BC MOLDOVA-AGROINDBANK SA

SEPARATE FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

(FREE TRANSLATION*)

*Translator's explanatory note: the translation of this document is provided as a free translation from the official and binding version in Romanian.

CONTENT

Independent Auditor's Report

To the Shareholders of B.C. Moldova-Agroindbank S.A.

Our opinion

In our opinion, the separate financial statements present fairly, in all material respects, the separate financial position of B.C. Moldova-Agroindbank S.A. (the "Bank") as at 31 December 2020, and the Bank's separate financial performance and separate cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

What we have audited

The Bank's separate financial statements comprise:

- the separate statement of financial position as at 31 December 2020;
- the separate statement of profit or loss and other comprehensive income for the year ended 31 December 2020;
- the separate statement of changes in equity for the year ended 31 December 2020;
- the separate statement of cash flows for the year ended 31 December 2020; and
- the notes to the separate financial statements for the year ended 31 December 2020, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Law no 271/15 December 2017 regarding audit of financial statements with subsequent amendments (the "Law 271/2017"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the separate financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Law 271/2017 that are relevant to our audit of the separate financial statements in Republic of Moldova. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Law 271/2017.

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Our audit approach

Overview

Materiality	• Overall Bank materiality: MDL 29,200 thousand, which represents 5% of profit before tax.
Key audit matters	• Application of IFRS 9 "Financial instruments" in the calculation of expected credit losses of loans and advances to customers.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the separate financial statements. In particular, we considered where management made subjective judgements, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the separate financial statements as a whole, taking into account the structure of the Bank, the accounting processes and controls, and the industry in which the Bank operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the separate financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the separate financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Bank materiality for the separate financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the separate financial statements as a whole.

Overall Bank materiality	MDL 29,200 thousand
How we determined it	5% of profit before tax for the year ended 31 December 2020 according to the separate statement of profit or loss and other comprehensive income.
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Bank is most commonly measured by its stakeholders, and it is a generally accepted benchmark. We chose 5%, which in our experience is an acceptable quantitative materiality threshold for this benchmark.

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Key audit matter

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

Key audit matter	How our audit addressed the key audit matter
Application of IFRS 9 "Financial instruments" ("IFRS 9") in the calculation of expected credit losses of loans and advances to customers.	
We focused on this area because the management makes complex and subjective judgements over both the timing of recognition of expected credit losses ("ECL") and the estimation of the ECL amount, which is a complex area of accounting. As at 31 December 2020, the separate financial statements include loans and advances to customers with a gross carrying amount of MDL 15,709,668 thousand, related ECL allowance of MDL 1,040,347 thousand, the carrying amount being MDL 14,669,321 thousand. The Bank applies a three-stage model for the determination of ECL, based on changes in credit quality since initial recognition. In terms of assessment method, the ECL is computed either on an individual basis or using a collective model. Individual assessment is mandatory for the clients for which the cumulative gross carrying amount of the loans is higher than MDL 10,000 thousand and which were classified in Stage 3 at the time of assessment performed by the Bank. For other clients with cumulative gross carrying amount of the loans that are considered significant, the Bank performs individual assessment, regardless of the stage in which the loans were classified. The ECL are assessed individually based on probability weighted scenarios of cash flow forecasts. The key assumptions considered in the computation being the expected cash flows (from both operating cash flows and recoveries from collateral) and the weighting attached to the different scenarios.	In relation to implementation of the ECL statistical models, we have assessed the compliance of the key methodologies and models with the requirements of IFRS 9. We engaged our credit risk technical experts to assist us in undertaking this assessment. We verified the reconciliation of the output of the automated ECL calculation engine with the audited trial balance. Detailed risk assessment analytics were performed over the Bank's loan portfolio, in order to identify possible areas of risk and better calibrate our procedures described below. We have assessed the methodology for calculation of ECL of loans and advances to customers and reasonableness of selecting and using the economic scenarios, including the last macroeconomic forecasts as well as the severity and magnitude of modelled scenarios and how they are considered and applied to the assumptions obtained from statistical models used in arriving at the overall ECL of loans and advances to customers as at 31 December 2020. We tested, on a sample basis, the key controls over the inputs of critical data into source systems and the flow and transformation of data from the source systems to the ECL calculation engine, including staging process, split between collective and individual ECL computation.

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Key audit matter	How our audit addressed the key audit matter
Collective assessment is performed for all the other loans and advances to customers. The key assumptions considered in the computation being the probability of an account falling into arrears and subsequently entering into default, definition of significant increase in credit risk, exposure at the moment of default and the estimated losses from defaulted loans. Statistical models are used for determination of the key assumptions including different future macroeconomic scenarios. The outbreak of the COVID-19 (Coronavirus) pandemic caused severe disruptions to both the worldwide and local economy. As a result of this pandemic the Bank offered starting with 17 March 2020 several relief facilities to its clients, mainly in the form of payment deferrals and prolongation or renegotiation of the loan contracts. These measures distort a timely reflection of a potential deterioration of the loan portfolio and result in artificially low observed default rates. This has a negative effect on the predictive power of statistically determined default rates and the perceptibility of a significant increase in credit risk. Taking into account a significant increase in uncertainty in respect of the key inputs for the ECL, the Bank has addressed the related risk through a mix of measures, the key ones being: • update, throughout the year, of the forward-looking information with the latest available macroeconomic forecasts and revision of the weighting applied to the scenarios; these changes were reflected in the computation of the probability of default parameter; and • update of the significant increase in credit risk criteria through the introduction of tougher criteria for the loans with prolongation measures due to COVID-19. When performing the estimations of ECL for loans and advances to customers, management may be limited by the experience available in back-testing of these estimates against the actual results, especially under the COVID-19 circumstances. Further, future economic developments may not	We have validated, based on tests of controls, the process around prolongations of loans due to COVID-19, by verifying the existence of client specific request and verifying if the request met the qualification conditions as approved by the Bank. We have also validated the accuracy of marking into the operational system of loans for which prolongation due to COVID-19 was applied. We have tested that the key assumptions resulting from the statistical estimation models and which were subsequently approved by management were the same as the parameters effectively implemented in the system for automated computation of ECL. With regards to loans and advances to customers for which ECL is assessed individually, we assessed the appropriateness of the key inputs, assumptions and discounted cash-flows from both operating cash flows and recoveries from collateral that support the ECL. We have also selected a sample of clients in collective assessment in order to verify if there were any other criteria that could lead to individual assessment. As far as collaterals for loans are concerned, we have reviewed and tested controls around input of data and valuation. We have also selected a sample of collaterals corresponding to individually assessed loans for which we have assessed the reasonability of the market value used. With regards to loans and advances to customers for which ECL is assessed collectively we developed our own estimate for the statistical models used by the management to determine key assumptions (probability of default, loss given default and exposure at default) to assess whether the calculation process was consistent with IFRS 9 requirements and own Bank's methodology. We also independently recomputed ECL for a sample of loans using the key assumptions determined by management.

Key audit matter	How our audit addressed the key audit matter
be fully in line with the current forecasts. These elements increase the risk around accuracy and valuation of certain key data used to create assumptions and operate the models. Note 2 "Operating environment of the Bank", Note 3 "Significant accounting policies", Note 4 "Critical accounting estimates and judgements in applying accounting policies", Note 13 "Loans and advances to customers" and Note 36 "Financial risk management" to the separate financial statements provide detailed information on the ECL for loans and advances to customers.	We have assessed the accuracy, completeness and relevance of related disclosures for the expected credit losses of loans and advances to customers in the separate financial statements against the requirements of the relevant financial reporting standards.

Reporting on other information including the Separate Management Report

Management is responsible for the other information. The other information comprises the Separate Management Report and the Separate Non-Financial Statement, which is part of the Separate Management Report, but does not include the separate financial statements and our auditor's report thereon.

Our opinion on the separate financial statements does not cover the other information, including the Separate Management Report and the Separate Non-Financial Statement which is part of the Separate Management Report.

In connection with our audit of the separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Separate Management Report, our responsibility is to consider whether the Separate Management Report was prepared in accordance with Law no 287/15 December 2017 regarding accounting and financial reporting ("Law 287/2017") article 23.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Separate Management Report for the financial year for which the separate financial statements are prepared is consistent with the separate financial statements;
- the Separate Management Report has been prepared in accordance with Law 287/2017 article 23.

In addition, in light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Separate Management Report. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the separate financial statements

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

In preparing the separate 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 separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 separate financial statements.

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

- Identify and assess the risks of material misstatement of the separate 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 auditor's report to the related disclosures in the separate 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 auditor's 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 separate financial statements, including the disclosures, and whether the separate 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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate 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.

The auditor responsible for carrying out the audit resulting in this independent auditor's report is Eduard Maxim.

On behalf of

ICS PricewaterhouseCoopers Audit SRL

Audit firm registered with the Public register of audit firms under no 1902025

Refer to the original signed Romanian version

Eduard Maxim

Auditor

Qualification Certificate AG no 000061 dated 22.06.2018

Qualification Certificate AIF no 0030 dated 26.04.2019

Registered with the Public register of auditors under no 1806122

Stefan Friedemann Weiblen
Partner, acting based on the power of attorney dated 16 April 2020

Chişinău, 20 April 2021

(All amounts are expressed in thousands MDL, if not stated otherwise)

	Note	31 December 2020	31 December 2019
ASSETS			
Cash on hand	7	971,777	940,113
Balances with the National Bank of Moldova	8	6,384,531	5,813,652
Due from other banks	9	2,359,360	1,995,549
Investments in debt securities	10	4,063,124	1,840,848
Investments in equity securities	11	117,457	184,482
Investments in subsidiaries	12	139,669	139,669
Loans and advances to customers	13	14,669,321	13,401,353
Other financial assets	14	28,644	28,015
Other assets	15	162,662	163,621
Premises and equipment	16	1,219,040	1,160,673
Intangible assets	17	102,237	63,174
Right of use assets	18	74,368	97,540
Total assets		**30,292,190**	**25,828,689**
LIABILITIES			
Due to other banks	19	16,242	23,971
Borrowings	20	964,635	666,153
Due to customers	21	23,874,382	20,316,357
Lease liabilities	18	80,562	96,997
Other financial liabilities	22	182,525	168,061
Current tax liability	34	3,566	27,614
Deferred tax liability	34	22,043	43,403
Provision for loan commitments	24	22,314	9,470
Other liabilities	23	158,324	83,147
Total liabilities		**25,324,593**	**21,435,173**
EQUITY			
Ordinary shares		207,527	207,527
Share premium		104,537	104,537
Revaluation reserve for securities at fair value through other comprehensive income		111,899	110,906
Revaluation reserve for premises		192,698	194,003
Retained earnings		4,350,936	3,776,543
Total equity	25	**4,967,597**	**4,393,516**
Total equity and liabilities		**30,292,190**	**25,828,689**

The separate financial statements were authorized for issue on 20 April 2021 by the Management Board of the Bank and were signed by:

First Vice Chairman of the Management Board
Mrs. Aliona Stratan

Chief Accountant
Mrs. Carolina Semeniuc

The accompanying notes are an integral part of these separate financial statements.

SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

(All amounts are expressed in thousands MDL, if not stated otherwise)

	Note	2020	2019
Interest income calculated using the EIR method	27	1,344,487	1,215,200
Other similar income	27	33,767	159,082
Interest expense	27	(372,474)	(369,982)
Other similar expense	27	(1,489)	(1,860)
Net margin on interest and similar income		**1,004,291**	**1,002,440**
Fee and commission income	28	526,609	496,972
Fee and commission expense	28	(227,231)	(205,380)
Net fee and commission income		**299,378**	**291,592**
Gains less losses from trading in foreign currencies	29	369,412	293,186
Foreign exchange translation gains less losses		(28,625)	(20,779)
Other operating income	30	100,716	22,241
Personnel expenses	31	(564,009)	(441,263)
Impairment, depreciation and amortization expenses	16-18	(269,946)	(151,482)
Other operating expenses	32	(246,955)	(277,148)
Operating profit before credit loss allowance		**664,262**	**718,787**
Credit loss allowance	33	(80,247)	75,863
Profit before tax		**584,015**	**794,650**
Income tax expense	34	(60,204)	(90,979)
Profit for the year		**523,811**	**703,671**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Changes in fair value of debt securities at fair value through other comprehensive income	10	12,646	3,269
Deferred tax related to debt securities at fair value through other comprehensive income	34	(1,518)	(392)
Items that will not be reclassified to profit or loss:			
Gains less losses on investments in equity securities at fair value through other comprehensive income	11	44,697	32,930
Income tax recorded directly in other comprehensive income		(7,115)	-
Deferred tax related to changes in fair value of investments in equity securities at fair value through other comprehensive income	34	1,382	(9,516)
Deferred tax related to the revaluation of premises	34	178	(1,615)
Other comprehensive income for the year		**50,270**	**24,676**
Total comprehensive income for the year		**574,081**	**728,347**
Earnings per share (expressed in MDL per share)	25	**504.81**	**678.15**

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	Ordinary shares	Share premium	Revaluation reserve for securities at fair value through other comprehensive income	Revaluation reserve for premises	Retained earnings	Total equity
Balance at 1 January 2019	**207,527**	**104,537**	**84,615**	**196,290**	**3,293,216**	**3,886,185**
Profit for the year	-	-	-	-	703,671	703,671
Other comprehensive income for the year	-	-	26,291	(1,615)	-	24,676
Total comprehensive income for the year	**-**	**-**	**26,291**	**(1,615)**	**703,671**	**728,347**
Transfer of revaluation surplus on premises to retained earnings	-	-	-	(672)	672	-
Dividends paid (Note 25)	-	-	-	-	(221,016)	(221,016)
Balance at 31 December 2019	**207,527**	**104,537**	**110,906**	**194,003**	**3,776,543**	**4,393,516**
Profit for the year	-	-	-	-	523,811	523,811
Other comprehensive income for the year	-	-	50,092	178	-	50,270
Total comprehensive income for the year	**-**	**-**	**50,092**	**178**	**523,811**	**574,081**
Transfer of revaluation surplus on premises to retained earnings	-	-	-	(1,483)	1,483	-
Transfer of revaluation reserve for securities at fair value through other comprehensive income to retained earnings upon disposal (Note 11)	-	-	(49,099)	-	49,099	-
Balance at 31 December 2020	**207,527**	**104,537**	**111,899**	**192,698**	**4,350,936**	**4,967,597**

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	Note	2020	2019
Cash flows from operating activities			
Interest income calculated using the EIR method received		1,313,731	1,215,944
Other similar income received		36,673	160,243
Interest paid		(381,878)	(371,017)
Fees and commissions received		539,905	490,921
Fees and commissions paid	28	(227,231)	(205,380)
Gains less losses from trading in foreign currencies	29	369,412	293,186
Recoveries of loans previously written-off		28,409	94,466
Other operating income received		28,111	18,639
Administrative and other operating expenses paid		(238,633)	(284,264)
Staff costs paid		(500,484)	(441,324)
Income tax paid		(108,645)	(70,655)
Cash flows from operating activities before changes in operating assets and liabilities:		**859,370**	**900,759**
Net (increase) / decrease in operating assets:			
Due from other banks		(1,145,749)	(240,255)
Loans and advances to customers		(985,659)	(1,803,193)
Other financial assets		(1,888)	(57,903)
Other assets		33,730	(32,265)
Net increase / (decrease) in operating liabilities:			
Due to other banks		(26,323)	349,549
Due to customers		2,955,069	1,615,821
Other financial liabilities		41,980	269,386
Other liabilities		(49,132)	(343,146)
Net cash from operating activities		**1,681,398**	**658,753**
Cash flows from investing activities			
Acquisition of property and equipment and intangible assets	16,17	(366,215)	(313,543)
Proceeds from disposal of property and equipment		2,340	-
Acquisition of debt securities at fair value through other comprehensive income	10	(3,202,616)	(931,286)
Proceeds from disposal of debt securities at fair value through other comprehensive income	10	1,831,716	1,344,845
Acquisition of equity securities at fair value through other comprehensive income	11	(1,598)	-
Proceeds from disposal of equity securities at fair value through other comprehensive income	11	116,124	-
Dividends received	11	944	714
Net cash from/(used in) investing activities		**(1,619,305)**	**100,730**

The accompanying notes are an integral part of these separate financial statements.

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	Note	2020	2019
Cash flows from financing activities			
Repayment of borrowings		(262,482)	(353,668)
Proceeds from borrowings		526,968	124,034
Repayment of principal of lease liabilities		(29,771)	(40,604)
Dividends paid	25	(1,885)	(311,715)
Net cash from/(used in) financing activities		**232,830**	**(581,953)**
Effect of exchange rate fluctuation		31,113	(54,748)
Net increase in cash and cash equivalents		**326,037**	**122,782**
Cash and cash equivalents at 1 January	7	**8,064,271**	**7,941,489**
Cash and cash equivalents at 31 December	7	**8,390,308**	**8,064,271**

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1 General information

BC Moldova-Agroindbank SA (the "Bank") was incorporated in 1991 as a joint stock commercial bank. The Bank is licensed by the National Bank of Moldova ("NBM") to conduct all types of transactions in national and foreign currency on the territory of the Republic of Moldova and on international markets.

The activity is carried out both through the head office, as well as through 60 branches and 71 agencies, located throughout the Republic of Moldova (31 December 2019: 66 branches and 93 agencies). The Segment reporting is presented in Note 35.

At 31 December 2020, the Bank held 100% of the share capital of MAIB Leasing SA (31 December 2019: 100%), a subsidiary, which offers leasing products and 99% of the share capital of Moldmediacard SRL (31 December 2019: 99%), a private limited company which offers processing services for card transactions.

The Bank's shares are listed on the Moldova Stock Exchange, having the symbol MD14AGIB1008.

The Bank's number of employees at 31 December 2020 was 2,543 (31 December 2019: 2,448 employees).

The Bank's registered address is 9/1 Constantin Tanase Street, Chisinau, Republic of Moldova.

At 31 December 2020 and 31 December 2019, the Bank's shareholders structure was as follows:

	31 December 2020	**31 December 2019**
HEIM Partners Limited	41.09%	41.09%
Civil society of Bank shareholders and their affiliates*	9.79%	9.86%
UCCC "Moldcoop" and other entities acting in concert	2.56%	2.52%
Individuals holding ≥ *1%*, directly or indirectly	19.25%	19.26%
Others**	27.31%	27.27%
Total	**100.00%**	**100.00%**

*At 31 December 2020 the Civil society of the Bank's shareholders and its affiliates included 11 members (31 December 2019: 11 members) of which 1 (31 December 2019: 1 member) was member of the Management Board and the other 10 members were affiliated persons (31 December 2019: 10 members). During 2020 financial year, one of the members sold part of its shares.

**None of the shareholders included in the "Others" category owns a share equal to or greater than 1% in the Bank's share capital. Other shareholders of the Bank comprise 2,979 shareholders (31 December 2019: 2,998 shareholders) of which 2,771 shareholders are individuals and 208 are legal entities (31 December 2019: 2,769 individuals and 219 legal entities).

The largest shareholder of the Bank, with a holding of 41.09% of the share capital, is the company HEIM Partners Limited, founded by the consortium of investors which comprise European Bank for Reconstruction and Development ("EBRD"), Invalda INVL, one of the most important asset management groups in Baltic states based in Vilnius, Lithuania and the following investment funds: Emerging Europe Growth Fund III, LP (USA), EEGF III Netherlands, L.P. (USA) managed by Horizon Capital from Ukraine.

The real beneficiaries of HEIM Partners Limited are the following Lithuanian citizens: Mr Alvydas Banys, Ms Baniene Daiva, Mr Darius Sulnis, Ms Irena Ona Miseikiene and Ms Indre Miseikyte.

2 Operating environment of the Bank

Republic of Moldova. Moldova's economy depends heavily on the agricultural sector, main components being the production of fruits, vegetables, wine, wheat and tobacco. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and to a variety of interpretations. The Moldavian economy continues to be negatively impacted by the ongoing political tension in the region.

COVID-19. On 11 March 2020, the World Health Organisation declared the outbreak of COVID-19 a global pandemic. In response to the pandemic, on 17 March 2020, the Parliament of the Republic of Moldova declared a state of emergency on the entire territory of the Republic of Moldova starting with 17 March to 15 May 2020. Subsequently, on 15 May 2020, the Extraordinary National Commission on Public Health declared a state of emergency on public health starting with 16 May 2020.

In response to the potentially serious threat to public health posed by COVID-19, the Moldavian authorities implemented numerous measures attempting to contain the spreading and impact of COVID-19, such as travel bans and restrictions, quarantines, shelter-in-place orders and limitations on business activity, including closures. Some companies in the Republic of Moldova have also instructed measures to keep employees at home and have temporarily reduced or suspended commercial operations.

These measures have, among other things, severely restricted the economic activity in the Republic of Moldova and have negatively impacted, and could continue to negatively impact businesses, market participants, clients of the Bank, as well as the Moldavian and global economy for an unknown period of time. The Government of the Republic of Moldova has adopted laws that contain measures aimed to support the business environment to counteract the negative effects of the COVID-19 outbreak on the economy. However, the impact of the COVID-19 outbreak on a small and open economy and a fragile local business community as the one in the Republic of Moldova is expected to be significant.

Measures taken by the NBM. The NBM also announced a set of measures to strengthen the level of liquidity in the financial sector. As such during 2020, the NBM has modified the base interest rate applied to the main short-term monetary policy operations, the annual rate being reduced from 5.5% at 31 December 2019 to 2.65% at 31 December 2020. Similarly, the interest rate on overnight loans was reduced from an annual rate of 8.5% at 31 December 2019 to 5.15% at 31 December 2020 and the annual rate for overnight deposits was also reduced from 2.5% at 31 December 2019 to 0.15% at 31 December 2020. Also, the NBM has decided to decrease during 2020 the rate for mandatory reserves from funds attracted in local currency, from 42% at 31 December 2019 to 32% at 31 December 2020, while for the rate for mandatory reserves from funds attracted in foreign currency has decided an increase from 18% at 31 December 2019 to 30% at 31 December 2020.

NBM recommended that commercial banks refrain from paying dividends and other forms of capital distribution to shareholders, at least until 30 September 2020.

Also, on 17 March 2020, the NBM issued a decision through which allowed banks from the Republic of Moldova to change or resign the loan contracts with individual debtors up to 31 July 2020. The proposed allowed method being prolongation or renegotiation under the form of a new loan schedule containing the payments accrued between March and May 2020, Banks having also the possibility to change the maturity of the loans. The loans benefiting from this prolongation or renegotiation were not required to be reclassified into a tougher category from a credit risk perspective.

On 27 March 2020, the NBM approved a decision allowing licensed banks to postpone or modify the due dates of payments and/or the amounts of payments due until 30 June 2020 for loans granted to companies whose financial situation has been temporarily affected due to the state of emergency and the economic consequences generated by COVID-19. The modification of the mentioned terms did not have the effect of automatically classifying the respective loans in a tougher category than the one existing at the date of the decision. These measures could have been applied selectively and individually by banks, according to their own capabilities, regulations and contractual provisions.

2 Operating environment of the Bank (continued)

Measures taken by the Bank. In the context presented above the Bank offered starting with 17 March 2020 several facilities to its clients, separate for each category of client.

As such for legal entities the Bank:

- has not calculate penalties or increased interest for past due payments accumulated between 19 March and 31 May 2020;
- has not charged fees for debt rescheduled and even encouraged clients to request rescheduling; and
- extended the term of drawdown for the overdrafts on current accounts from 30 to 90 days.

The mentioned facilities were used by about 8.2% of the clients of legal entities, with an exposure of almost MDL 910,000 thousand as at 31 May 2020. The estimated expected credit losses at 31 May 2020 accounted for MDL 35,791 thousand.

As at 31 December 2020 the rescheduled loans accounted for MDL 92,937 thousand, of them only MDL 2,588 thousand with over 30 days past due. The expected credit losses estimated for these loans accounted for MDL 2,382 thousand.

For the Retail segment the Bank offered the following facilities:

- the payment date for loan instalments for March, April and May, as well as related interest, were reschedule for June;
- like legal entities, the Bank did not charge any penalty and/or increased interest for delay in payment; and
- the modification of the loan repayment schedule was performed without charging the clients the commission for the modification of the contractual clauses.

For the repayment of deferred payments related to loans secured by pledge or mortgage, the Bank offered two options:

- payment between 1 June and 31 July 2020 of both deferred and current payments, without respecting the repayment schedule (the debtor could decide within this period when and what amounts will be paid), the calculation of the days past due being resumed starting with 1 July 2020; and
- the creation of an additional obligation consisting of deferred payments and the formation of an additional repayment schedule, separate from the basic loan, for a period of up to 12 months, with the application to deferred payments of 0% interest rate and 0% administration fee.

For the reimbursement of deferred payments related to unsecured loans, the Bank offered:

- the inclusion in the loan principal of the deferred principal payments during the months of March-May 2020 (without capitalization of interests and commissions), so that the credit balance in July was equal to the credit balance from March;
- establishing a new repayment schedule, with the beginning of the annuity payments from July 2020;
- extension of loan maturity by 6 months;
- 0% interest for June 2020; and
- in June - July 2020 the client could pay proportionally the interest and the monthly administration commission, calculated in the period March - June 2020.

These facilities were applied for about 25,000 loans from the individuals segment representing about 30% of the number of loans granted to this segment or 36% of the total exposure. The estimated expected credit losses for these loans as at 31 May 2020 was MDL 21,817 thousand. As of July 2020, almost 37% of these loans returned to the initial repayment schedule without the application of rescheduling measures.

As of 31 December 2020, this portfolio accounted for MDL 722,883 thousand, of them MDL 75,385 thousand with more than 30 days past due out of which MDL 42,700 thousand representing defaulted exposures. The expected credit losses estimated for these loans accounted for MDL 63,046 thousand.

2 Operating environment of the Bank (continued)

For the purpose of measurement of expected credit losses ("ECL") the Bank uses supportable forward-looking information, including forecasts of macroeconomic variables. As with any economic forecast, however, the projections and likelihoods of their occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different from those projected.

Additional details regarding the impact of COVID-19 on the ECL models are included in Note 13 and 36 of these financial statements.

In March 2020, the International Accounting Standards Board ("IASB") emphasised in its educational materials that an appropriate judgment has to be applied when determining the effects of COVID-19 on ECL under IFRS 9 "Financial instruments" ("IFRS 9"), given the significant uncertainty that exists, in particular when assessing future macroeconomic conditions. Deteriorating economic forecasts have caused and are likely to continue to cause an increase in ECL and hence greater volatility of profit or loss.

Beyond 2020, the high uncertainty on the duration of the pandemic and on its economic and social ramifications could further constrain firms, workers and households, hampering the recovery of the economic environment. While uncertainty remains, key components of aggregate demand are expected to suffer significant declines. In the medium term, growth is expected to stabilize below potential as uncertainty weighs in on economic activity.

3 Significant accounting policies

Basis of preparation. These separate financial statements of the Bank ("Financial statements") have been prepared in accordance with the International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board ("IASB"), effective at the Bank's annual reporting date, 31 December 2020. These Financial statements were prepared under the historical cost convention, except for the financial instruments recognized at fair value through other comprehensive income and for the revaluation of premises.

The Financial statements have been prepared considering the going concern assumption. Items included in the Financial statements are measured using the currency of the primary economic environment in which the Bank operates, the functional currency. The Financial statements are presented in Moldovan lei ("MDL") which is the Bank's functional and presentation currency, rounded to the nearest value expressed in thousand MDL.

The Financial statements of the Bank at 31 December 2020 cannot be amended after their approval by the Management Board of the Bank.

In addition to these Financial statements, the Bank also prepares and publishes consolidated financial statements which includes also the amounts corresponding to its subsidiaries. The Financial statements should be read together with the consolidated financial statements.

Financial instruments – key measurement terms.

Financial assets and financial liabilities are recognised in the Bank's statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. Recognised financial assets and financial liabilities are initially measured at fair value through profit or loss or at fair value through other comprehensive income.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: in an active market for asset or liability or in the absence of an active market, in the most advantageous/quoted market for the asset or liability.

3 Significant accounting policies (continued)

The Bank has access to either active or the most advantageous market.

The Bank uses valuation techniques that are appropriate for the categories of assets and liabilities and for which enough data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) Level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) Level 2 measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) Level 3 measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost ("AC") is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the gross carrying amount of the financial instrument.

