute threshold: 500 EUR (equivalent to the NBM exchange rate) on client level, and
- Relative threshold: the ratio of the client's total overdue debt exceeds 1% of the total amount of all on-balance sheet exposures (In case of credit facility /revolving type contracts (e.g: overdraft) it means the contracted amount).

As part of quality assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikelihood 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's financial situation and the necessity to transfer it in Stage 3.
- The counterparty is the subject of legal proceedings in connection with the company's administrative difficulties (appointment of special administrator, seizure, winding-up by court order, summons to an international court, etc.) or an equivalent procedure under the law applicable in the debtor's country.
- Identify a situation requiring a restructuring agreement for a forbore 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.

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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 there has been a significant increase in credit risk compared to initial recognition. The healing period for "non-performing forbore" loans is 12 months after any grace periods granted after restructuring event. The probation period for default is 3 months and for non-performing forbore 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 than 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 specialized 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 forbore/non-forbore;
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance: insolvency process.

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Notes to the Financial Statements

28 Risk management (continued)

28.2 Credit risk (continued)

28.2.3 The bank's internal rating and PD estimation process (continued)

Classification of NON-RETAIL loans in risk stages

Stage 1 – exposure of the counterparties that are not in Stage 2 or Stage 3, on regular basis have a maximum of days past due of 10 days. Under internal rating these exposures have the rating of:

- S1 Neither past due nor impaired – when the DPD is 0 days;
- S1 Past due but not impaired – when the DPD is up to 10 days.

Stage 2 – exposures presenting signs of significant deterioration of credit risk since origination. Triggers considered by the Bank to show deterioration of credit risk for a counterparty to be moved from Stage 1 to Stage 2 are :

- Watch List Flag WL2;
- Overdue payments of more than 30 days;
- Overdue payments of more than 10 days during the last 6 months;
- Restructured loans under probation period (the ones migrated from Stage 3 to Stage 2);
- Restructured loans as performing forborne;
- Rating 8 or 9;
- Other qualitative factors taken into account such as deterioration of financial situation, breach of covenants etc.

Under internal rating these exposures have the rating of S2 Past due but not impaired – when the DPD is more than 10 days.

Stage 3 – exposures that are in "default" as detailed in Note 28.2.4. Under internal rating these exposures have the rating of "impaired".

RETAIL:

Consumer

Consumer lending comprise personal loans, credit cards and overdrafts and less complex small business lending. These products are rated for ECL calculation purposes using less complex indicators, the main one being driven by days past due.

Mortgage

Mortgage loans includes loans granted to individuals for financing a mortgage. These products are rated for ECL calculation purposes using less complex indicators, the main ones being driven by days past due and LTV.

MSE

MSE comprises loans granted to less complex small business lending. These products are rated using similar risk indicators and for MLE.

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28 Risk management (continued)

28.2 Credit risk (continued)

28.2.3 The bank's internal rating and PD estimation process (continued)

Classification of RETAIL loans in risk stages

Stage 1 – exposure of the counterparties that are not in Stage 2 or Stage 3, on regular basis have a maximum of days past due of 10 days. Under internal rating these exposures have the rating of:

- S1 Neither past due nor impaired – when the DPD is 0 days;
- S1 Past due but not impaired – when the DPD is up to 10 days.

Stage 2 – exposures presenting signs of significant deterioration of credit risk since origination. Triggers considered by the Bank to show deterioration of credit risk for a counterparty to be moved from Stage 1 to Stage 2 are:

- Overdue payments of more than 30 days;
- Restructured loans under probation period (the ones migrated from Stage 3 to Stage 2);
- LTV > 125% for mortgage products;
- DTI > 55% for consumer loans;
- Restructured loans as performing forborne;
- Overdue payments of more than 10 days at least once in the last 6 months;
- Mortgage loans with variable interest rate: (i) for which the degree of indebtedness estimated after the interest rate change from September 2022 exceeds the limits regulated by the NBM - 40% (clients with incomes below 19,800 MDL) and 55% (clients with incomes above 19,800 MDL), and (ii) granted to private individuals in the PRO category whose incomes are not of an official nature and were estimated according to MICRO technology.

Under internal rating these exposures have the rating of S2 Past due but not impaired – when the DPD is more than 10 days.

Stage 3 – exposures that are in "default" as detailed in Note 28.2.4. Under internal rating these exposures have the rating of "impaired loans and securities". Specifically, the following indicators of default are monitored (the list is not limited to these):

- Overdue payments of more than 90 days over the materiality threshold;
- Restructured loans;
- The hard recovery procedures started;
- Death of the debtor;
- Fraud events identified.

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Notes to the Financial Statements

28 Risk management (continued)

28.2 Credit risk (continued)

28.2.4 Exposure at default

Exposure at Default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation and is equal to the current exposure including drawn part (corresponding to principal accounted in on balance sheet) and undrawn part (corresponding to the off-balance sheet adjusted with CCF) to which adjustment coefficients may be applied depending on the residual maturity (integrated into the provisioning rate).

To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. However, if a Stage 1 loan that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2 and Stage 3 the exposure at default is considered for events over the lifetime of the instruments.

The Bank determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Bank's models.

PD models are based on a two-step approach:

- Construction of the marginal curve of the TTC PD for each homogenous group;
Calculation is based on the number of defaults on a quarterly basis from period starting with 01/01/2012. The survival rate is ignored, meaning that any default incurred during the observation period was considered as default in the calculation of PD, even at the reporting date the client's performance improved and any default that was recovered during the observation period was also considered in the calculation of PD.
- Adjusting the TTC PD curve taking into consideration the current situation and the impact of the forward-looking information.

PD at 12m is applied for 12mECL; life time PD is applied for LTECL.

28.2.5 Loss given default

The LGDs used for ECL calculation in the context of IFRS9 are based on internal LGD model using historic recoveries adjusted with forward looking coefficient.

28.2.6 Significant increase in credit risk

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition.

The Bank applies quantitative and qualitative methods for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watchlist, or the account becoming forborne. In certain cases, the Bank may also consider that events explained in Note 28.2.2 are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due as of reporting date or more than 10 days during the last 6 months, the credit risk is deemed to have increased significantly since initial recognition.

As a response to the COVID-19 pandemic crisis and as a result of other identified negative factors, the list of heavily affected sectors is periodically reviewed at Group level and these sectors are declared with significant increase in credit risk, the enterprise clients being transferred to Stage 2.

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28 Risk management (continued)

28.2 Credit risk (continued)

28.2.6 Significant increase in credit risk (continued)

For 2022, an additional trigger for the migration to stage 2 was considered for legal entities, whose main activity is Cultivation of plants (CAEN 01.1 Growing of non-perennial crops, CAEN 01.2 Growing of perennial crops and CAEN 01.3 Plant propagation), being seriously affected by the climatic conditions (the current year's drought) and the macro-economic circumstances induced by the conflict in Ukraine, The criteria not being applied to:

- Clients with exposures above the threshold of the exposure managed by the Corporate Credit Risk Monitoring Committee, they being evaluated individually based on Instruction No. I_000751 regarding the monitoring of clients with the CORPORATE commercial approach, based on the Early Warning System (EWS).
- Clients analysed by the Credit Risk Underwriting Department between July and December 2022 in the exposure analysis/review process and not considered affected.

