B.C. „VICTORIABANK" S.A.

FINANCIAL STATEMENTS

prepared in accordance with
INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the financial year ended 31 December 2020

(free translation*)

* TRANSLATOR'S EXPLANATORY NOTE: The above translation of the financial statements is provided as a free translation from Romanian which is the official and binding version.

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Independent Auditors' Report

(free translation[1])

To the Shareholders of Banca Comerciala "VICTORIABANK" S.A.

141, 31 August 1989 street, mun. Chisinau, Republic of Moldova
Unique registration code: 1002600001338

Opinion

1. We have audited the accompanying financial statements of Banca Comerciala "VICTORIABANK" S.A. ("the Bank"), which comprise the statement of financial position as at 31 December 2020, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

2. The financial statements as at and for the year ended 31 December 2020 are identified as follows:

• Total equity:	MDL 2,941,902 thousand
• Net profit for the year:	MDL 235,917 thousand

3. In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS).

Basis for Opinion

4. We conducted our audit in accordance with International Standards on Auditing ("ISAs") and Law no.271/2017 and related amendments ("the Law"). Our responsibilities under those standards and regulations are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with *International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code")* together with the ethical requirements that are relevant to our audit of the financial statements in Republic of Moldova, including the Law and we have fulfilled our other ethical responsibilities in accordance with these requirements and IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Key Audit Matters

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

Impairment of loans to customers

As at 31 December 2020, gross loans to customers: MDL 4,581,586 thousand, related expected credit losses: MDL 401,335 thousand and net impairment losses for the year then ended: MDL 112,805 thousand (31 December 2019: gross loans to customers: MDL 3,976,186 thousand, expected credit losses: MDL 311,184 thousand and net impairment release in the statement of profit or loss: MDL 44,969 thousand).

See Notes 2.4 (a) *Basis of preparation – Use of estimates and judgements – Impairment losses on loans to customers* 3.2 (viii) *Significant accounting policies - Financial assets and liabilities - Impairment of financial assets*, 7 *Loans to customers*, 25 *Net impairment (losses) / release on financial instruments and on provisions for off-balance sheet commitments*, and 36.1 *Financial risk management – Credit risk* to the financial statements.

The key audit matter	How the matter was addressed in our audit
As described in the notes to the financial statements, the expected credit losses ("ECLs") have been determined based on the requirements of IFRS 9 Financial Instruments ("IFRS 9" or "the standard"). Impairment allowances represent management's best estimate of the expected credit losses within loans to customers (collectively, "loans", "exposures") at amortized cost at the reporting date. We focused on this area as the measurement of impairment allowances requires management to make complex and subjective judgements and assumptions. Impairment allowances for the performing exposures (stage 1 and stage 2 in the IFRS 9 hierarchy), as well as non-performing exposures (stage 3) with amounts not exceeding certain pre-determined thresholds individually, are determined by modelling techniques, relying on key parameters such as the probability of default ("PD"), exposure at default	Our audit procedures, performed, where relevant, with the assistance from our own financial risk management, valuation and information technology ("IT") specialists, included, among others things: • Inspecting the Bank's ECL methods and models and assessing their compliance with the relevant requirements of the financial reporting standards. This included challenging the management on whether the level of the method's sophistication is appropriate based on an assessment of the entity-level and portfolio-level factors. • Testing the design, implementation and operating effectiveness of selected controls in the ECL process. This included testing the controls over (i) completeness and accuracy of relevant data inputs (mainly for amount granted, interest rates, maturity date, collateral amount), (ii) approval of loans (iii) system configuration for debt service and payment allocation and (iv) IT control environment for data security and access. • Assessing whether the definition of default, assessment of SICR and the staging criteria were consistently applied and are appropriate by reference to the standard. As part of this procedure: - For a sample of loans classified as stage 1 and stage 2, we critically assessed, by reference to the underlying loan files and through inquiries of responsible loan officers and credit risk management personnel, the

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("EAD") and loss given default ("LGD"), taking into account historical experience, identification of exposures with a significant increase in credit risk ("SICR"), forward-looking information and management judgment (together "collective impairment allowance"). Impairment allowances for exposures in excess of certain thresholds, classified in stage 3, are determined on an individual basis by means of a discounted cash flows analysis. The process relies on a number of complex assumptions, in particular those in respect of the recovery scenarios and the expected proceeds from the sale of the related collateral and estimated period for collateral disposal. In the wake of the COVID-19 pandemic, and also the measures applied by the government of Republic of Moldova to alleviate its effects, including payment holiday moratoriums, measurement of ECLs was associated with additional complexities and an increased estimation uncertainty. In addition, application of post-model adjustments was required from management in arriving at the year-end estimate of impairment losses. Considering the above factors, we determined expected credit losses of loans to customers to be associated with a significant risk of material misstatement in the financial statements. Therefore, the area required our increased attention in the audit and as such was determined to be a key audit matter.	existence of any triggers for classification to stage 2 or stage 3. - We assessed the reasonableness of the Bank's treatment of the COVID-19 payment holidays for customers from a SICR perspective. • For expected credit losses determined on a collective basis: - Challenging the macroeconomic forecasts used in the ECL model in terms of their relevance and source accuracy by comparing them to publicly available data. As part of the procedure, we challenged the consideration of the economic uncertainty relating to COVID-19, by means of corroborating inquiries of the Management Board members and inspection of publicly available information; - Challenging the PD, EAD and LGD parameters used in the collective ECL model, on a sample basis, by reference to the supporting documentation, such as credit file, debt service status, repayment schedules, restructuring operations, collateral values and underlying data for collections occurring after default; - Assessing the appropriateness of any post-model adjustments made to account for risks and uncertainties not captured by the Bank's ECL models, including those resulting from the COVID-19 outbreak; - Based on the outcome of the preceding procedures, recomputing the collective ECL as at reporting date. • For impairment allowances calculated individually: - For a sample of loans, challenging the estimates of future cash flows used within the ECL measurement, with main focus on the recovery period and collateral value, primarily by reference to valuation reports by experts engaged by the management, whose competence, experience and objectivity we independently assessed; - Recomputing the individual ECL as at reporting date. • Assessing the accuracy, completeness and relevance of the ECL-related financial statement disclosures against the requirements of the relevant financial reporting standards.

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Provisions and contingent liabilities

As at 31 December 2020, contingent liabilities disclosed in the financial statements: MDL 2.43 billion.

As at 31 December 2020, litigation provisions: MDL 2,412 thousand (31 December 2019: MDL 136,029 thousand); net reversal related to litigation provision in the statement of profit or loss: MDL 131,803 thousand (2019: net reversals of MDL 2,057 thousand).

See Notes 2.4 (b) *Basis of preparation – Use of estimates and judgements – Other significant litigations*, 3.18 *Significant accounting policies – Provisions*, 3.25 *Significant accounting policies – Contingent assets and liabilities*, 17 *Provisions for other risks and loan commitments* and 32 *Contingent Liabilities and Litigations* to the financial statements.

The key audit matter	How the matter was addressed in our audit
As described in Notes 17 and 32 of the financial statements, as at 31 December 2020, the Bank is involved in a number of legal proceedings, including the litigation as a result of application of freezing order, issued by the court in North Carolina, United States, and an investigation of the Moldovan authorities. Whether a provision is recognized or a contingent liability disclosed in the financial statements is inherently uncertain and is dependent on a number of significant assumptions and judgments. Key judgements and estimates in the process are related to the existence of a present obligation, the likelihood of an outflow of benefits in the future and the amount of the liability or contingent liability. We considered the accounting for the effects of the legal proceedings to which the Bank is a party (including related disclosures) to be associated with an increased risk of a material misstatement due to the magnitude of the amounts involved, coupled with the uncertainty surrounding the outcome of the litigations/investigations and high degree of related estimation uncertainty and judgement required. Accordingly, the area required our increased attention in the audit and as such was considered by us to be a key audit matter.	Our audit procedures in the area included, among others, the following: • Obtaining an understanding of the Bank's legal provisioning and contingency monitoring and accounting process, and also assessing the relevance and reliability of data sources applied therein. • Testing the design and implementation of selected controls within the above process, including those over the identification of possible or present obligations, assessment of the likelihood of outflow of benefits and estimation of the amounts of related exposures. • Evaluating the methods used by the Bank in accounting for the legal exposures against the relevant requirements of the financial reporting framework. • In respect of the proceedings outstanding at the reporting date: - Inspecting legal case documentation, minutes of the Management Board meetings and communications between the Bank and its lawyers, including legal analyses of the matters and any developments through the date of our report; - Evaluating the external lawyers' responses to our audit inquiry letters, and discussing selected matters with the lawyers, including, among other things, those related to the litigation as a result of application of freezing order, issued by the court in North Carolina and investigation of the Moldovan authorities; - Making corroborating inquiries of the Management Board members and the external lawyers; - Based on the results of the above procedures, critically assessing the Bank's assumptions and estimates in respect of the proceedings, including the liabilities recognized or contingent liabilities disclosed in the financial statements. This involved assessing the likelihood of an unfavourable outcome and the reliability of estimates of related obligations/exposures. • Assessing the Bank's disclosures regarding the contingent liabilities, considering the requirements of the relevant financial reporting standards.

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Other Information – Annual Report

6. Management is responsible for the other information. The other information comprises the information included in the Annual Report, which also contains the Management's Report and the Non-financial Statement, but does not include the financial statements and our auditors' report thereon.

   Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

   Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Moldova Related to Other Information

   With respect to the Management's Report we read and report whether the Management's Report is prepared, in all material respects, in accordance with the requirements of Law no. 287/2017 on Accounting and Financial Reporting, article 23, paragraphs 2 – 8.

   Based solely on the work required to be undertaken in the course of the audit of the financial statements, in our opinion, in all material respects:

   a) The information given in the Management's Report for the financial year for which the financial statements are prepared is consistent with the financial statements;

   b) The Management's Report has been prepared in accordance with the requirements of Law no. 287/2017 on Accounting and Financial Reporting, article 23; paragraphs 2 – 8.

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

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

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

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

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

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Auditors' Responsibilities for the Audit of the Financial Statements

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

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

    - Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

    - Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

    - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

    - Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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14. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Cezar Furtuna and Nicoleta Rusu.

22 April 2021

For and on behalf of ICS KPMG Moldova S.R.L.:

Nicoleta Rusu

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

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

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

Administrator of ICS KPMG Moldova S.R.L.

Cezar Furtuna

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Partner

ICS KPMG Moldova S.R.L.