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount, which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Financial instruments – initial recognition. The Bank recognizes a financial asset or a financial liability on the statement of its financial position at the transaction date. The transaction date is the date when the Bank undertakes to buy or to sell an asset. Upon initial recognition, the Bank has to measure a financial asset or a financial liability at its fair value plus or minus, in the case of a financial asset or a financial liability, which is not measured at fair value through profit or loss, the transaction costs, which are directly attributable to the purchase or issuance of the financial asset or financial liability.

When the Bank uses the accounting at the settlement date for an asset that subsequently is measured at amortised cost, the asset shall be initially recognised at its fair value on the date of transaction. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

3 Significant accounting policies (continued)

Upon initial recognition, the Bank classifies the financial assets either at amortized cost or at fair value through other comprehensive income, or at fair value through profit or loss, and classifies financial liabilities either at amortized cost or at fair value through profit or loss. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at fair value through other comprehensive income, resulting in an immediate accounting loss.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention are recorded at trade date, which is the date on which the Bank commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial assets – classification and subsequent measurement – measurement categories. The Bank classifies financial assets in the following measurement categories: Amortised Cost (“AC”), Fair value through other comprehensive income (“FVOCI”) and Fair value through profit or loss (“FVTPL”).

The classification and subsequent measurement of debt financial assets depends on: (i) the Bank’s business model for managing the related assets portfolio; and (ii) the cash flow characteristics of the asset.

Financial assets – classification and subsequent measurement – (i) business model. The business model reflects how the Bank manages the assets in order to generate cash flows – whether the Bank’s objective is: (i) solely to collect the contractual cash flows from the assets (“hold to collect contractual cash flows”) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets (“hold to collect contractual cash flows and sell”) or (iii) if neither of (i) and (ii) is applicable, the financial assets are classified as part of “other” business model and are measured at FVTPL.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Bank undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Bank in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets’ performance is assessed and how managers are compensated. Refer to Note 4 for critical judgements applied by the Bank in determining the business models for its financial assets.

Financial assets – classification and subsequent measurement – (ii) cash flow characteristics. Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Bank assesses whether the cash flows represent solely payments of principal and interest (“SPPI”). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin. Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. Refer to Note 4 for critical judgements applied by the Bank in performing the SPPI test for its financial assets.

Financial assets – reclassification. Financial instruments are reclassified only when the business model for managing the portfolio changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows the change in the business model. The Bank did not change its business model during the current and comparative period and did not made any reclassifications.

3 Significant accounting policies (continued)

Financial assets impairment – credit loss allowance for ECL. The Bank assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts. The Bank measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC are presented in the statement of financial position net of the allowance for ECL. For loan commitments and financial guarantees, a separate provision for ECL is recognised as a liability in the statement of financial position. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

The Bank applies a three-stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1.

Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter in case of Retail clients ("12 Months ECL"). If the Bank identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). If the Bank determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL.

Individual assessment is mandatory for the clients for which the exposure is higher than MDL 10,000 thousand and which were classified in Stage 3 at the time of assessment performed by the Bank. For other financial assets that are considered significant, the Bank performs individual assessment, regardless of the stage in which the assets were classified, calculating the ECL as the difference between the cash flows to be received, discounted using the original EIR. In this case scenarios weighted for all probable cash flows shall be considered, namely: asset contractual flows, cash flows resulting from the sales of collateral and other credit improvements.

Details regarding the portfolio segmentation, the Bank's definition of credit impaired assets, definition of default, inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Bank incorporates forward-looking information in the ECL models are described in Note 36.7.

Financial assets – modification. The Bank sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Bank assesses whether the modification of contractual cash flows is substantial considering (over 10% change of net present value), among other, the following factors: any new contractual terms that substantially affect the risk profile of the asset (e.g. profit share or equity-based return), significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

When possible, the Bank attempts to restructure loans rather than take over the collateral. This may involve expanding the payment schedule and renegotiating lending conditions. Management of the Bank continuously reviews the renegotiated loans to ensure that all requirements are met, and subsequent payments will take place. Renegotiated loans are classified more rigidly and are classified at least in Stage 2 for a 6-month observation period. Upon the expiration of the observation period, the loans can be classified in a more favourable stage, provided that the contractual obligations are respected, and no factors of deterioration have been identified.

3 Significant accounting policies (continued)

In a situation where the renegotiation was driven by financial difficulties of the counterparty or its inability to make the originally agreed payments, the renegotiation is aimed at maximizing the recoverable amount and does not result in derecognition. The Bank recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate and recognises a modification gain or loss in profit or loss under Interest income calculated using the EIR method for loans in stage 1 and for the other ones the modification is included in Credit loss allowance.

Financial assets – write-off. Financial assets are written-off, in whole or in part, when the Bank exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Bank may write-off financial assets that are still subject to enforcement activity when the Bank seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery. Write-off financial assets with a value of more than one thousand MDL are recorded in the memorandum accounts and are the subject of the pursuit until the full reimbursement or until the termination of their pursuit is decided.

Financial assets – derecognition. The Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Bank has transferred the rights to the cash flows from the financial assets or entered a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Financial liabilities – measurement categories. The Bank shall classify all financial liabilities as subsequently measured at AC, except for: (i) the financial liabilities at FVTPL: such liabilities, including derivatives, which are liabilities, have to be subsequently measured at fair value; (ii) the financial liabilities that arise when a transfer of a financial asset does not meet the conditions to be derecognised or is carried using the continuing involvement approach.

Financial liabilities – derecognition. Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires). The Bank does not reclassify its financial liabilities.

Cash and cash equivalents. For the statement of cash flows, cash and cash equivalents comprise cash on hand, unrestricted balances held with NBM, current accounts and short-term placements at other banks, treasury bills and other short-term highly liquid investments, with original maturity of less than 90 days. Cash and cash equivalents are carried at amortized cost because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

Mandatory cash balances with the NBM. Mandatory cash balances with the NBM are carried at AC and represent interest bearing mandatory reserve deposits, which are not available to finance the Bank’s day to day operations, and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

Due from other banks. Amounts due from other banks are recorded when the Bank advances money to counterparty banks. Amounts due from other banks are carried at AC when: (i) they are held for the purposes of collecting contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

3 Significant accounting policies (continued)

Investments in debt securities. Based on the business model and the cash flow characteristics, the Bank classifies investments in debt securities as carried at AC, FVOCI or FVTPL. Debt securities are carried at AC if they are held for collection of contractual cash flows and where those cash flows represent SPPI, and if they are not voluntarily designated at FVTPL in order to significantly reduce an accounting mismatch.

Debt securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL. Interest income from these assets is calculated using the effective interest method and recognised in profit or loss. An impairment allowance estimated using the expected credit loss model is recognised in profit or loss for the year. Revaluation of debt instruments in foreign currency is recognised in profit or loss for the year. All other changes in the carrying value are recognised in OCI. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss.

Investments in debt securities are carried at FVTPL if they do not meet the criteria for AC or FVOCI. The Bank may also irrevocably designate investments in debt securities at FVTPL on initial recognition if applying this option significantly reduces an accounting mismatch between financial assets and liabilities being recognised or measured on different accounting bases***.***

Investments in equity securities. Financial assets that meet the definition of equity from the issuer's perspective, i.e. instruments that do not contain a contractual obligation to pay cash and that evidence a residual interest in the issuer's net assets, are considered as investments in equity securities by the Bank. Investments in equity securities are measured at FVTPL, except where the Bank elects at initial recognition to irrevocably designate an equity investment at FVOCI. The Bank's policy is to designate equity investments as FVOCI when those investments are held for strategic purposes other than solely to generate investment returns. When the FVOCI election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses and their reversals, if any, are not measured separately from other changes in fair value. Dividends continue to be recognised in profit or loss when the Bank's right to receive payments is established except when they represent a recovery of an investment rather than a return on such investment.

Investments in subsidiaries. Subsidiaries are the entities controlled by the Bank. In the Financial statements of the Bank, investments in subsidiaries are recognised initially at cost (including transaction costs) in accordance with IAS 27 "Separate financial statements". After initial recognition, they are measured at cost minus any provision for impairment. Dividend income is recognized in the statement of profit or loss.

Loans and advances to customers. Loans and advances to customers are recorded when the Bank advances money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Bank classifies loans and advances to customers into AC: loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVTPL.

Impairment allowances are determined based on the forward-looking ECL models. Note 36.7 provides information about ECL calculation.

Premises and equipment. All items of premises and equipment are initially recognized at cost. The cost includes expenses directly attributable to the acquisition of the asset. When certain components of premises and equipment have different useful lives, they are accounted as distinct elements (major components) of premises and equipment.

Premises and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, except for the categories "Buildings" and "Land" – which are stated at revalued amount.

3 Significant accounting policies (continued)

Buildings and land are subject to revaluation with enough regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period, not less than once in five years.

When buildings and land are revalued, any accumulated depreciation at the revaluation date is proportionately restated with the modification of the gross carrying amount of the asset, so that the carrying amount of the asset after revaluation, would be equal to its revalued amount. The revaluation surplus included in other comprehensive income in respect of revalued assets is transferred to retained earnings when the asset is derecognized.

Repairs and maintenance are expensed and reported to operating expenses as incurred. The costs of construction in progress are capitalized if the criteria for recognition as premises and equipment are met, notably the assets generate future economic benefits. Construction in progress are recognized as premises and equipment at the moment of reception and deployment.

Where the carrying amount of an asset is greater than the estimated recoverable amount, the asset is written down to its recoverable amount. Gains and losses on disposals of premises and equipment are determined by reference to their carrying amount and are presented in other operating income.

Depreciation of premises and equipment, including for construction in progress begins when the asset is available for use and is recognized in the statement of profit or loss. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset, as stated in the table below.

The leasehold improvements are depreciated over the lease term. Land and construction in progress are not depreciated.

Premises and equipment	**Years**
Buildings	33-50
ATMs	4
Furniture and equipment	4-8
Computers	4
Vehicles	7

The useful lives and depreciation methods are reviewed, and adjusted as appropriate, at each financial year-end.

Intangible assets. Intangible assets represent costs incurred for acquisition of computer software, licenses and other intangible assets and are amortized using the straight-line method over the best estimate of their useful lives, that is up to 20 years. The amortization expense on intangible assets is recognised in the statement of profit or loss.

Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred. Costs that are directly associated with the production of identifiable 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 the costs related to the services provided by the software developer and provider.

Intangible assets in progress are not amortized up until the moment of deployment.

Gains and losses on the disposal of intangible assets are determined by reference to the net book value and are considered when determining the operating profit.

3 Significant accounting policies (continued)

Accounting for leases by the Bank as a Lessee. Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Bank. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is recognised at cost and depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the Bank uses as an incremental borrowing rate, the average rate on deposits attracted by the Bank from individuals, average rate that depend on currency of the contract and maturities.

At initial measurement the Bank measures the right-of-use asset at cost comprising the following:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee; and
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

As an exception to the above, the Bank accounts for short-term leases (less than 1 year) and leases of low value assets, of up to 100 thousand MDL, by recognising the lease payments as an operating expense on a straight-line basis.

In determining the lease term, management of the Bank considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options are only included in the lease term if the lease is reasonably certain to be extended. Potential future cash outflows of contracts in amount of 100 thousand MDL have not been included in the lease liability because it is not reasonably certain that the leases will be extended.

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

The Bank has not applied the Amendment to IFRS 16 “Leases” to COVID-19 related rent concessions granted by lessors for the period April - June 2020.

3 Significant accounting policies (continued)

Accounting for Operating leases by the Bank as a Lessor. When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Impairment of non-financial assets. The Bank assesses at each reporting date whether there are indications of assets impairment. If any such 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 cash-generating units (CGU) 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. An impairment loss on assets is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

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 minus costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortized cost. If the Bank purchases its own debt, the liability is removed from the separate statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

***Borrowings*.** Borrowings such as loans from banks and other financial institutions are initially recognized at fair value, notably as proceeds resulting from such instruments (fair value of consideration received), net of transaction costs incurred. Loans from banks and other financial institutions are subsequently carried at amortized cost and any difference between net proceeds and the redemption value is recognized in the statement of profit or loss over the period to maturity using the effective interest method. The Bank classify these instruments as financial liabilities in accordance with the contractual terms of the instrument.

***Due to customers*.** Due to customers are non-derivative liabilities to individuals, state or legal entities and are carried at amortized cost. Due to state customers are due to public authorities, which are current accounts of the Moldovan Ministry of Finance and deposit accounts of the Social Insurance Fund. These are stated at amortized cost, using the effective interest rate method.

Income tax expense. Income tax for the year includes the current tax and the deferred tax. The income tax is recognized in the result for the year or in the shareholders' equity, if the tax is related to shareholders' equity items. Current tax is the tax payable with respect to the profit for the period, determined based on the percentages applied at the date of the statement of financial position and all the adjustments related to the previous periods.

The adjustments which influence the fiscal base of the current tax are non-deductible expenses, non-taxable income, similar expense/ income items and other tax deductions.

Deferred tax is determined based on the balance sheet liability method for the temporary differences between the fiscal base for the calculation of the tax on assets and liabilities and their accounting value used for reporting under the Financial statements.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

3 Significant accounting policies (continued)

Deferred tax is not recognized for the following temporary differences: initial recognition of goodwill, initial recognition of assets and liabilities resulting from transactions which are not business combinations and do not affect the accounting or tax profit and differences resulting from investments in subsidiaries, provided that they are not reversed in the near future and the moment of reversal is being controlled by the Bank.

According to the local tax regulations, the fiscal loss of the entity that ceases to exist further to a legal merger through absorption can be acquired and recovered by the absorbing entity. Deferred tax claims are diminished to the extent to which the related tax benefits are unlikely to be achieved. The tax rate used to calculate the current and deferred tax position at 31 December 2020 is 12% (31 December 2019: 12%).

Financial guarantees. Financial guarantees agreements are contracts which enforce the issuer to make specific payments in order to repay a loss incurred by the holder because a specific debtor fails to make repayments at maturity in accordance with the terms of the debt instrument. Such financial guarantees are granted to banks, financial institutions and other entities on behalf of clients to secure loans, overdraft facilities and other bank facilities.

In the ordinary course of business, the Bank issues 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. The ECL for financial guarantees implies same approach as loans – the Bank using the probability of default and loss given default determined for its Corporate loan portfolio.

Any increase in the liability relating to financial guarantees is recorded in the statement of profit or loss as “Credit loss allowance”. The premium received is recognized in the statement of profit or loss as “Fee and commission income” on a straight-line basis over the life of the guarantee.

Loan commitments. The Bank issues commitments to provide loans. These commitments are irrevocable or revocable only in response to a material adverse change. Such commitments are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at (i) the remaining unamortised balance of the amount at initial recognition, plus (ii) the amount of the loss allowance determined based on the expected credit loss model.

Note 36 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Bank incorporates forward-looking information in the ECL models.

Contingencies. Contingent liabilities are not recognised in the Financial statements, but they are disclosed in notes, unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the Financial statements but disclosed when an inflow of economic benefits is probable.

Provisions. Provisions are recognized when the Bank has a present legal obligation as a result of past events, and it is probable that an outflow of economic resources may be required in the future to settle the obligation, such obligation being measured reliably. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Levies and charges, such as taxes other than income tax or regulatory fees based on information related to a period before the obligation to pay arises, are recognised as liabilities when the obligating event that gives rise to pay a levy occurs, as identified by the legislation that triggers the obligation to pay the levy. If a levy is paid before the obligating event, it is recognised as a prepayment.

3 Significant accounting policies (continued)

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenses expected to be required to settle the obligation using a pre-tax rate that reflects current market conditions of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Future operating losses are not provided for.

Other liabilities. Other liabilities are accrued when the counterparty has performed its obligations under the contract and are carried at AC.

Ordinary shares and share premium. The share capital of the Bank represents ordinary shares and is the consideration from shareholders equal to nominal value of issued shares. Ordinary shares and shares premium are both classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the Financial statements are authorised for issue, are disclosed in the subsequent events note.

Interest income and expenses. Interest income and expense for all interest-bearing financial instruments, are recognized in the statement of profit or loss, on an accrual basis using the effective interest method. Fees for loan commitments that are likely to be granted are deferred (together with direct costs) and are recognized as an adjustment to the effective interest rate on loans.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their AC, net of the ECL provision, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the AC.

If the credit risk on the financial asset classified in Stage 3 subsequently improves so that the asset is no longer credit-impaired and the improvement can be related objectively to an event occurring after the asset had been determined as credit-impaired (i.e. the asset becomes cured), the asset is reclassified from Stage 3 and the interest revenue is calculated by applying the EIR to the gross carrying amount. The additional interest income, which was previously not recognised in the statement of profit or loss due to the fact that the asset was in Stage 3 but it is now expected to be received following the asset's curing, is recognised as a reversal of impairment.

Other similar income includes the income recorded for elements of cash and cash equivalents for which EIR is not computed.

Fee and commission income and expense. Fees and commissions are generally recognized on an accrual basis when the service has been provided. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party - such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses - are recognized on completion of the underlying transaction. Other fee and commission income arising from the financial services provided by the Bank including investment management services, brokerage services, and account service fees are recognized as the related service is provided in the statement of profit or loss. Other fee and commission expenses relate mainly to transaction and service fees, which are registered as expenses as the services are received.

Other operating income and expenses. Other operating income, as well as operating expenses, are recognized on an accrual basis.

3 Significant accounting policies (continued)

Gains less losses from foreign exchange operations. The Bank sells and purchases foreign currencies in the cash offices and through the bank accounts, as well as exchanges foreign currencies. The transactions are performed at the exchange rates established by the Bank, which are different from the official spot exchange rates at the particular dates. The differences between the official rates and Bank rates are recognised as gains less losses from trading in foreign currencies at a point in time when a particular performance obligation is satisfied.

Foreign currency translation. Transactions in foreign currency are recorded in the functional currency at the official exchange rate at the date of the transaction. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated into functional currency using the closing exchange rate. Non-monetary assets and liabilities that are measured in terms of historical cost in foreign currency are translated in the functional currency by using the exchange rate at the date of the transaction. Equity investments measured at fair value in a foreign currency, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into the functional currency at year-end official exchange rates of the NBM, are recognised in the statement of profit or loss for the year.

At 31 December 2020, the main exchange rates used for translating foreign currency balances were:

- EUR 1 = MDL 21.1266 (31 December 2019: EUR 1 = MDL 19.2605); and
- USD 1 = MDL 17.2146 (31 December 2019: USD 1 = MDL 17.2093).

Pension costs and employees' benefits. Employee benefits include wages, salaries and social security contributions. The Bank makes contributions to the Republic of Moldova state funds for social insurance, medical insurance and unemployment benefits, which are calculated on the basis of salaries of all employees of the Bank. The Bank does not operate any other retirement plan and has no other obligation to provide further benefits to current or former employees. Benefits and the related contributions are recognized as expense as the services are rendered.

Earnings per share. Earnings per share are determined by dividing the profit or loss attributable to owners of the Bank by the weighted average number of participating shares outstanding during the reporting year.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Bank's chief operating decisions maker. Segments whose revenue, result or assets are 10% or more of all segments are reported separately. The information on segments is presented in Note 35.

Presentation of statement of financial position in order of liquidity. The Bank does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented in order of their liquidity. Refer to Note 37 for analysis of financial instruments by their maturity.

Comparative financial statements. These Financial statements include the comparatives whenever required by an international financial reporting standard and whenever they facilitate proper understanding of the Bank's situation. The comparatives presented in these Financial statements represent the individual financial information of the Bank. For the purpose of preparing these Financial statements, certain comparative information has been reclassified to comply with the presentation requirements applicable for the financial year ended 31 December 2020. The reclassifications performed are presented in Note 42.

4 Critical accounting estimates and judgements in applying accounting policies

The preparation of financial statements in accordance with IFRS implies the use of certain critical accounting estimates. It also implies that the management expresses its judgment in the process of applying the Bank's accounting policies, in terms of reported values for assets, liabilities, income and expenses. The estimates and associated judgments are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Actual results may differ from these estimated values.

The estimates and underlying assumptions are reviewed on an ongoing basis. The review of the accounting estimates are recognized in the period in which they are revised, if the review affects only that period, or in the period when the estimate is reviewed and future periods, if the review affects both current and future periods.

Judgements that have the most significant effect on the amounts recognised in these Financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Fair value of financial assets at fair value through other comprehensive income - when the fair value of financial assets cannot be determined from market information, it is determined using asset techniques, including models of discounting cash flows. The data for these models are taken from the observations made on the market, where possible, but if this is not possible, a degree of judgment is needed to establish fair values.

Estimates include considerations such as liquidity risk, credit risk and volatility. Changes in estimates of these factors may affect the reported value of financial assets. If the fair value cannot be reliably determined the equity investments are held at cost.

The Bank measures the fair value of financial instruments using one of these methods of hierarchy:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

- Level 2: Inputs other than quoted prices included within level 1 that are observable for substantially the full term of the asset or liability. Level 2 inputs include the following:
  - Quoted prices for similar assets or liabilities in active markets.
  - Quoted prices for identical or similar assets or liabilities in markets that are not active.
  - Inputs other than quoted prices that are observable for the asset or liability.

- Level 3: Valuation techniques based on the input data which cannot be observed on the market for the asset or liability. This category includes all instruments whose valuation method does not include observable and unobservable data has a significant influence on the assessment instrument. This category includes instruments that are valued based on market quotes for similar instruments where unobservable adjustments or assumptions are required to reflect difference between the instruments.

The objective of valuation techniques is determining fair value, which reflects the price that would be obtained in a transaction in normal market conditions, for the financial instrument at the date of the Financial statements.

Valuation models that use a significant number of unobservable data require a higher proportion of estimates and judgments by management in determining fair value. Estimates and judgments by management is usually required to select the most appropriate valuation model, determining future cash flows of the instrument under valuation, determining the probability of default of the counterparty, and selecting prepayments and discount rates. Please see Note 39 for presentation of fair value of financial instruments and the sensitivity of these instruments to changes in data input used.

(All amounts are expressed in thousands MDL, if not stated otherwise)

4 Critical accounting estimates and judgements in applying accounting policies (continued)

ECL measurement. Measurement of ECLs is a significant estimate that involves determination of methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 36. The following components have a major impact on credit loss allowance:

- segmentation of financial assets for the ECL assessment purposes;
- determination of a level of ECL assessment on an individual instrument basis or on a collective basis;
- assessment of loss given default ("LGD"), including the judgments made in valuation of collaterals;
- criteria for assessing if there has been a significant increase in credit risk ("SICR"); and
- selection of forward-looking macroeconomic scenarios and their probability weightings.

The Bank regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

The Bank used supportable forward-looking information for measurement of ECL, primarily an outcome of its own forecasting model based on publicly available macro-economic indicators forecasts.

The most significant forward-looking assumptions that correlate with ECL level and their assigned weights at 31 December 2020 are presented below.

The Bank considered the link between the changes in the probability of default ("PD") and different economic/macroeconomic factors such as Gross Domestic Product ("GDP"), Chisinau Interbank Offered Rate ("CHIBOR"), House Price Index ("HPI"), Industrial Production Index ("IPI"), etc., having integrated valid correlations into the Impairment Methodology by determining and applying a PD adjustment factor for a 12-month period. The final macroeconomic factors considered are presented below.

The Bank changed the weights assigned to the scenarios during 2020 primarily as a result of the far-reaching implications of the COVID-19 pandemic.

Variable	**Scenario**	**Assigned weight**	**Assumptions 2020**
Inflation rate	Base	50%	4.9%
	Upside	25%	2.8%
	Downside	25%	7.9%
CHIBOR	Base	50%	10.85%
	Upside	25%	10.1%
	Downside	25%	11.92%
GDP	Base	50%	-5.5%
	Upside	10%	-5.2%
	Downside	40%	-6.6%

The assumptions and assigned weights were as follows at 31 December 2019:

Variable	**Scenario**	**Assigned weight**	**Assumptions 2019**
IPI	Base	100%	6%
HPI	Base	100%	0.4%

(All amounts are expressed in thousands MDL, if not stated otherwise)

4 Critical accounting estimates and judgements in applying accounting policies (continued)

A change in the weight assigned to base forward looking macro-economic set of assumptions by 10% towards the immediate downside level assumptions would result in an increase in ECL by MDL 10,201 thousand at 31 December 2020 (31 December 2019: by MDL 16,373 thousand). A corresponding change towards the upside assumptions would result in a decrease in ECL by MDL 7,566 thousand at 31 December 2020 (31 December 2019: by MDL 16,373 thousand).

A 10% increase or decrease in PD estimates would result in an increase or decrease in total ECL allowances of MDL 27,843 thousand at 31 December 2020 (31 December 2019: increase or decrease of MDL 19,010 thousand). A 10% increase or decrease in LGD estimates would result in an increase or decrease in total ECL allowances of MDL 36,976 thousand at 31 December 2020 (31 December 2019: increase or decrease of MDL 23,955 thousand).

The Bank uses a simplified approach in estimating the ECL for other financial assets by applying predetermined rates based on the number of days past due reported. For settlements through correspondent accounts with foreign banks for amounts of an unidentified nature and amounts transferred in favour of or on behalf of individuals through the International Rapid Transfer Systems, which is carried out by clearing the determination of the ECL is done considering the following rates:

Days past due	**ECL Rate**
Current	0%
1 – 10 days past due	30%
11 – 30 days past due	60%
Over 30 days past due	100%

For other financial assets the relationship is as follows:

Days past due	**ECL Rate**
Current	2%
1 - 90 days past due	20%
Over 90 days past due	100%

Customer relief measures. The Bank implemented relief measures as allowed by the NBM in response to the spread of COVID-19. Individuals, Small and medium enterprises (“SME”) and corporate clients that were negatively affected by the virus could use payment holidays from March to June 2020. Loans to individuals who applied for the relief and for whom, SICR occurred, amounted to MDL 116,119 thousand as of 31 December 2020. Loans to SMEs who applied for the relief and for whom SICR occurred, amounted to MDL 26,589 thousand as of 31 December 2020.

When the Bank provides the customers with payment holidays, the Bank stops to count days past due during the holiday period granted, if the customers are contractually relieved from making payments. After the end of the holiday period granted, the Bank resetted the counting of days overdue starting with 1 July 2020.

Credit exposure on revolving credit facilities (e.g. credit cards, overdrafts) – are subject to same ECL as similar to regular credit facilities – namely based on the contractual term the commitments is set valid for.

Business model assessment. The business model drives classification of financial assets. Management applied judgement in determining the level of aggregation of portfolios of financial instruments when performing the business model assessment. When assessing sales transactions, the Bank considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity. Sales transactions aimed at minimising potential losses due to credit deterioration are considered consistent with the “hold to collect” business model. Other sales before maturity, not related to credit risk management activities, are also consistent with the “hold to collect” business model, provided that they are infrequent or insignificant in value, both individually and in aggregate.

4 Critical accounting estimates and judgements in applying accounting policies (continued)

The Bank assesses significance of sales transactions by comparing the value of the sales to the value of the portfolio subject to business model assessment over the average life of the portfolio. In addition, sales of financial asset expected only in stress case scenario, or in response to an isolated event that is beyond the Bank's control, is not recurring and could not have been anticipated by the Bank, are regarded as incidental to the business model objective and do not impact the classification of the respective financial assets.

The "hold to collect and sell" business model means that assets are held to collect the cash flows, but selling is also integral to achieving the business model's objective, such as, managing liquidity needs, achieving a particular yield, or matching the duration of the financial assets to the duration of the liabilities that fund those assets.

Assessment whether cash flows are solely payments of principal and interest ("SPPI"). Determining whether a financial asset's cash flows are solely payments of principal and interest required judgement. In making this judgement, the Bank considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Bank's claim to the cash flows from specified assets (e.g. non-recurse financing);
- Features that modify consideration of the time value of money element (e.g. periodical reset of interest rates);

The Bank identified and considered contractual terms that change the timing or amount of contractual cash flows. The SPPI criterion is met if a loan allows early settlement and the prepayment amount substantially represents principal and accrued interest, plus a reasonable additional compensation for the early termination of the contract. The asset's principal is the fair value at initial recognition less subsequent principal repayments, i.e. instalments net of interest determined using the effective interest method. As an exception to this principle, the standard also allows instruments with prepayment features that meet the following condition to meet SPPI: (i) the asset is originated at a premium or discount, (ii) the prepayment amount represents contractual paramount and accrued interest and a reasonable additional compensation for the early termination of the contract, and (iii) the fair value of the prepayment feature is immaterial at initial recognition.