28.2.7 Grouping financial assets measured on a collective basis

As explained in Note 28.2.1 and 2.5.9.1 dependent on the factors below the Bank calculates ECLs either on a collective or an individual basis.

Impairment assessment on individual basis

Asset classes where the Bank calculates ECL on an individual basis include Stage 3 assets, except unsecured portfolios and collectively assessed secured loans.

Impairment assessment on collective basis

The bank had classified loan portfolio in several homogeneous groups:

MLE

This category includes loans granted to Corporate clients with turnover more than 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 comprises 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 forbore loans or not significant exposures).

Notes to the Financial Statements

28 Risk management (continued)

28.2 Credit risk (continued)

28.2.8 Analysis of collectively impaired assets

(i) Analysis of inputs to the ECL under multiple economic scenarios

Measurement of Bank's ECL reflects an unbiased and probability-weighted amount that is determined by evaluating the range of possible outcomes. The model considers reasonable and supportable information about past events, current conditions and reasonable and supportable forecasts of future economic conditions when measuring ECL.

Main macroeconomic highlights

The Moldovan economy is already under strong pressures due to energy prices, the government forecasts sizeable recession in 2022 of 3% and a modest recovery in 2023. The highest decrease of 29.8% is registered in the agricultural production. Average inflation for 2022 was 28.7%, with a sharp decrease in 2023 to 13.7%. The external deficit had increased in 2022 by more than 21% from an already elevated level. Without the sizable support from the IMF and the EU, vulnerability would be very high.

Main risks

- Exchange rate risks - the MDL looks to be overvalued, the current account deficit exceeds 10% of GDP, which is mainly covered by credit. The central bank does its best to keep the MDL stable, but a 10%+ depreciation cannot be ruled out on the forecasting horizon;
- Geopolitical risks - war might reach Moldova in case of Russia push forward
- Political risks - the crisis might undermine the pre-West government;
- Energetic risks - energy shortage deepens recession.

Three scenarios are used for ECL calculations

1. Optimistic Scenario
 - ✓ Gas price fall sharply to 40 EUR/MWh by 2024
 - ✓ Strong disinflation due to falling commodity prices
 - ✓ Interest rates to be cut soon
 - ✓ Moldovan growth reaccelerates quickly to an increase of 6.1% of the GDP in Q4 2023.
2. Forecast Scenario
 - ✓ Gas price: 180 EUR/MWh in 2023
 - ✓ Gradual disinflation without second-round effects
 - ✓ No surprise in interest rates compared to pricing: high rates stay for a while
 - ✓ Moderate economic growth, with an increase of 3% of the GDP in Q4 2023.
3. Stress scenario
 - ✓ Extremely high energy prices
 - ✓ Endured inflation shock
 - ✓ Higher peak in interest rates on core markets rates
 - ✓ Eurozone faces deep recession in 2023 and the recovery would be sluggish
 - ✓ Moldova's GDP still in negative area in Q4 2023 of -0.7%

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28 Risk management (continued)

28.2 Credit risk (continued)

28.2.8 Analysis of collectively impaired assets (continued)

The main scenario inputs are included in the table below:

Gross Domestic Product (GDP), q-o-q growth	Assigned Weight	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025 Q1	2025 Q2	2025 Q3	2025 Q4
Optimistic scenario	5%	-5.3%	1.6%	1.4%	6.1%	5.6%	5.1%	4.6%	3.9%	3.6%	3.4%	3.2%	3.2%
Stress scenario	75%	-8.1%	5.9%	-3.0%	-0.7%	0.8%	1.3%	1.8%	2.2%	2.7%	3.2%	3.8%	4.1%
Forecast scenario	20%	-6.2%	3.2%	-0.9%	-3.0%	3.4%	3.6%	4.0%	4.3%	4.6%	4.8%	4.9%	4.9%

(ii) Sensitivity Analysis of inputs to the ECL

The Bank elaborated four scenarios for sensitivity analysis, two are based on increasing/decreasing of PD by 500 basis points while LGD remains the same, and the last two are based on increasing/decreasing of LGD by 1000 basis points while PD remains the same.

	Total Provision 2022 Real Booked	Change of PD	Total Provision Simulation	Increase/Decrease in Total Stock of Provision, MDL	Increase/Decrease in Total Stock of Provision, %
(in thousands MDL)					
		+ 500 bps	439,035	147,226	50%
Retail	291,809	- 500 bps	217,424	-74,385	-25%
		+ 500 bps	555,451	228,284	70%
Non-Retail	327,167	- 500 bps	191,053	-136,114	-42%
	618,976				
	Total Provision 2022 Real Booked	Change in basis points of LGD	Total Provision Simulation	Increase/Decrease in Total Stock of Provision, MDL	Increase/Decrease in Total Stock of Provision, %
(in thousands MDL)					
		+ 1000 bps	344,478	52,669	18%
Retail	291,809	- 1000 bps	264,064	-27,745	-10%
		+ 1000 bps	366,008	38,841	12%
Non-Retail	327,167	- 1000 bps	296,316	-30,851	-9%
	618,976				

Notes to the Financial Statements

28 Risk management (continued)

28.2 Credit risk (continued)

28.2.8 Analysis of collectively impaired assets (continued)

	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, %
(in thousands MDL)					
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				

	Total Provision 2021 Real Booked	Change of LGD	Total Provision Simulation	Increase/Decrease in Total Stock of Provision, MDL	Increase/Decrease in Total Stock of Provision, %
(in thousands MDL)					
Retail	177,544	+ 1000 bps	200,284	22,740	7%
		- 1000 bps	155,884	(21,660)	-7%
Non-Retail	149,931	+ 1000 bps	161,924	11,993	4%
		- 1000 bps	130,518	(19,413)	-6%
	327,475				

28.2.9 Overview of modified and forborne loans

The table below shows the gross carrying amount of previously modified financial assets for which loss allowance has changed between 12mECL and LTECL measurement during the period:

	as at 31 December 2022		as at 31 December 2021	
	Gross carrying amount	Corresponding ECL	Gross carrying amount	Corresponding ECL
Facilities that have cured since modification and are now measured using 12mECLs (Stage 1)	1,321	(29)	379	2
Facilities that reverted to (Stage 2/3) LTECLs having once cured	2,824	(1,190)	-	-

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Notes to the Financial Statements

28 Risk management (continued)

28.2 Credit risk (continued)

28.2.9 Overview of modified and forborne loans (continued)

Carrying amount by class of financial assets that had the forborne status as of 31 December 2022 and 2021 is analyzed below:

Forborne Loans	31 December 2022	Of which: forborne in 2022	31 December 2021	Of which: forborne in 2021
(in thousands MDL)				
Loans and advances to customers				
Performing				
MLE	44,249	39,917	9,197	5,061
Consumer	1,376	727	4,787	209
Mortgage	3,187	719	4,911	311
MSE	21,836	11,299	30,474	4,975
Leasing	731	-	1,995	-
	71,379	52,662	51,364	10,556
NON-Performing				
MLE	11,566	-	19,379	7,086
Consumer	1,033	-	1,637	296
Mortgage	3,191	-	4,109	2,415
MSE	19,415	7,091	18,012	4,840
Leasing	1,841	1,048	1,649	-
	37,046	8,139	44,786	14,637

28.2.10 Analysis of risk concentration

The major concentrations of credit risk arise by location and type of customer in relation to the Bank investments, loans and advances and guarantees issued. The Bank has no significant exposure to any individual customer or counterparty. The Bank's lending activities are conducted in the Republic of Moldova. The ability of borrowers to repay their debt is dependent on a number of factors including the overall financial wealth of the borrower and the Moldovan economy. The loan portfolio comprises loans to approximately 3,748 legal entities (2021: 3,899) and 83,018 individuals (2021: 81,657), out of which 377 legal entities and 38,224 individuals have only unauthorized overdrafts.