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

In MDL thousand	Notes	2020	2019
Interest income calculated using the effective interest method		543,675	593,652
Interest expenses		(155,881)	(206,696)
Net interest income	**21**	**387,794**	**386,956**
Fee and commission income		386,060	382,467
Fee and commission expense		(193,021)	(180,997)
Net fee and commission income	**22**	**193,039**	**201,470**
Net trading income	23	178,790	135,942
Other operating income	24	19,918	17,505
Total operating income		**779,541**	**741,873**
Net impairment (losses) / release on financial instruments and on provisions for off-balance sheet commitments	25	(125,332)	52,799
Net impairment (losses)/ release on non-financial assets	26	(32,204)	8,733
Net (expenses) / reversals related to provisions	17	131,803	2,057
Personnel expenses	27	(259,161)	(262,945)
Depreciation	29	(66,022)	(63,719)
Other operating expenses	28	(172,656)	(147,223)
Total operating expenses		**(523,572)**	**(410,298)**
Profit before income tax		**255,969**	**331,575**
Income tax expense	30	(20,052)	(14,087)
Profit for the year		**235,917**	**317,488**
Other comprehensive income			
Items that will not be reclassified to profit or loss, net of tax			
Equity investments at fair value through other comprehensive income – net change in fair value		20	105,966
Tax related to items that will not be classified to profit or loss		-	(2,544)
		20	**103,422**
Items that are or may be reclassified subsequently to profit or loss			
Debt investments at fair value through other comprehensive income – net change in fair value		49	254
		49	254
Total comprehensive income		**235,986**	**421,164**
Earnings per share, MDL	**33**	**9.44**	**12.70**

The financial statements were approved by the Board of Administration on 16 April 2021.

The financial statements were signed by the Executive Management of the Bank, represented by:

Vasile Donica
Vicepresident

Vitalie Corniciuc
Vicepresident

The explanatory notes are an integral part of these financial statements.

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Statement of financial position

For the financial year ended 31 december

In MDL thousand	Notes	31 December 2020	31 December 2019
ASSETS			
Cash and balances with National Bank of Moldova	4	5,009,054	4,445,613
Current accounts and placements with banks	5	1,816,719	2,713,419
Frozen Nostro account	5	226,785	226,716
Investment securities – debt instruments	6	3,572,197	3,177,918
Equity investment securities designated at fair value through other comprehensive income	8	3,200	3,258
Loans to customers	7	4,180,251	3,665,002
Property and equipment	9	197,751	148,972
Right-of-use assets	11	46,158	66,627
Intangible assets	10	79,176	64,796
Current tax assets	13	33,820	-
Deferred tax assets	18	504	17,167
Other assets	12	181,652	250,230
Total assets		**15,347,267**	**14,779,718**
LIABILITIES			
Deposits from banks	15	73,302	52,074
Deposits from customers	16	11,957,226	11,436,371
Other borrowings	14	69,445	47,289
Provisions for other risks and loan commitments	17	19,180	140,629
Lease liabilities	11	49,264	65,095
Current tax liabilities	13	-	6,184
Other liabilities	19	236,948	326,160
Total liabilities		**12,405,365**	**12,073,803**
EQUITY			
Share capital	20	250,001	250,001
Share premium		10,250	10,250
Reserves on financial assets measured at fair value through other comprehensive income	20	700	589
Statutory reserves		25,000	25,000
Other reserves	20	563,827	779,699
Retained earnings		2,092,124	1,640,376
Total equity		**2,941,902**	**2,705,915**
Total liabilities and equity		**15,347,267**	**14,779,718**

The financial statements were approved by the Board of Administration on 16 April 2021.

The financial statements were signed by the Executive Management of the Bank, represented by:

Vasile Donica
Vicepresident

Vitalie Corniciuc
Vicepresident

The explanatory notes are an integral part of these financial statements.

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Statement of changes in equity

For the financial year ended 31 December

In MDL thousand	Note	Share Capital	Share premium	Fair value reserve	Statutory reserves	Other reserves	Retained earnings	Total equity
Balance at 1st of January 2019		**250,001**	**10,250**	**237,560**	**25,000**	**824,159**	**937,782**	**2,284,751**
Statement of comprehensive income for the period								
Profit for the period		-	-	-	-	-	317,488	**317,488**
Other comprehensive income, net of income tax								
Financial assets at FVOCI – net change in fair value		-	-	103,676	-	-	-	**103,676**
Total comprehensive income for the period		-	-	**103,676**	-	-	**317,488**	**421,164**
Contributions and distributions of the shareholders								
Dividends distributed to shareholders		-	-	-	-	-	-	**-**
Transfer of gains on disposal of equity investments at fair value through other comprehensive income to retained earnings	**3.13**	-	-	(340,647)	-	-	340,647	**-**
Appropriation of reserves	**20b**	-	-	-	-	(44,460)	44,460	**-**
Total contributions and distributions of the shareholders		**-**	**-**	**(340,647)**	**-**	**(44,460)**	**385,107**	**-**
Balance at 31st of December 2019		**250,001**	**10,250**	**589**	**25,000**	**779,699**	**1,640,377**	**2,705,915**
Statement of comprehensive income for the period								
Profit for the period		-	-	-	-	-	235,917	**235,917**
Other comprehensive income, net of income tax								
Financial assets at FVOCI – net change in fair value	**8**	-	-	69	-	-	-	**69**
Total comprehensive income for the period		-	-	**69**	-	-	**235,917**	**235,986**
Contributions and distributions of the shareholders								
Dividends distributed to shareholders		-	-	-	-	-	-	**-**
Transfer of gains on disposal of equity investments at fair value through other comprehensive income to retained earnings	**3.13**	-	-	42	-	-	(42)	**-**
Appropriation of reserves	**20b**	-	-	-	-	(215,872)	215,872	**-**
Total contributions and distributions of the shareholders		**-**	**-**	**42**	**-**	**(215,872)**	**215,830**	**-**
Balance at 31st of December 2020		**250,001**	**10,250**	**700**	**25,000**	**563,827**	**2,092,124**	**2,941,902**

The explanatory notes are an integral part of these financial statements.

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Statement of cash flows

For the financial year ended 31 December

In MDL thousand	Notes	2020	2019
Cash flows from operating activities			
Profit for the year		**235,917**	**317,488**
Adjustments for:			
Depreciation and amortization	**29**	66,022	63,719
Net impairment losses / (release) of financial instruments and on provisions for off-balance sheet commitments	**25**	125,332	(52,799)
Net impairment losses/ (release) on non-financial assets	**26**	32,204	(8,733)
Net expenses / (reversals) related to provisions	**17**	(131,803)	(2,057)
Income tax expense	**30**	20,052	14,087
Interest income	**21**	(543,675)	(593,652)
Interest expense	**21**	155,881	206,696
Income/losses from the revaluation of foreign currency	**23**	8,311	11,315
Other adjustments		-	270
Net profit adjusted with non-monetary elements		**(31,759)**	**(43,666)**
Changes in operating assets and liabilities			
Change in current account with National Bank of Moldova	**4**	151,978	436,227
Change in current accounts and placements with banks	**5**	(85,863)	(258,801)
Change in loans to customers	**7**	(540,222)	(692,561)
Change in other assets	**12**	51,697	129,348
Change in deposits from banks	**15**	18,999	12,014
Change in deposits from customers	**16**	187,427	(287,654)
Change in other liabilities	**19**	(89,408)	159,732
Change in provisions	**17**	(1,380)	(1,343)
		(306,772)	**(503,038)**
Interest received		559,767	606,747
Interest paid		(144,556)	(223,431)
Income tax paid		(46,698)	(24,192)
Net cash-flow from operating activities		**29,981**	**(187,580)**
Cash-flow used in investment activities			
Proceds from sale of equity investments	**8**	117	349,024
Acquisitions of investment securities measured at amortized cost		(2,849,702)	(1,623,220)
Proceeds from the disposal of investment securties measured at amortized cost		1,909,882	1,584,209
Acquisitions of property and equipment	**9**	(74,100)	(40,536)
Proceeds from disposal of property and equipment	**9**	1,074	1,035
Acquisitions of intangible assets	**10**	(27,120)	(18,520)
Net cash-flow (used in) investment activities		**(1,039,849)**	**251,992**
Cash-flow from financing activities			
Gross proceeds from loans from other financial institutions	**14**	34,222	28,891
Gross payments from loans from other financial institutions	**14**	(16,528)	(15,437)
Repayment of the principal portion of the lease liabilities	**11**	(29,229)	(30,822)
Net cash-flow from / (used in) financing activities		**(11,535)**	**(17,368)**
Net increase/decrease (-) in cash and cash equivalents		**(1,021,403)**	**47,043**
Cash and cash equivalents at January 1		**5,016,659**	**4,939,217**
The impact of exchange rate variations on cash and cash equivalents		127,494	30,399
Cash and cash equivalents at December 31	**4**	**4,122,750**	**5,016,659**

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Explanatory notes to the financial statements

1. GENERAL INFORMATION

BC Victoriabank SA (thereafter “the Bank”) was established in the Republic of Moldova in 1989. The Bank was re-incorporated as a joint-stock commercial bank on 26 August 1991.

On 29 November 2002 the Bank was re-registered as an open joint stock commercial bank and the shares became listed on Moldovan Stock Exchange.

The Head Office of the Bank is located at str. 31 August 1989, no. 141, Chisinau, Republic of Moldova.

The Bank operates through its head office located in Chisinau, 30 branches and 57 agencies, as at 31 December 2020, and 34 branches and 59 agencies, as at 31 December 2019, located throughout the country.

The Bank’s number of active employees as at 31 December 2019 was of 1,067 (1,143 as at 31 December 2019).

The share capital of B.C. „VICTORIABANK” S.A. represents 250.000.910 lei, divided into 25.000.091 first class registered common shares entitled to vote, at par/face value of 10 lei/share. Registered common shares issued by the Bank (ISIN: MD14VCTB1004) are allowed for trading on the regulated market at the Stock Exchange of Moldova (www.moldse.md).

The shareholders’ structure and/ or groups of persons that act in concert and own significant share (i.e. greater than 1%) in the Bank’s share capital and final beneficiaries as at 31 December 2020 and 31 December 2019:

	Direct owners				Final beneficiaries of significant share	
	Name of the shareholders	Residence country	Number of the group*	Share, %	Name of final beneficiary	Residence country
1	VB INVESTMENT HOLDING B.V.	NED	0	72.19	indirect owners: Banca Transilvania (61.82%); European Bank for Reconstruction and Development (EBRD) (38.18%); effective beneficiaries do not exist	Romania Great Britain
2	Ţurcan Victor	MDA	0	10.76	Ţurcan Victor	Republic of Moldova
3	Ţurcan Valentina	MDA	1	8.07	Ţurcan Valentina	Republic of Moldova
4	Artemenco Elena	MDA	1	4.95	Artemenco Elena	Republic of Moldova
5	Proidisvet Galina	MDA	1	1.58	Proidisvet Galina	Republic of Moldova

The Board of Administration of the Bank acts based on the full information, in good faith and in the shareholders’ interest, performs the role of supervising and monitoring the decision - making process of management and is responsible for the adoption of the development strategy, risk control policies, business plans and exercises the monitoring of their fulfilment. The Board of Administration represents the shareholders’ interest during the period between the General Shareholders’ Meetings and exercises the supervision of the Bank’s activity.