The Bank considered examples in the standard and concluded that features that arise solely from legislation and that are not part of the contract, that is, if legislation changed, the features would no longer apply (such as bail in legislation in certain countries), are not relevant for assessing whether cash flows are SPPI.

The Bank's loan agreements allow adjusting interest rates in response to certain macro-economic or regulatory changes. Management applied judgement and assessed that competition in the banking sector and the practical ability of the borrowers to refinance the loans would prevent it from resetting the interest rates at an above-market level and hence cash flows were assessed as being SPPI.

Modification of financial assets. The Bank sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Bank assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: any new contractual terms that substantially affect the risk profile of the asset (e.g. profit share or equity-based return), significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties. Loans modified in relation to COVID-19 pandemic were not derecognised because the primary reason for their modification was to provide relief to borrowers, providing such relief generated a loss for the Bank, in the absence of full compensation for time value of money.

4 Critical accounting estimates and judgements in applying accounting policies (continued)

Write-off policy. Financial assets are written-off, in whole or in part, when the Bank exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. Determining the cash flows for which there is no reasonable expectation of recovery requires judgement. Management considered the following indicators that there is no reasonable expectation of recovery:

- unsecured loans with 365 days past due, without confirmed promise to pay or other source of reimbursements in amount of over 20% of exposure during next 12 months;
- secured loans with 1095 days past due, without confirmed promise to pay or other source of reimbursements in amount of over 20% of exposure during next 12 months; and
- other situations that led to recognition of 100% ECL.

Deductible temporary differences. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deductible temporary differences are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium-term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances.

Initial recognition of related party transactions. In the normal course of business, the Bank enters into transactions with its related parties. IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 41.

Valuation of own use buildings. Buildings of the Bank are stated at fair value based on reports prepared by an international valuation company. Due to the nature of the buildings and lack of comparable market data, the fair value of the premises is estimated based on the income capitalisation method, where the value is estimated from the expected market rental income streams from similar properties and capitalisation yields. The method considers net income generated by comparable property, utilised to determine the value for property which is subject to the valuation.

The principal assumptions underlying the estimation of the fair value are those relating to the possible market rentals and appropriate discount rates. These valuations are regularly compared to actual market yield data and actual transactions performed by the Bank and those reported by the market. The revaluation once in five years is also considered a significant judgement.

Determining lease term. The Bank leases office buildings from third parties under contracts which do not have contractual maturity dates and are automatically renewed unless either party submits a termination notice of 12 months. The Bank determines non-cancellable lease period for such leases, taking into consideration penalties that would be incurred upon termination, including economic disincentives such as cost of leasehold improvements, cost of relocating or the importance of the premises to the Bank's operations. As a result, the lease term for most significant office buildings has been determined as a period of 1-7 years.

5 Adoption of new or revised standards and interpretations

The following amended standards became effective from 1 January 2020, but did not have any material impact on the Bank:

- ***Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).*** The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

5 Adoption of new or revised standards and interpretations (continued)

- ***Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).*** The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if are no outputs. The definition of the term "outputs" is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a "concentration test". The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset or a group of similar assets. The amendments are prospective, and the Bank will apply them and assess their impact from 1 January 2020 if such transaction would take place.

- ***Definition of Material – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).*** The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Bank is currently assessing the impact of the amendments on its financial statements.

- ***Interest rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020).*** The amendments were triggered by replacement of benchmark interest rates such as LIBOR and other inter-bank offered rates ("IBORs"). The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by the IBOR reform. Cash flow hedge accounting under both IFRS 9 and IAS 39 requires the future hedged cash flows to be "highly probable". Where these cash flows depend on an IBOR, the relief provided by the amendments requires an entity to assume that the interest rate on which the hedged cash flows are based does not change as a result of the reform. Both IAS 39 and IFRS 9 require a forward-looking prospective assessment in order to apply hedge accounting. While cash flows under IBOR and IBOR replacement rates are currently expected to be broadly equivalent, which minimises any ineffectiveness, this might no longer be the case as the date of the reform gets closer. Under the amendments, an entity may assume that the interest rate benchmark on which the cash flows of the hedged item, hedging instrument or hedged risk are based, is not altered by IBOR reform. IBOR reform might also cause a hedge to fall outside the 80–125% range required by retrospective test under IAS 39. IAS 39 has therefore been amended to provide an exception to the retrospective effectiveness test such that a hedge is not discontinued during the period of IBOR-related uncertainty solely because the retrospective effectiveness falls outside this range. However, the other requirements for hedge accounting, including the prospective assessment, would still need to be met. In some hedges, the hedged item or hedged risk is a non-contractually specified IBOR risk component. In order for hedge accounting to be applied, both IFRS 9 and IAS 39 require the designated risk component to be separately identifiable and reliably measurable. Under the amendments, the risk component only needs to be separately identifiable at initial hedge designation and not on an ongoing basis. In the context of a macro hedge, where an entity frequently resets a hedging relationship, the relief applies from when a hedged item was initially designated within that hedging relationship. Any hedge ineffectiveness will continue to be recorded in profit or loss under both IAS 39 and IFRS 9. The amendments set out triggers for when the reliefs will end, which include the uncertainty arising from interest rate benchmark reform no longer being present. The amendments require entities to provide additional information to investors about their hedging relationships that are directly affected by these uncertainties, including the nominal amount of hedging instruments to which the reliefs are applied, any significant assumptions or judgements made in applying the reliefs, and qualitative disclosures about how the entity is impacted by IBOR reform and is managing the transition process. The Bank is currently assessing the impact of the amendments on its financial statements.

5 Adoption of new or revised standards and interpretations (continued)

- ***COVID-19-Related Rent Concessions Amendment to IFRS 16 (issued on 28 May 2020 and effective for annual periods beginning on or after 1 June 2020).*** The amendments provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as a variable lease payment. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; any reduction in lease payments affects only payments due on or before 30 June 2021; and there is no substantive change to other terms and conditions of the lease. If a lessee chooses to apply the practical expedient to a lease, it would apply the practical expedient consistently to all lease contracts with similar characteristics and in similar circumstances. The amendment is to be applied retrospectively in accordance with IAS 8, but lessees are not required to restate prior period figures or to provide the disclosure under paragraph 28(f) of IAS 8. The Bank has not applied the amendments on its financial statements.

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2021 or later, and which the Bank has not early adopted.

- ***IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).*** IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately.

- ***Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021).***

The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The amendments cover the following areas:

- *Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform:* For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform.

6 New Accounting Pronouncements (continued)

- *End date for Phase 1 relief for non-contractually specified risk components in hedging relationships:* The Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 reliefs to a non-contractually specified risk component at the earlier of when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components.

- *Additional temporary exceptions from applying specific hedge accounting requirements:* The Phase 2 amendments provide some additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.

- *Additional IFRS 7 disclosures related to IBOR reform:* The amendments require disclosure of: (i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and (iii) a description of any changes to the risk management strategy as a result of IBOR reform.

- ***Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022).*** These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

- ***Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022).*** The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management. The amendment to IAS 37 clarifies the meaning of 'costs to fulfil a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities.

6 New Accounting Pronouncements (continued)

The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework. Without this new exception, an entity would have recognised some liabilities in a business combination that it would not recognise under IAS 37. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.

The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.

Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.

IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. IFRS 1 was amended to allow entities that have taken this IFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.

The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

- ***Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023).*** The amendments include a number of clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard. The following amendments to IFRS 17 were made:

- *Effective date*: The effective date of IFRS 17 (incorporating the amendments) has been deferred by two years to annual reporting periods beginning on or after 1 January 2023; and the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 has also been deferred to annual reporting periods beginning on or after 1 January 2023.

- *Expected recovery of insurance acquisition cash flows*: An entity is required to allocate part of the acquisition costs to related expected contract renewals, and to recognise those costs as an asset until the entity recognises the contract renewals. Entities are required to assess the recoverability of the asset at each reporting date, and to provide specific information about the asset in the notes to the financial statements.

- *Contractual service margin attributable to investment services*: Coverage units should be identified, considering the quantity of benefits and expected period of both insurance coverage and investment services, for contracts under the variable fee approach and for other contracts with an 'investment-return service' under the general model. Costs related to investment activities should be included as cash flows within the boundary of an insurance contract, to the extent that the entity performs such activities to enhance benefits from insurance coverage for the policyholder.

6 New Accounting Pronouncements (continued)

- *Reinsurance contracts held – recovery of losses*: When an entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous underlying contracts to a group, an entity should adjust the contractual service margin of a related group of reinsurance contracts held and recognise a gain on the reinsurance contracts held. The amount of the loss recovered from a reinsurance contract held is determined by multiplying the loss recognised on underlying insurance contracts and the percentage of claims on underlying insurance contracts that the entity expects to recover from the reinsurance contract held. This requirement would apply only when the reinsurance contract held is recognised before or at the same time as the loss is recognised on the underlying insurance contracts.

- *Other amendments:* Other amendments include scope exclusions for some credit card (or similar) contracts, and some loan contracts; presentation of insurance contract assets and liabilities in the statement of financial position in portfolios instead of groups; applicability of the risk mitigation option when mitigating financial risks using reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss; an accounting policy choice to change the estimates made in previous interim financial statements when applying IFRS 17; inclusion of income tax payments and receipts that are specifically chargeable to the policyholder under the terms of an insurance contract in the fulfilment cash flows; and selected transition reliefs and other minor amendments.

- ***Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1 (issued on 15 July 2020 and effective for annual periods beginning on or after 1 January 2023).*** *The amendment to IAS 1 on classification of liabilities as current or non-current* was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance.

- ***Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023).*** IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity's financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, IFRS Practice Statement 2, "Making Materiality Judgements" was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

- ***Amendments to IAS 8: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023).*** The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates.

The Bank is currently assessing the impact of the amendments on its financial statements. Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Bank's Financial statements.

(All amounts are expressed in thousands MDL, if not stated otherwise)

7 Cash on hand

	31 December 2020	31 December 2019
Cash on hand	740,393	722,089
Cash in ATM	231,304	217,930
Commemorative and jubilee coins	80	94
Total	**971,777**	**940,113**

Cash and cash equivalents

For the separate statement of cash flows, cash and cash equivalents comprise the following balances with original maturity of less than 90 days:

	31 December 2020	31 December 2019
Cash on hand	971,777	940,113
Current accounts at the National Bank of Moldova	3,626,763	4,455,945
Correspondent accounts, overnight deposits and Placements with other banks with original maturities of less than three months	2,192,804	1,928,015
Certificates issued by the NBM	1,598,964	740,198
Total	**8,390,308**	**8,064,271**

8 Balances with the National Bank of Moldova

	31 December 2020	31 December 2019
Current accounts	3,626,763	4,455,945
Mandatory reserves	2,757,768	1,357,707
Total	**6,384,531**	**5,813,652**

Current account and Mandatory reserves

The Bank determines the Mandatory reserves in accordance with the basis of calculation and the required ratios established by the Administration Council of NBM. For funds attracted in MDL and in non-convertible currencies the reserves are recorded in MDL, while for funds attracted in USD the reserves are held in USD and similar for funds attracted in EUR and other convertible currencies the reserves are held in EUR, both reserves being converted to MDL at the end of each reporting period.

The Mandatory reserve for funds attracted in USD amounted to MDL 747,611 thousand, that is USD 43,429 thousand in original currency at 31 December 2020 (31 December 2019: MDL 404,454 thousand, that is USD 23,502 thousand in original currency), while the Mandatory reserve for funds attracted in EUR amounted to MDL 2,010,157 thousand, that is EUR 95,148 thousand in original currency at 31 December 2020 (31 December 2019: MDL 953,252 thousand, that is EUR 49,493 thousand in original currency).

For the funds attracted in MDL and in non-convertible currencies, with a maturity of less than two years, the level of required reserve is 32% (31 December 2019: 42.5%), the interest paid by NBM for the reserves in MDL varied between 0.15% - 2.76% per annum (2019: 2.76% - 2.85% per annum).

(All amounts are expressed in thousands MDL, if not stated otherwise)

8 Balances with the National Bank of Moldova (continued)

For the funds attracted in freely convertible currency the level of required reserve is 30% (31 December 2019: 17%), the interest paid by NBM for these reserves was 0.01% per annum during 2020 (2019: varied between 0.01% - 0.36% per annum).

For the funds attracted with a maturity of over two years there is no level for required reserves at 31 December 2020 (31 December 2019: 0%).

The Mandatory reserves have to be kept at an average limit for the monthly period up to 15th of each month. The limit should be established at the average level throughout the period of 30-31 days. During the reporting dates to NBM (15 of each month) these Mandatory reserves can be used in any volumes needed by the Bank.

For the purpose of ECL measurement the amounts recorded under Balances with the NBM are included in Stage 1. The ECL for these balances represents an insignificant amount, therefore the Bank did not recognise any ECL for them.

9 Due from other banks

	31 December 2020	31 December 2019
Correspondent accounts	1,244,660	1,928,015
Overnight deposits	483,214	-
Placements with other banks with original maturities of less than three months	464,930	-
Placements with other banks with original maturities of more than three months	86,073	-
Collateral deposits	80,523	67,770
Less: credit loss allowance	*(40)*	*(236)*
Total	**2,359,360**	**1,995,549**

At 31 December 2020 the Bank had balances with 11 counterparty banks located in a variety of countries from Europe and America (31 December 2019: 11). The amounts recorded in Correspondent accounts is not collateralised. The Bank has collateral deposits in amount of MDL 80,523 thousand representing amounts pledged for clients under the membership agreements signed with Visa, MasterCard and American Express.

The credit quality analysis of amounts Due from other banks is presented below:

Rating	Credit risk grades*	31 December 2020	31 December 2019
AA- / Aa3	Excellent	519,648	687,165
A+/ A1	Excellent	22,469	22,338
A-	Excellent	1,773,057	1,252,004
BBB+	Good	2,409	22,537
BBB	Good	-	3,099
BBB- / Baa3	Good	26,854	4,997
BB, B	Satisfactory	816	1,603
Rating BB+, lower and no rating	Default	14,107	1,806
Total		**2,359,360**	**1,995,549**

(All amounts are expressed in thousands MDL, if not stated otherwise)

9 Due from other banks (continued)

*In concordance with the internal normative acts, AAA-A level of rating corresponds with a high and very high solvability (thus - excellent level), BBB is over average level of solvability (good level), BB – B represents average and lower, speculative grade solvability (satisfactory level), BB+ represents insufficient level of solvability (default) and high level of risk.

For ECL estimation on exposures to local and foreign banks where spot or forward placements are made or where the Bank has correspondent accounts open, the Bank uses the lowest rating provided by at least one of the International Rating Agencies Standard & Poor's, Moody's and Fitch-IBCA of the bank or country of origin to determine the probability of default.

The probability of default is associated with the ratings and updated based on the public information provided by the rating agencies in the corporate sector default rate reports. To estimate the expected losses, the Bank applies the minimum PD between the probability of default at 12 months and that of the maturity of the investment.

10 Investments in debt securities

	31 December 2020	31 December 2019
Debt securities at FVOCI	2,464,160	1,085,824
Debt securities at AC	1,598,964	755,024
Total	**4,063,124**	**1,840,848**

The table below discloses investments in debt securities at 31 December 2020 by measurement categories and classes:

	Debt securities at FVOCI	Debt securities at AC	Total
Treasury bills	2,083,061	-	2,083,061
Government bonds	381,099	-	381,099
Certificates issued by NBM	-	1,598,964	1,598,964
Total investments in debt securities (carrying value)	**2,464,160**	**1,598,964**	**4,063,124**

The table below discloses investments in debt securities at 31 December 2019 by measurement categories and classes:

	Debt securities at FVOCI	Debt securities at amortised cost	Total
Treasury bills	539,824	14,826	554,650
Government bonds	546,000	-	546,000
Certificates issued by NBM	-	740,198	740,198
Total investments in debt securities (carrying value)	**1,085,824**	**755,024**	**1,840,848**

(All amounts are expressed in thousands MDL, if not stated otherwise)

10 Investments in debt securities (continued)

Debt instruments at fair value through other comprehensive income:

	2020	2019
Balance at 1 January	**1,085,824**	**1,496,114**
Disposals	(1,831,716)	(1,346,618)
Additions	3,202,616	931,286
Increase in fair value	7,436	5,042
Balance at 31 December	**2,464,160**	**1,085,824**

Government bonds are classified at fair value through other comprehensive income, as the business model of the Bank for such assets is to manage liquidity, should the Bank require cash and sell them on the secondary market. The final maturity of these state securities is 18 December 2025.

As at 31 December 2020 the treasury bills issued by the Ministry of Finance of the Republic of Moldova had a maturity of 91 to 365 days, with an annual interest rate ranging between 3.40% and 5.70% per annum (31 December 2019: 4.50% and 7.07% per annum). As at 31 December 2020 Government bonds issued by the Ministry of Finance of the Republic of Moldova had a maturity of 2 to 5 years, with an annual interest rate ranging between 4.97 % and 6.90% (31 December 2019: 5.99% and 6.90% per annum).

All debt securities of the Bank at FVOCI (Treasury bills and Government bonds) as at 31 December 2020 and 2019 are considered Stage 1 instruments. Considering the fact that all the securities are expressed in local currency, for the estimation of the ECL at 31 December 2020, a 12 months PD of 1.27% and a 40% LGD has been used by the Bank. The data input used has considered the rating allocated by the rating agency Moody's for Republic of Moldova local currency bond and deposit ceilings, the rating for 2020 remaining unchanged at B2, credit quality being Good. The total ECL at 31 December 2020 represents MDL 5,210 thousand.

The debt securities at 31 December 2020 and 31 December 2019 are not collateralised.

11 Investments in equity securities

All investments in equity securities are held at FVOCI. The Bank designated investments disclosed in the following table as equity securities at FVOCI. The FVOCI designation was made because the investments are expected to be held for strategic purposes rather than with a view to profit on a subsequent sale and there are no plans to dispose of these investments in the short or medium term. This designation is irrevocable.

At 31 December 2020 investments in equity securities at FVOCI include equity securities with a carrying value of MDL 117,457 thousand (31 December 2019: MDL 184,482 thousand) out of which MDL 113,698 thousand correspond to securities publicly traded (31 December 2019: MDL 97,336 thousand). Due to the nature of the local financial markets, it is not possible to obtain current market value for part of the investments.

The equity investments except for the ones in Visa Inc. and S.W.I.F.T. SCRL are recognized at 31 December 2020 at cost as the fair value cannot be determined reliably. The Bank analysed the difference between cost and efficiency in determining the fair value for these investments and has considered also the small threshold of significance for their value, as well as the absence of any changes in the financial condition of the issuer and concluded that the cost is reasonable.

(All amounts are expressed in thousands MDL, if not stated otherwise)

11 Investments in equity securities (continued)

The fair value of the equity investment in Visa Inc. was determined based on the price quoted on the NYSE stock exchange, this technique being for Level 1 in the hierarchy. The carrying value of equity investment in S.W.I.F.T. SCRL is the value confirmed by the General Meeting of Shareholders of S.W.I.F.T. SCRL based on the financial statement of the Company.

It is impossible to determine the fair value of the Bank's investment in the equity of I.M. Piele S.A. based on cash flow or other financial data since this company ceased its activity. The Bank's management decided to maintain the amount of the impairment allowance at full cost of the investment, as accounted for since 31 December 2012.

	Main activity	Ownership at 31 December 2020 (%)	Ownership at 31 December 2019 (%)	Value at 31 December 2020	Value at 31 December 2019
Visa Inc.	Transaction processing	0.001%	0.001%	113,698	97,336
I.M. Biroul de Credit S.R.L.	Bureau of credit histories	16.71%	8,36%	2,349	1,019
S.W.I.F.T. SCRL	Transaction processing	0.01%	0.01%	1,085	931
Bursa de valori din Moldova S.A.	Auctions and brokerage	7.69%	2.56%	275	7
Depozitarul Central Unic al Valorilor Mobiliare S.A.	Registrar services, depositary and clearing	0.20%	0.20%	50	50
Depozitarul National de Valori Mobiliare al Moldovei S.A.	Depositary services, clearing	-	5.30%	-	131
I.M. Piele S.A.	Leather manufacturing	12.80%	12.80%	-	-
I.M. Glass Container Prim S.A.	Glass manufacturing	-	16.89%	-	56,395
I.M. Glass Container Company S.A.	Glass manufacturing	-	17.43%	-	28,613
Total				**117,457**	**184,482**

Other Bank's investments, such as equity investments in I.M. Biroul de Credit S.R.L., Depozitarul Central Unic al Valorilor Mobiliare S.A. and Bursa de valori din Moldova S.A. were acquired by the Bank in order to ensure its participation on the local market, according to the regulatory requirements for stock exchange market and constitutes a means for promoting and diversifying the Bank's products/services.

The fair value of investments in I.M. Glass Container Company S.A. ("GCC") and I.M. Glass Container Prim S.A. ("GCPrim") at 31 December 2019 was determined based on the valuation performed by an external valuator. Thus, the fair value of the Bank's equity investment in GCC and GCPrim were estimated using the discounted cash flows method. The estimates were made based on the companies' forecasted financial ratios for the following 4 years (2020 – 2023), an annual long-term growth rate of 5% based on the inflation rate forecasted by the NBM for the following periods and projected growth in cash flows based on the assumption that inflation will be the main factor that will lead to price changes and as a result increase in generated revenues; and a discount rate for the net cash flows determined by applying the weighted average cost of capital method („WACC").

(All amounts are expressed in thousands MDL, if not stated otherwise)

11 Investments in equity securities (continued)

Refer to Note 39 for additional fair value measurement disclosures.

	2020	2019
Balance at 1 January	**184,482**	**151,552**
*Disposals	(116,396)	-
Additions	1,598	-
Increase in fair value	47,773	32,930
Balance at 31 December	**117,457**	**184,482**

In December 2020, the Bank sold its investment in shares of GCC at the initial selling price of MDL 84,091 thousand (fair value at 31 December 2019: MDL 28,613 thousand) and GCPrim at MDL 57,811 thousand (fair value at 31 December 2019: MDL 56,395 thousand). The initial selling price was adjusted with the amount of MDL 15,188 thousand for the shares in GCC and MDL 10,441 thousand for the shares in GCPrim, the total amount of MDL 25,629 thousand being presented in Note 22 as Liability contingent on uncertain events. Total fair value at the date of derecognition was MDL 116,272 thousand (MDL 68,903 thousand for GCC and MDL 47,369 thousand for GCPrim).

The Bank sold the shares as a result of a common decision taken by the majority shareholders of GCC and GCPrim to sell the entire investment to a reliable strategic new investor.

The Bank realised a gain of MDL 59,297 thousand on the sale, the gain being transferred from Revaluation reserve for securities at FVOCI to Retained earnings, income tax was recorded directly in other comprehensive income at the level of MDL 7,115 thousand, deferred tax related to Liability contingent on uncertain events amounted to MDL 3,075 thousand thus the net gain that was transferred to Retained earnings was MDL 49,107 thousand. Overall gains less losses on investments in equity securities at fair value through other comprehensive income recorded in 2020 was of MDL 44,697 thousand (increase in fair value of MDL 47,773 thousand less deferred tax of MDL 3,076 thousand corresponding to Liability contingent on uncertain events presented in Note 22).

Also during 2020, the Bank increased its investment in Bursa de valori din Moldova S.A. (through the acquisition of two shares), and in shares of I.M. Biroul de Credit S.R.L. (through the acquisition of one share of MDL 1,330 thousand) and the exit from the capital of Depozitarul National de Valori Mobiliare al Moldovei S.A. as a result of its liquidation (at a loss of MDL 8 thousand).

Dividend income recognised during 2020 in relation to equity investments was MDL 944 thousand (2019: MDL 714 thousand).

	2020	2019
Visa Inc.	445	389
I.M. Biroul de Credit S.R.L.	334	176
Bursa de valori din Moldova S.A.	165	-
Depozitarul National de Valori Mobiliare al Moldovei S.A.	-	149
Total dividend income	**944**	**714**

(All amounts are expressed in thousands MDL, if not stated otherwise)

12 Investments in subsidiaries

	Sector	Ownership at 31 December 2020 (%)	31 December 2020	31 December 2019
MAIB-Leasing SA	Finance lease	100%	163,452	163,452
Moldmediacard SRL	Processing of card payments	99%	11,522	11,522
Less: provision for impairment			(35,305)	(35,305)
Total			**139,669**	**139,669**

The provision for impairment for the investment in subsidiaries was maintained at the same level of MDL 35,305 thousand, as there were no significant changes in the activity of MAIB-Leasing S.A. Also there were no changes in ownership in 2020 as compared to 2019.