The maximum credit on-balance exposure to any client or counterparty in the loan portfolio as of 31 December 2022 was at MDL'000 196,694 (2021: MDL'000 196,424).

As at 31 December 2022 ten major gross loans have a total on-balance exposure of MDL'000 1,269,004 (31 December 2021: MDL'000 1,096,319).

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Notes to the Financial Statements

28 Risk management (continued)

28.2 Credit risk (continued)

28.2.10 Analysis of risk concentration (continued)

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.

	Note	31 December 2022	31 December 2021
(in thousands MDL)			
Placements with Central Bank	13	6,233,016	3,332,834
Due from banks	14	898,252	2,318,602
Debt instruments at amortized cost	16	2,162,209	1,346,193
Loans and advances to customers	15	7,919,092	8,592,211
Leasing	15	246,010	204,359
Other assets		75,457	57,097
Total		17,534,036	15,851,296
Financial guarantees, letters of credit and other undrawn commitments	28.3	1,138,347	1,759,212
Total credit risk exposure		18,672,383	17,610,508

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Notes to the Financial Statements

28 Risk management (continued)

28.2 Credit risk (continued)

28.2.10 Analysis of risk concentration (continued)

Industry analysis

The Bank monitors concentrations of credit risk by sector and by geographic location.

An analysis of concentrations of credit risk gross exposure as of 31 December 2022 is shown below:

	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	-	-	-	993,664	-
Central Bank	-	-	6,251,739	1,203,231	-
Commercial banks	0	0	-	0	0
Individuals	-	-	902,673	-	-
Legal entities	3,756,356	-	-	-	-
Off balance sheet items:	4,745,196	256,113	0	0	1,031
Individuals	95,029	-	-	-	-
Legal entities	1,068,906	825	-	-	-
	9,665,487	256,938	7,154,412	2,196,895	1,031
Concentration by location					
Moldova	9,043,622	256,938	6,251,739	2,196,895	1,031
CIS ¹	2,593	-	18,106	-	-
EU	422,608	-	875,757	-	-
USA	-	-	8,810	-	-
Other	196,662	-	-	-	-
Total gross amount of exposure	9,665,485	256,938	7,154,412	2,196,895	1,031
Less: Allowance for ECL/impairment losses	(608,857)	(10,119)	(23,144)	(34,686)	-
	9,056,628	246,819	7,131,268	2,162,209	1,031

¹ CIS - Commonwealth of Independent States, free association of sovereign states that was formed in 1991 by Russia and 11 other republics that were formerly part of the Soviet Union.

Notes to the Financial Statements

28 Risk management (continued)

28.2 Credit risk (continued)

28.2.10 Analysis of risk concentration (continued)

An analysis of concentrations of credit risk gross exposure as of 31 December 2021 is shown below:

	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	-	-	-	1,356,923	-
Central Bank	-	-	3,340,348	-	-
Commercial banks	-	-	2,327,267	-	-
Individuals	4,359,052	-	-	-	-
Legal entities	4,528,442	210,665	-	-	1,031
Off balance sheet items:					
Individuals	114,101	-	-	-	-
Legal entities	1,667,395	3,603	-	-	-
	10,668,990	214,268	5,667,615	1,356,923	1,031
Concentration by location					
Moldova	10,014,762	214,268	3,340,348	1,356,923	1,031
CIS ²	1,278	-	6,721	-	-
EU	454,057	-	2,081,021	-	-
USA	-	-	200,684	-	-
Other	198,893	-	38,842	-	-
	10,668,990	214,268	5,667,616	1,356,923	1,031
Less: Allowance for ECL/impairment losses	(321,169)	(6,306)	(16,179)	(10,731)	-
	10,347,821	207,962	5,651,437	1,346,192	1,031

² CIS - Commonwealth of Independent States, free association of sovereign states that was formed in 1991 by Russia and 11 other republics that were formerly part of the Soviet Union.

Notes to the Financial Statements

28 Risk management (continued)

28.2 Credit risk (continued)

28.2.10 Analysis of risk concentration (continued)

An analysis of concentrations of ECL as of 31 December 2022 is shown below:

	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	-	-	-	34,158	-
Central Bank	-	-	18,723	528	-
Commercial banks	-	-	4,421	-	-
Individuals	291,856	-	-	-	-
Legal entities	290,604	10,103	-	-	-
Off balance sheet items:	-	-	-	-	-
Individuals	2,292	-	-	-	-
Legal entities	24,105	16	-	-	-
	608,857	10,119	23,144	34,686	-
Concentration by location					
Moldova	597,910	10,119	18,723	34,686	-
CIS*	355	-	494	-	-
EU	5,481	-	3,883	-	-
USA	-	-	44	-	-
Other	5,111	-	-	-	-
	608,857	10,119	23,144	34,686	0

An analysis of concentrations of ECL as of 31 December 2021, shown below:

	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	-	-	-	10,731	-
Central Bank	-	-	7,514	-	-
Commercial banks	-	-	8,665	-	-
Individuals	112,068	-	-	-	-
Legal entities	183,215	6,306	-	-	-
Off balance sheet items:	-	-	-	-	-
Individuals	1,508	-	-	-	-
Legal entities	24,379	-	-	-	-
	321,169	6,306	16,179	10,731	-
Concentration by location					
Moldova	312,786	6,306	7,514	10,731	-
CIS*	58	-	25	-	-
EU	4,950	-	7,837	-	-
USA	-	-	664	-	-
Other	3,375	-	137	-	-
	321,169	6,306	16,179	10,731	-

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Aging analysis of loans by class of financial assets as of 31 December 2022 and 2021 is presented below:

	Stage 1		Stage 2				Stage 3				Total		
	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
(In thousands MDL)													
31-Dec-22													
Loans and advances to customers	3,659,716	86,678	213,612	24,546	10104	-	-	2,230	10478	4373	2,013	78,115	4,091,865
MLE	1,026,031	61,275	242,519	61,375	20,285	9,959	15,806	3,728	3803	5,094	5,003	30,001	1,484,879
Consumer	1,632,002	55,401	424,018	87,713	10,837	2281	-	5,218	9,194	9,616	5,687	19,624	2,261,591
Mortgage	332,498	14,833	205,932	29,220	22,236	700	891	12,219	4,734	3,006	7,869	29,079	663,217
MSE													
Total Loans and advances to customers	6,650,247	218,187	1,086,081	202,854	63,462	12,940	16,697	23,395	28,209	22,089	20,572	156,819	8,501,552
Leasing	225,588	6,436	20,254	548	-	-	-	1,568	-	885	-	834	256,113
Total Loans and advances to customers and Leasing	6,875,835	224,623	1,106,335	203,402	63,462	12,940	16,697	24,963	28,209	22,974	20,572	157,653	8,757,665
31-Dec-21													
Loans and advances to customers	3,622,290	25,378	82,746	41,313	-	-	-	6,685	512	-	6,794	65,486	3,851,203
MLE	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
Consumer	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
Mortgage													
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