* TRANSLATOR'S EXPLANATORY NOTE: The above translation of the financial statements is provided as a free translation from Romanian which is the official and binding version.

1. GENERAL INFORMATION (CONTINUED)

According to the Articles of Association of the Bank, the Board of Administration is made of 7 members appointed by the General Shareholders' Meeting.

As at 31 December 2020, the composition of the Board of Administration of the Bank in exercise, selected at the ordinary General B.C."Victoriabank"S.A. Shareholders' Meeting as at the 24th of May 2019, is of the following members:

- Victor TURCAN, Chairman of the Board of Administration
- Thomas GRASSE, Vice-chairman of the Board of Administration, Independent Member
- Tiberiu MOISĂ, Member of the Board of Administration
- Peter FRANKLIN, Member of the Board of Administration, Independent Member
- Igor SPOIALĂ, Member of the Board of Administration, Independent Member
- Mehmet Murat SABAZ, Member of the Board of Administration, Independent Member
- Maris MANCINSKIS, Member of the Board of Administration, Independent Member (confirmed by National Bank of Moldova on 20 February 2020)

2. BASIS OF PREPARATION

2.1 Declaration of compliance

These financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS"). These financial statements were authorized for issue by the Board of Administration of the Bank on 16 April 2021.

2.2 Basis of measurement

The financial statements were prepared on historical cost or amortised cost basis, except for the financial instruments at fair value through other items of comprehensive income which are evaluated at fair value and repossessed collaterals which are evaluated at the lower value between carrying amount and fair value minus selling costs.

2.3 Functional and presentation currency

The amounts included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates ("the functional currency"). The financial statements are presented in Moldovan lei ("MDL"), which is the functional and presentation currency of the Bank, rounded to 1,000 units, except where otherwise specifically indicated.

2.4 Use of estimates and judgements

In preparing the financial statements, the Bank's management applies judgment, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimate is revised and affects only that period or in the revision period and future periods if the revision affects both the current period and future periods.

Information about estimates used in the application of the accounting policies which have a significant impact on the financial statements, as well as the estimates involving a significant degree of uncertainty, are described below.

a) Impairment losses on loans to customers

The Bank review its loan portfolio in order to assess the impairment thereof, on a monthly basis. In determining whether an impairment loss should be recorded, the Bank make judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows related to a portfolio of loans, before such decrease can be identified with respect to an individual loan in that portfolio. For example, the observable data might be the unfavorable changes in the payment behavior of certain debtors within a group or in the economic, national or local circumstances, which correlate with default incidents affecting the debtors' group. When scheduling future cash flows, the management uses estimates based on the past experience related to losses from loans with similar risk characteristics.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any gaps between estimated losses and actual losses, but also to assess the effects of the local financial market uncertainties on the valuation of assets and the debtors' operating environment. The loan loss estimation considers the visible effects of the current and future expected market conditions on the individual/collective assessment of expected credit losses on loans and advances to customers. Hence, the Bank has estimated the expected credit losses for loans and advances to customers based on the internal methodology and assessed that no further expected credit losses is required except as already provided for in the financial statements.

2. BASIS OF PREPARATION (CONTINUED)

2.4 Use of estimates and judgements (continued)

a) Impairment losses on loans to customers (continued)

The process of selection of inidividually significant assets is automated and is applied to exposures equal or above MDL 20 million which are classified in Stage 3. A specialized team of the Bank's credit risk experts uses professional judgement to assess the unlikeliness to pay and determine the scenarios used to compute the ECL for these exposures.

The three-stage expected credit loss impairment model in IFRS 9 depends on whether the credit risk has increased significantly since initial recognition. If the credit risk has not increased significantly, the impairment charge equals the expected credit losses resulting from default events that are possible within the next 12 months (stage 1). If the credit risk has increased significantly, the loan is more than 30 days past due, or the loan is in default or otherwise impaired, the impairment charge equals the lifetime expected credit losses.

In determining the impairment for expected credit losses, management incorporates forward-looking information, exercises judgement and uses estimates and assumptions.

The estimation of expected credit losses involves forecasting future economic conditions over 3 years.

The macroeconomic scenarios applied have been changed from those applied in Q4 2019 to reflect the worsening of the macroeconomic outlook due to the COVID-19 pandemic.

More details about assumptions made, scenarios used, weights applied to each scenario is described in Note 36.1 Credit risk. The incorporation of forward-looking elements reflects the expectations of the Bank and involves the creation of scenarios, including an assessment of the probability for each scenario. A large part of the impact on the expected credit losses recorded in 2020 is resulting from the COVID-19 pandemic referring to changes to the forward-looking information.

Also, due to the COVID-19 pandemic, management applies supplementary judgement when determining the need for post-model adjustments.

Borrowers could request during 2020, the postponement of rates and interest until the 30 June 2020 (legal entities) and 31 July 2020 (individuals). Based on the regulations of the National Bank of Moldova, certain categories of debtors, individuals or legal entities meeting several criterias, had the possibility to request the postponement of the payment of the due installments related to the loans representing installments of capital, interest and commissions, legal entities for up to 3 months, but not more than 30 June 2020, individuals for up to 4 months, but not more that 31 July 2020.

During 2020, 2,034 borrowers (1,995 individuals and 39 companies) benefited from the deferral of installments, amounting MDL 727,361 thousand (on the date of payments moratorium requests).

The moratorium program was not extended after 30 June 2020 in case of legal entities and 31 July 2020 in case of individuals.

The internal analyzes that determined additional adjustments were based on the available information (e.g. the industry were the borrower operates etc.). At the same time, the Bank also examined the information from its own databases, related to the clients who applied to payment deferral program. All this has led to the consideration of some sectors as being more sensitive/affected by pandemic crisis, product portfolios with higher associated credit risk and type of customers with low quality ratings, which could be affected to a greater extent by current events.

During 2020, the Bank reviewed the PD assumptions to get faster response taking into account the events that occurred (regardless of the crisis severity). Another factor that determined the increase in the expected credit losses is the individual analysis of significant exposures, performed to reflect and better understand the situations and difficulties faced by borrowers that could affect their ability to meet their obligations. Management will continue to carry out these monitoring exercises in the future, but considering the moratorium program was not extended after 30 June 2020, the Bank was able to monitor the payment behoviour of the debtors after 30 June 2020 and to capture the significant increase in credit risk events in its assessment.

The Bank's forbearance practices have been updated to pay particular attention to customers affected by the COVID-19 pandemic. These practices include additional guidance to ensure that COVID-19 concessions are fully complied with NBM decision on moratorium operations respectively it is considered that the operations will not automatically generate a stricter classification of exposures (should not be considered as an automatic trigger, but should be considered in correlation with other risk indicators), and the Bank should develop and strengthen its own mechanisms to identify in early stages, increase of credit risk and unlikeliness to pay situation.

As mentioned, moratorium program did not have an impact on stageing (is not considered a trigger for a significant increase in credit risk). The definition of forborne credit modification was not changed and continues to identify restructuring operation request by clients in financial difficulties who did not access the moratoria program.

2. BASIS OF PREPARATION (CONTINUED)

2.4 Use of estimates and judgements (continued)

b) Other significant litigations

As described in Note 17, as at 31 December 2020 and 31 December 2019, the Bank is involved in a litigation which resulted in freezing the amount of USD 13,174 thousand on the Bank's correspondent account in Bank of New York Mellon.

This matter requires significant judgement because of its complexity, foreign jurisdiction and significant time elapsed since the initiation of this case. The Bank's management analyzed all the facts and circumstances relevant to this litigation and consulted internal and external lawyers which assist the Bank in this case. Considering the favorable evolution of the case in 2020 and also subsequent to 31 December 2020 (i.e. a Court decision which rejected the Receiver's appeal and which lifted the seizure of the account), the Bank did not recognize a provision as at 31 December 2020 (as at 31 December 2019, the provision formed for this dispute was MDL 136,029 thousand).

The Bank was notified on 6 July 2020 that it is being investigated in a case instrumented by the Prosecutor's Office of the Republic of Moldova and on 6 August 2020, a precautionary seizure was placed on some of the Bank's assets, in order to cover the claims in the file - amounting to approximately MDL 2.2 billion. Considering the nature of the case, current status of the investigation, legal limitations related to the investigation, the lawyers' analysis of the content of investigators case files, corroborated with the lawers's legal opion on the background facts and evidence provided by the prosecutors, the management of the Bank concluded that the disclosure of a contingent liability in the financial statements satisfies the requirements of IAS 37. The Bank will monitor the evolution of the topic at each reporting date, in accordance with the relevant provisions of the accounting stantards and regulations.

Please see Note 32 for other significant litigations.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Foreign currency transactions

Transactions denominated in foreign currency are converted into the functional currency at the exchange rates in effect at the date of transaction. The exchange rate differences resulting from such transactions denominated in foreign currency are reflected in the statement of profit or loss at the transaction date.

Monetary assets and liabilities denominated in foreign currencies at the date of the statement of financial position are translated to the functional currency at the exchange rate valid at that date.

Gains and losses in foreign currency resulting from the revaluation of monetary assets and liabilities in foreign currency are reflected in profit or losses, excluding equity investments at FVOCI.

Non-monetary assets and liabilities that are measured in terms of historical cost in foreign currency are translated in the functional currency by using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at the exchange rate valid at the date when the fair value is determined.

Exchange rates of major currencies at the end of the year and the average exchange rates were:

	2020		2019	
	USD	**EUR**	**USD**	**EUR**
Average for the period	17.3201	19.7436	17.5751	19.6741
The end of the year	17.2146	21.1266	17.2093	19.2605

3.2 Financial assets and liabilities

(i) Recognition and initial evaluation

The Bank initially recognizes loans to customers, deposits at the date when they originated. All other financial assets and liabilities are initially recognized at the trade date, which is the date when the Bank becomes part to the contractual provisions of the instrument.

A financial asset or liability that is not measured at fair value through profit or loss is initially measured at fair value plus transaction costs directly attributable to the acquisition or issue.

(ii) Classification

On initial recognition financial assets are classified as measured at:

- amortized cost,
- fair value through other comprehensive income (FVOCI)
- fair value through profit or loss (FVTPL).

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated at fair value through profit or loss:

- The asset is held within a business model whose objective is the ownership of the asset to collect the contractual flows; and
- contractual terms of the financial asset give rise to the specific data for cash flows that are only principal and interest ("SPPI").

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated at fair value through profit or loss:

- The asset is held within a business model whose objective is achieved both by collecting contractual flows and the sale of financial assets; and
- contractual terms of the financial asset give rise to the specific data for cash flow that are only principal and interest (“SPPI”).