13 Loans and advances to customers

	31 December 2020	31 December 2019
Gross carrying amount of loans and advances to customers at AC	15,709,668	14,321,240
Less credit loss allowance	(1,040,347)	(919,887)
Total carrying amount of loans and advances to customers at AC	**14,669,321**	**13,401,353**

Gross carrying amount and credit loss allowance amount for loans and advances to customers at AC by classes at 31 December 2020 and 31 December 2019 are disclosed in the table below:

	31 December 2020			31 December 2019		
	Gross carrying amount	Credit loss allowance	Carrying amount	Gross carrying amount	Credit loss allowance	Carrying amount
Loans to legal entities	*11,164,417*	*(803,883)*	*10,360,534*	*9,858,338*	*(804,749)*	*9,053,589*
Investment loans	3,794,389	(192,602)	3,601,787	3,270,555	(295,912)	2,974,643
Working capital loans	3,498,896	(484,746)	3,014,150	3,372,718	(430,167)	2,942,551
Revolving lines	3,871,132	(126,535)	3,744,597	3,215,065	(78,670)	3,136,395
Loans to individuals	*4,545,251*	*(236,464)*	*4,308,787*	*4,462,902*	*(115,138)*	*4,347,764*
Mortgage loans	2,557,819	(88,987)	2,468,832	2,766,578	(68,129)	2,698,449
Consumer loans	1,754,446	(126,471)	1,627,975	1,471,368	(40,951)	1,430,417
Credit cards	232,986	(21,006)	211,980	224,956	(6,058)	218,898
Total loans and advances to customers at AC	**15,709,668**	**(1,040,347)**	**14,669,321**	**14,321,240**	**(919,887)**	**13,401,353**

The following tables disclose the changes in the credit loss allowance and gross carrying amount for loans and advances to customers carried at amortised cost between the beginning and the end of the reporting and comparative periods, considering movements recorded overall over one-year period:

(All amounts are expressed in thousands MDL, if not stated otherwise)

13 Loans and advances to customers (continued)

	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Investment loans								
At 1 January 2020	**(49,980)**	**(133,326)**	**(112,606)**	**(295,912)**	**2,331,600**	**773,660**	**165,295**	**3,270,555**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	17,313	(31,333)	-	(14,020)	(365,203)	317,328	-	(47,875)
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	59	52	(6,464)	(6,353)	(7,641)	(1,183)	8,439	(385)
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(3,178)	12,157	-	8,979	205,776	(286,107)	-	(80,331)
- from credit-impaired to lifetime (from Stage 3 to Stage 2)	-	(5)	153	148	-	492	(511)	(19)
New originated or purchased	(13,038)	(2,832)	-	(15,870)	1,264,081	77,010	-	1,341,091
Derecognised during the period	6,478	1,261	1,505	9,244	(337,326)	(64,793)	(4,621)	(406,740)
Changes to ECL measurement model assumptions	(8,418)	(2,629)	-	(11,047)	-	-	-	-
Other movements	11,312	105,635	6,919	123,866	(325,387)	(56,032)	(15,631)	(397,050)
Total movements with impact on credit loss allowance charge for the period	**10,528**	**82,306**	**2,113**	**94,947**	**434,300**	**(13,285)**	**(12,324)**	**408,691**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	16,059	16,059	-	-	(16,059)	(16,059)
Foreign exchange gains and losses and other movements	(1,098)	(3,727)	(2,863)	(7,688)	85,357	39,301	6,544	131,202
Unwinding of discount (for Stage 3)	-	-	(8)	(8)	-	-	-	-
At 31 December 2020	**(40,550)**	**(54,747)**	**(97,305)**	**(192,602)**	**2,851,257**	**799,676**	**143,456**	**3,794,389**

(All amounts are expressed in thousands MDL, if not stated otherwise)

13 Loans and advances to customers (continued)

	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Investment loans								
At 1 January 2019	**(96,375)**	**(15,673)**	**(197,053)**	**(309,101)**	**2,399,486**	**47,983**	**372,755**	**2,820,224**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	45,905	(44,653)	-	1,252	(610,890)	472,666	-	(138,224)
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	112	30	(3,953)	(3,811)	(10,760)	(577)	8,465	(2,872)
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(18)	163	-	145	4,294	(6,349)	-	(2,055)
- from credit-impaired to lifetime (from Stage 3 to Stage 2)	-	(76,766)	83,483	6,717	-	179,444	(206,151)	(26,707)
New originated or purchased	(18,376)	(2,062)	-	(20,438)	1,066,269	101,769	-	1,168,038
Derecognised during the period	3,782	1,255	2,031	7,068	(265,830)	(10,239)	(4,501)	(280,570)
Other movements	14,669	3,488	155	18,312	(241,418)	(7,606)	(4,268)	(253,292)
Total movements with impact on credit loss allowance charge for the period	**46,074**	**(118,545)**	**81,716**	**9,245**	**(58,335)**	**729,108**	**(206,455)**	**464,318**
Movements without impact on credit loss allowance charge for the period:								
Foreign exchange gains and losses and other movements	321	892	645	1,858	(9,551)	(3,431)	(1,005)	(13,987)
Unwinding of discount (for Stage 3)	-	-	2,086	2,086	-	-	-	-
At 31 December 2019	**(49,980)**	**(133,326)**	**(112,606)**	**(295,912)**	**2,331,600**	**773,660**	**165,295**	**3,270,555**

(All amounts are expressed in thousands MDL, if not stated otherwise)

13 Loans and advances to customers (continued)

	Credit loss allowance				**Gross carrying amount**			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Working Capital Loans								
At 1 January 2020	**(77,430)**	**(42,324)**	**(310,413)**	**(430,166)**	**2,396,454**	**549,204**	**427,060**	**3,372,718**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	34,136	(7,255)	-	26,881	(267,680)	183,228	-	(84,452)
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	1,334	355	(8,664)	(6,975)	(10,385)	(3,199)	12,220	(1,364)
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(2,182)	6,701	21	4,540	179,367	(282,185)	(47)	(102,865)
- from credit-impaired to lifetime (from Stage 3 to Stage 2)	-	(1)	83	82	-	163	(236)	(73)
New originated or purchased	(19,564)	(6,575)	-	(26,139)	1,428,386	305,417	2,631	1,736,434
Derecognised during the period	20,542	1,531	2,191	24,264	(851,474)	(157,377)	(4,703)	(1,013,554)
Changes to ECL measurement model assumptions	(7,917)	(2,954)	-	(10,871)	-	-	-	-
Other movements	12,819	21,257	(103,759)	(69,683)	(446,755)	(13,234)	(823)	(460,812)
Total movements with impact on credit loss allowance charge for the period	**39,168**	**13,059**	**(110,128)**	**(57,901)**	**31,459**	**32,813**	**9,042**	**73,314**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	6,046	6,046	-	-	(6,046)	(6,046)
Foreign exchange gains and losses and other movements	(562)	(1,530)	(587)	(2,679)	47,154	10,736	1,020	58,910
Unwinding of discount (for Stage 3)	-	-	(45)	(45)	-	-	-	-
At 31 December 2020	**(38,824)**	**(30,795)**	**(415,127)**	**(484,746)**	**2,475,067**	**592,753**	**431,076**	**3,498,896**

(All amounts are expressed in thousands MDL, if not stated otherwise)

13 Loans and advances to customers (continued)

	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Working Capital loans								
At 1 January 2019	**(115,473)**	**(37,433)**	**(242,780)**	**(395,686)**	**2,542,751**	**151,106**	**376,856**	**3,070,713**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	10,685	(8,945)	-	1,740	(345,694)	267,040	-	(78,654)
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	2,460	701	(13,008)	(9,847)	(16,022)	(4,575)	20,067	(530)
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(160)	725	634	1,199	14,992	(28,203)	(1,243)	(14,454)
- from credit-impaired to lifetime (from Stage 3 to Stage 2)	-	(79)	647	568	-	915	(1,198)	(283)
New originated or purchased	(41,412)	(5,369)	-	(46,781)	1,440,494	224,387	3,893	1,668,774
Derecognised during the period	13,231	3,031	2,377	18,639	(626,969)	(50,069)	(3,991)	(681,029)
Other movements	53,002	4,574	(58,133)	(557)	(606,564)	(8,561)	33,007	(582,118)
Total movements with impact on credit loss allowance charge for the period	**37,806**	**(5,362)**	**(67,483)**	**(35,039)**	**(139,763)**	**400,934**	**50,535**	**311,706**
Movements without impact on credit loss allowance charge for the period:								
Foreign exchange gains and losses and other movements	237	471	181	889	(6,534)	(2,836)	(331)	(9,701)
Unwinding of discount (for Stage 3)	-	-	(131)	(131)	-	-	-	-
At 31 December 2019	**(77,430)**	**(42,324)**	**(310,413)**	**(430,167)**	**2,396,454**	**549,204**	**427,060**	**3,372,718**

(All amounts are expressed in thousands MDL, if not stated otherwise)

13 Loans and advances to customers (continued)

	Credit loss allowance				**Gross carrying amount**			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Revolving lines								
At 1 January 2020	**(59,240)**	**(4,530)**	**(14,900)**	**(78,670)**	**2,861,035**	**332,505**	**21,525**	**3,215,065**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	26,183	(61,325)	-	(35,142)	(283,951)	300,468	-	16,517
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	134	38	(995)	(823)	(1,581)	(1,397)	1,958	(1,020)
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(1,043)	2,369	-	1,326	91,461	(118,777)	-	(27,316)
New originated or purchased	(25,685)	(2,410)	-	(28,095)	2,133,978	15,799	252	2,150,029
Derecognised during the period	9,871	974	9,607	20,452	(1,186,123)	(136,810)	(12,099)	(1,335,032)
Changes to ECL measurement model assumptions	(10,985)	(430)	-	(11,415)	-	-	-	-
Other movements	8,916	254	624	9,794	(191,192)	(961)	(1,679)	(193,832)
Total movements with impact on credit loss allowance charge for the period	**7,391**	**(60,530)**	**9,236**	**(43,903)**	**562,592**	**58,322**	**(11,568)**	**609,346**
Movements without impact on credit loss allowance charge for the period:								
Foreign exchange gains and losses and other movements	(368)	(3,562)	(27)	(3,957)	30,997	15,661	63	46,721
Unwinding of discount (for Stage 3)	-	-	(5)	(5)	-	-	-	-
At 31 December 2020	**(52,217)**	**(68,622)**	**(5,696)**	**(126,535)**	**3,454,624**	**406,488**	**10,020**	**3,871,132**

(All amounts are expressed in thousands MDL, if not stated otherwise)

13 Loans and advances to customers (continued)

	Credit loss allowance				**Gross carrying amount**			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Revolving lines								
At 1 January 2019	**(96,423)**	**(7,492)**	**(6,621)**	**(110,536)**	**3,051,528**	**117,368**	**10,489**	**3,179,385**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	9,381	(2,457)	-	6,924	(219,082)	191,683	-	(27,399)
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	327	56	(9,336)	(8,953)	(25,820)	(164)	11,913	(14,071)
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(8)	-	360	352	671	-	(666)	5
New originated or purchased	(31,115)	(2,056)	-	(33,171)	2,096,412	137,181	-	2,233,593
Derecognised during the period	63,881	6,413	337	70,631	(1,866,349)	(111,083)	(623)	(1,978,055)
Other movements	(5,372)	986	295	(4,091)	(173,220)	(1,189)	564	(173,845)
Total movements with impact on credit loss allowance charge for the period	**37,094**	**2,942**	**(8,344)**	**31,692**	**(187,388)**	**216,428**	**11,188**	**40,228**
Movements without impact on credit loss allowance charge for the period:								
Foreign exchange gains and losses and other movements	89	20	119	228	(3,105)	(1,291)	(152)	(4,548)
Unwinding of discount (for Stage 3)	-	-	(54)	(54)	-	-	-	-
At 31 December 2019	**(59,240)**	**(4,530)**	**(14,900)**	**(78,670)**	**2,861,035**	**332,505**	**21,525**	**3,215,065**

(All amounts are expressed in thousands MDL, if not stated otherwise)

13 Loans and advances to customers (continued)

	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Mortgage loans								
At 1 January 2020	**(23,704)**	**(21,751)**	**(22,674)**	**(68,129)**	**2,446,338**	**286,310**	**33,930**	**2,766,578**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	749	(7,663)	-	(6,914)	(44,504)	42,151	-	(2,353)
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	670	2,126	(18,447)	(15,651)	(21,339)	(12,860)	32,852	(1,114)
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(2,807)	15,752	3,098	16,043	209,466	(229,963)	(5,417)	(25,914)
- from credit-impaired to lifetime (from Stage 1 and Stage 2 to Stage 3)	-	(346)	1,370	1,024	-	2,206	(2,364)	(158)
New originated or purchased	(2,647)	(488)	-	(3,135)	265,975	2,963	233	269,171
Derecognised during the period	2,213	1,222	2,462	5,897	(205,240)	(23,088)	(4,590)	(232,918)
Changes to ECL measurement model assumptions	(13,859)	(774)	-	(14,633)	-	-	-	-
Other movements	(1,098)	(2,039)	(41)	(3,178)	(216,894)	(1,371)	(1,111)	(219,376)
Total movements with impact on credit loss allowance charge for the period	**(16,779)**	**7,790**	**(11,558)**	**(20,547)**	**(12,303)**	**(219,962)**	**19,603**	**(212,662)**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	14	14	-	-	(14)	(14)
Foreign exchange gains and losses and other movements	(32)	(7)	(18)	(57)	3,802	73	42	3,917
Unwinding of discount (for Stage 3)	-	-	(268)	(268)	-	-	-	-
At 31 December 2020	**(40,515)**	**(13,968)**	**(34,504)**	**(88,987)**	**2,437,837**	**66,421**	**53,561**	**2,557,819**

(All amounts are expressed in thousands MDL, if not stated otherwise)

13 Loans and advances to customers (continued)

	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Mortgage loans								
At 1 January 2019	**(25,066)**	**(9,445)**	**(23,117)**	**(57,628)**	**2,049,198**	**55,904**	**37,381**	**2,142,483**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	3,521	(17,399)	-	(13,878)	(285,386)	254,745	-	(30,641)
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	423	928	(7,462)	(6,111)	(8,676)	(4,463)	12,988	(151)
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(780)	3,810	4,698	7,728	30,731	(25,907)	(8,220)	(3,396)
- from credit-impaired to lifetime (from Stage 1 and Stage 2 to Stage 3)	-	(688)	2,196	1,508	-	3,508	(4,128)	(620)
New originated or purchased	(8,219)	(962)	-	(9,181)	1,012,098	8,628	428	1,021,154
Derecognised during the period	2,498	680	2,973	6,151	(191,651)	(3,752)	(4,912)	(200,315)
Other movements	3,916	1,323	(1,966)	3,273	(159,614)	(2,161)	397	(161,378)
Total movements with impact on credit loss allowance charge for the period	**1,359**	**(12,308)**	**439**	**(10,510)**	**397,502**	**230,598**	**(3,447)**	**624,653**
Movements without impact on credit loss allowance charge for the period:								
Foreign exchange gains and losses and other movements	3	2	4	9	(362)	(192)	(4)	(558)
At 31 December 2019	**(23,704)**	**(21,751)**	**(22,674)**	**(68,129)**	**2,446,338**	**286,310**	**33,930**	**2,766,578**

(All amounts are expressed in thousands MDL, if not stated otherwise)

13 Loans and advances to customers (continued)

	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Consumer loans								
At 1 January 2020	**(9,874)**	**(5,592)**	**(25,485)**	**(40,951)**	**1,298,186**	**139,213**	**33,969**	**1,471,368**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	383	(4,765)	-	(4,382)	(35,996)	30,099	-	(5,897)
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	12,473	2,551	(53,867)	(38,843)	(34,820)	(19,694)	57,537	3,023
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(286)	1,769	616	2,099	34,600	(60,112)	(1,035)	(26,547)
- from credit-impaired to lifetime (from Stage 3 to Stage 2)	-	(33)	268	235	-	299	(449)	(150)
New originated or purchased	(20,844)	(3,196)	-	(24,040)	835,970	27,217	17,185	880,372
Derecognised during the period	1,874	564	1,283	3,721	(270,608)	(48,280)	(1,844)	(320,732)
Changes to ECL measurement model assumptions	(8,154)	(2,267)	(99)	(10,520)	-	-	-	-
Other movements	9	(640)	(11,415)	(12,046)	(249,755)	(2,524)	5,288	(246,991)
Total movements with impact on credit loss allowance charge for the period	**(14,545)**	**(6,017)**	**(63,214)**	**(83,776)**	**279,391**	**(72,995)**	**76,682**	**283,078**
Movements without impact on credit loss allowance charge for the period:								
Unwinding of discount (for Stage 3)	-	-	(1,744)	(1,744)	-	-	-	-
At 31 December 2020	**(24,419)**	**(11,609)**	**(90,443)**	**(126,471)**	**1,577,577**	**66,218**	**110,651**	**1,754,446**

(All amounts are expressed in thousands MDL, if not stated otherwise)

13 Loans and advances to customers (continued)

	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Consumer loans								
At 1 January 2019	**(5,400)**	**(2,722)**	**(10,664)**	**(18,786)**	**1,000,770**	**40,324**	**16,716**	**1,057,810**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	966	(1,830)	-	(864)	(172,875)	99,289	-	(73,586)
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	3,169	781	(11,804)	(7,854)	(7,838)	(7,542)	14,207	(1,173)
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(91)	641	368	918	8,125	(10,588)	(605)	(3,068)
- from credit-impaired to lifetime (from Stage 3 to Stage 2)	-	(78)	642	564	-	592	(1,060)	(468)
New originated or purchased	(10,376)	(2,967)	-	(13,343)	899,011	30,083	5,201	934,295
Derecognised during the period	1,406	391	1,088	2,885	(284,218)	(7,786)	(1,764)	(293,768)
Other movements	452	192	(4,780)	(4,136)	(144,789)	(5,159)	1,274	(148,674)
Total movements with impact on credit loss allowance charge for the period	**(4,474)**	**(2,870)**	**(14,486)**	**(21,830)**	**297,416**	**98,889**	**17,253**	**413,558**
Movements without impact on credit loss allowance charge for the period:								
Unwinding of discount (for Stage 3)	-	-	(335)	(335)	-	-	-	-
At 31 December 2019	**(9,874)**	**(5,592)**	**(25,485)**	**(40,951)**	**1,298,186**	**139,213**	**33,969**	**1,471,368**

(All amounts are expressed in thousands MDL, if not stated otherwise)

13 Loans and advances to customers (continued)

	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Credit cards								
At 1 January 2020	**(281)**	**(29)**	**(5,748)**	**(6,058)**	**210,071**	**9,068**	**5,817**	**224,956**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	44	(1,578)	-	(1,534)	(27,986)	31,376	-	3,390
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	8,461	2	(8,756)	(293)	(10,643)	(967)	10,096	(1,514)
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(59)	10	6	(43)	3,295	(3,895)	(10)	(610)
New originated or purchased	(9,144)	(337)	-	(9,481)	44,940	4,005	-	48,945
Derecognised during the period	37	10	1,773	1,820	(26,660)	(2,517)	(1,805)	(30,982)
Changes to ECL measurement model assumptions	(1,614)	(768)	-	(2,382)	-	-	-	-
Other movements	(2,103)	(52)	(804)	(2,959)	(11,872)	(205)	800	(11,277)
Total movements with impact on credit loss allowance charge for the period	**(4,378)**	**(2,713)**	**(7,781)**	**(14,872)**	**(28,926)**	**27,797**	**9,081**	**7,952**
Movements without impact on credit loss allowance charge for the period:								
Foreign exchange gains and losses and other movements	-	-	(76)	(76)	2	1	75	78
At 31 December 2020	**(4,659)**	**(2,742)**	**(13,605)**	**(21,006)**	**181,147**	**36,866**	**14,973**	**232,986**

(All amounts are expressed in thousands MDL, if not stated otherwise)

13 Loans and advances to customers (continued)

	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Credit cards								
At 1 January 2019	**(73)**	**(62)**	**(2,724)**	**(2,859)**	**156,236**	**46,024**	**2,881**	**205,141**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	2	(15)	-	(13)	(4,947)	5,381	-	434
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	4,085	-	(4,148)	(63)	(4,222)	(251)	4,198	(275)
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(45)	47	45	47	30,656	(34,652)	(77)	(4,073)
- from credit-impaired to lifetime (from Stage 3 to Stage 2)	-	-	3	3	-	12	(6)	6
New originated or purchased	(4,169)	(5)	-	(4,174)	60,256	1,030	-	61,286
Derecognised during the period	9	11	1,383	1,403	(21,140)	(8,358)	(1,485)	(30,983)
Other movements	(90)	(5)	(312)	(407)	(6,768)	(118)	310	(6,576)
Total movements with impact on credit loss allowance charge for the period	**(208)**	**33**	**(3,029)**	**(3,204)**	**53,835**	**(36,956)**	**2,940**	**19,819**
Movements without impact on credit loss allowance charge for the period:								
Foreign exchange gains and losses and other movements	-	-	5	5	-	-	(4)	(4)
At 31 December 2019	**(281)**	**(29)**	**(5,748)**	**(6,058)**	**210,071**	**9,068**	**5,817**	**224,956**

13 Loans and advances to customers (continued)

The credit loss allowance for loans and advances to customers recognised in the period is impacted by a variety of factors, details of ECL measurement are provided in Note 36. The main movements in the table above are described below:

- Transfers between Stage 1, 2 and 3 due to balances experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent “step up” (or “step down”) between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments derecognised in the period;
- Impact on the measurement of ECL due to changes to model assumptions, including changes in PDs, EADs and LGDs in the period, arising from update of inputs to ECL models;
- Unwinding of discount due to the passage of time because ECL is measured on a present value basis;
- Foreign exchange translations of assets denominated in foreign currencies and other movements; and
- Write-offs of allowances related to assets that were written off during the period.

Other movement category incorporates the changes of ECL due to the change of the days past due bucket or migration to an individual assessment while preserving the same stage. When it comes to key drivers – the change of FLI is considered by the Bank one of the biggest change as it increased the PD and generated a one-time increase of almost MDL 63 million, which was followed by subsequent default of some of mortgage clients in September 2020.

On the SME sector the increase of ECL was influenced by the classification as stage 2 of all debtors from agriculture sector that required loan reschedules as a result of climatic aspects that resulted in poor agricultural harvest. The observation period is set up until June 2021. As at 31 December the ECL for this portfolio accounted MDL 153,559 thousand.

The following tables contain analyses of the credit risk exposure of loans and advances to customers measured at AC and for which an ECL allowance is recognised. The carrying amount of loans and advances to customers below also represents the Bank's maximum exposure to credit risk on these loans.

(All amounts are expressed in thousands MDL, if not stated otherwise)

13 Loans and advances to customers (continued)

The credit quality of loans to corporate customers carried at amortised cost is as follows at 31 December 2020:

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Investment loans				
- Good	2,851,256	35,684	280	2,887,220
- Satisfactory	-	763,993	3,699	767,692
- Special monitoring	-	-	7,311	7,311
- Default	-	-	132,166	132,166
Gross carrying amount	**2,851,256**	**799,677**	**143,456**	**3,794,389**
Credit loss allowance	(40,550)	(54,747)	(97,305)	(192,602)
Carrying amount	**2,810,706**	**744,930**	**46,151**	**3,601,787**
Working capital loans				
- Good	2,475,068	50,447	3,020	2,528,535
- Satisfactory	-	542,305	4,324	546,629
- Special monitoring	-	-	7,389	7,389
- Default	-	-	416,343	416,343
Gross carrying amount	**2,475,068**	**592,752**	**431,076**	**3,498,896**
Credit loss allowance	(38,824)	(30,795)	(415,127)	(484,746)
Carrying amount	**2,436,244**	**561,957**	**15,949**	**3,014,150**

(All amounts are expressed in thousands MDL, if not stated otherwise)

13 Loans and advances to customers (continued)

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Revolving lines				
- Good	3,454,625	1,304	1,369	3,457,298
- Satisfactory	-	405,183	195	405,378
- Special monitoring	-	-	709	709
- Default	-	-	7,747	7,747
Gross carrying amount	**3,454,625**	**406,487**	**10,020**	**3,871,132**
Credit loss allowance	(52,217)	(68,622)	(5,696)	(126,535)
Carrying amount	**3,402,408**	**337,865**	**4,324**	**3,744,597**

The credit quality of loans to corporate customers carried at amortised cost is as follows at 31 December 2019:

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Investment loans				
- Good	2,331,601	87,254	5,876	2,424,731
- Satisfactory	-	686,405	-	686,405
- Special monitoring	-	-	11,232	11,232
- Default	-	-	148,187	148,187
Gross carrying amount	**2,331,601**	**773,659**	**165,295**	**3,270,555**
Credit loss allowance	(49,980)	(133,326)	(112,606)	(295,912)
Carrying amount	**2,281,621**	**640,333**	**52,689**	**2,974,643**

(All amounts are expressed in thousands MDL, if not stated otherwise)

13 Loans and advances to customers (continued)

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Working capital loans				
- Good	2,396,454	44,889	58,333	2,499,676
- Satisfactory	-	504,315	3,623	507,938
- Special monitoring	-	-	15,327	15,327
- Default	-	-	349,777	349,777
Gross carrying amount	**2,396,454**	**549,204**	**427,060**	**3,372,718**
Credit loss allowance	(77,430)	(42,324)	(310,413)	(430,167)
Carrying amount	**2,319,024**	**506,880**	**116,647**	**2,942,551**
Revolving lines				
- Good	2,861,035	55,192	-	2,916,227
- Satisfactory	-	277,313	95	277,408
- Special monitoring	-	-	3,416	3,416
- Default	-	-	18,014	18,014
Gross carrying amount	**2,861,035**	**332,505**	**21,525**	**3,215,065**
Credit loss allowance	(59,240)	(4,530)	(14,900)	(78,670)
Carrying amount	**2,801,795**	**327,975**	**6,625**	**3,136,395**

(All amounts are expressed in thousands MDL, if not stated otherwise)

13 Loans and advances to customers (continued)

The credit quality of loans to individuals carried at amortised cost is as follows at 31 December 2020:

	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Mortgage loans				
- Good	2,437,836	63,225	11,641	2,512,702
- Satisfactory	-	3,197	17,533	20,730
- Special monitoring	-	-	10,401	10,401
- Default	-	-	13,986	13,986
Gross carrying amount	**2,437,836**	**66,422**	**53,561**	**2,557,819**
Credit loss allowance	(40,516)	(13,967)	(34,504)	(88,987)
Carrying amount	**2,397,320**	**52,455**	**19,057**	**2,468,832**
Consumer loans				
- Good	1,577,577	55,839	7,073	1,640,489
- Satisfactory	-	9,720	9,914	19,634
- Special monitoring	-	659	15,387	16,046
- Default	-	-	78,277	78,277
Gross carrying amount	**1,577,577**	**66,218**	**110,651**	**1,754,446**
Credit loss allowance	(24,419)	(11,609)	(90,443)	(126,471)
Carrying amount	**1,553,158**	**54,609**	**20,208**	**1,627,975**

(All amounts are expressed in thousands MDL, if not stated otherwise)

13 Loans and advances to customers (continued)

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Credit cards				
- Good	181,146	35,135	659	216,940
- Satisfactory	-	1,732	108	1,840
- Special monitoring	-	-	983	983
- Default	-	-	13,223	13,223
Gross carrying amount	**181,146**	**36,867**	**14,973**	**232,986**
Credit loss allowance	(4,660)	(2,741)	(13,605)	(21,006)
Carrying amount	**176,486**	**34,126**	**1,368**	**211,980**

The credit quality of loans to individuals carried at amortised cost is as follows at 31 December 2019:

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Mortgage loans				
- Good	2,446,340	45,267	3,503	2,495,110
- Satisfactory	-	241,041	10,041	251,082
- Special monitoring	-	-	5,101	5,101
- Default	-	-	15,285	15,285
Gross carrying amount	**2,446,340**	**286,308**	**33,930**	**2,766,578**
Credit loss allowance	(23,704)	(21,751)	(22,674)	(68,129)
Carrying amount	**2,422,636**	**264,557**	**11,256**	**2,698,449**
Consumer loans				
- Good	1,298,188	45,812	4,917	1,348,917
- Satisfactory	-	93,399	3,739	97,138
- Special monitoring	-	-	6,302	6,302
- Default	-	-	19,011	19,011
Gross carrying amount	**1,298,188**	**139,211**	**33,969**	**1,471,368**
Credit loss allowance	(9,874)	(5,592)	(25,485)	(40,951)
Carrying amount	**1,288,314**	**133,619**	**8,484**	**1,430,417**

(All amounts are expressed in thousands MDL, if not stated otherwise)

13 Loans and advances to customers (continued)

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Credit cards				
- Good	210,071	4,328	4,958	219,357
- Satisfactory	-	4,740	107	4,847
- Special monitoring	-	-	152	152
- Default	-	-	600	600
Gross carrying amount	**210,071**	**9,068**	**5,817**	**224,956**
Credit loss allowance	(281)	(29)	(5,748)	(6,058)
Carrying amount	**209,790**	**9,039**	**69**	**218,898**

For the description of the credit risk grading used in the tables above refer to Note 36.

Economic sector risk concentrations within the customer loan portfolio are as follows:

	31 December 2020		31 December 2019	
	Amount	%	Amount	%
Cities and municipalities	118,277	0.8%	3,579	0.0%
Manufacturing	1,932,393	12.3%	1,969,318	13.7%
Real estate	226,889	1.4%	372,588	2.6%
Trade	4,406,976	28.1%	3,837,541	26.8%
Agricultural	1,779,184	11.3%	1,268,630	8.9%
Individuals	4,700,269	29.9%	4,608,504	32.2%
Other	2,545,680	16.2%	2,261,080	15.8%
Total loans and advances to customers (gross carrying amount)	**15,709,668**	**100%**	**14,321,240**	**100%**

(All amounts are expressed in thousands MDL, if not stated otherwise)

13 Loans and advances to customers (continued)

The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the prior period.

Description of collateral held for loans to corporate customers carried at amortised cost is as follows at 31 December 2020:

	Investment loans	Working capital	Revolving lines	Total
Loans collateralised by:				
- residential real estate	248,523	199,060	81,685	529,268
- other real estate	1,981,599	1,067,946	1,561,000	4,610,545
- tradable securities	131,766	11,151	13,524	156,441
- cash deposits	1,605	627	2,327	4,559
- other assets	1,031,750	869,458	1,696,101	3,597,309
Total	**3,395,243**	**2,148,242**	**3,354,637**	**8,898,122**
Unsecured exposures	206,544	865,908	389,960	1,462,412
Total carrying value loans and advances to customers	**3,601,787**	**3,014,150**	**3,744,597**	**10,360,534**

Description of collateral held for loans to individuals carried at amortised cost is as follows at 31 December 2020:

	Mortgage loans	Consumer loans	Credit cards	Total
Loans collateralised by:				
- residential real estate	2,349,235	825	405	2,350,465
- other real estate	88,932	4	97	89,033
- cash deposits	26	-	55	81
- other assets	18,236	226	-	18,462
Total	**2,456,429**	**1,055**	**557**	**2,458,041**
Unsecured exposures	12,403	1,626,920	211,423	1,850,746
Total carrying value loans and advances to customers	**2,468,832**	**1,627,975**	**211,980**	**4,308,787**

(All amounts are expressed in thousands MDL, if not stated otherwise)

13 Loans and advances to customers (continued)

Information about collateral for loans to corporate customers is as follows at 31 December 2019:

	Investment loans	Working capital	Revolving lines	Total
Loans collateralised by:				
- residential real estate	228,710	242,006	93,166	563,882
- other real estate	2,021,612	1,366,600	1,513,924	4,902,136
- tradable securities	73,144	9,989	-	83,133
- cash deposits	6,965	3,603	1,466	12,034
- other assets	633,826	839,021	1,192,316	2,665,163
Total	**2,964,257**	**2,461,219**	**2,800,872**	**8,226,348**
Unsecured exposures	10,386	481,332	335,523	827,241
Total carrying value loans and advances to customers	**2,974,643**	**2,942,551**	**3,136,395**	**9,053,589**

Information about collateral of loans to individuals carried at amortised cost is as follows at 31 December 2019:

	Mortgage loans	Consumer loans	Credit cards	Total
Loans collateralised by:				
- residential real estate	2,544,066	824	433	2,545,323
- other real estate	122,072	19	119	122,210
- cash deposits	118	-	539	657
- other assets	28,537	54	-	28,591
Total	**2,694,793**	**897**	**1,091**	**2,696,781**
Unsecured exposures	3,656	1,429,520	217,807	1,650,983
Total carrying value loans and advances to customers at AC	**2,698,449**	**1,430,417**	**218,898**	**4,347,764**

Other assets mainly include equipment and receivables. The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures. The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

The extent to which collateral and other credit enhancements mitigate credit risk for financial assets carried at amortised cost that are credit impaired, is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

(All amounts are expressed in thousands MDL, if not stated otherwise)

13 Loans and advances to customers (continued)

The effect of collateral on credit impaired assets at 31 December 2020 is as follows.