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Notes to the Financial Statements

28 Risk management (continued)

28.2 Credit risk (continued)

28.2.10 Analysis of risk concentration (continued)

An analysis of loans and advances to customers by customer type and industry as of 31 December 2022 and 2021 is presented below:

	31 December 2022	31 December 2021
(in thousands MDL)		
Loans to individuals		
Consumer loans	1,484,879	1,920,191
Mortgage loans	2,261,590	2,422,369
	3,746,469	4,342,560
Less allowance for impairment losses Consumer Loans	(141,451)	(61,604)
Less allowance for impairment losses Mortgage Loans	(148,066)	(47,693)
Net loans to individuals	3,456,952	4,233,263
Loans to legal entities		
Industry and commerce	3,294,857	3,053,474
Agriculture and food industry	852,013	778,694
Fuel and energy	9,259	15,253
Construction	64,237	77,216
Transportation, telecommunications and development	305,874	309,723
Overdrafts	-	663
Micro-enterprises	145,876	143,937
Leasing	256,113	210,665
Other	82,968	165,973
	5,011,197	4,755,598
Less allowance for impairment losses		
Industry and commerce	(189,936)	(127,374)
Agriculture and food industry	(58,359)	(31,344)
Fuel and energy	(205)	(260)
Construction	(9,729)	(1,376)
Transportation, telecommunications and development	(10,127)	(6,557)
Overdrafts	-	(642)
Micro-enterprises	(21,201)	(15,949)
Leasing	(10,103)	(6,306)
Other	(3,387)	(2,483)
Net loans to legal entities	4,708,150	4,563,307
	8,165,102	8,796,570

The Bank's lending activities are conducted in Moldova. The ability of borrowers to repay their debt is dependent on a number of factors including the overall financial wealth of the borrower and the Moldovan economy.

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Notes to the Financial Statements

28 Risk management (continued)

28.2 Credit risk (continued)

28.2.11 Collateral and other enhancements

The main types of collateral obtained are as follows: real estate premises (residential, commercial, land), stock of goods and materials, trade receivables, securities, cash and other types (if object can be identified, evaluated and pledged).

The Bank also obtains guarantees from parent companies for loans to their subsidiaries. The Bank monitors the market value of collateral and request additional collateral in accordance with the underlying agreement.

Bank's policy is to avoid repossession of assets and to use this tool as an exceptional one, due to the fact that legislation offers the possibility to take under legal possession the collaterals in order to manage them for selling, from clients' name, and repay the debt. In order to recover the debt where are set collaterals that are under legal possession, Bank uses several ways:

- Selling of collateral with Bank's permission;
- Cession of debts (that includes the selling of rights legal possession);
- Selling of collaterals by Bank – direct negotiations (by Bank or involving a real estate company) or auction (auction organized by third parties – dedicated company / bailiff / notary);
- Selling of collaterals in enforced execution procedure.

All information regarding the collaterals available for selling is published on Bank's website as well as in a dedicated Newspaper.

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, stock of materials and equipment as well as corporate guarantees and cash deposits. The fair value of collateral placed against individually impaired loans as of 31 December 2022 is estimated at MDL'000 28,562 (31 December 2021: MDL'000 33,021). The fair value of collateral placed against past due but not impaired loans as of 31 December 2022 is estimated at MDL'000 300,230 (31 December 2021: MDL'000 116,252).

Collateral generally is held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held as of 31 December 2022 and 2021.

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

Notes to the Financial Statements

28 Risk management (continued)

28.2 Credit risk (continued)

28.2.11 Collateral and other enhancements (continued)

	Maximum exposure to credit risk	Cash	Securities	3 rd party guarantees	Property	Other	Surplus of collateral	Total collateral	Net exposure	Associated ECLs
(in thousands MDL)										
31 December 2022										
MLE	3,874,242	79,597	231,178	941,169	2,533,136	4,237,409	-4,443,185	8,022,488		217,623
Consumer	1,343,428	1,445	0	0	11,246	2,747	-12,731	15,437	1,327,990	141,451
Mortgage	2,113,524	20,003	0	262,282	3,088,403	9,332	-1,273,917	3,380,019		148,066
MSE	587,899	9,899	0	65,700	665,260	481,591	-640,684	1,222,450		75,319
Leasing	246,010	0	0	596	11,991	356,623	-187,778	369,210		10,103
Commitments to grant loans	573,587	10,613	0	2,498	103,573	91,338	-51,325	208,023	365,564	12,702
Financial guarantees	542,343	35,221	0	6,541	174,720	122,575	-122,171	339,057	203,286	12,788
Letters of credit	22,418	0	0	1,539	7,841	9,551	-4,298	18,931	3,487	922
Total	9,303,449	156,777	231,178	1,280,324	6,596,168	5,311,167	-6,736,089	13,575,615	1,900,327	618,976
31 December 2021										
MLE	3,727,110	81,005	229,729	1,084,252	2,436,669	3,728,593	-3,834,697	7,560,248		124,093
Consumer	1,858,587	12,385	-	-	4,253	334	-12,724	16,973	1,841,614	61,604
Mortgage	2,374,676	20,198	-	266,618	3,131,474	13,274	-1,068,317	3,431,563		47,693
MSE	631,838	4,573	-	50,262	739,632	404,959	-592,865	1,199,426		61,893
Leasing	204,359	-	-	2,476	8,603	380,810	-187,994	391,889		6,306
Commitments to grant loans	1,267,673	434	13	45,827	157,604	117,778	-78,618	321,656	946,017	18,981
Financial guarantees	477,904	35,840	-	15,257	141,095	85,140	-72,799	277,332	200,573	6,562
Letters of credit	13,635	230	-	2,012	7,004	4,977	-1,190	14,223		344
Total	10,555,782	154,665	229,742	1,466,704	6,626,334	4,735,865	-5,849,204	13,213,310	2,988,204	327,476

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Notes to the Financial Statements

28 Risk management (continued)

28.2 Credit risk (continued)

28.2.11 Collateral and other enhancements (continued)

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	3 rd party guarantees	Property	Other	Surplus of collateral	Total collateral	Net exposure	Associated ECLs
31 December 2022										
MLE	26,105	-	-	10,840	103,607	125,485	(213,858)	239,931	-	71,105
Consumer	13,758	-	-	-	8,437	2,377	(10,806)	10,815	2,943	33,871
Mortgage	18,017	-	-	2,754	75,641	890	(61,262)	79,284	-	31,322
MSE	-	-	-	9,531	112,288	69,504	(163,861)	191,322	-	28,983
Leasing	2,227	-	-	-	-	9,780	(7,552)	9,780	-	1,060
Commitments to grant loans	42	-	-	-	-	-	-	-	42	79
Financial guarantees	677	1,989	-	-	-	-	(1,312)	1,989	-	1,312
Letters of credit	-	-	-	-	-	-	-	-	-	-
Total	60,826	1,989	-	23,125	299,973	208,036	(458,651)	533,121	2,985	167,732
31 December 2021										
MLE	32,107	-	-	13,717	49,491	27,057	(56,841)	90,263	-	47,369
Consumer	5,768	-	-	-	113	-	(113)	113	5,654	13,638
Mortgage	16,223	-	-	470	52,327	1,422	(38,053)	54,220	-	17,393
MSE	15,973	49	-	3,428	50,815	31,643	(69,995)	85,935	-	34,718
Leasing	926	-	-	-	-	7,680	(6,754)	7,680	-	1,633
Commitments to grant loans	270	-	-	-	679	-	(410)	679	-	321
Financial guarantees	616	1,286	-	-	-	-	(670)	1,286	-	670
Letters of credit	-	-	-	-	-	-	-	-	-	-
Total	71,883	1,335	-	17,615	153,425	67,802	(172,837)	240,177	5,654	115,741

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28 Risk management (continued)

28.3 Liquidity risk and funding management

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

Management of liquidity risk

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

Intraday liquidity is managed by the Treasury based on received information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short term liquid assets, largely made up of short term liquid investment securities, loans and advance to banks and other interbank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

On a medium to long term basis the liquidity is managed through ALM function reporting to ALCO on the funding needs in the future.