On initial recognition of an equity instrument that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value through other comprehensive income (FVOCI). This choice is made on an individual basis for each instrument.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets and liabilities (continued)

(ii) Classification (continued)

All other financial assets are classified as at fair value through profit or loss (FVTPL).

(iii) Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the application of those policies in practice, in particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered separately, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

The Bank has no assets classified as FVTPL.

The evaluation if cash flows represent only payments of principal and interest (SPPI)

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are only SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets; and
- features that could modify consideration of the time value of money (e.g. periodical reset of interest rates);
- loans granted to employees or to large corporate clients;
- terms applied to syndicated loans etc.

Based on the analysis performed, the Bank concluded that the portfolio of loans to customers as well as portfolio of debt securities meet the criteria of SPPI.

(iv) Derecognition

Bank derecognise a finacial asset when the rights to receive cash flows of that financial asset expire or when the Bank has transferred its rights to receive contractual cash flows related to that financial asset in a transaction in which it transferred substantially all risks and rewards of ownership. Any interest in transffered financial assets that is retained by the Bank or its created for the Bank and it is recognized as a separate asset or liability.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) total encashments (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss. Bank derecognises a financial liability when its established contractual obligations are canceled or expire.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets and liabilities (continued)

(iv) Derecognition (continued)

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised.

Transfers of assets with retention of all or most significant risks and rewards include, for example, securities lending or sale transactions with repurchase terms.

When assets are sold to a third party with a total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and-repurchase transactions, because the Bank retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

(v) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(vi) Modifications of financial instruments

If the terms of a financial instrument are modified, the Bank evaluates whether the cash flows of the modified instrument are substantially different.

If the contractual terms are substantially altered due to commercial renegotiations, both at the client's request and at the Bank's initiative, the existing financial asset is derecognized and the modified financial asset is subsequently recognized, such modified financial asset being considered as a "new" asset. The criteria set at Bank level to evaluate modifications leading to derecognition of financial assets, are developed having in mind that they must reflect modifications that are substantial enough (either quantitatively or qualitatively) to satisfy the derecognition requirements in IFRS 9.3.2.3. On the quantitative side, these criteria refer to a significance threshold of 10% by analogy to the de-recognition trigger set by IFRS 9.B3.3.6 for modifications of financial liabilities. On the qualitative side, these criteria refer to contractual modifications that are substantially changing the nature of lender's risks associated with the pre-existing loan contract. During 2019 and 2020, the Bank did not have modification of financial assets that resulted in derecognition of the original instrument.

If a modification of a financial asset measured at amortized cost or FVOCI does not result in the derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate and recognizes the resulting adjustment as a modification gain or loss in profit or loss. For floating rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect the current market terms at the time of modification. Any cost or fee supported or received adjust the gross carrying amount of the modified financial asset and is amortized over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the debtor, then the gain or loss is presented in the impairment expense. In other cases, it is presented as interest income calculated using the effective interest rate method. The gain or loss from modification of financial assets was not significant for the years ended 31 December 2020 and 2019.

(vii) Fair value measurement

Fair value is the price that would be received from the sale of an asset or the price that would be paid to transfer a liability in a normal transaction between market participants at the measurement date, mainly, or, in its absence, on the most advantageous market where the Bank has access to that date. The fair value of a liability reflects its non-performance risk.

When information is available, the Bank measures the fair value of an instrument using the quoted prices in an active market for that instrument. A market is considered active if transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted market price in an active market, the Bank uses valuation techniques that maximize the use of relevant observable values and minimizes the use of unobservable values.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets and liabilities (continued)

(vii) Fair value measurement (continued)

The chosen evaluation technique incorporates all factors that market participants would consider in pricing a transaction.

The best evidence of fair value of a financial instrument on initial recognition is normally the transaction price – the fair value of a consideration given or received. If the Bank determines that the fair value on initial recognition differs from the transaction price and the fair value is not evidenced by any quoted market price in an active market for an asset or liability identical or based on an evaluation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and transaction price.

Subsequently, this difference is recognized in profit or loss on an appropriate basis over the life of an instrument, but no later than when the valuation is supported wholly by observable market values or when the transaction is closed.

The Bank recognizes transfers between fair value hierarchy levels at the end of the reporting period in which the changes have been occurred.

(viii) Impairment of financial assets

The Bank recognizes loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments
- Financial guaranties contracts
- Loans commitments.

No impairment loss is recognized on equity investments.

Impairment according to IFRS 9 is based on expected losses and requires a timely recognition of the future expected losses.

The determination of expected losses at the reporting date relies on the effective interest rate established upon the initial recognition or an estimated rate. As concerns financial assets with variable interest rate, the expected credit losses must be determined based on the current effective interest rate.

As concerns the purchased or originated financial assets that are credit-impaired, the expected credit losses must be determined based on the credit-adjusted effective interest rate established upon the initial recognition.

Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or borrower;
- a breach of contract, such as a default or past-due event;
- the lender, based on economic or contractual reasons relating to the borrower’s financial difficulty, grants the borrower a concession that would not otherwise be considered;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for the financial asset because of financial difficulties; or
- the purchase or origination of a financial asset at a deep discount that reflects incurred credit losses.

A financial asset classified as impaired upon initial recognition will be maintained as such until its derecognition.

The Bank assesses on forward-looking basis the expected credit losses (‘ECL’) associated with its debt instrument assets carried at amortized cost and fair value through other items of the comprehensive income and the exposure from loan commitments and financial guarantee contracts. The Bank recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

IFRS 9 outlines a ‘three-stage’ model for impairment based on changes in credit quality since initial recognition as summarized below:

- A financial instrument that is not credit-impaired on initial recognition is classified in ‘Stage 1’ and has its credit risk continuously monitored by the Bank;

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets and liabilities (continued)

(viii) Impairment of financial assets (continued)

- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired;
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.
- Purchased or originated credit-impaired financial assets ("POCI") are those financial assets that are credit- impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows

– financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;

– loan commitments and financial guarantee contracts: generally, as a provision;

– where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and

– debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve through FVOCI.

Write-off

Based on an analysis, the Bank may decide to derecognise a depreciated asset, by recording it in the off-balance sheet. These assets will continue to be subject to recovery procedures. The Bank considers that a financial asset is in the situation of derecognition and writes it off when there are no reasonable expectations regarding its full or partial recovery.

The Bank periodically analyzes the financial assets to be written-off:

a) for assets that have exceeded the expected recovery horizon. The following levels are set for the recovery horizon:

    - for unsecured loans, maximum 2 years
    - for guaranteed loans, maximum 7 years.

The recovery horizon is calculated from the date of registration of the exposure in the non-performing category.

The Bank is not obliged, upon reaching these thresholds, to proceed with the write-off of exposures - these loans will be the subject of additional analyzes to estimate the chances of recovery in the next period.

b) for assets that have been guaranteed, and for a specific reason, at the moment, are no longer guaranteed;

c) for loans that are collateralized, but it is estimated that there are no reasonable chances of recovery (uncertain and expensive sources, which do not justify the Bank's effort compared to the expected value of recoveries). This category also includes exposures for which the exposure reduction is based entirely on sale of collateral, and, considering the background of a low degree of coverage, there is the possibility that procedural costs may absorb a significant part of the amounts resulting from sales of collaterals;

d) for the assets for which the Bank has stopped the recovery procedures or they have expired or those for which by a court decision they are no longer due by the debtor;

e) the bankruptcy procedure of the debtor was closed, and the Bank's exposure was not fully covered;

f) the exposure has been partially transferred to another entity (third party) and the remaining exposure has no chance of recovery.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets and liabilities (continued)

Write-off (continued)

Mandatory, before recording in the off-balance sheet, the Bank shall ensure that the financial asset is fully covered by ECL. Therefore, the amounts subsequently collected from the recovery of the exposure will be directly recognized as income in the Bank's profit and loss account. However, after write-off, the Bank has no reasonable expectations for the recovery of the financial asset.

3.3 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognized in profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer impaired, then the calculation of interest income reverts to the gross basis.

3.4 Fee and commission income

The Bank earns commissions from a wide range of services provided to customers. Commissions are generally recognized on an accrual basis when the service was provided. Credit commitment fees that are likely to be drawn are referred to (together with related direct costs) and recognized as an adjustment to the effective interest rate of the loan.

Commissions arising from negotiating, or participating in the negotiation of, a transaction with a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognized on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-pro-rated basis.

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Bank recognizes revenue when it transfers control over a service to a customer.

Below is presented information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms and related revenue recognition policies.

Type of services	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Retail and corporate banking service	The Bank provides banking services to retail and corporate customers, including account management, provision of overdraft facilities, foreign currency transactions, servicing fees etc. Fees for ongoing account management are charged to customer’s account on a monthly basis. The Bank sets the rates separately for retail and corporate customers on a periodical basis. Transaction-based fees (e.g. interchange), are charged to the customer’s account when the transaction takes place. Servicing fees are charged on a monthly basis and are based on fixed of variable rates according to the published list of commission or individually negotiated tariffs. The rates are reviewed periodically.	Revenue from account service and servicing fees is recognized over time as the services are rendered. Revenue related to transactions is recognized at the point in time when the transaction takes place.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Net trading income

Net trading income represents the gain or loss from the foreign exchange transactions and foreign exchange position revaluation.

3.6 Income tax expenses

Current and deferred tax shall be recognized in profit and loss, except when it relates to items that are recognized in other comprehensive income or directly to equity, in which case current and deferred tax shall be also recognized in other comprehensive income or directly to equity.

The corporate tax, as according to the applicable laws of the Republic of Moldova, is recognized as an expense when profits arise. The corporate tax rate for 2020 was 12% (2019 -12%).

The deferred corporate tax is recognized for temporary differences between the carrying amounts of assets and liabilities in the financial statements and the appropriate tax base used for calculation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences.

Deferred tax assets are recognized for all deductible tax differences to the extent that taxable profits are likely to be available against which deductible temporary differences can be used. The deferred tax asset value is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that taxable profits will be available to enable the whole or part of the asset to be recovered. Deferred tax assets and liabilities are determined using the tax rates in force and are expected to apply when the deferred tax asset is disposed of or the deferred tax liability is extinguished.

3.7 Sale and repurchase agreements („REPO”)

Investment securities (debt instruments) sold subject to repurchase agreements (“REPO”) are classified in the financial statements as debt instruments at amortised cost (treasury bills) and the counter party liability is included in amounts due to banks or customers, as appropriate. Investment securities purchased under agreements to resell (‘reverse repos’) are recorded as loans to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and is accrued over the life of the agreements using the effective interest method.

Investment securities held by the Bank as collateral for lending activities with financial institutions are not recognized in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return them is recorded at fair value as a trading liability.

3.8 Intangible assets

The intangible assets are measured initially at cost. After recognition, intangible assets are measured according to the cost-based model, i.e. cost less any accumulated depreciation and any accumulated impairment losses.