	Over-collateralised Assets		Under-collateralised assets	
	Carrying value of the assets	Value of collateral	Carrying value of the assets	Value of collateral
Credit impaired assets:				
Loans to corporate customers carried at AC				
Investment loans	45,720	234,700	431	-
Working capital loans	12,421	313,850	3,528	293,820
Revolving lines	4,188	31,635	136	168
Loans to individuals carried at AC				
Mortgage loans	17,523	88,757	1,534	6,419
Consumer loans	-	220	20,208	1
Credit cards	-	-	1,368	-

The effect of collateral on credit impaired assets at 31 December 2019 is as follows.

	Over-collateralised Assets		Under-collateralised assets	
	Carrying value of the assets	Value of collateral	Carrying value of the assets	Value of collateral
Credit impaired assets:				
Loans to corporate customers carried at AC				
Investment loans	52,124	262,647	565	345
Working capital loans	114,528	819,323	2,119	15,294
Revolving lines	4,893	105,580	1,732	404
Loans to individuals carried at AC				
Mortgage loans	11,147	67,313	109	2,268
Consumer loans	-	-	8,484	-
Credit cards	-	-	69	-

The Bank obtains collateral valuation at the time of granting loans and generally updates depending on the significance of the loan exposure. The values of collateral considered in this disclosure are the values established in collateral agreements.

The outstanding contractual amounts of loans and advances to customers written off that are still subject to enforcement activity was as follows at 31 December 2020 and 31 December 2019:

	31 December 2020	31 December 2019
Loans to legal entities	365,176	391,511
Loans to individuals	26,310	29,044
Total	391,486	420,555

The Bank's policy is to complete legal enforcement steps that were initiated even though the loans were written off as there is no reasonable expectation of recovery.

(All amounts are expressed in thousands MDL, if not stated otherwise)

14 Other financial assets

	31 December 2020	31 December 2019
Receivables from transactions with payment cards	32,342	33,169
Other amounts in settlement	8,734	6,751
Fees calculated not related to interest	7,502	5,359
Other commission	3,697	-
Other financial assets	1,216	1,081
Total gross carrying amount	**53,491**	**46,360**
Less: credit loss allowance	(24,847)	(18,345)
Total other financial assets	**28,644**	**28,015**

The movement in the credit loss allowance for receivables and related payments for the year 2020 and 2019 is presented below:

	2020	2019
At 1 January	**(18,345)**	**(20,223)**
Credit loss allowance	(6,502)	(10,406)
Write-offs	-	2,602
Transfer	-	9,682
At 31 December	**(24,847)**	**(18,345)**

15 Other assets

	31 December 2020	31 December 2019
Prepayments for tangibles and intangibles assets	133,007	101,908
Other non-financial assets	19,697	61,697
Prepaid expenses	16,000	16,058
Inventory and low value materials	13,536	12,018
Other amounts in settlement	1,685	1,145
Non-current assets held for sale	957	957
Personnel receivable	458	374
Other sundry debtors	160	-
Total gross carrying amount	**185,500**	**194,157**
Less: credit loss allowance	(22,838)	(30,536)
Total other assets	**162,662**	**163,621**

The movement in the credit loss allowance for other assets for the year 2020 and 2019 is presented below:

	2020	2019
At 1 January	**(30,536)**	**(20,859)**
Credit loss allowance	7,698	(9,677)
At 31 December	**(22,838)**	**(30,536)**

(All amounts are expressed in thousands MDL, if not stated otherwise)

16 Premises and equipment

	Land (revalued)	Buildings (revalued)	Furniture and equipment	Vehicles	Other assets	Assets under construction	Total
At 1 January 2019							
Cost/revalued amount	173,241	466,739	596,227	42,040	31,138	325,939	1,635,324
Accumulated depreciation	-	(185,772)	(398,324)	(21,070)	(21,353)	-	(626,519)
Carrying amount at 1 January 2019	**173,241**	**280,967**	**197,903**	**20,970**	**9,785**	**325,939**	**1,008,805**
Additions	-		-	-	-	255,633	255,633
Transfers	-	7,457	70,847	1,904	5,673	(85,881)	-
Disposals, net	(604)	(406)	(191)	(3,740)	(46)	(3,435)	(8,422)
Depreciation charge	-	(11,488)	(74,646)	(3,843)	(5,366)	-	(95,343)
Carrying amount at 31 December 2019	**172,637**	**276,530**	**193,913**	**15,291**	**10,046**	**492,256**	**1,160,673**
At 31 December 2019							
Cost/revalued amount	172,637	472,145	621,696	34,881	36,515	492,256	1,830,130
Accumulated depreciation	-	(195,615)	(427,783)	(19,590)	(26,469)	-	(669,457)
Carrying amount at 31 December 2019	**172,637**	**276,530**	**193,913**	**15,291**	**10,046**	**492,256**	**1,160,673**
Additions	-	-	-	-	-	278,695	278,695
Transfers	-	46,109	46,947	6,054	6,560	(105,670)	-
Disposals, net	(91)	(852)	(29)	-	-	(2,533)	(3,505)
Impairment charge to profit or loss	(4,657)	-	-	-	-	(112,299)	(116,956)
Depreciation charge	-	(12,620)	(76,638)	(3,835)	(6,774)	-	(99,867)
Carrying amount at 31 December 2020	**167,889**	**309,167**	**164,193**	**17,510**	**9,832**	**550,449**	**1,219,040**
At 31 December 2020							
Cost/revalued amount	167,889	512,040	665,770	40,286	43,069	550,449	1,979,503
Accumulated depreciation	-	(202,873)	(501,577)	(22,776)	(33,237)	-	(760,463)
Carrying amount at 31 December 2020	**167,889**	**309,167**	**164,193**	**17,510**	**9,832**	**550,449**	**1,219,040**

(All amounts are expressed in thousands MDL, if not stated otherwise)

16 Premises and equipment (continued)

At 31 December 2020, the cost of the Bank's fully depreciated premises and equipment that are still in use amounted to MDL 371,303 thousand (31 December 2019: MDL 302,866 thousand). All depreciation expense calculated during 2020 and 2019 was recognized in the statement of profit or loss.

Premises and equipments are valued at cost less accumulated depreciation and impairment losses, with the exception of the category "Land" and "Buildings", that were revalued at fair value in 2016 in accordance with the provisions of IAS 16 "Property, Plant and Equipment".

Included in assets under construction is the new head office building ("HO"). The Bank purchased the building in 2017 and started reconstructing it to comply with the Bank's safety and infrastructure requirements. Following an internal review of the amount of investments made, expected costs to completion, and expected performance of the asset, the Bank concluded that the HO building in construction might be individually impaired. The Bank carried an impairment test and as at 31 December 2020, the Bank recognized an impairment charge of MDL 112,299 thousand related to the HO building in construction, and MDL 4,657 thousand related to land, representing the difference between the book values and the respective recoverable amounts.

As at 31 December 2020 the book value of Land and Buildings would have been MDL 695,160 thousand (31 December 2019: MDL 599,179 thousand) if these assets had been valued at cost less depreciation.

17 Intangible assets

	Software	Licences	Other intangible assets	Intangible assets in progress	Total
At 1 January 2019					
Cost amount	60,248	74,554	2,182	725	137,709
Accumulated amortization	(20,928)	(58,250)	(128)	-	(79,306)
Carrying amount at 1 January 2019	**39,320**	**16,304**	**2,054**	**725**	**58,403**
Additions	-	-	-	25,826	25,826
Transfer	14,739	6,663	1,031	(22,433)	-
Disposal - cost amount	(1,259)	(32,786)	-	-	(34,045)
Disposal - Accumulated amortization	1,259	32,786	-	-	34,045
Amortization charge	(6,662)	(12,566)	(1,827)	-	(21,055)
As at 31 December 2019					
Cost amount	73,728	48,431	3,213	4,118	129,490
Accumulated amortization	(26,331)	(38,030)	(1,955)	-	(66,316)
Carrying amount at 31 December 2019	**47,397**	**10,401**	**1,258**	**4,118**	**63,174**
Additions	-	-	-	56,377	56,377
Transfer	33,321	6,782	165	(40,268)	-
Amortization charge	(7,857)	(8,891)	(566)	-	(17,314)
As at 31 December 2020					
Cost amount	107,049	55,213	3,378	20,227	185,867
Accumulated amortization	(34,188)	(46,921)	(2,521)	-	(83,630)
Carrying amount	**72,861**	**8,292**	**857**	**20,227**	**102,237**

(All amounts are expressed in thousands MDL, if not stated otherwise)

17 Intangible assets (continued)

All amortization calculated during 2020 and 2019 was recognized in the statement of profit or loss.
Intangible assets are initially recognized at cost and subsequently are measured at cost less accumulated amortization and impairment losses, if any. Intangible assets are amortized on a straight-line basis throughout their useful lives.

As at 31 December 2020, the cost of the Bank's fully depreciated intangible assets that are still in use amounted to MDL 36,182 thousand (31 December 2019: MDL 22,241 thousand).

The intangible assets include as a significant item the core banking system of the Bank, T24, with the book value at 31 December 2020 of MDL 29,521 thousand (31 December 2019: MDL 32,345 thousand), which according to the contractual provisions will be used by the Bank until 30 September 2030.

18 Right of use assets and Lease liabilities

The Bank leases various buildings and office spaces. Rental contracts are typically made for fixed periods of 1 year to 7 years but may have extension options. All leases are recognised as a right-of-use asset and a corresponding liability from the date when the leased asset becomes available for use by the Bank.

The right of use assets by class of underlying items is analysed as follows:

	2020	**2019**
Carrying amount at 1 January *(after adoption of IFRS 16)*	**97,540**	**113,591**
Additions	30,708	22,150
Disposals*	(18,071)	(3,117)
Depreciation charge	(35,809)	(35,084)
Carrying amount at 31 December	**74,368**	**97,540**

Interest expense on lease liabilities was MDL 1,489 thousand (2019: MDL 1,860 thousand).

The Lease liabilities:

	2020	**2019**
Carrying amount at 1 January *(after adoption of IFRS 16)*	**96,997**	**113591**
Additions	30,708	22,150
Disposals*	(18,859)	-
Repayment	(29,771)	(40,604)
Interest expense	1,489	1,860
Carrying amount at 31 December	**80,562**	**96,997**

(All amounts are expressed in thousands MDL, if not stated otherwise)

18 Right of use assets and lease liabilities (continued)

*Disposals for right of use asset and lease liabilities represent the derecognition as a result of cancellation of the lease contracts, full repayments or other changes performed on the lease contract that led to derecognition of the right of use or lease liability.

Expenses relating to short-term leases and leases of low value assets, that are not shown as short-term leases, are included in “Other operating expenses”, as below:

	2020	**2019**
Expense relating to short-term leases	5,881	7,645
Expense relating to leases of low-value assets that are not shown above as short-term leases	1,801	496

Total cash outflow for leases in 2020 was MDL 4,348 thousand (2019: MDL 2,326 thousand).

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as collateral for borrowings.

19 Due to other banks

	31 December 2020	**31 December 2019**
Correspondent accounts in foreign currency	15,256	2,051
Correspondent accounts in local currency	986	21,920
Total due to other banks	**16,242**	**23,971**

(All amounts are expressed in thousands MDL, if not stated otherwise)

20 Borrowings

Borrowings from Financial Institutions:	**Currency**	**Maturity**	**31 December 2020**	**31 December 2019**
International Fund for Agricultural Development (IFAD)	MDL/USD/ EUR	16.03.2026	304,014	254,587
European Bank for Reconstruction and Development	EUR	26.09.2024	249,591	96,057
Livada Moldovei Project	MDL/EUR	29.06.2030	131,250	-
Project for Competitiveness Improvement (PCI)	MDL/USD/ EUR	1.04.2026	70,480	49,080
Wine Project	EUR	2.06.2025	68,139	80,250
Reconstruction Credit Institute (KfW)	MDL/USD/ EUR	15.07.2025	60,360	41,291
Rural Investment and Services Project (RISP)	MDL/USD/ EUR	1.04.2026	54,318	72,653
European Bank for Reconstruction and Development	EUR	26.05.2021	21,138	69,370
Central European Bank Project CEB Covid-19	MDL/USD/ EUR	13.05.2024	4,237	-
Millennium Challenge	MDL/USD/ EUR	25.02.2022	1,108	2,865
Total borrowings			**964,635**	**666,153**

For loans contracted under agreements between the Government of the Republic of Moldova and International Financial Institutions, repayment schedules are set for each individual project. The loans disbursed within the projects can be in different currencies (MDL, USD and / or EUR). The funds are utilised by the Bank to further finance the clients that are under the scope of the projects. The most significant projects are the ones on agricultural funding and orchard.

The Bank was in compliance with all the financial covenants included in agreements as at 31 December 2020 and 31 December 2019. Within the Agreements signed with the Ministry of Finance of the Republic of Moldova, the Bank acts as an intermediary.

(All amounts are expressed in thousands MDL, if not stated otherwise)

21 Due to customers

	31 December 2020	31 December 2019
Legal entities		
Current accounts, including:		
Corporate customers	1,705,103	1,506.688
Small and medium enterprises customers	3,747,601	2,994,561
Sub-total current accounts	**5,452,704**	**4,501,249**
Sight Deposits, including:		
Corporate customers	151,448	122,086
Small and medium enterprises customers	312,633	31,878
Sub-total sight deposits	**464,081**	**153,964**
Term deposits, including:		
Corporate customers	389,838	270,757
Small and medium enterprises customers	680,261	561,675
Sub-total term deposits	**1,070,099**	**832,432**
Collateral deposits, including:		
Corporate customers	17,659	14,875
Small and medium enterprises customers	27,550	24,302
Sub-total collateral deposits	**45,209**	**39,177**
Total due to customers for legal entities	**7,032,093**	**5,526,822**
Individuals		
Current accounts	5,698,017	3,759,746
Sight deposits	1,067	1,242
Term deposits	10,468,811	10,159,975
Collateral deposits	25,451	37,651
Savings accounts	648,943	830,921
Total due to customers for individuals	**16,842,289**	**14,789,535**
Total due to customers	**23,874,382**	**20,316,357**

At 31 December 2020 current accounts of legal entities and individuals include restricted deposits under guarantee (collateral) agreements in amount of MDL 63,346 thousand (31 December 2019: MDL 63,346 thousand).

The Bank’s term deposit portfolio includes certain deposits with no rights to withdraw deposits prior to maturity. Should such deposits be withdrawn prior to maturity, the interest rate is decreased to the rate applied for demand deposits and is recalculated for the whole term of the deposit.

(All amounts are expressed in thousands MDL, if not stated otherwise)

21 Due to customers (continued)

Economic sector concentrations within customer accounts are as follows:

	31 December 2020		31 December 2019	
	Amount	**%**	**Amount**	**%**
Individuals	16,842,281	71%	14,789,530	73%
Trade	2,244,606	9%	2,063,406	10%
Other	1,285,590	5%	1,157,092	6%
Manufacturing	961,652	4%	651,001	3%
Agriculture	720,518	3%	608,527	3%
Real estate	707,292	3%	459,748	2%
State and public organisations	447,005	2%	120,436	1%
Other financial institutions	340,156	2%	254,820	1%
Transport	325,282	1%	211,797	1%
Total due to customer	**23,874,382**	**100**	**20,316,357**	**100**

22 Other financial liabilities

	31 December 2020	31 December 2019
Issued letter of credit	52,239	-
Operations with payment cards	31,987	45,131
Securities settlements	27,513	28,099
Liability contingent on uncertain events (Note 11)	25,629	-
Other amounts in settlement	9,756	8,825
Dividends payables (Note 25)	8,248	79,465
Debt with suppliers	7,339	2,576
Settlements with Visa and MC for marketing	6,586	-
Other financial liabilities	13,228	3,965
Total other financial liabilities	**182,525**	**168,061**

23 Other liabilities

	31 December 2020	31 December 2019
Provision for untaken holidays and for other employee benefits	68,650	-
Other amounts in settlement	42,521	10,237
Other non-financial liabilities	13,403	43,255
Settlements with budget	16,070	19,004
Taxes payables other than on income	9,329	8,161
Provision for other risks	5,277	-
Deferred revenue	3,014	2,351
Settlements with Bank employees	60	139
Total other liabilities	**158,324**	**83,147**

(All amounts are expressed in thousands MDL, if not stated otherwise)

24 Guarantees and other financial commitments and provision for loan commitments

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and, therefore, carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Bank monitors the term to maturity of credit related commitments, because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Outstanding credit related commitments are as follows:

	31 December 2020	**31 December 2019**
Undrawn credit lines that are irrevocable or are revocable only in response to a material adverse change	2,186,268	1,488,111
Total loan commitments	2,186,268	1,488,111
Letters of credit	65,893	16,219
Guarantees issued	457,212	389,347
Commitments to issue guarantees	450,403	883
Less: Provision for Letters of credit	(489)	(130)
Less: Provision for financial guarantees	(3,284)	(1,846)
Less: Provision for loan commitments	(18,541)	(7,494)
Less: Commitment collateralised by cash deposits	(11,655)	(16,502)
Total credit related commitments, net of provision and cash covered exposures	**3,125,807**	**1,868,588**

(All amounts are expressed in thousands MDL, if not stated otherwise)

24 Guarantees and other financial commitments and provision for loan commitments (continued)

An analysis of issued financial guarantees and credit related commitments by credit quality based on credit risk grades at 31 December 2020 is as follows.

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Issued financial guarantees				
- Good	973,508	-	-	973,508
Unrecognised gross amount	973,508	-	-	973,508
Provision for financial guarantees	(3,773)	-	-	(3,773)
Loan commitments				
- Good	2,105,202	7,743	1,459	2,114,404
- Satisfactory	-	71,372	-	71,372
- Special monitoring	-	-	492	492
Unrecognised gross amount	2,105,202	79,115	1,951	2,186,268
Provision for loan commitments	(16,615)	(1,510)	(416)	(18,541)

An analysis of issued financial guarantees and credit related commitments by credit quality based on credit risk grades at 31 December 2019 is as follows:

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
Issued financial guarantees				
- Good	406,449	-	-	406,449
Unrecognised gross amount	406,449	-	-	406,449
Provision for financial guarantees	(1,976)	-	-	(1,976)
Loan commitments				
- Good	1,275,966	8,063	16	1,284,045
- Satisfactory	-	203,995	71	204,066
Unrecognised gross amount	1,275,966	212,058	87	1,488,111
Provision for loan commitments	(5,567)	(1,916)	(11)	(7,494)

(All amounts are expressed in thousands MDL, if not stated otherwise)

24 Guarantees and other financial commitments and provision for loan commitments (continued)

Movements in the provision for financial guarantees and loan commitments at 31 December 2020 and 31 December 2019 were as follows:

	Provision				Off balance-sheet items			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total provision**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total amount**
Provision for financial guarantees and other financial commitments at 1 January 2020	**(7,543)**	**(1,916)**	**(11)**	**(9,470)**	**1,682,414**	**212,058**	**88**	**1,894,560**
Movements with impact on provision for credit related commitments charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	86	(270)	-	(184)	(64,884)	10,894	-	(53,990)
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	3	11	(190)	(176)	(2,665)	(1,944)	1,881	(2,728)
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(134)	1,371	-	1,237	31,676	(72,706)	-	(41,030)
Issued guarantees (fees charged)	(10,717)	(1,022)	(194)	(11,933)	1,981,821	60,263	-	2,042,084
Derecognised during the period	2,043	425	-	2,468	(516,520)	(126,773)	(72)	(643,365)
Changes to model assumptions	(4,148)	(184)	(13)	(4,345)	-	-	-	-
Other movements	187	75	(4)	258	(68,555)	(2,827)	10	(71,372)
Total charge to profit or loss for the year	**(12,680)**	**406**	**(401)**	**(12,675)**	**1,360,873**	**(133,093)**	**1,819**	**1,229,599**
Movements without impact on provision for credit related commitments charge for the period:								
Foreign exchange movements	(165)	-	(4)	(169)	35,423	150	44	35,617
Provision for financial guarantees and other financial commitments at 31 December 2020	**(20,388)**	**(1,510)**	**(416)**	**(22,314)**	**3,078,710**	**79,115**	**1,951**	**3,159,776**

(All amounts are expressed in thousands MDL, if not stated otherwise)

24 Guarantees and other financial commitments and provision for loan commitments (continued)

	Provision				Off balance-sheet items			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total provision**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total amount**
Provision for financial guarantees and other financial commitments at 1 January 2019	**(8,764)**	**(419)**	**(195)**	**(9,378)**	**1,200,238**	**12,628**	**950**	**1,213,816**
Movements with impact on provision for credit related commitments charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	914	(903)	-	11	(126,284)	102,402	-	(23,882)
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	19	-	(6)	13	(5,708)	-	72	(5,636)
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(16)	297	21	302	15,023	(10,135)	(79)	4,809
Issued guarantees (fees charged)	(6,457)	(1,012)	(5)	(7,474)	1,211,597	106,663	14	1,318,274
Derecognised during the period	1,014	2	107	1,123	(466,520)	(1,311)	(620)	(468,451)
Changes to model assumptions	5,743	109	67	5,919	(145,318)	1,144	(248)	(144,422)
Total charge to profit or loss for the year	**1,217**	**(1,507)**	**184**	**(106)**	**482,790**	**198,763**	**(861)**	**680,692**
Movements without impact on provision for credit related commitments charge for the period:								
Foreign exchange movements	4	10	-	14	(614)	667	(1)	52
Provision for financial guarantees and other financial commitments at 31 December 2019	**(7,543)**	**(1,916)**	**(11)**	**(9,470)**	**1,682,414**	**212,058**	**88**	**1,894,560**

(All amounts are expressed in thousands MDL, if not stated otherwise)

25 Share capital, dividends and earnings per share

At 31 December 2020 the non-distributable reserves amounted to MDL 462,204 thousand (31 December 2019: MDL 462,517 thousand) and includes revaluation reserve from securities at fair value through other comprehensive income, revaluation reserve for premises and legal reserves, which are non-distributable. Starting with 2012, according to the NBM requirements, an additional reserve was created by the Bank. This reserve was determined as the difference between the allowances for impairment of loans and conditional commitments in accordance with IFRS and the value computed, but non-accounted for of allowances for impairment of loans and conditional commitments in accordance with prudential regulations of the NBM (31 December 2020: MDL 339,182 thousand and 31 December 2019: MDL 267,764 thousand). Legal reserves and reserve recorded in accordance with prudential regulations of the NBM are included in retained earnings.

As at 31 December 2020 the share capital comprises 1,037,634 authorized ordinary shares, with a nominal value of MDL 200 per share (31 December 2019: 1,037,634 shares).

During 2020 the Bank did not declare dividends distribution from the net profit of the year ended 31 December 2019 while in 2019 the amount of MDL 221,016 thousand or MDL 213 per share was approved for distribution as dividends.

	2020	**2019**
Dividends payable at 1 January	79,465	171,500
Dividends declared during the year	-	221,016
Dividends paid during the year	(1,885)	(311,715)
Dividends prescribed and recorded as income	(69,332)	(1,336)
Dividends payable at 31 December	**8,248**	**79,465**
Dividends per share declared during the year	**-**	**213**

For the dividends approved by the Bank to be paid and not yet collected by the shareholders in a period longer than three years since the date when the right to receive the dividends occurred, the Bank has the right to prescribed them and record the amount as income. During 2020 the Bank prescribed dividends corresponding to 2015 financial year considering the fact that the three years' time period has elapsed, and no amounts were claimed by the shareholders.

Basic earnings/(loss) per share are calculated by dividing the profit or loss attributable to owners of the Bank by the weighted average number of ordinary shares in issue during the year, excluding treasury shares.

The Bank has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share. Earnings per share are calculated as follows:

	Ordinary shares outstanding (number)	**Net Profit for the year thousand MDL**	**Earnings per share MDL**	**Diluted Earnings per share MDL**
At 31 December 2019	1,037,634	703,671	678.15	678.15
At 31 December 2020	1,037,634	523,811	504.81	504.81

(All amounts are expressed in thousands MDL, if not stated otherwise)

26 Own funds and management of capital

The Bank's objectives when managing capital are (i) to comply with the capital requirements set by the NBM, (ii) to safeguard the Bank's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve own funds adequacy ratio based on the provisions of regulations in force. Compliance with own funds adequacy ratios set by the NBM is monitored monthly, with reports outlining their calculation being reviewed and signed by the Bank's Credit Risk Officer.

Own funds adequacy ratios measure capital adequacy by comparing the Bank's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risks positions weighted to reflect their relative risk (total risk exposure). To be sufficiently capitalized under the regulations of the NBM the Bank is required to maintain an own funds adequacy ratio of at least 11.68% according to Supervisory Review and Evaluation Process analysis and a limit of 18.68% which is the minimum required ratio that includes the capital, systemic risk and systemic significance buffers (31 December 2019: 17.00%).

The own funds are defined as sum of share capital, retained earnings and reserves deducted with other regulatory established adjustments. Based on information provided internally to key management personnel, the amount of own funds that the Bank managed as of 31 December 2020 was MDL 3,510,814 thousand (31 December 2019: MDL 3,053,998 thousand). The total risk exposure as of 31 December 2020 was MDL 17,964,348 thousand (31 December 2019: MDL 15,887,852 thousand). The own funds adequacy ratio of the Bank at 31 December 2020 constitutes 19.54% (31 December 2019: 19.22%). The Bank complied with all capital requirements as at 31 December 2020 and 31 December 2019.