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28 Risk management (continued)

28.3 Liquidity risk and funding management (continued)

The table below summarizes the maturity profile of the Bank's financial assets and liabilities at 31 December 2022 based on undiscounted repayment obligations.

(in thousands MDL)	Total	Less 1 month	Between 1 month and 1 year	Between 1 and 5 years	More than 5 years
Financial assets					
Cash and balances with Central Bank	6,807,269	6,807,269	-	-	-
Due from banks	898,300	898,300	-	-	-
Derivative financial instruments	1,629	1,629	-	-	-
Financial assets at fair value through profit or loss	2,583	1,552	-	-	1,031
Debt instruments at amortized cost	2,162,209	1,167,017	993,192	-	2,000
Loans and advances to customers	8,165,102	454,093	3,162,228	3,303,279	1,245,502
Other financial assets	45,707	45,707	-	-	-
Total financial assets	18,082,799	9,375,567	4,155,420	3,303,279	1,248,533
Financial Liabilities					
Due to banks	410,522	410,522	-	-	-
Due to customers	13,493,021	1,309,414	5,086,576	5,591,271	1,505,760
Debt issued and other borrowings	1,730,929	29,652	621,640	1,047,397	32,240
Lease liabilities	75,183	-	21,835	53,348	-
Derivative financial instruments	41	41	-	-	-
Total financial liabilities	15,709,696	1,749,629	5,730,051	6,692,016	1,538,000
GAP	2,373,103	7,625,938	(1,574,631)	(3,388,737)	(289,467)

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28 Risk management (continued)

28.3 Liquidity risk and funding management (continued)

The table below summarizes the maturity profile of the Bank's financial assets and liabilities at 31 December 2021 based on undiscounted repayment obligations.

(in thousands MDL)	Total	Less 1 month	Between 1 month and 1 year	Between 1 and 5 years	More than 5 years
Financial assets					
Cash and balances with Central Bank	3,866,208	3,866,208	-	-	-
Due from banks	2,318,602	2,318,602	-	-	-
Derivative financial instruments	311	311	-	-	-
Financial assets at fair value through profit or loss	3,949	2,918	-	-	1,031
Debt instruments at amortized cost	1,346,193	566,581	777,607	5	2,000
Loans and advances to customers	8,796,570	272,108	3,080,740	3,812,087	1,631,635
Other financial assets	24,385	24,385	-	-	-
Total financial assets	16,356,218	7,051,113	3,858,347	3,812,092	1,634,666
Financial Liabilities					
Due to banks	2,571	2,571	-	-	-
Due to customers	13,641,955	9,462,536	2,618,463	1,489,333	71,623
Debt issued and other borrowings	874,615	82,715	513,695	272,447	5,758
Lease liabilities	59,121	-	18,811	34,596	5,714
Derivative financial instruments	659	659	-	-	-
Total financial liabilities	14,578,921	9,548,481	3,150,969	1,796,376	83,095
GAP	1,777,297	(2,497,368)	707,378	2,015,716	1,551,571

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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 31.12.2022 and 31.12.2021. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	Total	Less 1 month	Between 1 month and 1 year	Between 1 and 5 years	More than 5 years
(in thousands MDL)					
As at 31 December 2022					
Loan commitments	586,289	586,289	-	-	-
Financial guarantees	555,131	555,131	-	-	-
Letter of credit	23,340	23,340	-	-	-
Total commitments and guarantees	1,164,760	1,164,760	-	-	-
As at 31 December 2021					
Loan commitments	1,312,456	1,312,456	-	-	-
Financial guarantees	484,467	484,467	-	-	-
Letter of credit	13,978	13,978	-	-	-
Total commitments and guarantees	1,810,901	1,810,901	-	-	-

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28 Risk management (continued)

28.4 Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads will affect the Bank's or the value of its holdings of financial instruments. The objective of the market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

As of the end of 2022 did hold a small trading portfolio of State Securities (1.7 million MDL). This portfolio was constituted considering the regulatory requirements imposed by Ministry of Finance for the banks who have the license of primary dealer. In Q3 2018, NBM updated its Regulation related to placement, trading and redemption of state securities, within which new requirements for primary dealers (the Bank has the license of primary dealer) have been established, including the minimum obligation for daily listing/quotation of State Securities. The obligation of daily listing provides 2 conditions to be respected:

- mandatory daily listing of State Securities bought in last 2 auctions (auctions are organized twice per month for treasury bills and once per month for government bonds with fixed rate and for government bonds with variable rate);
- minimum portfolio to be listed is 100 K MDL (at notional value).

Considering the amount of portfolio and the nature of financial instruments, the related market risk is considered as not significant.

28.4.1 Interest rate risk

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

The sensitivity on net interest income of the Bank is analyzed separately for variable rates (as effect of interest rate changes for variable rate assets and liabilities) and fixed rates (by revaluing fixed rate financial assets for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve). According to financial market evolution, the Bank estimates 2 main scenarios for interest rate sensitivity analysis:

1. Parallel increase/decrease of +/- 100/200/300 basis points for interest bearing assets and liabilities with subsequent impact of such fluctuations on net interest income;
2. Non-Parallel increase/decrease of +/- 100/200/300 basis points for interest bearing assets and liabilities with subsequent impact of such fluctuations on net interest income;

Power of fluctuations is determined based on market conditions and Banks assumptions in forecasted environment.

The potential change of the Bank's EVE due to changes:

(in thousands MDL)	31 December 2022	31 December 2021
Own Funds	2,077,465	1,685,381
Potential decline in EVE +/- X bps		
Absolute value	42,495	59,611
Impact on Own Funds	2.04%	3.54%

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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 month	3 to 12 months	1 to 5 years	Over 5 years	Non- interest bearing
(in thousands MDL)						
As at 31 December 2022						
Assets						
Cash and Balances with Central Bank	6,807,269	6,233,016	-	-	-	574,253
Due from Banks	898,300	898,300	-	-	-	-
Financial assets at fair value through profit and loss	2,583	1,552	-	-	-	1,031
Loans and advances to customers	8,165,102	4,460,480	2,255,936	1,375,062	73,624	-
Debt instruments at amortized cost	2,162,209	1,167,017	993,192	-	2,000	-
	18,035,463	12,760,365	3,249,128	1,375,062	75,624	575,284
Liabilities						
Due to Banks	410,522	410,522	-	-	-	-
Due to Customers	13,493,021	4,889,646	1,348,462	1,820,909	-	5,434,004
Debt issued and other borrowed funds	1,730,929	36,018	1,694,407	504	-	-
	15,634,472	5,336,186	3,042,869	1,821,413	-	5,434,004
Total interest sensitivity gap	2,400,991	7,424,179	206,259	(446,351)	75,624	(4,858,720)
Derivative used for risk management	-	-	-	-	-	-
Total interest sensitivity gap after risk management	2,400,991	7,424,179	206,259	(446,351)	75,624	(4,858,720)

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28 Risk management (continued)

28.4 Market risk (continued)

28.4.1 Interest rate risk (continued)

The following table provide an analysis of the Bank's interest rate risk exposure on non-trading financial assets and liabilities. The bank assets and liabilities are included at carrying amount and categorized by the earlier of contractual repricing or maturity dates.