Subsequent costs are included in the asset’s carrying amount if the recognition criteria are met: generate future economic benefits, are reliably measured, improve future performance and are separately identified within the economic activity. The maintenance and support costs are recognized as expenses during the period when incurred.

The straight-line method is used for depreciation of intangible assets. The period of depreciation and the finite useful life shall be reviewed at least at each financial year-end. The finite useful life of intangible assets shall be from 3 to 20 years at most.

Expenses related to brands, publishing titles and other similar items are not recognized as intangible assets.

3.9 Property and equipment

Property and equipment are measured at historical cost minus accumulated depreciation and impairment losses. Historical cost includes expenditure directly attributable to the acquisition of tangible elements.

Subsequent costs are recognized in the asset’s carrying amount when incurred, if it is probable that future economic benefits associated with the item will be attributed to the Bank, and the cost of the item can be measured reliably. All repairs and daily maintenance are recorded at other costs as incurred.

Depreciation is calculated using the straight-line method over the lifetime estimated for each item of the property and equipment category.

The useful lives estimated by category are:

• Buildings	25-45 years
• Improvements to leased buildings	5 years
• Computers	3 years
• Furniture and equipment	2-15 years
• Vehicles	6-7 years

* TRANSLATOR'S EXPLANATORY NOTE: The above translation of the financial statements is provided as a free translation from Romanian which is the official and binding version.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Property and equipment (continued)

Assets under construction are not depreciated until they are put into function (available for use). Likewise, land presents the separate category of property and equipment that are not depreciated. The useful life is reviewed and adjusted, if necessary, at each reporting date. The assets subject to depreciation are reviewed for depreciation whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount of an asset is immediately reduced to recoverable amount if the carrying amount of the asset is greater than the estimated recoverable amount.

Gains and losses on the sale of property, plant and equipment are reported by reference to their carrying amount when reflected in the income statement at the reporting date.

3.10 Leases

The Bank applies the requirements of this standard for all leasing contracts, including leasing contracts for assets related to the right-of-use within a sublease agreement. At the beginning of the operation, the Bank as a lessee recognizes an asset related to the right-of-use and a debt arising from the lease.

Exceptions from the requirements of this standard may be short-term contracts of up to 12 months or for contracts with a value of less than five thousand euros or the equivalent of five thousand euros at the date of recognition.

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into (or changed) on or after 1 January 2019.

Bank acting as a lessee:

At commencement or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Bank recognizes a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, and the Bank's incremental borrowing rate. Generally, the Bank uses the average rate of deposits in balance as the discount rate.

The Bank determines its incremental borrowing rate by analyzing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use assets and lease liabilities as separate lines in the statement of financial position.

* TRANSLATOR'S EXPLANATORY NOTE: The above translation of the financial statements is provided as a free translation from Romanian which is the official and binding version.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to depreciation and are tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized in profit or loss statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3.12 Cash and cash equivalents

In the cash flow statement, cash and cash equivalents comprise balances with less than three months initial maturity of the assets from acquisition dates, including: cash, unrestricted balances with National Bank of Moldova, treasury bills, NBM certificates and amounts due from other banks.

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

3.13 Loans and advances

Loans and advances include loans to banks and customers measured at amortized cost. They are innitialy measured at fair value plus incremental direct transaction costs. Subsequently, they are measured at amortized cost using the effective interest method.

The Bank does not hold loans and advances at FVTPL at 31 December 2020 and 2019.

3.14 Investment securities

Investment securities include:

- debt investment securities measured at amortized cost. They are initially measured at fair value plus incremental direct transaction costs. They are subsequently measured at amortized cost using the effective interest method.
- debt investment securities measured at FVOCI. These are initially measured at fair value, the changes being recognized in the statement of other comprehensive income.

The Bank does not hold debt investment securities at FVTPL at 31 December 2020 and 2019.

For debt securities measured at FVOCI, gains and losses are recognized in OCI, except for the following, which are recognized in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue calculated using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When debt security measured at FVOCI is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss.

3.15 Equity investment securities

The Bank initially measures the equity investment securities at fair value through other comprehensive income, the changes being recognized in the statement of other comprehensive income.

The Bank elects to present the changes in fair value of certain investments in equity instruments that are not held for trading in OCI. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Fair value gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognized in profit or loss. Dividends are recognized in profit or loss ("Net trading income"), unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognized in OCI. Cumulative gains and losses recognized in OCI are transferred to retained earnings on disposal of an investment.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Subsequently borrowings are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the profit or loss, over the period of the borrowings using the effective interest method.

3.17 Customers' deposits and current accounts

Customers' current accounts and deposits are recognized at fair value and are subsequently carried at amortized cost using the effective interest rate.

3.18 Provisions

The provisions and legal obligations are recognized when the Bank has a current or implied obligation arising from a past event, the settlement of which is expected to result in an outflow of resources embodying the Bank's economic benefits, and the amount can be estimated reliably. When there are a number of similar obligations, the probability that an outflow of resources will be required in settlement is determined at the expected weighted value with associated probabilities taking into account all possible outcomes.

Provisions are measured at the output expenditures necessary to settle the obligation using the reasoning - based on experience with similar transactions and with the assistance of lawyers or other experts. The subsequent measurement of the provision due to the passage of time is recognized as an interest expense.

3.19 Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees and loan commitments are initially recognized in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial measurement and the best estimate of the expenditure required to settle any financial obligation arising at the reporting date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management. Any increase in the liability relating to guarantees is recognized in the income statement.

3.20 Employee Benefits

(i) Short term benefits

The Bank, in the normal course of business makes payments to the Moldovan State funds on behalf of its employees for pension, health care and unemployment benefit. All employees of the Bank are members of the State pension plan.

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

(ii) Other benefits

The variable remuneration for management is also granted in the form of shadow shares. The variable component of the total remuneration represents the remuneration that can be granted by the Bank in addition to the fixed remuneration, on condition that certain performance ratios are achieved. The variable remuneration may be granted either in cash or in shadow shares related to the stock price of Banca Transilvania shares (TLV on the Bucharest Stock Exchange). In the case of the identified staff, in the establishment of the annual variable remuneration, one shall aim at limiting excessive risk-taking. A substantial part of the variable component of the total remuneration, in all cases at least 40%, is deferred for a period of 3 years and is correlated with the activity nature, the risks and the responsibilities of the respective staff.

The Board of Administration of the Bank decides in respect of the number of shadow shares to be granted as variable remuneration. The fair value upon the vesting date of share-based awards – shadow shares – to identified employees is recognized as personnel expenses over the period in which the employees become unconditionally entitled to the awards.

The amount recognized as an expense is adjusted to reflect the value of awards for which the related services and non-market related performance conditions are expected to be fulfilled, so that the amount ultimately recognized as an expense is based on the actual compensation for the services and performance conditions which are not related to the market at the vesting date.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 Dividends

Dividends income is recognized in the result of the year to date is established the right to receive such dividends are likely to be collected. Dividends are reflected as a component of “Net trading income” in the statement of profit or loss.

Dividends payment is treated as a distribution of profit for the period they are declared and approved by the General Meeting of Shareholders.

3.22 Repossessed collaterals

At 31 December 2020 and 2019, repossessed collaterals includes executed guaranties related to non-performing loans. They are evaluated at the amount lower of carrying amount and fair value minus sell cost.

3.23 Inventories

Inventories are measured at the lower of cost and net realizable value. The value of any decrease in the net book value of inventories to the net realizable value is charged as expense in the period it is incurred.

For each subsequent period, a new valuation is made of the net realizable value. When those conditions that in the past led to a reduction in the book value of inventories below cost have ceased to exist or when there is clear evidence of an increase in the net realizable value as a result of changes in the economic circumstances, the amount representing the reduction in the book value is reversed, so that the net book value of inventory equals the lower of cost and the revised net realizable value.

When inventories are sold, book value of those inventories should be recognized as expenses in the period when the corresponding income is recognized.

3.24 Investment property

Investment property are held either in order to earn rental income or capital gains or both in order, but not for sale in the ordinary course of business, use in production or services or for administrative purposes. These investment properties were acquired through the exercise of rights on pledged collateral from non-performing loans.

Investment property is initially measured at their cost. The cost comprises the expenditure directly attributable to the acquisition of the investment property. The subsequent measurement is at fair value with any change therein recognized in profit or loss within other income.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

The investment property is derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in profit or loss.

3.25 Contingent assets and liabilities

Contingent liabilities are not recognized in the financial statements, but they are disclosed in the financial statements unless there is a “low” probability of an outflow of resources.

A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

3.26 Earnings per share

The Bank presents basic and diluted earnings per share (“EPS”) for its ordinary shares. Basic EPS is calculated by dividing the profit or loss, attributable to ordinary Bank shareholders, to the average outstanding ordinary shares. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders with the weighted average number of outstanding ordinary shares, affecting all potential ordinary shares, which comprise convertible securities and share options granted to employees.

3.27 Segment reporting

The Bank’s operations are reported as one operating segment.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.27 Segment reporting (continued)

The disclosure Segment Reporting as required by IFRS 8 is presented only on the elements of the Statement of Financial Position for:

- Loans to customers (Note 7);
- Customer deposits (Note 16) in line with internal reporting for decision makers.

Considering the following criteria the Bank does not exhaustively report a full disclosure for Segment Reporting:

- No internal reporting for decision makers is related the profitability per segments;
- No clients that generates at individual level more 10% from Banks's total banking income;
- No exposures granted to foreign customers;
- No transfer pricing allocation defined internally for profitability per segments.

3.28 Implementation of new or reviewed standards and interpretations

The following new standards and interpretations came into force on 1 January 2020:

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 reviewed conceptual framework for financial reporting includes a new chapter on measurement, guidance on reporting financial performance, improved definitions - particularly of a liability, - and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

"Definition of a Business" - Amendments to IFRS 3 (issued on 22 October 2018 and applicable to acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020)

The amendments revise the definition of a business. A business must have the 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). The presence of an organized workforce is a condition for the classification as a business, even if there 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).

Definition of materiality – 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.

Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

The amendments address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments provide practical relief from certain requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities and hedge accounting.
The amendments will require an entity to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform by updating the effective interest rate of the financial asset or financial liability.
The amendments will require the Bank to disclose additional information to enable users to understand the effect of interest rate benchmark reform on a company's financial instruments, including information about the entity's exposure to risks arising from interest rate benchmark reform and related risk management activities.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.28 Implementation of new or reviewed standards and interpretations (continued)

The Bank plans to apply the amendments from 1 January 2021. Application will don't have impact on amounts reported for 2020 or prior periods.

Amendments to IFRS 16 Leases COVID-19-Related Rent Concessions (Effective for annual periods beginning on or after 1 June 2020)

The amendments introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. The resulting accounting will depend on the details of the rent concession. A lessee applies the amendments retrospectively and recognises the cumulative effect of initially applying them in the opening retained earnings of the reporting period in which they are first applied. The Bank does not expect that the amendments, when initially applied, could have a material impact on its financial statements.