27 Net margin on interest and similar income

	2020	2019
Interest income calculated using the effective interest method		
Loans and advances to customers at AC	1,208,517	1,109,368
Debt securities at FVOCI	131,567	92,115
Debt securities at AC	476	1,960
Due from other banks at AC	3,927	11,757
Total interest income calculated using the effective interest method	**1,344,487**	**1,215,200**
Other similar income		
Due from other banks	1,163	10,663
Balances with the National Bank of Moldova	32,604	148,419
Total other similar income	**33,767**	**159,082**
Total interest income	**1,378,254**	**1,374,282**
Interest expense		
Term deposits of legal entities	(37,413)	(37,175)
Term deposits of individuals	(312,128)	(316,686)
Term placements of other banks	(22,933)	(16,121)
Total interest expense	**(372,474)**	**(369,982)**
Other similar expense		
Lease liabilities	(1,489)	(1,860)
Total other similar expense	**(1,489)**	**(1,860)**
Total interest expense	**(373,963)**	**(371,842)**
Net margin on interest and similar income	**1,004,291**	**1,002,440**

(All amounts are expressed in thousands MDL, if not stated otherwise)

28 Net fee and commission income

	2020	2019
Fee and commission income		
Transactions with debit cards	218,529	185,796
Cash transactions	101,363	108,158
Processing of clients' payments	67,434	67,188
Commissions from other services to clients	42,032	45,223
Settlement transactions	36,112	36,296
Money transfer services	20,784	18,000
Commissions for transfer of salaries to debit cards	17,524	16,761
Commission from direct debit transactions	9,104	7,718
Commissions on guarantees and letters of credit	8,190	6,052
Cash collection	5,537	5,780
Total fee and commission income	**526,609**	**496,972**
Fee and commission expense		
Processing centres services	(125,132)	(112,765)
Transactions with debit cards	(71,195)	(61,705)
Settlement transactions	(11,495)	(6,050)
Cash transactions	(9,090)	(11,811)
Other fee and commission expense	(7,095)	(9,586)
Cash withdrawal related to debit cards	(3,224)	(3,463)
Total fee and commission expense	**(227,231)**	**(205,380)**
Total Net fee and commission income	**299,378**	**291,592**

29 Gains less losses from trading in foreign currencies

	2020	2019
Gain from foreign trading	238,133	177,515
Gain from trading foreign currency at foreign exchange points	91,400	86,833
Gain from card transactions in foreign currency	39,864	26,999
Gain from other transactions in foreign currency	15	1,839
Total gains less losses from trading in foreign currencies	**369,412**	**293,186**

(All amounts are expressed in thousands MDL, if not stated otherwise)

30 Other operating income

	2020	2019
Income from unpaid and prescribed dividend liabilities (Note 25)	69,332	1,336
Penalties received	23,856	16,080
Gains from disposal of other assets	3,794	1,061
Other income	1,606	1,243
Rental income	1,184	1,133
Dividend income from investments in equity securities	944	714
Gain on disposal of premises and equipment	-	674
Total other operating income	**100,716**	**22,241**

31 Personnel expenses

	2020	2019
Wages and salaries	(359,359)	(313,752)
Social security contributions	(72,830)	(61,780)
Other personnel expenses	(25,268)	(30,152)
Provision for untaken holiday and bonuses	(68,650)	-
Meal Tickets	(20,628)	(20,120)
Medical insurance contributions	(17,274)	(15,459)
Total personnel expenses	**(564,009)**	**(441,263)**

The Bank makes contributions to the State social insurance fund of the Republic of Moldova, calculated as a percentage of the gross salary and other compensations (2020: 18%, 2019: 18%). These contributions are charged to the statement of profit or loss in the period in which the related salary is earned by the employee.

32 Other operating expenses

	2020	2019
Repairs and maintenance	(31,621)	(37,402)
Advertising and charity	(25,784)	(31,009)
Maintenance of intangible assets	(20,582)	(16,342)
Contributions to the Deposit Guarantee Fund	(20,510)	(23,972)
Money packaging and transportation expenses	(15,531)	(11,606)
Contribution to the Resolution fund	(15,482)	-
Safeguarding of assets and security	(13,989)	(11,436)
Utilities	(12,823)	(12,657)
Postage and telecommunication	(12,239)	(9,082)
Professional services	(11,919)	(15,824)
Operational lease expenses	(7,682)	(8,141)
Stationery and supplies	(7,390)	(11,170)
Small value inventory items	(7,068)	(7,370)
Remuneration of member of Bank's Council	(6,199)	(11,880)

(All amounts are expressed in thousands MDL, if not stated otherwise)

32 Other operating expenses (continued)

	2020	2019
Provision for other risks	(5,277)	-
Fuel expenses	(4,810)	(5,711)
Insurance expense	(4,799)	(4,744)
Dealing and informational services	(2,866)	(4,098)
Business promotion	(2,240)	(6,516)
Personnel training	(1,625)	(2,428)
Expenses for debt collection services	(1,190)	(1,370)
Audit of statutory financial services	(1,139)	(1,110)
Travel expenses	(307)	(2,799)
Losses on derecognition of non-financial assets	(297)	-
Customers compensation costs*	-	(26,985)
Other expenses**	(13,586)	(13,496)
Total other operating expenses	**(246,955)**	**(277,148)**

Other than audit of statutory financial statements, for which the amount of MDL 1,008 thousand (31 December 2019: MDL 744 thousand) was recorded as expense, the current auditor, respectively the previous auditor, have provided to the Bank other non-audit services such as limited review of FINREP financial information as at 30 June 2020 in amount of MDL 354 thousand (31 December 2019: MDL 333 thousand) and other agreed upon procedures engagements that amounted to MDL 218 thousand (31 December 2019: MDL 235 thousand).

*In 2019, there was a case of breaking the safe deposits located in one of the Bank's branches. Despite the fact that the Bank did not bear contractual liability for the integrity of the assets held by the customers in the safe deposits, in order to meet customers' needs, the Bank's Management Board decided, as an exception, to compensate each affected customer with the amount of money declared to be kept in the safe deposit, but no more than MDL 500 thousand per individual person. At the date of approval of these Financial statements, the Bank does not have any additional information on the results of the ongoing investigations carried out by law enforcement authorities.

**Other expenses include property tax, penalties paid, amounts relating to cash transactions and certain marketing expenses.

33 Credit loss allowance charge

Expected credit loss allowance charge includes the elements presented below. During the financial year ended 31 December 2020 the Bank has recorded recoveries from previously written off loans in amount of MDL 27,847 thousand (2019: MDL 93,659 thousand) and also from other financial assets in amount of MDL 562 thousand (2019: MDL 807 thousand).

	Note	2020	2019
Loans and advances	13	(52,393)	95,141
Credit related commitments	24	(12,225)	215
Other financial and other assets	14,15	(10,616)	(19,271)
Correspondent accounts and placements at banks	9	197	(222)
Investments in debt securities	10	(5,210)	-
Total credit loss allowance charge		**(80,247)**	**75,863**

(All amounts are expressed in thousands MDL, if not stated otherwise)

34 Taxation

Income tax expense recorded in the statement of profit or loss for the year comprises the following:

	2020	**2019**
Current income tax expenses	(84,598)	(91,328)
Deferred income tax credit	24,394	349
Income tax expenses for the year	**(60,204)**	**(90,979)**

Current income tax is calculated on the taxable income for the statutory financial statements. For tax purposes, the deductibility of certain expenses, for example entertainment costs, philanthropic, sponsorship and other expenses, expenses with improper supporting documents are limited to a percentage of profit specified in the tax law. The income tax rate applicable to the Bank for 2020 income is 12% (2019: 12%). The balance of the current tax liability at 31 December 2020 is of MDL 3,566 thousand (31 December 2019: MDL 27,614 thousand).

The reconciliation of the income tax expense is presented in the table below:

	2020	**2019**
Profit before tax	584,015	794,650
Tax calculated at applicable rate	(70,082)	(95,358)
Tax effect of:		
Non-taxable income	12,037	9,664
Non-deductible expenses	(2,206)	(5,329)
Philanthropic, sponsorship and other expenses	47	44
Income tax expense for the year	**(60,204)**	**(90,979)**

(All amounts are expressed in thousands MDL, if not stated otherwise)

34 Taxation (continued)

2020	**Balance at 1 January**	**Recognized in profit or loss**	**Recognized in other comprehensive income**	**Deferred tax assets**	**Deferred tax liabilities**	**Net balance at 31 December**
Financial assets at fair value through other comprehensive income, including:	(15,123)	625	(136)	625	(15,259)	(14,634)
- *the revaluation of equity investments*	*(15,080)*	-	*1,382*	-	*(13,698)*	*(13,698)*
- *the revaluation of debt investments*	*(43)*	-	*(1,518)*	-	*(1,561)*	*(1,561)*
- *depreciation*	-	625	-	625	-	625
Property and equipment, including:	(28,280)	863	178	-	(27,239)	(27,239)
- *revaluation reserve*	*(26,455)*	-	*178*	-	*(26,277)*	*(26,277)*
- *depreciation*	*(1,825)*	*863*	-	-	*(962)*	*(962)*
Employee benefits	-	8,238	-	8,238	-	8,238
Impairment Assets under construction	-	14,035	-	14,035	-	14,035
Provision	-	633	-	633	-	633
Provision for other liabilities	-	-	(3,076)	-	(3,076)	(3,076)
Total deferred tax assets (liabilities)	**(43,403)**	**24,394**	**(3,034)**	**23,531**	**(45,574)**	**(22,043)**

2019	**Balance at 1 January**	**Recognized in profit or loss**	**Recognized in other comprehensive income**	**Deferred tax assets**	**Deferred tax liabilities**	**Net balance at 31 December**
Loans to customers, including:	53	(53)	-	-	-	-
recognised at amortised cost	*53*	*(53)*	-	-	-	-
Financial assets at fair value through other comprehensive income, including:	(5,215)	-	(9,908)	-	(15,123)	(15,123)
- *the revaluation of equity investments*	*(5,564)*	-	*(9,516)*	-	*(15,080)*	*(15,080)*
- *the revaluation of debt investments*	*349*	-	*(392)*	-	*(43)*	*(43)*
Property and equipment, including:	(27,067)	402	(1,615)	-	(28,280)	(28,280)
- *revaluation reserve*	*(24,840)*	-	*(1,615)*	-	*(26,455)*	*(26,455)*
- *depreciation*	*(2,227)*	*402*	-	-	*(1,825)*	*(1,825)*
Total deferred tax assets (liabilities)	**(32,229)**	**349**	**(11,523)**	**-**	**(43,403)**	**(43,403)**

(All amounts are expressed in thousands MDL, if not stated otherwise)

35 Segment reporting

Operating segments are structural units of the Bank that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the Management Board and by the heads of departments responsible for making operational decisions based on the reports prepared in the prescribed manner.

The Bank is organised on the basis of the following main business segments:

- **Retail Banking** - this segment includes a wide range of banking products and services to individuals.
- **Corporate Banking** - this segment includes various types of banking services to large companies.
- **Small and Medium Enterprises** (“SME”) - this segment includes banking services provided to entities of small and medium-sized businesses.
- **Corporate Investments -** this segment include trading and corporate finance activities.

(a) Factors used by the Management to identify the reportable segments

The Bank’s segments are strategic units, focused on different categories of clients. Considering the particularity of clients’ segmentation and the bank services provided, business units are managed separately. For the presentation of information on reportable segments, due to not significant values, the assets, liabilities and profit or loss related to Corporate Investments Department and subsidiaries are included in „Other” category, which also includes units of support and management.

(b) Measurement of reportable segment profit or loss

For defining profit or loss on reportable segments, the Bank apply internal regulations of distribution of revenue and expenses using internal system of pricing transfer and some allocation keys of indirect revenue and expenses.

(c) Geographical information

The Bank has no significant income from foreign customers. The Bank has no long-term assets located in countries other than the Republic of Moldova.

(d) Major customers

The Bank has no external customers with revenues exceeding 10% of Bank’s total revenue.

	31 December 2020	31 December 2019
Assets		
Corporate	11,611,075	8,307,328
SME	5,807,831	4,665,280
Individuals	12,590,812	12,517,963
Corporate Investments	282,472	338,118
Total assets	**30,292,190**	**25,828,689**
Liabilities		
Corporate	3,033,780	2,208,303
SME	4,956,165	4,041,157
Individuals	17,331,345	15,176,866
Corporate Investments	3,303	8,847
Total liabilities	**25,324,593**	**21,435,173**

(All amounts are expressed in thousands MDL, if not stated otherwise)

35 Segment reporting (continued)

The segment information for the reportable segments for the year ended at 31 December 2020 and 31 December 2019 is set below:

31 December 2020	Corporate banking	SME	Individuals	Corporate Investments	Total per statement of profit or loss
Interest income	480,032	265,448	632,774	-	1,378,254
Total interest income	**480,032**	**265,448**	**632,774**	**-**	**1,378,254**
Interest expense on customer deposits and other borrowings	31,978	40,139	301,846	-	373,963
Total interest expenses	**31,978**	**40,139**	**301,846**	**-**	**373,963**
Inter-segment revenue	**(38,459)**	**3,532**	**34,927**	**-**	**-**
Net interest income	**409,595**	**228,841**	**365,855**	**-**	**1,004,291**
Fee and commission income	45,335	173,888	307193	193	526,609
Fee and commission expense	6,300	10,889	210,032	10	227,231
Net fee and commission income	**39,035**	**162,999**	**97,161**	**183**	**299,378**
Net foreign exchange gains	111,660	92,310	136,817	-	340,787
Other operating income	24,981	25,395	48,790	1,550	100,716
Personnel expenses	73,303	153,753	319,700	17,253	564,009
Impairment, depreciation and amortization expenses	48,778	92,923	126,078	2,167	269,946
Other operating expenses	33,054	70,470	134,445	8,986	246,955
Operating profit before credit loss allowance	**430,136**	**192,399**	**68,400**	**(26,673)**	**664,262**
Credit loss allowance	(74,086)	18,765	135,568	-	80,247
Segment profit before tax	**504,222**	**173,634**	**(67,168)**	**(26,673)**	**584,015**
Income tax expense	51,960	17,670	(6,171)	(3,255)	60,204
Net segment profit for the year	**452,262**	**155,964**	**(60,997)**	**(23,418)**	**523,811**

(All amounts are expressed in thousands MDL, if not stated otherwise)

35 Segment reporting (continued)

31 December 2019	Corporate banking	SME	Individuals	Corporate Investments	Total per statement of profit or loss
Interest income	481,453	253,484	639,345	-	1,374,282
Total interest income	**481,453**	**253,484**	**639,345**	**-**	**1,374,282**
Interest expense on customer deposits and other borrowings	24,083	40,098	307,661	-	371,842
Total interest expenses	**24,083**	**40,098**	**307,661**	**-**	**371,842**
Inter-segment revenue	**(39,618)**	**3,663**	**35,955**	**-**	**-**
Net interest income	**417,752**	**217,049**	**367,639**	**-**	**1,002,440**
Fee and commission income	45,410	173,136	274,740	3,686	496,972
Fee and commission expense	6,926	9,466	188,928	60	205,380
Net fee and commission income	**38,484**	**163,670**	**85,812**	**3,626**	**291,592**
Net foreign exchange gains	102,504	53,968	115,935	-	272,407
Other operating income	1,492	1,900	17,782	1,067	22,241
Personnel expenses	57,126	159,594	220,177	4,366	441,263
Impairment, depreciation and amortization expenses	11,322	64,824	74,663	673	151,482
Other operating expenses	51,229	87,785	135,639	2,495	277,148
Operating profit before credit loss allowance	**440,555**	**124,384**	**156,689**	**(2,841)**	**718,787**
Credit loss allowance	(73,803)	(32,144)	30,084	-	(75,863)
Segment profit before tax	**514,358**	**156,528**	**126,605**	**(2,841)**	**794,650**
Income tax expense	58,679	17,857	14,443	-	90,979
Net segment profit for the year	**455,679**	**138,671**	**112,162**	**(2,841)**	**703,671**

The total segments revenue and net profit differs from the profit and revenue, disclosed in the statement of comprehensive income due to intersegment revenue / expenses which are not significant enough to be disclosed.

36 Financial risk management

The risks are part of the Bank’s activities. Effective risk management is a key condition for success, especially during current economic conditions. The key objectives such as the maximization of the profitability, reduction of the risk exposure, compliance with regulations determined that the risk management process becomes more complex and vital.

The risk management function within the Bank is carried out with respect to financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risks), credit risk and liquidity risk. The primary function of financial risk management is to establish risk limits and to ensure that any exposure to risk stays within these limits. The operational and legal risk management functions are intended to ensure the proper functioning of internal policies and procedures in order to minimise operational and legal risks.

36.1 Risk management structure

Risk management structure is based on actual requirements regarding the internal control system, general accepted practice, including recommendations of the Basel Committee for Banking Supervision.

The Council of the Bank is responsible for approving the strategies, policies and general principles for addressing risks within the Bank and risk limits, the task which is delegated to Bank`s Executive, including within specialized committees such as the Management Board, the Credit Committee, the Asset Liability Management Committee (“ALCO”).

The Bank’s Risk Committee is a permanent body with advisory functions, the main purpose of which is to ensure the organization of an efficient system for a permanent identification and assessment of risks related to the Bank’s activity and to oversee the implementation of Bank’s risk strategies.

36.2 Basic principles of risk management

The Bank's risk management strategy aims to ensure that capital is adequately tailored to the Bank's risk appetite as well as to the forecasted budget ratios in conditions of controlled risk to ensure both continuity in the Bank's operations and the protection of the interests of shareholders and customers. The Bank adopts a risk appetite according to appropriate risk management strategies and policies, correlated with the overall business strategy, the Bank's equity and risk management experience.

Risk management is performed through structured application of management culture, policies, procedures and practices to identify, evaluate, monitor, and reduce risk. Risk monitoring and control is primarily driven by the limit system, which the Bank has imposed on every significant risk. The limits are continuously monitored, ensuring communication to the Bank's Management Board, ALCO, Risk Committee members or Bank’s Council. Considering environmental changes, market trends and/ or increasing some risk indicators, the Bank intervenes and imposes limits or other control and management measures. The risk limits imply, first of all, the Bank's tolerance and risk appetite.

The Bank has developed its own internal model for assessing and quantifying the size of the capital needed to cover the main types of risk to which it is exposed to, namely the credit, currency, interest rate risks associated with the banking and operational portfolios. The same time, the Bank uses securement and operations to hedge its exposures at risk through instruments available on the market.

The stress testing process is an integral part of the risk management system within the Bank. The Bank conducts regular stress tests, the results obtained are reported to the Bank's Management Board, the ALCO Committee, the Risk Committee, and eventual the Bank Council with further approval of relevant decisions, if needed, in order to avoid adverse events to the Bank. The Internal Audit Department assesses the effectiveness of stress testing scenarios conducted within the Bank for all risks related to banking activity, considering possible events or changes in market conditions that may affect the Bank's activity.

(All amounts are expressed in thousands MDL, if not stated otherwise)

36 Financial risk management (continued)

In order to ensure effective risk management and obtain objective information on the status and extent of risks, the Bank's risk exposures are monitored on an ongoing basis, with daily information being presented and analysed in this respect. Monthly and quarterly reports detailed with Bank exposure, compliance with risk limits and risk parameters, and the possible impact scenarios in those cases are presented to the Bank's Executives, including specialized committees such as ALCO and the Credit Committee.

Quarterly, a comprehensive report is submitted to the Bank’s Risk Committee and Council, allowing members of the committees to make their own opinion on the Bank’s exposure to the risk and the effectiveness of their management system.

36.3 Country and transfer risk

Country risk is the risk determined by the eventual negative impact of economic, social and political conditions and events in a foreign country on the Bank’s activity.

Transfer risk is the risk that it will be impossible for a foreign entity to convert certain financial liabilities in the necessary currency to settle the payment due to the deficiency of the respective currency as a result of restrictions imposed in that country.

The country risk management system within the Bank provides for the application and improvement of the internal model for evaluation and assessing of the risk category established for the country, on the basis of the analysis of complex factors, including the international rating assigned by the international rating agencies stipulated in the internal normative acts. Based on them the risk categories and the exposure limits of the bank toward each country are established. The review and adjustment of the approved limits is done periodically, but not less than once a year. Compliance with country limits is monitored continuously by informing in the pre-set periodicity the Bank's Management Board, the Bank's Risk Committee and the Bank's Council on the level of Bank’s exposure to the country and transfer risk.

Bank’s country exposure at 31 December 2020 and 31 December 2019:

	31 December 2020		**31 December 2019**	
Country risk category	**MDL thousand**	**%**	**MDL thousand**	**%**
I	2,466,901	98.06	1,988,440	99.37
II	42,165	1.68	11,632	0.58
III	6,546	0.26	109	0.01
IV	-	-	817	0.04
Total	**2,515,612**	**100**	**2,000,998**	**100**

The table contains the exposure for a given country, considered to be the total exposure to entities in that country (banks, companies, governments, other state and public institutions) in the form of investments, balancing accounts, investments, loans, other balance sheet and off-balance sheet assets. Category I includes countries with international rating AAA-AA, category II: A-BBB, category III: BB-B, category IV: less than B. The Bank considers as acceptable the level of country risk, given that most of the financial resources exposed to country risk relate to states with a high solvency, and namely I risk category - 98.06%.

The Bank periodically assesses the credit quality of its exposure to country risk and performs various stress scenarios based on the severity of the assumed circumstances, estimating the size of potential losses if the conditions will occur and the impact on the Bank’s capital. Developments in the global and regional economy and trends and their forecasts are continuously analysed, in order to react promptly and effectively to minimize risks.

(All amounts are expressed in thousands MDL, if not stated otherwise)

36 Financial risk management (continued)

36.4 Market risk

Market risk represents the risk of registering financial losses and /or the worsening of the financial position of the Bank, as a result of the unfavourable fluctuations in the price of the Bank's portfolio, determined by the changes in the risk factors such as: interest rates, foreign exchange rates, market volatility, and other relevant parameters etc.

The Bank is exposed to nontrading market risk which arises from market movements. This includes interest rate and currency risks. The objective of market risk management is to monitor and keep in line with regulatory requirements, the business model and the Bank's risk appetite the exposures on the financial instruments in the portfolio while optimizing the return on those investments.

36.4.1 Currency risk

Currency risk is the risk of potential losses arises from foreign asset and liability positions that are denominated in currencies other than domestic currency and are exposed to foreign exchange volatility. The primary objective for managing currency risk is to maintain the balanced structure of foreign assets and liabilities which will eliminate the effects of fluctuations in exchange rates.

The Bank measures the currency risk through regulatory defined risk approach based the open currency positions, as well as internally developed key risk metrics based on VAR methodology. The Bank identifies and applies the internal system of indicators and limits, which are reflected in the internal management reporting. The Bank performs several types of stress scenarios applied to exchange rates in order to evaluate the potential effect of extreme market events on earnings and the capital.

In order to calculate the capital requirement for currency risk, the Bank uses the standardized approach in accordance with the NBM regulations.

Internally developed market risk model estimates the market risk derived from foreign exchange rates volatilities. The Bank uses the VAR method with a confidence level of 99%, calculated on the basis of daily fluctuations of exchange rates, for two years period.

VAR index

thousand MDL	**VAR limit**	**Effectively as at 31 December**	**Daily average**	**Maximum**	**Minimum**
2020	3,000	287	373	2,089	22
2019	2,600	240	406	2,130	40

To ensure effective monitoring of the currency risk and increase the Bank's protection against possible adverse developments in the risk factors, the Bank analysed the sensitivity of its opened currency positions to the volatility of the exchange rates.

The table below reflects the potential effect (on profit or loss) from daily exchange rates changes of the currencies the Bank mainly operates with and therewith significant exposure (given the size of foreign balance sheet assets and liabilities): EUR and USD reported to MDL.

The stress analysis is applied to open currency positions in each two main currencies (EUR, USD) as of 31 December 2020 and at 31 December 2019, applying reasonable daily deviation increase/decrease in exchange rates of foreign currencies against the national currency.

(All amounts are expressed in thousands MDL, if not stated otherwise)

36 Financial risk management (continued)

The size of open currency positions includes the balances and off-balance sheet assets and liabilities in foreign currencies. Negative amount, possibly obtained under scenario reflects a potential net reduction in foreign currency differences gains, net, while a positive amount reflects a possible increase in the foreign currency differences gains, net.

Open currency position	**Nominal value**	**Possible daily change in foreign exchange rate**	**Impact**	**Possible daily change in foreign exchange rate**	**Impact**
	thousand MDL	*%*	*thousand MDL*	*%*	*thousand MDL*
As at 31 December 2020					
USD	3,933	15.00	590	(10.00)	(393)
EUR	(24,241)	15.00	(3,636)	(15.00)	3,636
Total			**(3,046)**		**3,243**

Open currency position	**Nominal value**	**Possible daily change in foreign exchange rate**	**Impact**	**Possible daily change in foreign exchange rate**	**Impact**
	thousand MDL	*%*	*thousand MDL*	*%*	*thousand MDL*
As at 31 December 2019					
USD	(10,060)	15.00	(1,509)	(10.00)	1,006
EUR	(152,349)	15.00	(22,852)	(15.00)	22,852
Total			**(24,361)**		**23,858**

(All amounts are expressed in thousands MDL, if not stated otherwise)

36 Financial risk management (continued)

The table below summarises the Bank's exposure to foreign currency exchange rate risk at the 31 December 2020:

	Total	**MDL**	**USD**	**EUR**	**Other**
ASSETS					
Cash on hand	971,777	443,996	55,107	364,881	107,793
Balances with the NBM	6,384,531	3,626,763	747,614	2,010,154	-
Due from other banks	2,359,360	-	1,099,962	1,212,189	47,209
Investment in debt securities	4,063,124	4,063,124	-	-	-
Loans and advances to customers	14,669,321	9,185,140	1,145,247	4,338,934	-
Other financial assets	28,644	3,839	11,153	13,432	220
Other assets	20,316	20,316	-	-	-
Total assets	**28,497,073**	**17,343,178**	**3,059,083**	**7,939,590**	**155,222**
LIABILITIES					
Due to banks	16,242	986	15,256	-	-
Borrowings	964,635	448,714	18,076	497,845	-
Due to customers	23,874,382	13,444,625	2,945,823	7,429,866	54,068
Lease liabilities	80,562	1,119	5,702	73,741	-
Other financial liabilities	182,525	62,211	58,510	61,674	130
Other liabilities	25,460	25,460	-	-	-
Total liabilities	**25,143,806**	**13,983,115**	**3,043,367**	**8,063,126**	**54,198**
Off balance sheet exposures	**(453)**	**-**	**(11,783)**	**99,295**	**(87,965)**
Excess/(deficit)	**3,352,814**	**3,360,063**	**3,933**	**(24,241)**	**13,059**

(All amounts are expressed in thousands MDL, if not stated otherwise)

36 Financial risk management (continued)

The table below summarises the Bank's exposure to foreign currency exchange rate risk at the 31 December 2019:

	Total	MDL	USD	EUR	Other
ASSETS					
Cash on hand	940,113	463,351	77,117	348,141	51,504
Balances with the NBM	5,813,652	4,455,945	404,454	953,253	-
Due from banks	1,995,549	-	723,821	1,263,703	8,025
Investment in debt securities	1,840,848	1,840,848	-	-	-
Loans and advances to customers	13,401,353	7,906,444	1,473,124	4,021,785	-
Other financial assets	28,015	8.902	10,953	8,012	148
Other assets	62,071	62,071	-	-	-
Total assets	**24,081,601**	**14,737,561**	**2,689,469**	**6,594,894**	**59,677**
LIABILITIES					
Due to banks	23,971	21,920	2,051	-	-
Borrowings	666,153	292,688	22,478	350,987	-
Due to customers	20,316,357	11,443,170	2,625,262	6,210,587	37,338
Lease liabilities	96,997	1,147	8,595	87,255	-
Other financial liabilities	168,061	28,374	41,143	98,414	130
Other liabilities	27,304	27,304	-	-	-
Total liabilities	**21,298,843**	**11,814,603**	**2,699,529**	**6,747,243**	**37,468**
Off balance sheet exposures	**-**	**-**	**-**	**-**	**-**
Excess/(deficit)	**2,782,758**	**2,922,958**	**(10,060)**	**(152,349)**	**22,209**

(All amounts are expressed in thousands MDL, if not stated otherwise)

36 Financial risk management (continued)

36.4.2 Interest rate risk associated with activities outside of non-trading portfolio ("IRRBB")

Interest rate risk is the current or prospective risk to capital and earnings arising from movements in interest rates, which affect banking book exposures.

The Bank treats IRRBB as a significant risk, being properly monitored, measured and controlled, in order to limit potential losses caused by adverse interest rate fluctuations so that such losses do not threaten the Bank's profitability, own funds or operational safety.

The Bank manages the exposure to the IRRBB through the analysis of sensitive assets and liabilities within the interest rate review gap and through a system of limits and risk parameters approved by the Bank's Council within the internal regulations. The monitoring of the exposure to the interest rate risk of the banking portfolio and compliance with internal limits is performed at least once a month, within the Bank's ALCO.

The Bank quantifies its exposure to interest rate risk in the banking portfolio, in terms of affecting the economic value of the Bank ("EVE") and net interest income ("NII"), as a result of applying the shocks to changes in interest rates on the yield curve.

Estimating the sensitivity of the economic value of assets and liabilities outside the non-trading portfolio is calculated by comparing their present value to the value obtained as a result of the application of the interest rate curve to each predefined stress scenario.

Estimating the impact of the change in net interest income is the difference between the expected gains in a baseline scenario and the expected gains in alternative ones, negative shock or crisis scenarios, in a perspective of business continuity over the next year by considering a constant balance sheet.

The table below shows the sensitivity of net interest income to a possible proportional change in interest rates within each maturity band in dependence of the interest revaluation range. The model does not evaluate the non-interest-bearing elements.