	Carrying amount	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non- interest bearing
(in thousands MDL)						
As at 31 December 2021						
Assets						
Cash and Balances with Central Bank	3,866,208	3,307,134	-	-	-	559,074
Due from Banks	2,318,602	2,318,602	-	-	-	-
Financial assets at fair value through profit and loss	3,949	2,918	-	-	-	1,031
Loans and advances to customers	8,796,570	5,333,171	1,001,967	1,640,132	757,141	64,159
Debt instruments at amortized cost	1,346,193	875,829	468,359	5	2,000	-
	16,331,522	11,837,654	1,470,326	1,640,137	759,141	624,264
Liabilities						
Due to Banks	2,571	2,571	-	-	-	-
Due to Customers	13,497,108	8,867,195	485,964	316,290	23,797	3,803,862
Debt issued and other borrowed funds	862,907	303,969	557,983	955	-	-
	14,362,586	9,173,735	1,043,947	317,245	23,797	3,803,862
Total interest sensitivity gap	1,968,936	2,663,919	426,379	1,322,892	735,344	(3,179,598)
Derivative used for risk management	-	-	-	-	-	-
Total interest sensitivity gap after risk management	1,968,936	2,663,919	426,379	1,322,892	735,344	(3,179,598)

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Notes to the Financial Statements

28 Risk management (continued)

28.4 Market risk (continued)

28.4.2 Currency risk

The Bank is exposed to currency risk through transactions in foreign currencies against MDL. There is also a balance sheet risk that the net monetary assets/liabilities in foreign currencies will take a lower/higher value when translated into MDL as a result of currency movements.

The Bank is analysing permanently the structure of assets and liabilities in different currencies. The principal foreign currencies held by the Bank are EUR, USD and RUB. The Bank carries out operations in both the local currency and hard currencies and monitors its foreign currency exposure on a daily basis and close out its positions within individually defined limits set up by NBM for each and all currencies together. It is the Bank's policy to minimize its exposure to currency risk by maintaining an open currency position at a minimum level.

The Bank's transactional exposures give rise to foreign currency gains and losses that are recognized in the income statement. These exposures comprise the monetary assets and monetary liabilities of the Bank that are not denominated in the measurement currency of the Bank.

The table below provides the information on the effect to profit before tax and effect in equity of the change in foreign currency rates against MDL:

	FCY gap	Possible rate increase	Income / (loss) effect	Effect in equity	Possible rate decrease	Income / (loss) effect	Effect in equity
(in thousand MDL)							
31 December 2022							
EUR	20,545	10%	2,055	1,808	-10%	-2,055	-1,808
US Dollars	114,485	10%	11,449	10,075	-10%	-11,449	-10,075
31 December 2021							
EUR	4,918	10%	492	433	-10%	-492	-433
US Dollars	-429	10%	-43	-38	-10%	43	38

Notes to the Financial Statements

28 Risk management (continued)

28.4 Market risk (continued)

28.4.2 Currency risk (continued)

The amounts of assets and liabilities held in MDL and in foreign currencies at 31 December 2022 can be analysed as follows:

31 December 2022 (in thousand MDL)	Euro	US dollar	MDL	Other	Total
Assets					
Cash and balances with Central Bank	2,368,901	1,104,227	3,291,356	42,786	6,807,270
Due from banks	264,343	586,925	(1)	47,033	898,301
Derivative financial instruments	-	-	1,629	-	1,629
Financial assets at FVPL	-	-	2,583	-	2,583
Loans and advances to customers, net	2,859,069	474,641	4,831,392	-	8,165,102
Debt instruments at amortized cost	-	-	2,162,209	-	2,162,209
Other assets	18,215	2,158	55,083	-	75,456
Property and equipment	-	-	290,329	-	290,329
Deferred tax assets	-	-	4,886	-	4,886
Intangible assets	-	-	119,779	-	119,779
Total assets	5,510,528	2,167,951	10,759,245	89,819	18,527,543
Liabilities					
Derivative financial instruments	-	-	41	-	41
Due to banks	407,935	-	2,588	-	410,523
Due to customers	3,771,925	2,153,500	7,530,467	37,129	13,493,021
Borrowed funds from IFI's	771,128	8,531	951,270	-	1,730,929
Other liabilities	96,459	16,025	105,812	3	218,299
Provisions	13,289	4,045	52,269	-	69,603
Total liabilities	5,060,736	2,182,101	8,642,447	37,132	15,922,416
OFF BS liabilities: EUR/RUB, USD/RUB, USD/RON swaps	408,603	(145,540)	(309,179)	42,624	(3,492)
Net position 31 December 2022	41,189	131,390	2,425,977	10,063	2,608,619

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Notes to the Financial Statements

28 Risk management (continued)

28.4 Market risk (continued)

28.4.2 Currency risk (continued)

The amounts of assets and liabilities held in MDL and in foreign currencies at 31 December 2021 can be analysed as follows:

31 December 2021	Euro	US dollar	MDL	Other	Total
(in thousand MDL)					
Assets					
Cash and balances with Central Bank	1,504,982	550,495	1,766,618	44,113	3,866,208
Due from banks	1,379,911	751,979	-	186,712	2,318,602
Derivative financial instruments	-	-	311	-	311
Debt instruments at amortized cost	-	-	3,949	-	3,949
Financial assets at FVPL	2,133,896	479,431	6,183,243	-	8,796,570
Loans and advances to customers, net	-	-	1,346,193	-	1,346,193
Other assets	5,323	1,278	48,474	2,022	57,097
Property and equipment	39	-	279,310	-	279,349
Deferred tax assets	-	-	5,678	-	5,678
Intangible assets	-	-	108,256	-	108,256
Total assets	5,024,151	1,783,183	9,742,032	232,847	16,782,213
Liabilities					
Derivative financial instruments	-	-	659	-	659
Due to banks	41	-	2,530	-	2,571
Due to customers	4,673,134	1,785,526	6,978,994	59,454	13,497,108
Borrowed funds from IFI's	431,669	3,705	427,533	-	862,907
Other liabilities	82,164	8,519	73,287	(11,176)	152,794
Provisions	11,359	2,255	50,521	18	64,153
Total liabilities	5,198,367	1,800,005	7,533,524	48,296	14,580,192
OFF BS liabilities: EUR/RUB, USD/RUB, USD/RON swaps					
	159,529	9,302	-	-168,887	-56
Net position 31 December 2021	(333,745)	(26,124)	2,208,508	353,438	2,202,077

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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.

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Notes to the Financial Statements

29 Capital management

Capital management

The primary objective of the capital management of the Bank is to ensure the prudent operation, the entire compliance with the prescriptions of the regulator for a persistent business operation and maximising the shareholder value, accompanied by an optimal financing structure.