3.29 New or amended standards and interpretations that are effective as of annual period or after 1 January 2021

Amendments to IAS 1 Presentation of Financial Statements Classification of Liabilities as Current or Non-current (Effective for annual periods beginning on or after 1 January 2023 early application is permitted)

The amendments clarify that the classification of liabilities as current or non-current shall be based solely on the Entity's right to defer settlement at the end of the reporting period. The company's right to defer settlement for at least 12 months from the reporting date need not be unconditional but must have substance. The classification is not affected by management's intentions or expectations about whether and when the Entity will exercise its right. The amendments also clarify the situations that are considered settlement of a liability. The Bank does not expect that the amendments, when initially applied, could have a material impact on its financial statements.

Amendment to IAS 16 Property, Plant and Equipment Property, Plant and Equipment – Proceeds before Intended Use (Effective for annual periods beginning on or after 1 January 2022 early application is permitted)

The amendments must be applied retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The cumulative effect of initially applying the amendments will be recognised as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented (if necessary). The Bank does not expect that the amendments, when initially applied, will have a material impact on its financial statements.

Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets Onerous Contracts – Cost of Fulfilling a Contract (Effective for annual periods beginning on or after 1 January 2022 early application is permitted)

An entity shall apply those amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). The entity shall not restate comparative information. Instead, the entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application. The Bank does not expect that the amendments, when initially applied, will have a material impact on its financial statements.

4. CASH AND BALANCES WITH THE NATIONAL BANK OF MOLDOVA

In MDL thousand	31 December 2020	31 December 2019
Cash on hand and other values	1,839,952	1,199,378
Current account with National Bank of Moldova	229	6,382
Minimum reserve requirement in MDL	1,715,425	2,403,959
Minimum reserve requirement in foreign currency	1,453,448	835,895
Cash and balances with National Bank of Moldova	**5,009,054**	**4,445,613**
Balances with National Bank of Moldova, out of which:		
Gross value	3,172,232	3,249,727
Expected credit loss allowances	(3,130)	(3,491)
Total	**3,169,102**	**3,246,236**

Current account and mandatory reserve

The National Bank of Moldova (NBM) requires commercial banks to maintain for liquidity purposes minimum reserves calculated at a certain rate of the average funds borrowed by banks. The attracted funds in Moldovan Lei (MDL) and in non-convertible currencies (NCC) are reserved in MDL. The attracted funds in freely convertible currencies (FCC) are reserved in US Dollars (USD) and/or EURO (EUR). The required reserves' calculation base are determinateded for all dates of observance periods from 16th of the previous month – up to the 15th of the current month.

As at 31 December 2020 the reserving ratio from financial means attracted in MDL and NCC was 32.0%, and the reserving ratio from financial means attracted in FCC was 30.0% (31 December 2019: the reserving ratio from financial means attracted in MDL and NCC - 42.5%, attracted in FCC - 17.0%).

The Bank keeps the amount of required reserves attracted in MDL and NCC on bank's "Nostro" account opened with the National Bank. Banks' required reserves in USD and EUR are maintained in the "Nostro" accounts of the National Bank in USD and in EUR opened in foreign currencies. The Bank records and managing the required reserves in USD and EUR in its analytical accounts, separately for each currencies.

Reserving in MDL is made by keeping financial means in MDL on Bank's "Loro" account opened with the NBM, in average balance, in period from the 16th of the current month to the 15th of the following month, taking into account the number of calendar days in that period. The required reserves in USD and EUR, in case of the reserves deficit, are transferred by the bank to the "Nostro" accounts of the National Bank opened in foreign banks, at the latest by the date of the 20th of the current month.

As at 31 December 2020, the balance of "Nostro" account at the NBM amounts to 1,717,118 MDL'000 (31 December 2019: 2,406,542 MDL'000), that included the amount of required reserves attracted in Moldovan lei and in non-convertible currencies. The balance of the required reserves' accounts in USD and EUR amount to 23,322 USD'000 and 49,861 EUR'000 respectively (31 December 2019: 14,392 USD'000 and 30,585 EUR'000).

The remuneration interest on mandatory reserves paid by the NBM during 2020 for reserves in MDL decreased from 2.50% to 0.15%. The interest rate applied to the remuneration of foreign currency reserves was maintained at a level of 0.01%. (2019: the interest rate varied from 4.50% to 3.50% for reserves in MDL and 0.36% - 0.01%, for reserves in foreign currency). At 31 December 2020 the accrued interest for reserves maintained in MDL was 230 MDL'000 and for those in convertible currencies: 10 MDL'000 (2019: 6,389 MDL'000 and 5 MDL'000).

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with the initial maturity less than three months:

In MDL thousand	Notes	31 December 2020	31 December 2019
Cash on hand and other values	4	1,839,952	1,199,378
Current account with the NBM	4	229	6,382
Current accounts with other banks and overnight placement	5	1,324,238	2,015,716
Term placements with banks with maturity up to 3 months	5	51,616	344,526
Certificates issued by the NBM	6	898,460	1,447,110
State Securities, initial maturity less than 3 months	6	8,255	3,549
Cash and cash equivalents in the cash flow statement		**4,122,750**	**5,016,659**

5. CURRENT ACCOUNTS AND PLACEMENTS WITH BANKS

In MDL thousand	31 December 2020	31 December 2019
Current accounts with other banks and overnight placements, out of which:	**1,324,238**	**2,015,716**
Gross value	1,325,265	2,017,790
Expected credit loss allowances	(1,027)	(2,074)
Term deposits-guarantees in banks, out of which:	**96,263**	**94,611**
Gross value	96,296	94,644
Expected credit loss allowances	(33)	(33)
Term placements with banks with maturity below 3 months, out of which (Note 4):	**51,616**	**344,526**
Gross value	51,665	344,853
Expected credit loss allowances	(49)	(327)
Term placements with banks due after 3 months, out of which:	**344,602**	**258,566**
Gross value	345,090	258,941
Expected credit lossfi allowances	(488)	(374)
Total	**1,816,719**	**2,713,419**

As at 31 December 2020 placements in the banks includes „NOSTRO" accounts, that are included in the cash flow statement (Note 4), amounting to 1,324,238 MDL'000 (2019: 2,015,716 MDL'000).

The amount of 1,696,394 MDL'000 (2019: 2,531,998 MDL'000) are placed in the banks from OECD member countries, the amount of 120,325 MDL'000 (2019: 181,421 MDL'000) are placed in non-OECD member countries.

The qualitative analysis regarding the placements with banks was based on the credit ratings issued by Standard & Poor's, Moody's and Fitch, if available. For placements with banks that are not rated by Standard & Poor's, Moody's or Fitch, the Standard & Poor's sovereign rating was used.

In MDL thousand

Placements with banks	31 December 2020	31 December 2019
Rating from A to AA-	1,665,231	2,438,429
Rating from BBB to BBB+	102,852	188,259
Rating BBB- and lower	48,636	86,731
Total	**1,816,719**	**2,713,419**

In MDL thousand	31 December 2020	31 December 2019
Frozen Nostro account	**226,785**	**226,716**

*See Note 17

As at 31 December 2020 the amount of USD 13,174,015 equivalent of 226,785 MDL'000 is frozen on the Nostro correspondent account held with Bank of New York Mellon.

* TRANSLATOR'S EXPLANATORY NOTE: The above translation of the financial statements is provided as a free translation from Romanian which is the official and binding version.

6. INVESTMENT SECURITIES – DEBT INSTRUMENTS

In MDL thousand	31 December 2020	31 December 2019
Investment securities measured at amortized cost	3,555,397	3,164,870
Investment securities measured at FVOCI	16,800	13,048
Total	**3,572,197**	**3,177,918**

Investment securities measured at amortized cost – debt instruments

In MDL thousand	31 December 2020	31 December 2019
Certificates issued by the National Bank of Moldova	898,460	1,447,110
State securities included in cash and cash equivalents (Note 4)	8,255	3,549
State securities with initial maturity greater than three months	2,414,556	1,499,920
State securities issued by Romanian Government	191,802	175,706
Bonds issued by international funding organizations	42,324	38,585
Total	**3,555,397**	**3,164,870**
Gross value	3,587,013	3,187,559
Expected credit loss allowances	(31,616)	(22,689)

Investment securities measured at FVOCI – debt instruments

In MDL thousand	31 December 2020	31 December 2019
State securities	16,788	12,862
Changes in the fair value	12	187
Total	**16,800**	**13,048**

As at 31 December 2020, in the caption investment securities, the Bank holds debt instruments measured at amortized cost as treasury bills issued by the Government of Republic of Moldova, certificates issued by the National Bank of Moldova, state securities issued by Romanian Government and bonds issued by international finance organizations. The amount invested in these debt instruments at 31 December 2020 consist of 3,555,397 MDL'000 (2019: 3,164,870 MDL'000).

As at 31 December 2020 the Bank holds a portfolio of debt instruments issued by the Government of Republic of Moldova classified as "Financial assets at fair value through other comprehensive income" amounting to 16,800 MDL'000 (2019: 13,048 MDL'000).

The state securities in the Bank's portfolio as at 31 December 2020 represent treasury bills issued by the Ministry of Finance of the Republic of Moldova in MDL with discount and redeemed at face value at maturity, with maturity between 91 and 364 days, the interest rate ranging between 3.40% and 5.66% (2019: 4.50% and 7.05%) and bonds issued by the Ministry of Finance of the Republic of Moldova in MDL nominal value or with a premium, for a period of 366-1827 days fixed or floating rate ranging between 4.97% and 6.90% (31 December 2019: 5.70% and 8.35%).

Certificates issued by the National Bank in the Bank's portfolio as at 31 December 2020 have an original maturity of 14 days at a rate of 2.65% (2019: 5.50%).

State securities issued by the Romanian Government in the Bank’s portfolio are issued by the Romanian Ministry of Public Finances, are denominated in EUR, have an initial maturity of 5 years, and pay a fixed interest rate of 1%.

Bonds issued by international finance organizations are denominated in EUR, have an initial maturity of 3 years with a fixed interest rate of 1.50%.

The qualitative analysis regarding the investment securities was based on the credit ratings issued by Standard & Poor’s, Moody's and Fitch, if available. For investments securities that are not rated by Standard & Poor’s, Moody's or Fitch, the Standard & Poor’s sovereign rating was used.

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6. INVESTMENT SECURITIES – DEBT INSTRUMENTS (CONTINUED)

In MDL thousand

Investment securities measured at amortized cost – debt instruments	**31 December 2020**	**31 December 2019**
Rating A-	42,324	38,585
Rating BBB-	191,802	175,706
Rating B-	3,321,271	2,950,578
Total	**3,555,397**	**3,164,870**

As of 31 December 2020, state securities in the amount of 1,850,093 MDL'000 are under seizure of Moldovan Authorities (please see Note 32).