		Sensitivity of net interest income, thousand MDL					
Increase in basis points		**1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
	+100	15,331	4,668	5,136	1,611	(8)	26,738
2020	+50	7,665	2,334	2,568	806	(4)	13,369
	+100	26,941	(1,865)	(6,603)	2,069	(13)	20,529
2019	+50	13,471	(933)	(3,301)	1,035	(6)	10,266

		Sensitivity of net interest income, thousand MDL					
Decrease in basis points		**1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
2020	-100	(15,331)	(4,668)	(5,136)	(1,611)	8	(26,738)
	-50	(7,665)	(2,334)	(2,568)	(806)	4	(13,369)
2019	-100	(26,941)	1,865	6,603	(2,069)	13	(20,529)
	-50	(13,471)	933	3,301	(1,035)	6	(10,266)

(All amounts are expressed in thousands MDL, if not stated otherwise)

36 Financial risk management (continued)

The Bank extends loans and accepts deposits bearing fixed rates as well as floating rates. Floating rate loans to customers and deposits from customers represent instruments in respect of which the Bank has the right to change unilaterally the interest rate in line with the rates on the market. The Bank has to gives a 15 days notice prior to the date when the change takes place. For interest gap disclosure purposes, loans and deposits bearing floating rates were considered to have 15 days notice re-pricing period and were classified into the category "less than 1 month".

The table below set out the Bank's exposure to interest rate risk based on the earlier of contractual maturity of its financial instruments or the next interest rate repricing date, if the instruments are subject to variable interest rates. Bank's policy on interest rate risk management is to minimize exposure and continuously to adapt interest repricing dates and maturities for assets and liabilities.

31 December 2020	**Total**	**Less than 1 month**	**From 1 month to 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**	**More than 5 years**	**Non-interest-bearing items**
ASSETS							
Cash on hand	971,777	-	-	-	-	-	971,777
Balances with the National Bank of Moldova	6,384,531	6,384,531	-	-	-	-	-
Due from other banks	2,359,360	1,911,696	447,664	-	-	-	-
Investments in debt securities	4,063,124	1,883,511	492,219	1,511,761	175,633	-	-
Loans and advances to customers (floating rate)	14,632,744	14,627,885	-	-	-	-	4,859
Loans and advances to customers (fixed rate)	36,577	982	1,795	9,015	24,785	-	-
Other financial assets	28,644	-	-	-	-	-	28,644
Total assets	**28,476,757**	**24,808,605**	**941,678**	**1,520,776**	**200,418**	**-**	**1,005,280**

(All amounts are expressed in thousands MDL, if not stated otherwise)

36 Financial risk management (continued)

31 December 2020	Total	Less than 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Non-interest-bearing items
LIABILITIES							
Due to other banks	16,242	16,242	-	-	-	-	-
Borrowings	964,635	113,403	417,519	409,001	-	-	24,712
Due to customers (fixed rate)	780,058	161,606	47,620	569,181	1,651	-	-
Due to customers (floating rate)	23,094,324	22,980,974	-	-	-	-	113,350
Lease liabilities	80,562	3,328	9,770	28,962	37,655	847	-
Other financial liabilities	182,525	-	-	-	-	-	182,525
Total liabilities	**25,118,346**	**23,275,553**	**474,909**	**1,007,144**	**39,306**	**847**	**320,587**
Interest gap	**3,358,411**	**1,533,052**	**466,769**	**513,632**	**161,112**	**(847)**	**684,693**
Cumulative interest gap		**1,533,052**	**1,999,821**	**2,513,453**	**2,674,565**	**2,673,718**	**3,358,411**

(All amounts are expressed in thousands MDL, if not stated otherwise)

36 Financial risk management (continued)

31 December 2019	Total	Less than 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Non-interest-bearing items
ASSETS							
Cash on hand	940,113	-	-	-	-	-	940,113
Balances with the National Bank of Moldova	5,813,652	5,813,652	-	-	-	-	-
Due from other banks	1,995,549	1,995,549	-	-	-	-	-
Investments in debt securities	1,840,848	927,091	167,534	545,248	200,975	-	-
Loans and advances to customers (floating rate)	13,343,321	13,309,853	-	-	-	-	33,468
Loans and advances to customers (fixed rate)	58,032	1,116	1,719	8,859	46,136	202	-
Other financial assets	28,015	-	-	-	-	-	28,015
Total assets	**24,019,530**	**22,047,261**	**169,253**	**554,107**	**247,111**	**202**	**1,001,596**
LIABILITIES							
Due to banks	23,971	-	-	-	-	-	23,971
Borrowings	666,153	75,628	310,276	247,191	-	-	33,058
Due to customers (fixed rate)	971,142	506	28,763	941,583	290	-	-
Due to customers (floating rate)	19,345,215	19,263,726	-	-	-	-	81,489
Lease liabilities	96,997	13,289	16,716	25,627	39,899	1,466	
Other financial liabilities	168,061	-	-	-	-	-	168,061
Total liabilities	**21,271,539**	**19,353,149**	**355,755**	**1,214,401**	**40,189**	**1,466**	**306,579**
Interest gap	**2,747,991**	**2,694,112**	**(186,502)**	**(660,294)**	**206,922**	**(1,264)**	**695,017**
Cumulative interest gap		**2,694,112**	**2,507,610**	**1,847,316**	**2,054,238**	**2,052,974**	**2,747,991**

36 Financial risk management (continued)

36.4.3 Other price risk

The Bank has limited exposure to equity price risk. Transactions in equity instruments are monitored and authorised by the Corporate Investments department of the Bank and also Management Board. At 31 December 2020, if equity prices at that date had been 20% (2019: 25%) lower (higher) with all other variables held constant, other components of equity would have been MDL 22,740 thousand (2019: MDL 24,334 thousand) lower (higher).

36.5 Counterparty risk

Counterparty risk (partner banks) is the risk of the counterparty defaulting on certain assets and liabilities arising from transactions in the financial markets (foreign exchange, monetary and securities) or in carrying out documentary and/or clearing operations that may cause losses to the Bank.

The Bank follows a prudent policy in partnership with local and foreign banks. The majority of the completed operations, as well as the funds held in the correspondent accounts, is completed through strategic partners with long-term cooperation experience.

The Bank's counterparty risk management system provides the application and continuous improvement of the mechanisms for assessing and reviewing the solvency of partner banks on the basis of an internal evaluation model that provides the qualitative and quantitative analysis of banks in order to establish total exposure limits. depending on the type and term of the operations. The limits are reviewed and adjusted periodically.

In assessing the solvency category of the partner banks, in addition to the internal qualitative and quantitative parameters, the Bank takes into account the lowest international rating of the partner bank assigned by the rating agencies: Standard & Poor's, Moody's and Fitch Ratings.

In the process of controlling counterparty risk management (i.e. partner banks), the Bank provides clear procedures for current monitoring and post-factum control of compliance, the Bank's level of exposure to the partner bank individually and cumulatively, as well as the efficiency of the system of monitoring and control. The Bank assesses on a monthly basis the credit quality of its exposure to partner banks and performs various stress scenarios depending on the severity of the alleged circumstances.

Information on the analysis of the level of exposure of the Bank to the counterparty risk is provided daily to all interested units, and summary reports are presented monthly to the Bank's management.

36.6 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Bank's liquidity risk management system foresees liquidity management in accordance with regulatory requirements, systematic monitoring and analysis of risk factors regarding the Bank's current and long-term liquidity.

The Bank aims to achieve an optimal balance between assets and liabilities on each maturity gap, by contracting a diversified and high-quality portfolio of assets, ensuring sustainable and successful activity, and attracting financial resources with various maturities. An integral part of the liquidity risk management process represents the system of early warning indicators and liquidity position testing under crisis conditions. The Bank maintains and updates the Crisis Recovery Plan, which represents a risk management tool aimed for determining the procedures for early identification of vulnerabilities and measures to be taken in order to mitigate the negative impact of a possible crisis situation.

The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the NBM. These ratios are:

36 Financial risk management (continued)

- Current liquidity ratio (K2), which is calculated as the ratio of liquid assets to total assets. The ratio was 43.55% at 31 December 2020 (2019: 40.52%);
- Long-term liquidity ratio (K1), which is calculated as the ratio of assets maturing after 2 years to their financial resources. The ratio was 0.73 at 31 December 2020 (2019: 0.82).

As of 31 October 2020, the LCR indicator is reported to NBM and as of 1 January 2022, K2 indicator will be repealed. At 31 December 2020 total LCR is 242.30%.

Bank manages the liquidity risk considering: the estimation of the cash flows needs and of the operative liquidity, the daily banking book structure, the liquidity GAP – on each currency and overall, the level and the structure of the liquid assets portfolio, the liquidity indicators having early warning limits internally established, the simulation regarding the liquidity indicators levels, the risk assessment on crisis situations by using stress tests.

If the indicators monitored in the reports enumerated above, register an attention or crisis level the Assets and Liabilities Committee evaluates the situation and recommends necessary measures required for the indicators to revert to normal levels.

Liabilities to clients due within one month principally include current accounts from which the clients are authorized to make withdrawals at call. The Bank’s historical experience shows, however, that these accounts represent a stable source of funding, those deposits are renewed in a significant proportion at each maturity date. At the same time, in the context of the high norm of required reserves, the bank holds a significant volume of liquidity, which are placed in state securities and in interbank deposits with a maturity of up to 6 months. These financial means are liquid assets than can be sold/used as collateral to finance a potential liquidity shortfall.

(All amounts are expressed in thousands MDL, if not stated otherwise)

36 Financial risk management (continued)

The table below sets out the remaining contractual cash flows until the maturity of the Bank's non-derivative financial liabilities. The amounts disclosed in the table represent undiscounted cash flows at 31 December 2020: Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows.

31 December 2020	On demand	Less than 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Financial assets						
Cash on hand	971,777	-	-	-	-	971,777
Balances with the National Bank of Moldova	6,384,531	-	-	-	-	6,384,531
Due from other banks	1,911,780	447,580	-	-	-	2,359,360
Investments in debt securities	1,882,759	490,791	1,511,464	178,110	-	4,063,124
Loans and advances to customers	460,739	895,767	4,235,617	7,220,257	1,856,941	14,669,321
Other financial assets	28,644	-	-	-	-	28,644
Total financial assets	**11,640,230**	**1,834,138**	**5,747,081**	**7,398,367**	**1,856,941**	**28,476,757**
Financial liabilities						
Due to other banks	16,242	-	-	-	-	16,242
Borrowings	20,452	63,376	181,998	680,097	133,732	1,079,655
Due to customers	12,666,269	1,315,800	6,015,774	4,360,034	33,980	24,391,857
Lease liabilities	-	12,937	35,132	61,996	16,139	126,204
Other financial liabilities	182,525	-	-	-	-	182,525
Total undiscounted financial liabilities	**12,885,488**	**1,392,113**	**6,232,904**	**5,102,127**	**183,851**	**25,796,483**
GAP	**(1,245,258)**	**442,025**	**(485,823)**	**2,296,240**	**1,673,090**	**2,680,274**
Letters of credit	61,878	-	-	-	-	61,878
Financial guarantees	457,212	-	-	-	-	457,212
Loan commitments	2,186,268	-	-	-	-	2,186,268
Total	**15,590,846**	**1,392,113**	**6,232,904**	**5,102,127**	**183,851**	**28,501,841**
Net liquidity excess/(gap) on estimated maturities	**(3,950,616)**	**442,025**	**(485,823)**	**2,296,240**	**1,673,090**	**(25,084)**

(All amounts are expressed in thousands MDL, if not stated otherwise)

36 Financial risk management (continued)

The table below sets out the remaining contractual cash flows until the maturity of the Bank's non-derivative financial liabilities. The amounts disclosed in the table represent undiscounted cash flows at 31 December 2019:

31 December 2019	On demand	Less than 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Financial assets						
Cash on hand	940,113	-	-	-	-	940,113
Balances with the National Bank of Moldova	5,813,652	-	-	-	-	5,813,652
Due from other banks	1,995,549	-	-	-	-	1,995,549
Investments in debt securities	919,616	148,792	541,419	231,021		1,840,848
Loans and advances to customers	509,673	821,720	3,690,729	6,479,998	1,899,233	13,401,353
Other financial assets	28,015	-	-	-	-	28,015
Total financial assets	**10,206,618**	**970,512**	**4,232,148**	**6,711,019**	**1,899,233**	**24,019,530**
Financial liabilities						
Due to banks	23,971	-	-	-	-	23,971
Borrowings	23,606	66,057	153,991	437,781	25,354	706,789
Due to customers	9,478,299	1,544,487	6,183,464	3,620,726	53,061	20,880,037
Liabilities related to operating leases	-	-	38,085	51,993	10,579	100,657
Other financial liabilities	168,061	-	-	-	-	168,061
Total undiscounted financial liabilities	**9,693,937**	**1,610,544**	**6,375,540**	**4,110,500**	**88,994**	**21,879,515**
Gap	512,681	(640,032)	(2,143,392)	2,600,519	1,810,239	2,140,015
Letters of credit	15,257	-	-	963	-	16,220
Financial guarantees	390,229	-	-	-	-	390,229
Loan commitments	1,488,111	-	-	-	-	1,488,111
Total	**11,587,534**	**1,610,544**	**6,375,540**	**4,111,463**	**88,994**	**23,774,075**
Net liquidity excess/(gap) on estimated maturities	**(1,380,916)**	**(640,032)**	**(2,143,392)**	**2,599,556**	**1,810,239**	**245,455**

(All amounts are expressed in thousands MDL, if not stated otherwise)

36 Financial risk management (continued)

36.7 Credit risk

The Bank exposes itself to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to meet an obligation.

Exposure to credit risk arises as a result of the Bank's lending and other transactions with counterparties, giving rise to financial assets and off-balance sheet credit-related commitments.

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the separate statement of financial position. For financial guarantees issued, commitments to extend credit, undrawn credit lines and export/import letters of credit, the maximum exposure to credit risk is the amount of the commitment.

Credit risk management. Credit risk is the single largest risk for the Bank's business, management therefore carefully manages its exposure to credit risk.

The estimation of credit risk for risk management purposes is complex and involves the use of models, as the risk varies depending on market conditions, expected cash flows and the passage of time. The assessment of credit risk for a portfolio of assets entails further estimations of the likelihood of defaults occurring, the associated loss ratios and default correlations between counterparties.

Limits. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review.

Loan applications originating with the relevant client relationship managers are passed on to the relevant credit approval authority for the approval of the credit limit. Exposure to credit risk is also managed, in part, by obtaining collateral as well as corporate and personal guarantees. In order to monitor exposure to credit risk, regular reports are produced by the Risk Division based on a structured analysis focusing on the customer's business and financial performance.

***Credit risk grading system*.** For measuring credit risk and grading financial instruments by the amount of credit risk, the Bank applies an internal classification as presented below:

Master scale credit risk grade	**Corresponding internal classification**	**PD Range**
Good	1	0.1 – 8.25%
Satisfactory	2	1.4 – 14.68%
Special monitoring	3	3.85 - 64%
Default	4, 5	100%

Each master scale credit risk grade is assigned a specific degree of creditworthiness:

Good – strong and adequate credit quality with a moderate credit risk, mostly without past due days or with under 30 days past due for secured exposures;

Satisfactory – moderate credit quality with a satisfactory credit risk: 1-30 past due days for unsecured, or more than 30 past due days for secured exposure;

Special monitoring – facilities that require closer monitoring and remedial management, which usually are subject to restructuring and report poor financial results; and

Default – facilities in which a default has occurred.

36 Financial risk management (continued)

The classification model is regularly reviewed Risk Division and updated if deemed necessary.

Expected credit loss ("ECL") measurement. *ECL* is a probability-weighted estimate of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is unbiased and is determined by evaluating a range of possible outcomes. ECL measurement is based on four components used by the Bank: Probability of Default ("PD"), Exposure at Default ("EAD"), Loss Given Default ("LGD") and Discount Rate.

EAD is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period, including repayments of principal and interest, and expected drawdowns on committed facilities. The EAD on credit related commitments is estimated using Credit Conversion Factor ("CCF"). CCF is a coefficient that shows the probability of conversion of the committed amounts to an on-balance sheet exposure within a defined period. PD an estimate of the likelihood of default to occur over a given time period. LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD. The expected losses are discounted to present value at the end of the reporting period. The discount rate represents the effective interest rate ("EIR") for the financial instrument or an approximation thereof.

ECL are modelled over instrument's *lifetime period.* The *lifetime period* is equal to the remaining contractual period to maturity of debt instruments if any.

Management models *Lifetime ECL,* that is, losses that result from all possible default events over the remaining lifetime period of the financial instrument. The *12-month ECL,* represents a portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting period, or remaining *lifetime period* of the financial instrument if it is less than a year.

The ECLs that are estimated by management for the purposes of these financial statements are point-in-time estimates, rather than through-the-cycle estimates that are commonly used for regulatory purposes. The estimates consider *forward looking information,* that is, ECLs reflect probability weighted development of key macroeconomic variables that have an impact on credit risk.

For purposes of measuring PD, the Bank defines default as a situation when the exposure meets one or more of the following criteria:

- the borrower is more than 90 days past due on its contractual payments;
- the borrower meets the unlikeliness-to-pay criteria listed below:
  - the Bank was forced to restructure the debt;
  - the borrower is deceased;
  - the borrower is insolvent;
  - the borrower was classified in internal rating 4 or 5; and
  - it is becoming likely that the borrower will enter bankruptcy.

36 Financial risk management (continued)

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria.

The assessment whether or not there has been a significant increase in credit risk ("SICR") since initial recognition is performed on an asset level. The presumption, being that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due, has not been rebutted.

The Bank considers a financial instrument to have experienced an SICR when one or more of the following quantitative, qualitative or backstop criteria have been met.

For loans issued:

- at least one day past due for unsecured loans;
- one day past due for prolonged loans;
- 30 days past due for secured loans;
- more than 15 days past due for loans that benefited from COVID-19 measures;
- award of risk grade "Special monitoring";
- SICR based on internal classification and less than 30 days past due;
- inclusion of the loan into a watch list according to the internal credit risk monitoring process; and
- other qualitative criteria that depends on the financial performance of the client.

The level of ECL that is recognised in these Financial statements depends on whether the credit risk of the borrower has increased significantly since initial recognition. This is a three-stage model for ECL measurement. A financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition has a credit loss allowance based on 12-month ECLs (Stage 1). If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and the loss allowance is based on lifetime ECLs. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs. The consequence of an asset being in Stage 3 is that the entity ceases to recognise interest income based on gross carrying value and applies the asset's effective interest rate to the carrying amount, net of ECL, when calculating interest income.

If there is evidence that the SICR criteria are no longer met, the instrument is transferred back to Stage 1. If an exposure has been transferred to Stage 2 based on a qualitative indicator, the Bank monitors whether that indicator continues to exist or has changed. The monitoring process is done mostly automatically by the IT system through the set of rules established for the classification process. For items that where manually marked – based on management decision the removal of the SICR factor is done only if it really had been resolved in a manner that would satisfy the Bank and management decided to do so.

The Bank has three approaches for ECL measurement: (i) assessment on an individual basis; (ii) assessment on a portfolio basis: internal classification are estimated on an individual basis but the same credit risk parameters (e.g. PD, LGD) will be applied during the process of ECL calculations for the same credit risk ratings and homogeneous segments of the loan portfolio; and (iii) assessment based on external ratings (for exposures to other Banks or State Bonds). The Bank performs mandatory assessment on an individual basis for defaulted exposures over MDL 10,000 thousand, same time based on management decision other non-defaulted significant exposures can be also analysed on an individual basis. The Bank performs an assessment on a portfolio basis for all loans that do not fall under individual assessment criteria.

ECL assessment on an individual basis is performed by weighting the estimates of credit losses for different possible outcomes against the probabilities of each outcome.

The Bank performs assessments based on external ratings for interbank placements, debt securities.

36 Financial risk management (continued)

Individual assessment is primarily based on the expert judgement of experienced officers from the Risk Management Division. Expert judgements are regularly reviewed in order to decrease the difference between estimates and actual losses.

When assessment is performed on a portfolio basis, the Bank determines the staging of the exposures and measures the loss allowance on a collective basis. The Bank analyses its exposures by segments determined on the basis of shared credit risk characteristics, such that exposures within a group have homogeneous or similar risks. The key shared credit characteristics considered are: type of customer (corporate, SME, retail), product type, term to maturity, and loan to value ("LTV") ratio. The different segments also reflect differences in credit risk parameters such as PD and LGD. The appropriateness of groupings is monitored and reviewed on a periodic basis by the Risk Management Division.

In general, ECL is the sum of the multiplications of the following credit risk parameters: EAD, PD and LGD, that are defined as explained above, and discounted to present value using the instrument's effective interest rate. The ECL is determined by predicting credit risk parameters (EAD, PD and LGD) for each future month during the lifetime period for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has been repaid or defaulted in an earlier month).

This effectively calculates an ECL for each future period, that is then discounted back to the reporting date and summed up. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The key principles of calculating the credit risk parameters. The EADs are determined based on the expected payment profile, that varies by product type. EAD is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis for amortising products and bullet repayment loans. This will also be adjusted for any expected overpayments made by a borrower. Early repayment or refinancing assumptions are also incorporated into the calculation. For revolving products, the EAD is predicted by taking the current drawn balance and adding a "credit conversion factor" that accounts for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type, current limit utilisation and other borrower-specific behavioural characteristics.

Two types of PDs are used for calculating ECLs: 12-month and lifetime PD. An assessment of a 12-month PD is based on the latest available historic default data and adjusted for supportable forward-looking information when appropriate. Lifetime PDs represent the estimated probability of a default occurring over the remaining life of the financial instrument and it is a sum of the 12 months PDs over the life of the instrument. The Bank uses different statistical approaches depending on the segment and product type to calculated lifetime PDs, such as the extrapolation of 12-month PDs based on migration matrixes, developing lifetime PD curves based on the historical default data on the theory of Markov Chain process.

LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by the type of counterparty and the availability of collateral or other credit support. The LGDs are determined based on the factors that impact the expected recoveries after a default event. The approach to LGD measurement is performed based on recovery statistics.

The Bank calculates LGD based on specific characteristics of the collateral, such as projected collateral values, historical discounts on sales and other factors for loans secured by real estate, cash and liquid securities. LGD is calculated on a collective basis based on the latest available recovery statistics for the remainder of the corporate loan portfolio and for retail secured and unsecured products.

36 Financial risk management (continued)

ECL measurement for financial guarantees and loan commitments. The ECL measurement for these instruments includes the same steps as described above for on-balance sheet exposures and differs with respect to EAD calculation. The EAD is a product of credit conversion factor ("CCF") and amount of the commitment ("$ExOff$"). CCF for undrawn credit lines of corporate customers, credit cards issued to individuals is defined based on statistical analysis of past exposures at default and amounts to 20% for loans with less than 12 months of maturity and 50% in other cases. For financial guarantees the CCF is determined based on the guarantee type.

Principles of assessment based on external ratings. Certain exposures have external credit risk ratings, and these are used to estimate credit risk parameters PD and LGD from the default and recovery statistics published by the respective rating agencies. This approach is applied to government and towards exposures to other banks.

Forward-looking information incorporated in the ECL models. The assessment of SICR and the calculation of ECLs both incorporate unbiased and supportable forward-looking information. The Bank identified certain key economic variables that correlate with developments in credit risk and ECLs. Forecasts of economic variables (the "base economic scenario") are obtained from external sources of information such as World Bank, National Bank and other institutions with details on the matter. The impact of the relevant economic variables on the PD, has been determined by performing statistical regression analysis to understand the impact that the changes in these variables historically had on the default rates.

Besides the estimation of the model the Bank estimates the weight a certain outcome for a factor that was determined as eligible or relevant based on statistical analysis. The weight for a certain outcome is determined based on the historical analysis/statistical outcomes and expert judgement based on estimates incorporated in the budgeting process. Based on the weighting the Bank determines the final forward-looking factor that would adjust the PD in the ECL model.

As with any economic forecast, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty, and therefore the actual outcomes may be significantly different to those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Bank's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

The Bank regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual loss of credit.

Changes in ECL methodology due to COVID-19

The Bank did not have substantial changes to the ECL methodology as a result of COVID-19 pandemic and was focused mainly on insuring proper staging (additional criteria for staging were incorporated as a result of COVID-19 measures taken as described above), updated forward looking information – estimated based on new macro-economic expectations and special consideration given to loans included in individual analysis.

Prior to estimating the new FLI the Bank applied the 1-30 days past due PD bucket for loans that used special moratoria measures in June 2020. The only long term measure the Bank applied is to contaminate the days past due value for retail loans that derived from unpaid amounts during the moratoria period with the days past due from the original loan – by using the higher value from the two reported values.

36 Financial risk management (continued)

36.8 Taxation risk

The Bank is committed to ensure a sustainable management of taxation risk by building and maintaining a transparent, effective and efficient tax function within the Bank. The Bank strictly respects and applies the tax legislation in force for all categories of fees and taxes. The implementation of IFRS, put into force since 1 January 2012, was taken into consideration for the revision of the fiscal legislation by introducing specific regulations for treating the adjustments resulted the implementation and further. In this connection, a careful analysis was made to identify the differences in accounting treatments, having a fiscal impact, both on the current tax liability as well as on the deferred tax liability.

It is anticipated that fiscal legislation will be subject to frequent amendments in the future. Considering the precedents, these aspects might be applied retrospectively. Tax liabilities of the Bank are open to tax inspection for a period of four years.

36.9 Operational risk

The Bank is aware of the importance of managing the operational risk arising from its business activities as well as of the need to hold an adequate level of capital to absorb the potential losses associated with this type of risk. The Bank has an operational risk management framework that includes policies and processes for identifying, measuring/evaluating, analysing, managing and controlling operational risk. Policies and processes are appropriate to the size, nature and complexity of the Bank's activities and are adjusted periodically according to the operational risk profile.

For operational risk management, the Bank uses the following tools:

- collection and management of operational risk events. The Bank has a historical database, in which operational risk events are centralized, reported by all organizational units;
- definition and monitoring of key risk indicators (KRI), measures, used in the operational risk assessment, monitoring and reporting phases. The purpose of key risk indicators is to act as early warning signs of potential operational and control risk issues; to define tolerance levels and critical thresholds for operational risk and to indicate dynamic changes in the level of operational risk over time;
- identification and assessment of operational risk through the exercise of risk self-assessment and associated controls. The self-assessment process allows the identification and assessment of the operational risks related to that year, as well as the measures to be taken to reduce the losses caused by the occurrence of operational risk events; and
- analysis of test stress scenarios related to operational risk. The scenario analysis aims to assess the potential effects of one or more possible operational risk events (extreme but probable events) on the Bank's financial situation.

For more efficient management, the Bank uses procedures and support processes in operational risk management, namely:

- Risk analysis and assessment of new products and activities;
- Compliance procedures and related risk management;
- Management of the outsourcing process, regulated by internal policies regarding the outsourcing of the Bank's activities and operations;
- Business Continuity Management characterized by maintaining and updating the business continuity plan; and
- Information and communication technology risk management.

The management framework is also supported by an appropriate organizational structure, with clear roles and responsibilities, in line with the assumption that the Bank's subunits bear the primary responsibility for managing operational risk and enforcing appropriate control.

(All amounts are expressed in thousands MDL, if not stated otherwise)

37 Maturity structure

The following tables provides information on amounts expected to be recovered or settled before and after twelve months after the reporting period.