The capital management of the Bank includes the management and evaluation of the shareholders' equity available for hedging risks, other types of funds to be recorded in the equity and all material risks to be covered by the capital.

The basis of the capital management of the Bank in the short run is the continuous monitoring of its capital position, in the long run the strategic and the business planning, which includes the monitoring and forecast of the capital position.

The Bank maintains the capital adequacy required by the regulatory bodies and the planned risk taking mainly by means of ensuring and developing their profitability. In case the planned risk level of the Bank exceeded its Core and the previously raised Supplementary capital, it ensures the prudent operation by occasional measures. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. No changes were made in the objectives, policies and processes from the previous years.

Capital Adequacy

The Capital Requirements Directive package (CRDIV/CRR) is the new global standards on banking regulation (known as the Basel III agreement). In the context of the NBM strategy of Basel III implementation in the Republic of Moldova in terms of European legislative framework (CDR IV/ CRR package), in May 2018, the National Bank of Moldova approved the Regulation on bank's own funds and capital requirements. It sets stronger prudential requirements for institutions, requiring them to keep sufficient capital reserves and liquidity.

The National Bank of Moldova requires each bank to maintain a ratio of total regulatory capital to the risk-weighted asset at minimum of 14.25 % of which 2.50% are linked to the Capital Conservation Buffer, 1% to the Systemic Risk Buffer and 0.50% to the Other Systemically Important Institutions Buffer.

The bank has entirely complied with the regulatory capital requirements in year 2022 as well as in year 2021.

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Notes to the Financial Statements

29 Capital management (continued)

Capital adequacy and the use of regulatory capital are monitored by the Bank's management, employing techniques based on the guidelines developed by the National Bank of Moldova.

The Bank was compliant with all the regulatory limits throughout the year.

The calculation of the Capital Adequacy Ratio as at 31 December 2022 is as follows:

	31 December 2022
(in thousands MDL)	
Total Capital	2,077,465
Tier1 Capital	2,077,466
Tier 1 Base Capital	2,077,466
Equity instruments eligible for Tier 1 Base Capital	251,354
Paid capital instruments	99,944
Of which: Capital instruments subscribed by public authorities in emergency situations	99,944
Share premium	151,410
Retained Earnings	1,939,992
Retained Earnings from previous years	1,939,992
Current year results	-
Profit or loss attributable to owners of the parent's equity	403,107
(-) Part of the interim or end-of-year financial results that are not eligible	(403,107)
Other reserves	10,674
Adjustments to core Tier 1 own funds due to prudential reserves	(3,385)
(-) The positive difference between asset write-downs and contingent liabilities and the amount of write-downs for impairment losses and provisions for losses	(3,385)
(-) Goodwill	(116,283)
(-) Goodwill accounted for as intangible assets	(116,283)
(-) Deferred tax assets that are based on future profitability and do not arise from temporary differences from which associated deferred tax liabilities are deducted	(4,886)
Tier 2 Capital	(1)
(-) Equity investments Tier 2 into entities from financial sector where the Bank does not have a significant share of investment	(1)
Capital adequacy ratio	24.75%

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29 Capital management (continued)

The calculation of the Capital Adequacy Ratio as at 31 December 2021 is as follows:

	31 December 2021
(in thousands MDL)	
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

30 Cash and cash equivalents

	Note	31 December 2022	31 December 2021
(in thousands MDL)			
Cash and balances with Central Bank	13	721,031	357,041
Due from banks	14	811,488	2,237,239
Debt instruments at amortized cost	16	991,635	499,626
		2,524,154	3,093,906

The placement with the Central Bank which represent mandatory reserves requirements are not available to finance the Bank's day-to-day operations and, therefore, are not part of cash and cash equivalents. This includes the balance of current accounts with Central bank disclosed in Note 13 amounting MDL'000 2,976,976 reduced by the level of mandatory reserves held in MDL (MDL'000 2,830,198).

Financial investments – loans and receivables are NBM certificates and represents short-term, investments that are up to two weeks, which are subject to an insignificant risk of changes in value.

31 Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

31 December 2022	Within 12 months	After 12 months	Total
(in thousand MDL)			
Assets			
Cash and balances with Central Bank	6,807,269	-	6,807,269
Due from banks	807,635	90,665	898,300
Derivative financial instruments	1,629	-	1,629
Debt instruments at amortized cost	2,160,209	2,000	2,162,209
Financial assets at fair value through profit or loss	1,552	1,031	2,583
Loans and advances to customers, net	3,616,321	4,548,781	8,165,102
Other assets	75,457	-	75,457
Property and equipment	87,886	202,443	290,329
Deferred tax assets	4,886	-	4,886
Intangible assets	107,855	11,924	119,779
Total assets	13,670,699	4,856,844	18,527,543
Liabilities			
Due to Central Bank	-	-	-
Due to banks	410,522	-	410,522
Due to customers	11,210,497	2,282,524	13,493,021
Borrowed funds from IFI's	847,212	883,717	1,730,929
Other liabilities	161,342	-	161,342
Provisions	69,604	-	69,604
Lease liabilities	17,103	39,853	56,956
Derivative financial instruments	41	-	-
Total liabilities	12,716,321	3,206,094	15,922,415
Net	954,378	1,650,750	2,605,128

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31 Maturity analysis of assets and liabilities (continued)

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

31 December 2021	Within 12 months	After 12 months	Total
(in thousand MDL)			
Assets			
Cash and balances with Central Bank	3,866,208	-	3,866,208
Due from banks	2,318,602	-	2,318,602
Derivative financial instruments	311	-	311
Debt instruments at amortized cost	1,343,157	3,036	1,346,193
Financial assets at fair value through profit or loss	2,918	1,031	3,949
Loans and advances to customers, net	3,352,848	5,443,722	8,796,570
Other assets	57,097	-	57,097
Property and equipment	85,328	194,021	279,349
Deferred tax assets	5,678	-	5,678
Intangible assets	65,677	42,579	108,256
Total assets	11,097,824	5,684,389	16,782,213
Liabilities			
Due to Central Bank	2,571	-	2,571
Due to banks	659	-	659
Due to customers	12,102,317	1,394,791	13,497,108
Borrowed funds from IFI's	584,704	278,203	862,907
Other liabilities	93,014	-	93,014
Provisions	64,153	-	64,153
Lease liabilities	18,811	40,310	59,121
Derivative financial instruments	659	-	659
Total liabilities	12,866,888	1,713,304	14,580,192
Net	(1,769,064)	3,971,085	2,202,021

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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 2022 were as follows:

- OTP Bank NYRT (companies within the group, including major shareholder);
- Key management including Executive Board and Supervisory Board members (significant influence);
- Other categories include: parties related to those above, affiliates to bank through the function of administrator and their affiliates.