This seizure does not affect the Bank's activity, liquidity management and interest income, as securities which mature are replaced by new ones, keeping constant the amount of seized securities at 1,850,093 MDL'000.

7. LOANS TO CUSTOMERS

Bank lending activity focuses on providing loans to individuals and legal entities.

	31 December 2020			**31 December 2019**		
In MDL thousand	**Gross value**	**Expected credit loss allowances**	**Carrying Amount**	**Gross value**	**Expected credit loss allowances**	**Carrying Amount**
Corporate customers	2,374,048	(305,522)	2,068,526	2,463,513	(287,271)	2,176,242
Mortgage loans	1,214,450	(13,210)	1,201,240	736,141	(5,335)	730,806
Consumer loans	993,088	(82,603)	910,485	776,532	(18,578)	757,954
Total	**4,581,586**	**(401,335)**	**4,180,251**	**3,976,186**	**(311,184)**	**3,665,002**

Analysis of loan portfolio by economic sector as at 31 December 2020 and 31 December 2019 is presented below:

Corporate customers, *MDL thousand*	**31 December 2020**	**31 December 2019**
Production and trade	828,717	867,406
Real estate	126,127	149,845
Farming and food industry	533,600	569,919
Consumer loans	25,171	14,930
Transport and road construction	33,977	34,024
Energy sector	223	90
Government	157,478	31,412
Others	668,755	795,887
Total	**2,374,048**	**2,463,513**

Effect of expected credit loss allowances on loans to customers during the years 2020 and 2019 is presented in Note 36.1.

8. EQUITY INVESTMENT SECURITIES DESIGNATED AT FVOCI

The movement in the investment portfolio is presented below:

In MDL thousand	**2020**	**2019**
Balance as at 1 January	**3,258**	**246,379**
Changes in the fair value	20	105,966
Additions	-	-
Disposals	(117)	(349,087)
Exchange rate movements	39	-
Balance as at 31 December	**3,200**	**3,258**

8. EQUITY INVESTMENT SECURITIES DESIGNATED AT FVOCI (CONTINUED)

The movements registered in the Bank's portfolio are due to the receipt of the liquidation value for the shares of the JSC National Securities Depository of Moldovei in liquidation process, from the Bank's portfolio.

As of 31 December 2020, within its portfolio, the Bank holds equity securities valued at fair value through other comprehensive income in local and foreign companies that are not listed.

Below is presented the analysis of equity securities at fair value through other comprehensive income as of 31 December 2020 and 31 December 2019:

In MDL thousand	**Scope of business**	**Owned share 2020, %**	**31 December 2020**	**Owned share 2019, %**	**31 December 2019**
Biroul de Credit SRL	Data processing	16.67	2,038	16.67	2,038
S.W.I.F.T SCRL	International transfer	0.01	723	0.01	623
Bursa de Valori	Stock exchange	7.69	439	7.69	439
Depozitarul Național de Valori Mobiliare al Moldovei SA *in the process of liquidation*	Securities	-	-	5.05	159
Total			**3,200**		**3,258**

As of 31 December 2020, the Bank’s investment securities in Biroul de Credit SRL in the amount of 2,038 MDL’000 are under seizure of Moldovan Authorities (please see Note 32).

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9. PROPERTY AND EQUIPMENT

In MDL thousand	Land and buildings	Furniture and equipment	Vehicles	Improvements of leased assets	Fixed assets under construction	Total
Cost						
Balance at 1 January 2019	**124,097**	**163,088**	**17,633**	**12,884**	**7,602**	**325,304**
Additions	-	4,489	-	-	36,047	**40,536**
Transfers	1,711	27,624	7,643	372	(37,351)	**-**
Reclassified as held for sale	(57)	-	-	-	-	**(57)**
Disposals (write-offs)	-	(10,554)	(3,397)	-	(394)	**(14,344)**
Balance at 31 December 2019	**125,751**	**184,647**	**21,880**	**13,256**	**5,904**	**351,439**
Balance at 1 January 2020	**125,751**	**184,647**	**21,880**	**13,256**	**5,904**	**351,439**
Additions	-	6,359	-	-	67,741	**74,100**
Transfers	4,241	34,551	5,275	1,337	(45,404)	-
Reclassified as held for sale	-	-	(2,653)	-	-	(2,653)
Disposals (write-offs)	-	(12,697)	-	-	(885)	**(13,582)**
Balance at 31 December 2019	**129,992**	**212,860**	**24,502**	**14,593**	**27,356**	**409,304**
Accumulated depreciation and impairment losses						
Balance at 1 January 2019	**45,268**	**126,656**	**12,188**	**11,666**	**-**	**195,778**
Depreciation for the year	4,229	14,036	1,804	488	-	**20,557**
Disposals	-	(10,472)	(3,397)		-	**(13,868)**
Balance at 31 December 2019	**49,496**	**130,221**	**10,595**	**12,154**	**-**	**202,467**
Balance at 1 January 2020	**49,496**	**130,221**	**10,595**	**12,154**	**-**	**202,467**
Depreciation for the year	3,312	17,202	3,121	612	-	**24,247**
Reclassified as held for sale	-	-	(2,653)	-	-	**(2,653)**
Disposals	-	(12,508)	-	-	-	**(12,508)**
Balance at 31 December 2020	**52,808**	**134,915**	**11,063**	**12,766**	**-**	**211,553**
Carrying amounts						
Balance at 1 January 2019	**78,829**	**36,432**	**5,445**	**1,218**	**7,602**	**129,526**
Balance at 31 December 2019	**76,255**	**54,426**	**11,284**	**1,102**	**5,904**	**148,972**
Balance at 31 December 2020	**77,184**	**77,945**	**13,438**	**1,827**	**27,356**	**197,751**

As at 31 December 2020, the costs of property and equipment fully amortised and still used by the Bank amounted to 107,028 MDL’000 (31 December 2019: 108,062 MDL’000). As at 31 December 2020 tangible assets in amount of 56,365 MDL’000 under seizure of Moldovan Authorities (please see Note 32).

10. INTANGIBLE ASSETS

In MDL thousand	Software	Intangible assets in execution	Total
Cost			
Balance at 1 January 2019	**106,961**	**10,201**	**117,162**
Additions	992	17,527	18,520
Transfers	24,874	(24,874)	-
Disposals	-	(21)	(21)
Balance at 31 December 2019	**132,828**	**2,832**	**135,660**
Balance at 1 January 2020	**132,828**	**2,832**	**135,660**
Additions	249	26,871	**27,120**
Transfers	13,174	(13,174)	**-**
Disposals	-	-	**-**
Balance at 31 December 2020	**146,251**	**16,529**	**162,780**
Accumulated depreciation			
Balance at 1 January 2019	**57,584**	**-**	**57,584**
Depreciation for the year	13,280	-	13,280
Disposals	-	-	-
Balance at 31 December 2019	**70,864**	**-**	**70,864**
Balance at 1 January 2020	**70,864**	**-**	**70,864**
Depreciation for the year	12,739	-	**12,739**
Disposals	-	-	-
Balance at 31 December 2020	**83,603**	**-**	**83,603**
Carrying amounts			
Balance at 1 January 2019	**49,377**	**10,201**	**59,578**
Balance at 31 December 2019	**61,964**	**2,832**	**64,796**
Balance at 31 December 2020	**62,648**	**16,529**	**79,176**

As at 31 December 2020, the cost of intangible assets fully amortized but still used by the Bank amounted to 19,150 MDL’000 (31 December 2019: 12,702 MDL'000). As at 31 December 2020 intangible assets have not been pledged as collateral.

11. LEASES

The Bank leases a number of offices for the Bank’s branches. The leases typically run for a period of 1 - 7 years. The leases were classified as operating leases under IFRS 16.

The information about leases for which the Bank is a leasee is presented below.

I. Right-of-use assets

In MDL thousand	2020	2019
Balance at 1 January	**89,923**	**74,489**
Additions	13,249	32,001
Disposals	(13,016)	(16,567)
Balance at 31 December	**90,156**	**89,923**
Accumulated depreciation		
Balance at 1 January	23,296	-
Depreciation charge for the year	29,036	29,882
Disposals	(8,334)	(6,586)
Balance at 31 December	**43,998**	**23,296**
Carrying amounts		
Balance at 1 January	**66,627**	**74,489**
Balance at 31 December	**46,158**	**66,627**

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11. LEASES (CONTINUED)

Maturity analysis – Contractual undiscounted cash flows

In MDL thousand	**2020**	**2019**
Less than one year	26,063	26,969
Between one and three years	21,792	33,372
Between three and five years	2,042	6,421
More than five years	-	458
Total undiscounted lease liabilities at 31 December	**49,897**	**67,220**

II. Amounts recognized in profit or loss

In MDL thousand ***Leases under IFRS 16***	**Note**	**2020**	**2019**
Interest expense on lease liabilities (included in interest expenses)	**21**	668	815
Expense relating to leases of low-value assets (included in other operating expenses)	**28**	2,071	2,474

III. Amounts recognized in statement of cash flow

In MDL thousand	**2020**	**2019**
Lease liabilities	**49,264**	**65,095**
Total cash outflow for leases	29,229	30,822

12. OTHER ASSETS

Financial assets

In MDL thousand	**31 December 2020**	**31 December 2019**
Receivables from international payment systems	13,455	12,491
Receivables from Visa and Mastercard	48,110	51,827
Other financial assets	91,942	105,829
Expected credit loss allowance for other financial assets	(43,777)	(54,404)
Total	**109,730**	**115,743**

Non-financial assets

In MDL thousand	**31 December 2020**	**31 December 2019**
Repossessed collaterals	233,670	279,265
Inventories	9,036	18,682
Advances to suppliers	21,203	15,907
Prepaid expenses	11,730	10,030
Impairment allowance for other non-financial assets	(203,717)	(189,397)
Total	**71,922**	**134,487**
Total other assets	**181,652**	**250,230**

Other financial assets of the Bank consist of installment sales contracts of pledge objects, settlements with individuals and legal entities.

The non-financial assets of the Bank includes mainly the assets repossessed in exchange for the reimbursement of loans. The Bank takes measures in respect of the sale of the assets held for sale, quarterly sales plans are prepared for each asset, which include the management, promotion and identification of potential buyers.

The evolution of allowances for expected credit losses of other financial assets during 2020 and 2019 financial years, is presented in Note 36.1.