31 December 2020	Total	Less than 1 year	More than 1 year
ASSETS			
Cash on hand	971,777	971,777	-
Balances with the National Bank of Moldova	6,384,531	6,384,531	-
Due from other banks	2,359,360	2,359,360	-
Investments in debt securities	4,063,124	3,885,014	178,110
Investments in equity securities	117,457	-	117,457
Investments in subsidiaries	139,669	-	139,669
Loans and advances to customers	14,669,321	5,594,200	9,075,121
Other financial assets	28,644	28,644	-
Other assets	162,662	162,662	-
Premises and equipment	1,219,040	-	1,219,040
Intangible assets	102,237	-	102,237
Right of use assets	74,368	-	74,368
Total assets	**30,292,190**	**19,386,188**	**10,906,002**
LIABILITIES			
Due to other banks	16,242	16,242	-
Borrowings	964,635	257,146	707,489
Due to customers	23,874,382	19,767,678	4,106,704
Lease liabilities	80,562	34,662	45,900
Other financial liabilities	182,525	182,525	-
Current tax liability	3,566	3,566	-
Deferred tax liabilities	22,043	3,463	18,580
Provision for loan commitments	22,314	22,314	-
Other liabilities	158,324	158,324	-
Total liabilities	**25,324,593**	**20,445,920**	**4,878,673**
Maturity excedent/(gap)	**4,967,597**	**(1,059,732)**	**6,027,329**

(All amounts are expressed in thousands MDL, if not stated otherwise)

37 Maturity structure (continued)

31 December 2019	Total	Less than 1 year	More than 1 year
ASSETS			
Cash on hand	940,113	940,113	-
Balances with the National Bank of Moldova	5,813,652	5,813,652	-
Due from other banks	1,995,549	1,995,549	-
Investments in debt securities	1,840,848	1,609,829	231,019
Investments in equity securities	184,482	-	184,482
Investments in subsidiaries	139,669	-	139,669
Loans and advances to customers	13,401,353	4,962,156	8,439,197
Other financial assets	28,015	28,015	-
Other assets	163,621	163,621	-
Property and equipment	1,160,673	-	1,160,673
Intangible assets	63,174	-	63,174
Right of use assets	97,540	-	97,540
Total assets	**25,828,689**	**15,512,935**	**10,315,754**
LIABILITIES			
Due to banks	23,971	23,971	-
Borrowings	666,153	236,443	429,710
Due to customers	20,316,357	16,978,526	3,337,831
Lease liabilities	96,997	36,609	60,388
Other financial liabilities	168,061	168,061	-
Current tax liability	27,614	27,614	-
Deferred tax liabilities	43,403	-	43,403
Provision for loan commitments	9,470	9,470	-
Other liabilities	83,147	83,147	-
Total liabilities	**21,435,173**	**17,563,841**	**3,871,332**
Maturity excedent/(gap)	**4,393,516**	**(2,050,906)**	**6,444,422**

38 Contingent liabilities

At 31 December 2020 and 31 December 2019, the Bank is the defendant in several lawsuits arising in the ordinary corporate activity. According to Management and the Legal Department of the Bank, the loss probability is small and accordingly no provision has been recorded in these Financial statements.

From time to time and in the normal course of business, claims against the Bank may be received. On the basis of its own estimates and both internal professional advice, management is of the opinion that no material losses will be incurred in respect of claims, and accordingly no provision has been made in these separate financial statements.

(All amounts are expressed in thousands MDL, if not stated otherwise)

39 Fair value of financial instruments and fair value hierarchy

Fair value measurements are analysed by the fair value level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgments in categorizing financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

				31 December 2020				31 December 2019
				Fair value				Fair value
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ASSETS AT FAIR VALUE								
Financial assets								
Investments in debt securities	-	2,464,160	-	2,464,160	-	1,085,824	-	1,085,824
-Treasury bills	-	2,083,061	-	2,083,061	-	539,824	-	539,824
-Government bonds	-	381,099	-	381,099	-	546,000	-	546,000
Investments in equity securities	113,698	-	3,759	117,457	97,336	-	87,146	184,482
Non-financial assets								
Premises and equipment	-	-	477,056	477,056	-	-	449,167	449,167
-Land	-	-	167,889	167,889	-	-	172,637	172,637
-Buildings	-	-	309,167	309,167	-	-	276,530	276,530
Total assets with recurring fair value measurements	**113,698**	**2,464,160**	**480,815**	**3,058,673**	**97,336**	**1,085,824**	**536,313**	**1,719,473**
LIABILITIES AT FAIR VALUE								
Financial liabilities								
Liability contingent on uncertain events	**-**	**-**	25,629	25,629	**-**	**-**	**-**	**-**
Total liabilities with recurring fair value measurements	**-**	**-**	**25,629**	**25,629**	**-**	**-**	**-**	**-**

(All amounts are expressed in thousands MDL, if not stated otherwise)

39 Fair value of financial instruments and fair value hierarchy (continued)

The valuation technique, inputs used in the fair value measurement for level 2 and 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows as at 31 December 2020 and 31 December 2019:

	Fair value	Valuation technique	Reasonable change	Sensitivity of fair value
31 December 2020				
Investments in debt securities – level 2	**2,464,160**			
-Treasury bills	2,083,061	Discounted cash flows ("DCF")	± 10 %	± 11,457
-Government bonds	381,099	Discounted cash flows ("DCF")	± 10 %	± 2,096
Investments in equity securities – level 3	**1,085**	Net assets method	±10%	±109
Premises and equipment – level 3	**477,056**			
Land	167,889	Market analogues	±10%	±16,789
Buildings	309,167	Market analogues	±10%	±30,917
31 December 2019				
Investments in debt securities – level 2	**1,085,824**			
-Treasury bills	539,824	Discounted cash flows ("DCF")	± 10 %	± 2,969
-Government bonds	546,000	Discounted cash flows ("DCF")	± 10 %	± 3,003
Investments in equity securities – level 3	**87,146**	EBITDA multiple Revenue multiple	+10% -10%	(25,551) 35,287
Premises and equipment – level 3	**449,167**			
Land	172,637	Market analogues	±20%	±34,527
Buildings	276,530	Market analogues	±20%	±55,306

39 Fair value of financial instruments and fair value hierarchy (continued)

The above tables disclose sensitivity to valuation inputs for financial assets, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly. For this purpose, significance was judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognized in other comprehensive income, total equity.

There were no changes in valuation technique for level 1, 2 and 3 recurring fair value measurements during the year ended 31 December 2020 (31 December 2019: none).

The sensitivity of fair value measurement disclosed in the above table shows the direction that an increase or decrease in the respective input variables would have on the valuation result. For equity securities, increases in the EBITDA multiple would each lead to an increase in estimated value. However, an increase in the discount for lack of marketability would lead to a decrease in value. For debt securities, increases in discount rates would both lead to a decrease in estimated value. No inter-relationships between unobservable inputs used in the Bank's valuation of its Level 3 equity investments have been identified.

Level 3 valuations are reviewed on an annual basis by Corporate Investments Department which report to the Management Board. The Bank involves an external valuer who hold a recognized and relevant professional qualification and who have recent experience in the valuation of assets in a similar category. The Corporate Investments Department considers the appropriateness of the valuation model inputs, as well as the valuation result using various valuation methods and techniques generally recognized as standard within the financial services industry.

In selecting the most appropriate valuation model the Corporate Investments Department performs back testing and considers which model's results have historically aligned most closely to actual market transactions. In order to value Level 3 equity investments, the Bank utilises comparable trading multiples. The Management Board determines comparable public companies (peers) based on industry, size, developmental stage and strategy. Management then calculates a trading multiple for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by its earnings before interest, taxes, depreciation and amortisation (EBITDA). The trading multiple is then discounted for considerations such as illiquidity and differences between the comparable companies based on company-specific facts and circumstances.

The Level 3 debt instruments are valued at the net present value of estimated future cash flows. The Bank also considers liquidity, credit and market risk factors, and adjusts the valuation model as deemed necessary.

The fair values of premises and land are determined by experts with recognized and relevant professional qualification.

The valuations are carried out mainly using the comparative analysis of sales and the method of expenses. Assessment is made on the basis of a comparison and analysis of appropriate comparable investment and sales transactions, together with evidence of demand within the proximity of the relevant property. The characteristics of such similar transactions are then applied to the asset, taking into account size, location, covenant and other material factors.

Assets and liabilities not measured at fair value but for which fair value is disclosed

The fair values in Level 2 and Level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

(All amounts are expressed in thousands MDL, if not stated otherwise)

39 Fair value of financial instruments and fair value hierarchy (continued)

For assets, the Bank used assumptions about counterparty's incremental borrowing rate and prepayment rates. Liabilities were discounted at the Bank's own incremental borrowing rate. The Bank's liabilities to its customers are subject to state deposit insurance scheme. The fair value of these liabilities reflects these credit enhancements. Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

	31 December 2020					**31 December 2019**				
	Carrying value				**Fair value**	**Carrying value**				**Fair value**
		Level 1	**Level 2**	**Level 3**	**Total**		**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets										
Accounts with NBM	6,384,531	-	6,384,531	-	6,384,531	5,813,652	-	5,813,652	-	5,813,652
Due from banks	2,359,360	-	2,359,360	-	2,359,360	1,995,549	-	1,995,549	-	1,995,549
Investments in debt securities	1,598,964	-	1,598,964	-	1,598,964	755,024	-	755,024	-	755,024
Investments in equity securities	2,674	-	-	2,674	2,674	86,215	-	-	86,215	86,215
Loans to customers:	14,669,321	-	-	11,427,229	11,427,229	13,401,353	-	-	10,115,404	10,115,404
Loans to legal entities:	10,360,534	-	-	8,959,884	8,959,884	9,053,589	-	-	7,808,361	7,808,361
Investment loans	3,601,787	-	-	2,781,586	2,781,586	2,974,643	-	-	2,335,477	2,335,477
Working capital loans	3,014,150	-	-	2,720,822	2,720,822	2,942,551	-	-	2,611,312	2,611,312
Revolving lines	3,744,597	-	-	3,457,476	3,457,476	3,136,395	-	-	2,861,572	2,861,572
Loans to individuals:	4,308,787	-	-	2,467,345	2,467,345	4,347,764	-	-	2,307,043	2,307,043
Mortgage loans	2,468,832	-	-	962,487	962,487	2,698,449	-		989,325	989,325
Consumer loans	1,627,975	-	-	1,317,499	1,317,499	1,430,417	-	-	1,132,132	1,132,132
Credit cards	211,980	-	-	187,359	187,359	218,898	-	-	185,586	185,586
Other financial assets	28,644	-	-	28,644	28,644	28,015	-	-	28,015	28,015
Total	**25,043,494**	**-**	**10,342,855**	**11,458,547**	**21,801,402**	**22,079,808**	**-**	**8,564,225**	**10,229,634**	**18,793,859**

(All amounts are expressed in thousands MDL, if not stated otherwise)

39 Fair value of financial instruments and fair value hierarchy (continued)

	31 December 2020					**31 December 2019**				
	Carrying value	**Level 1**	**Level 2**	**Level 3**	**Fair value Total**	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Fair value Total**
Financial liabilities										
Due to banks	16,242	-	16,242	-	16,242	23,971	-	23,971	-	23,971
Borrowings	964,635	-	-	967,185	967,185	666,153	-	-	669,297	669,297
Due to customers	23,874,382	-	11,615,861	12,386,619	24,002,480	20,316,357	-	8,416,196	12,020,415	20,436,611
Legal entities, including:	7,032,099	-	5,916,784	1,112,716	7,029,500	5,526,823	-	4,655,210	870,695	5,525,905
- current accounts	5,916,784		5,916,784	-	5,916,784	4,655,210	-	4,655,210	-	4,655,210
- term deposits	1,115,315	-	-	1,112,716	1,112,716	871,613	-	-	870,695	870,695
Individuals, including:	16,842,283	-	5,699,077	11,273,903	16,972,980	14,789,534	-	3,760,986	11,149,720	14,910,706
- current accounts	5,699,077	-	5,699,077	-	5,699,077	3,760,986	-	3,760,986	-	3,760,986
- term deposits	11,143,206	-	-	11,273,903	11,273,903	11,028,548	-	-	11,149,720	11,149,720
Other financial liabilities	182,525	-	-	182,525	182,525	168,061	-	-	168,061	168,061
Total	**25,037,784**	**-**	**11,632,103**	**13,536,329**	**25,168,432**	**21,174,542**	**-**	**8,440,167**	**12,857,773**	**21,297,940**

Cash and cash equivalents - The fair value of cash and cash equivalents equals to their carrying amount. *Net loans receivables* - Loans receivables are reduced by the impairment allowance on loans receivables. The estimated fair value of loans receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value. *Debt instruments at amortised cost* - include only interest-bearing assets held for collection of contractual cash flows and where those cash flows represent SPPI. Fair value for debt securities at AC is based on market prices or broker/dealer price quotations. *Borrowings, due to banks - t*he fair value of floating rate borrowings approximates their carrying amount. The estimated fair value of fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

(All amounts are expressed in thousands MDL, if not stated otherwise)

40 Classification of financial assets and liabilities by measurement category

The Bank classifies financial assets in the following categories:

a) financial assets at fair value through other comprehensive income:

(i) debt instruments at fair value through other comprehensive income;
(ii) equity instruments at fair value through other comprehensive income;

b) financial assets at amortised cost.

The table below provides a reconciliation of financial assets with these measurement categories as of 31 December 2020:

31 December 2020	Financial assets at AC	Financial assets at FVOCI	Financial liabilities at FVTPL	Total
Assets				
Cash on hand and balances with National Bank	7,356,308	-	-	7,356,308
Due from other banks:	2,359,400	-	-	2,359,400
- Correspondent accounts	1,244,660	-	-	1,244,660
- Overnight deposits	483,214	-	-	483,214
- Placements with other banks with original maturities of less than three months	464,930	-	-	464,930
- Placements with other banks with original maturities of more than three months	86,073	-	-	86,073
- Collateral deposits	80,523	-	-	80,523
Investments in debts securities:	1,598,964	2,464,160	-	4,063,124
- Treasury bills	-	2,083,061	-	2,083,061
- Government bonds	-	381,099	-	381,099
- Certificates issued by NBM	1,598,964	-	-	1,598,964
Investments in equity securities	-	117,457	-	117,457
Loans and advances to customers:				
Loans to legal entities	10,360,534	-	-	10,360,534
Loans to individuals	4,308,787	-	-	4,308,787
Other financial assets:				
Other financial assets	28,644	-	-	28,644
Total financial assets	**26,012,637**	**2,581,617**	**-**	**28,594,254**
Liabilities				
Other financial liabilities:				
Liability contingent on uncertain events	**-**	**-**	**25,629**	**25,629**

(All amounts are expressed in thousands MDL, if not stated otherwise)

40 Classification of financial assets and liabilities by measurement category (continued)

The table below provides a reconciliation of financial assets under these measurement categories as at 31 December 2019:

31 December 2019	**Financial assets at AC**	**Financial assets at FVOCI**	**Total**
Assets			
Cash on hand and balances with National Bank	6,753,765	-	6,753,765
Due from other banks:	1,995,549	-	1,995,549
- Correspondent accounts	1,928,002	-	1,928,002
- Collateral deposits	67,547	-	67,547
Investments in debts securities:	755,024	1,085,824	1,840,848
-Treasury bills	14,826	539,824	554,650
-Government bonds	-	546,000	546,000
-Certificates issued by NBM	740,198	-	740,198
Investments in equity securities:		184,482	184,482
Loans and advances to customers:			
Loans to legal entities	9,053,589	-	9,053,589
Loans to individuals	4,347,764	-	4,347,764
Other financial assets:			
Other financial assets	28,015	-	28,015
Total financial assets	**22,933,706**	**1,270,306**	**24,204,012**

As at 31 December 2019 all financial liabilities of the Bank were carried at amortised cost.

41 Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The nature of the related party relationships for those related parties with whom the Bank entered into significant transactions or had significant balances outstanding at 31 December 2020 and 2019 are detailed below. Transactions were entered into with related parties during the course of business at market rates.

Transactions with other significant shareholders. Other significant shareholders are those with the power to participate in the financial and operating policy decisions of a Bank with which they transact, through controlling over 20% of the Bank's voting power, or otherwise. During 2019 and 2020 there were no transactions or balances recorded with HEIM Partners Limited, the significant shareholder of the Bank.

Transactions with subsidiaries. The Bank holds investments in subsidiaries, represented by MAIB-Leasing SA and Moldmediacard SRL, with whom it entered into a number of banking transactions in the normal course of business.

Transactions with key management personnel. The Bank entered into a number of banking transactions with the management in the normal course of business. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank. This includes the members of the Council of the Bank, Management Board and executive management. These transactions were carried out on commercial terms and conditions and at market rates.

41 Related parties (continued)

Transactions with other related parties. The Bank considers the following additional related parties: companies in which key management personnel have direct or indirect interests and close family members of key management personnel.

Terms and conditions

A related party transaction represents a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged. All these transactions were carried out under conditions similar to those applicable to third party agreements, in terms of interest rates and collateral clauses.

In relation to related parties, the accounts have the following characteristics:

Current accounts were the interest rate is 0%.

Term deposits maturing between 2021 and 2023, and the interest rate is fixed between 0.1-6.75% depending on the currency and maturity of the deposit.

Loans and advances to customers were opened between 2011 and December 2020, maturing between 2022 and 2034, the interest rate is between 4-14.5% for loans and 11% for credit cards. Financial guarantees and other commitments given includes revocable and irrevocable letters of guarantee, undrawn commitments for loans and credit cards granted.

The Bank has signed with Moldmediacard a contract through which the subsidiary provides services for processing cards transactions. The commission is calculated based on a % applied to the level of processed transactions and is presented under “Fee and commission expenses”. Fees for transactions are established in the agreement between parties and are considered to be performed at arm’s length.

In the table below are disclosed the balances and transactions with the related parties during the years 2020 and 2019.

(All amounts are expressed in thousands MDL, if not stated otherwise)

41 Related parties (continued)

In the table below are disclosed the balances and transactions as at year ended 31 December:

Related parties			**2020**			**2019**
	Subsidiaries	**Key management personnel**	**Other related parties**	**Subsidiaries**	**Key management personnel**	**Other related parties**
Statement of financial position elements						
Loans and advances to customers	25,375	259	2,435	10,930	416	1,834
Credit loss allowance	(369)	(2)	(27)	(59)	(2)	(9)
Other assets	-	-	8,254	-	-	-
Due to customers	23,281	65,373	28,923	11,698	51,585	19,095
Lease liabilities	119	-	1,638	-	-	-
Provision for loan commitments	39	19	61	-	-	-
Statement of profit or loss						
Interest income	504	26	305	766	18	364
Interest expense	(18)	(1,274)	(161)	(11)	(1,414)	(127)
Fee and commission income	277	152	867	319	44	894
Fee and commission expense	(31,183)	-	-	(26,536)	-	-
Other operating income	450	-	-	450	-	-
Personnel expenses	-	(59,779)	(1,187)	-	(42,906)	(1,032)
Other operating expenses	-	-	(681)	-	-	(395)
Credit loss allowance	(369)	(19)	(79)	1,778	(2)	(9)
Other commitments						
Guarantees and other financial commitments	5,063	1,646	11,000	-	1,755	130

(All amounts are expressed in thousands MDL, if not stated otherwise)

41 Related parties (continued)

Key management remuneration

The executive management and non-executive members of Bank Management Board and Council of the Bank received remuneration during the years 2020 and 2019, as follows:

	2020	**2019**
Executive management remuneration	40,747	23,827
Medical insurance contributions	1,514	1,072
Social fund	6,059	4,283
Total executive management	**48,320**	**29,182**
Council of the Bank remuneration	5,437	9,317
Medical insurance contributions	152	348
Social fund	609	1,391
Total Council of the Bank	**6,198**	**11,056**

42 Reclassification of comparative figures of 2019

In accordance with IAS 1 “Presentation of Financial Statements”, if an entity has made a restatement, it is required to submit the reclassification of comparative values of the previous year. When necessary, comparative figures have been reclassified in order to be in line with the changes from the current period presentation. These changes were made as a response to the revaluations performed by the Bank’s management for the most accurate presentation thereof. Also, as a result of the presentation of the current year financial statements part of the lines from the primary financial statements were renamed.

The Bank's management has taken into account the nature of the abovementioned restatements, and, in particular, the fact that it is limited to the reclassification of financial position items, with no impact on total assets, total liabilities and shareholders’ equity, as well as the reclassification profit or loss and statement of cash flow statement items.

In order to facilitate the understanding of these financial statements, the tables below list the reported figures, reclassifications and adjusted values in the separate statement of financial position, separate statement of profit or loss and other comprehensive income and in the separate statement of cash flows.

i) The reclassification of the comparative figures for the separate statement of financial position as at 31 December 2019 is presented below:

a) The investments in debt which were previously reported in the lines “Financial assets at fair value through other comprehensive income” and “Financial assets at amortized cost” were mapped in current Financial statements in the line “Investments in debt securities” and the equity securities that were previously presented in “Financial assets at fair value through other comprehensive income” are presented in “Investments in equity securities”.

	Reported	**Reclassified**	**Adjusted**
Financial assets at fair value through other comprehensive income	1,270,306	(1,270,306)	-
Financial assets at amortized cost	755,024	(755,024)	-
Investments in debt securities	-	1,840,848	1,840,848
Investments in equity securities	-	184,482	184,482

(All amounts are expressed in thousands MDL, if not stated otherwise)

42 Reclassification of comparative figures of 2019 (continued)

b) The carrying amount of the Right of use assets that was previously reported under the line previously called “Property and equipment and right-of-use assets” was presented separately to the line “Right of use assets”. Also, the line previously called “Property and equipment and right-of-use assets” was renamed as “Premises and equipment”.

	Reported	Reclassified	Adjusted
Property and equipment and right-of-use assets	1,258,213	(1,258,213)	-
Premises and equipment	-	1,160,673	1,160,673
Right of use assets	-	97,540	97,540

c) The carrying amount of MDL 2,279 thousand representing other loan related receivables were reclassified from “Other assets” to “Loans and advances to customers”. Also, the amount of MDL 28,015 thousand that was previously disclosed in “Other assets” was reclassified to “Other financial assets”.

	Reported	Reclassified	Adjusted
Loans and advances to customers	13,399,074	2,279	13,401,353
Other financial assets	-	28,015	28,015
Other assets	193,915	(30,294)	163,621

d) Lease liabilities of MDL 96,997 thousand were reclassified from “Other liabilities” to a separate line “Lease liabilities”. Also, the amount of MDL 168,061 thousand was reclassified from “Other liabilities” to “Other financial liabilities”.

	Reported	Reclassified	Adjusted
Lease liabilities	-	96,997	96,997
Other financial liabilities	-	168,061	168,061
Other liabilities	348,205	(265,058)	83,147

ii) The reclassification of the comparative figures for the separate statement of profit or loss and other comprehensive income for the year ended 31 December 2019 is presented below:

a) The line previously called “Interest income” was divided into two separate lines in order to separately reflect the interest income calculated using the effective interest rate method “Interest income calculated using the effective interest rate method” and “Other similar income”. Also, the amount of MDL 1,860 thousand was reclassified from the line “Interest expense” to “Other similar expense”.

	Reported	Reclassified	Adjusted
Interest income	1,374,282	(1,374,282)	-
Interest income calculated using the EIR method	-	1,215,200	1,215,200
Other similar income	-	159,082	159,082
Interest expense	(371,842)	1,860	(369,982)
Other similar expense	-	(1,860)	(1,860)
Net interest and similar income	**1,002,440**	**-**	**1,002,440**

b) The line previously called “Foreign exchange gains, net” was divided into two separate lines “Gains less losses from trading in foreign currencies” and “Foreign exchange translation gains less losses”.

	Reported	Reclassified	Adjusted
Foreign exchange gains, net	272,407	(272,407)	-
Gains less losses from trading in foreign currencies	-	293,186	293,186
Foreign exchange translation gains less losses	-	(20,779)	(20,779)

(All amounts are expressed in thousands MDL, if not stated otherwise)

42 Reclassification of comparative figures of 2019 (continued)

iii) *The reclassification of the comparative figures for the separate statement of cash flows for the year ended 31 December 2019 is presented below*. The reclassifications have been performed as a result of changes in presentation explained at point i) and ii) above and also the line "Income tax paid" was in the section "Cash flows from operating activities before changes in operating assets and liabilities:".

	Reported	Reclassified	Adjusted
Cash flows from operating activities			
Interest received	1,376,187	(1,376,187)	-
Interest income calculated using the EIR method received	-	1,215,944	1,215,944
Other similar income received	-	160,243	160,243
Income tax paid	-	(70,655)	(70,655)
Cash flows from operating activities before changes in operating assets and liabilities:	**971,414**	**(70,655)**	**900,759**
Net (increase) / decrease in operating assets:			
Financial assets at amortized cost	31,009	(31,009)	-
Loans and advances to customers	(1,800,914)	(2,279)	(1,803,193)
Other financial assets	-	(57,903)	(57,903)
Other assets	(92,447)	60,182	(32,265)
Net increase / (decrease) in operating liabilities:			
Other financial liabilities	-	269,386	269,386
Other liabilities	(114,364)	(228,782)	(343,146)
Net cash from operating activities before tax	**719,813**	**(719,813)**	**-**
Income tax paid	(70,655)	70,655	-
Net cash from operating activities	**649,158**	**9,595**	**658,753**
Cash flows from investing activities			
Financial assets at fair value through other comprehensive income	413,559	(413,559)	-
Acquisition of debt securities at fair value through other comprehensive income	-	(931,286)	(931,286)
Proceeds from disposal of debt securities at fair value through other comprehensive income	-	1,344,845	1,344,845
Proceeds from sale of investments in associates	714	(714)	-
Dividends received	-	714	714
Net cash from/(used in) investing activities	**100,730**	**-**	**100,730**
Cash flows from financing activities			
Repayment of principal of lease liabilities	-	(40,604)	(40,604)
Dividends paid	(313,051)	1,336	(311,715)
Net cash from/(used in) financing activities	**(542,685)**	**(39,268)**	**(581,953)**
Effect of exchange rate fluctuation	(84,421)	29,673	(54,748)

43 Events after the end of the reporting period

COVID-19 developments. Through the decision of the Parliament of the Republic of Moldova no. 49 from 31 March 2021 was declared a state of emergency on the entire territory of the Republic of Moldova from 1 April to 30 May 2021. Given the difficult situation and extremely rapid spread of contamination, the Commission of Exceptional Situations applied numerous measures to limit the spread and the impact of COVID-19, such as: the establishment of a special regime for the movement of persons, the establishment of a special regime for the entire territory of the Republic of Moldova, the prohibition of meetings, strengthening the capacity of the health care system, cessation of general meetings of shareholders in physical or mixed form.

In order to support the enterprises, the following measures were applied: the establishment of the moratorium on planned state controls at the economic agents, on the spot, until 30 May 2021, the extension of the Interest Subsidy Program for January - May 2021, the extension of the Reimbursement Program of Value Added Tax for the period January-May 2021, the exemption from income tax, compulsory state social insurance contributions, compulsory health insurance premiums at the level of the employee and, respectively, the allowance for deduction for tax purposes at the level of the employer carried out by the employer for the anti-COVID-19 vaccination of employees.

The deadlines for holding annual general meetings of shareholders and presenting annual/ specialized reports of professional participants in the capital market and issuers of securities have also been extended by 60 days from the expiry date of the state of emergency, as well as performing the audit of the financial statements/technical audit of the professional participants in the capital market.

Between March and July 2020, the Bank offered its customers credit facilities. As a result, the gross carrying amount of rescheduled loans granted to SME customers at 31 March 2021 is MDL 78,187 thousand (31 December 2020: MDL 92,937 thousand), with corresponding ECL of MDL 4,306 thousand (31 December 2020: MDL 2,382 thousand), of which MDL 8,286 thousand with more than 30 days past due (31 December 2020: MDL 2,588 thousand), and the gross carrying amount of rescheduled loans granted to Retail customers is MDL 666,777 thousand (31 December 2020: MDL 722,883 thousand), with corresponding ECL of MDL 65,477 thousand (31 December 2020: MDL 63,046 thousand), of which MDL 71,670 thousand reported more than 30 days past due (31 December 2020: MDL 75,385 thousand), of which MDL 41,934 thousand are in default (31 December 2020: MDL 42,700 thousand).

Change in management.

In January 2021, there was a change in the Bank's Management Board, namely the Chairman of the Management Board, Mr. Serghei Cebotari was replaced with Mr. Giorgi Shagidze. Mr. Giorgi Shagidze was appointed as Chairman of the Management Board by the Bank's Council and will begin to serve only after the NBM approves his candidacy. The new members of the Bank's Council were also approved by the NBM during 2021.

The events presented above have not had an impact on the Financial statements of the Bank.

The separate financial statements were authorized for issue on 20 April 2021 by the Management Board of the Bank and were signed by:

First Vice Chairman of the Management Board
Mrs. Aliona Stratan

Chief Accountant
Mrs. Carolina Semeniuc

The accompanying notes are an integral part of these separate financial statements.