During 2022 a number of banking transactions were entered into with related parties in the normal course of business. The results of the transactions are presented in the table below:

	Total 2022	OTP BANK NYRT	Key management	Other
(in thousands MDL)				
Balance sheet items as of 31 December 2022				
Due from banks	18,303	-	-	18,303
Loans and advances to customers, net	2,464	-	873	1,591
Other assets (Note 20)	80	79	-	1
Due to banks	407,910	407,910	-	-
Due to clients	23,196	-	66,502	19,694
Other liabilities	36	36	-	-
Result from transactions during 2022				
Interest and similar income	493	84	101	308
Interest and similar expense	8,081	7,785	113	183
Compensation of key management personnel::	18,480	-	18,480	-
Salaries - base salaries and wages	15,456	-	15,456	-
Salaries - bonuses and premiums	3,024	-	3,024	-
Other non-interest expenses	6,844	6,238	83	523
Off balance sheet items				
Guarantees and commitments	101,091	100,283	-	808

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Notes to the Financial Statements

32 Related party transactions (continued)

The list of related parties, with whom the Bank entered into transactions during 2021 were as follows:

- OTP Bank NYRT (companies within the group, including major shareholder);
- Key management including Executive Board and Supervisory Board members (significant influence);
- Other categories include: parties related to those above, affiliates to bank through the function of administrator and their affiliates.

During 2021 a number of banking transactions were entered into with related parties in the normal course of business. The results of the transactions are presented in the table below:

	Total 2021	OTP BANK NYRT	Key management	Other
(in thousands MDL)				
Balance sheet items as of 31 December 2021				
Due from banks	2,583	-	-	2,583
Loans and advances to customers, net	1,806	-	453	1,353
Other assets (Note 20)	1,430	1,427	3	0.2
 Due to clients	 16,803	 -	 8,939	 7,863
Other liabilities	1,306	1,304	-	2
 Result from transactions during 2021				
Interest and similar income	161	-	69	92
Interest and similar expense	2,231	1,151	93	986
Compensation of key management personnel::	13,357	-	13,357	
Salaries - base salaries and wages	11,453	-	11,453	-
Salaries - bonuses and premiums	1,896	-	1,896	-
Other non-interest expenses	5	-	1	4
 Off balance sheet items				
Counter guarantees	190	-	1	190

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Notes to the Financial Statements

33 Assessment of going concern

In the context of the conflict between Russia and Ukraine, started on February 24, 2022, the EU, USA, UK and other countries imposed various sanctions against Russia, including financing restrictions on certain Russian banks and state-owned companies as well as personal sanctions against a number of individuals.

Considering the geopolitical tensions, since February 2022, there has been an increase in financial markets volatility and exchange rate depreciation pressure.

These events affected the activities in various sectors of the economy, also resulting in increases in European energy prices and increased risk of supply chain disturbances.

However, the Bank has limited direct exposures to related parties and/or suppliers (considered to be manageable) from those countries and indirect exposure through the loan portfolio.

After the beginning of the conflict, the Bank starting analyzing the impact of changing micro- and macroeconomic conditions, as well as the impact of Russia-Ukraine conflict on the Bank's debtors in order to identify a potential downward pressure on Bank's projected cash flows as a result of factors outside the Bank's control. Analyzing the clients with an exposure of over 1 MEUR per group, out of 114 companies with a total exposure of 4,537 MMDL, which represented 81% of the total Corporate loan portfolio on 28.02.2022, 26 companies with an exposure of about 1,223 MMDL were identified as affected by the Russia-Ukraine conflict, with the export or import dependence of materials on the Russian or Ukrainian counterparties.

Currently, the Bank monitors its clients continuously and uses a decision engine for identifying, on a monthly basis, how clients are affected by:

- the Russian-Ukrainian conflict;
- other external factors/impacts (FX changes, interest rate increase, energy price increase, inflation, draught, other factors).

Analyzing the clients with an exposure of over 1 MEUR per group, out of 113 companies in normal business administration (not in Workout) with a total exposure of 3,991 MMDL, which represents 75% of the total Corporate loan portfolio on 31.12.2022, 40 companies with an exposure of about 667 MMDL are affected by the Russia-Ukraine conflict, as follows:

- fully affected: 1 company with an exposure of 11 MMDL;
- heavily affected: 2 companies with a total exposure of 69 MMDL;
- lightly affected: 37 companies with a total exposure of 587 MMDL.

The major part of companies replaced the supply countries and at the moment do not have any problems with supplies. Fully and heavily affected clients have their import/export activity originating from/transiting through/destined to Russia/Belarus.

Out of all the companies identified as affected in February 2022, 16 companies remained affected at the end of December 2022, with a total exposure of 320 MMDL. However, the Bank's assessment showed that 11 companies identified as not affected in February 2022 were lightly affected at the end of December 2022, with a total exposure of 199.7 MMDL.

From the same portfolio of December 2022 (113 companies with a total exposure of 3,991 MMDL), 86 companies with a total exposure of 3,210 MDL are affected by other external factors/impacts, as follows:

- heavily affected: 1 company with an exposure of 41 MMDL;
- lightly affected: 85 companies with a total exposure of 3,169 MMDL.

Taking into consideration the above-mentioned impacts, and also the assessment of clients' debt service, the Bank identifies the credit risk status assigned to the clients and in case of clients assigned to Watchlist 2, their exposure is migrated to Stage 2. Assignment of Watchlist 1 does not trigger the migration to Stage 2.

As of December 2022, 7 out of analyzed 113 clients were assigned to Watchlist 2 (with a total exposure of 138.6 MMDL), 4 of them being assigned to Normal at the beginning of the conflict between Russia and Ukraine. The additional provisions calculated as a result of the migration to Stage 2 of those 4 clients, with a total exposure of 57.1 MMDL, amounted 13.5 MMDL, including the impact from risk parameters changes during the year.

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33 Assessment of going concern (continued)

Thus, the impact of the Russian-Ukrainian conflict and other external factors, estimated within 3 potential scenarios identified in February 2022 for the evolution of the affected exposures during 2022, was lower than expected, the Bank's clients managing to keep their activity well running.

OTP Bank S.A. reassessed the recovery severe stress scenario, in order to evaluate the bank's resilience from liquidity and capital perspectives, recovery indicators, package of recovery measures to be implemented and their impact. The results show that the recovery options are efficient and applied would absorb the shock. As of 31 December 2022, the Bank was in compliance with all prudential indicators.

From the resilience point of view, on an annual base, the Bank is establishing a Recovery plan, which is analyzing the recovery capacity in case of recovery indicators breach. The recovery indicators are set up internally, according to a traffic light system. The recovery indicators are monitored at least monthly, in ALCO Committee. In case of breach of any indicator, the Recovery plan also includes the measures that have to be taken in order to assure the recovery of the Bank in a timely manner.

In its Recovery plan, the Bank considered as well the risks and potential impact that the war between Ukraine and Russia could have over the Bank's activity. In this context, on 1 March 2023 the Bank obtained a support letter from the parent company, OTP Nyrt, which confirms that the parent company will provide financial support in case it is needed for a period of 12 months from the date of approving the financial statement.

From an operational point of view, for crises, the Bank holds a Business Continuity Plan, which clearly prescribes the actions that should be implemented during crisis periods, in order to assure the Bank's ability to operate without any risks. Until now, there were no situation which could threat the Bank's activity;

Taking into account all factors described above, the management considers that the Bank has the capacity to continue its activity following the going concern principle.

34 Events after reporting date

In March 2023, following the massive withdrawal of money from its depositors and the capital crisis, two banks from the United States, Silicon Valley Bank and Signature Bank, went bankrupt. Following, the collapse of these banks, the second largest bank from Switzerland, Credit Suisse also faced liquidity issues. In this context, it is important to mention that as of the date of approving the financial statements, OTP Bank S.A. does not have any exposure with the above mentioned banks, it is not subject to any contagion risk and do not in any way affect its operational activity.

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