12. OTHER ASSETS (CONTINUED)

Movement in allowance for impairment of the collaterals repossessed is presented below:

In MDL thousand	2020	2019
Balance as at 1 January	**189,397**	**225,177**
Impairment charges / (release) (Note 26)	32,207	(8,730)
Disposals due to sales	(17,887)	(27,050)
Balance as at 31 December	**203,717**	**189,397**

13. CURRENT INCOME TAX ASSETS AND LIABILITIES

Below is an analysis of current income tax assets/liabilities presented in the financial statement:

In MDL thousand	31 December 2020	31 December 2019
Current income tax assets	37,296	33,725
Current income tax liability	(3,476)	(39,910)
Current income tax assets / (liabilities), net	**33,820**	**(6,184)**

14. OTHER BORROWINGS

In MDL thousand	31 December 2020	31 December 2019
Loans from the Ministry of Finance	25,467	18,373
Loans from international finance organizations	43,978	28,916
Total	**69,445**	**47,289**

Reconciliation of movements of other borrowings to cash flows arising from financing activities:

In MDL thousand	2020	2019
Balance as at 1 January	47,289	34,036
Proceeds received	34,222	28,891
Payments	(16,528)	(15,437)
Liability-related:		
Interest expense (Note 21)	1,863	651
Interest paid	(1,608)	(789)
The effect of changes in foreign exchange rates	4,207	(63)
Balance as at 31 December	**69,445**	**47,289**

The loans received from the International Finance Organizations are financed by the European Bank for Reconstruction and Development (EBRD), loans received from Ministry of Finance of the Republic of Moldova are financed by the International Fund for Agricultural Development (IFAD), the International Association for Development (AID), European Investment Bank (EIB), Government of the Polish Republic (Assistance Credit) and Council of Europe Bank (CEB). The purpose is to finance certain investment projects and to supplement the current means (EU4Business project - in improving the quality of products and modernizing services, IFAD projects - mainly in the agricultural field, RISP projects - in rural business development, the Assistance Credit project - in agriculture, food processing and related infrastructure, the Moldova Orchard project (Livada Moldovei) – investments in the horticultural sector and related sectors, the Covid19 project - support for SMEs affected by the pandemic crisis).

In 2020, the interest rate on loans received ranged varied between 3.25% - 7.30% for MDL, 0.85% - 4.16% for USD, 0.15 - 3.50% for EUR. The loans financed from the mentioned borrowings were granted for a period of up to 10 years for investment projects and up to 4 years for supplementing the current assets depending on the project.

As of 31 December 2020, the Bank did not fully meet the eligibility criteria set out in the Loan Agreements, signed with the Ministry of Finance and IP OMEAP (previously CLD): loans expired in the total the loan portfolio and non-performing loans in the total loan portfolio. Failure to comply with the above indicators may result in the request for early repayment of both loans and related interest with prior notice from IP OMEAP.

On 31 December 2020 and until the date of issuance of the Financial Statements, the Bank did not receive any written notification from IP OMEAP regarding the early repayment of loans and does not consider that IP OMEAP will request early repayment. The Bank shall take all possible measures to overcome the deficiencies. In disclosure of liquidity risk (Note 36.3) these amounts were presented in the 'less than 3 months' bucket .

15. DEPOSITS FROM BANKS

In MDL thousand	31 December 2020	31 December 2019
"Loro" accounts from banks	69,402	52,074
Overnight deposits	3,900	-
Total	**73,302**	**52,074**

16. DEPOSITS FROM CUSTOMERS

Deposits from customers can be analyzed as follows:

In MDL thousand

Legal entities	31 December 2020	31 December 2019
Current accounts	4,281,288	3,666,462
Term deposits	361,824	388,521
Total	**4,643,112**	**4,054,983**

In MDL thousand

Individuals	31 December 2020	31 December 2019
Current accounts	3,646,584	3,041,110
Term deposits	3,667,530	4,340,279
Total	**7,314,114**	**7,381,388**
Deposits from customers	**11,957,226**	**11,436,371**

Analysis of the deposits from customers by economic sector as at 31 December 2020 and 31 December 2019 is presented below:

Legal entities, *MDL thousand*	31 December 2020	31 December 2019
Production and trading	1,374,971	1,060,837
Services	629,622	708,654
Manufacturing and processing	549,170	370,576
Constructions	430,486	381,937
Real estate	405,584	259,502
Transportation	313,114	374,065
Financial sevices	224,567	226,426
Health	215,050	134,816
Agriculture	50,318	56,739
Government/Public Administration	6,755	5,371
Energy sector	31	191,096
Others	443,445	284,964
	4,643,112	**4,054,983**

17. PROVISIONS FOR OTHER RISKS AND LOAN COMMITMENTS

In MDL thousand	31 December 2020	31 December 2019
Provisions for loan commitments, financial guarantees	16,768	4,599
Litigation provisions (i)	2,412	136,029
Total	**19,180**	**140,629**

(i) It is related to the decision of Charlotte District Court, North Carolina, USA, no. 3:12 cv 519 as at 12 February 2016. On 17 February 2016 in Nostro corresponding bank account held by the Bank at the Bank of New York Mellon, the amount of USD 13,174 thousand (equivalent of MDL 226,716 thousand as at 31 December 2019) that the court in the USA considered as being, eventually, funds of the company Rex Venture Group, LLC, was frozen.

17. PROVISIONS FOR OTHER RISKS AND LOAN COMMITMENTS (CONTINUED)

Considering this decision as being arbitrary, abusive, applied against the norms of international judicial practice, which obviously and without any reason caused major prejudices to the legal rights of the Bank, the Bank initiated the judicial procedure of appeal against the order and unblocking the frozen amount.

On 1 October 2019, the Court ordered, in its second decision, that the court did not have personal jurisdiction over Victoriabank, therefore the Freeze Order was rescinded. However, on 7 October 2019, the Receiver appealed the decision to the Appeals Court for a second time and the judge kept the Freeze Order in place pending a decision on the appeal. After the reporting date, in February 2021, the Court of Appeal rejected the Receiver's appeal and the seizure of the account was lifted.

However, also after the reporting date, in March 2021, the Bank acknowledged that the same amount of USD 13,174 thousand was blocked in the Nostro bank account held at Bank at Bank of New York Mellon on the basis of another order, the details of which were not disclosed to the Bank. The Bank is in the process of obtaining clarifications related to this order.

Based on consultations with its lawyers and understanding the risks associated with the case, the Bank did not form any provision related to this dispute as of 31 December 2020 (as of 31 December 2019, the provision formed for this dispute was MDL 136,029 thousand). Based on the information available up to the date of these financial statements, it is not clear whether the freeze order from March 2021 is related to the dispute mentioned above and solved in Bank’s favor in February 2021.

The amount of 2,412 MDL thousand represents provisions formed for other litigations in which the Bank is involved as at 31 December 2020.

The table below shows reconciliation from the opening to the closing balance of the litigations provisions:

	2020	**2019**
Balance at 1 January	**136,029**	**138,419**
Provisions made during the year	3,637	-
Provisions reversed during the year	(135,440)	(2,057)
Provisions used during the year	-	(1,345)
Foreign exchange losses	(1,814)	1,012
Balance at 31 December	**2,412**	**136,029**

18. DEFERRED TAX BALANCES

An analysis of deferred income tax assets / (liabilities) presented in statement` of financial position is presented below:

In MDL thousand	**31 December 2020**	**31 December 2019**
Deferred income tax assets	3,974	19,939
Deferred income tax liabilities	(3,470)	(2,772)
Deferred tax assets / (liabilities), net	**504**	**17,167**

Movement in deferred tax balances is presented below:

In MDL thousand	**31 December 2019**	**Recognized in profit and loss**	**Recognized in other items of comprehensive income**	**31 December 2020**
Property and equipment	(2,772)	(698)	-	(3,470)
Provisions for litigations	16,324	(16,035)	-	289
Accrual for untaken holidays	1,311	99	-	1,410
Accrual for other employee benefits	2,304	(29)	-	2,275
Deferred tax assets / (liabilities)	**17,167**	**(16,663)**	**-**	**504**

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18. DEFERRED TAX BALANCES (CONTINUED)

In MDL thousand	31 December 2018	Recognized in profit and loss	Recognized in other items of comprehensive income	31 December 2019
Equity securities at fair value through other comprehensive income	(5,890)	-	5,890	-
Property and equipment	(2,026)	(746)	-	(2,772)
Provisions for litigations	-	16,324	-	16,324
Accrual for untaken holidays	1,227	84	-	1,311
Accrual for other employee benefits	-	2,304	-	2,304
Deferred tax assets / (liabilities)	**(6,689)**	**17,966**	**5,890**	**17,167**

19. OTHER LIABILITIES

Financial liabilities

In MDL thousand	31 December 2020	31 December 2019
Creditors regarding documentary transactions	828	132,825
Amounts pending for customers instructions	90,297	77,195
Bank cards operations	17,463	15,061
Non-interest-bearing calculated expenses	15,702	13,143
Payments collected for transfer according to the destination	6,544	7,364
Suspense amounts	1,351	5,319
Settlements with the brokers	6,653	3,738
Settlements for the sales of other assets	573	3,288
Settlements related to intangible assets	4,409	1,997
Dividends payable	25	26
Accruals for untaken holidays	11,751	10,795
Accruals for other employee benefits	18,957	20,150
Other financial liabilities	36,436	29,301
Total	**210,989**	**320,202**

Other financial liabilities include transfers to cards, salary projects, merchant advance payments (internet-stores).

Non-financial liabilities

In MDL thousand	31 December 2020	31 December 2019
Other settlements with the state budget	10,173	110
Other non-financial liabilities	15,786	5,848
Total	**25,959**	**5,958**
Total other liabilities	**236,948**	**326,160**

20. CAPITAL AND RESERVES

a. Share capital

During the year 2020, there were no changes to the Bank's share capital amounting to MDL 250,000,910 as at 31 December 2019 and 31 December 2020, consisting of 25,000,091 ordinary nominative shares of class I, code ISIN MD14VCTB1004, with a nominal value MDL 10, with voting right, the right to receive dividends, issued in non-material form.

As at 31 December 2020 the Bank has a total of 171 shareholders - individuals and legal entities (31 December 2019: 169 shareholders), among which:

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20. CAPITAL AND RESERVES (CONTINUED)

	31 December 2020	31 December 2019
Shareholders with a share equal to or above 1%, among which:	**5 persons**	**5 persons**
Legal entities	1	1
Individuals	4	4
Other shareholders, of which:	**166 persons**	**164 persons**
Legal entities	9	9
Individuals	157	155

	31 December 2020, %	31 December 2019, %
Shareholders with a share equal to or above 1%, among which:		
VB Investment Holding B.V.	72.19	72.19
Ţurcan Victor	10.76	10.76
Ţurcan Valentina	8.07	8.07
Artemenco Elena	4.95	4.95
Proidisvet Galina	1.58	1.58
Other shareholders	2.45	2.45
TOTAL	**100**	**100**

The holders of ordinary shares are entiteled to receive dividends as declared from time to time by the general shareholders meeting, and are entiteled to one vote per share at meetings of the Bank. All ordinary shares rank equally with regard to the Bank's residual assets.

b. Other reserves

The balance represents the general reserve for bank risks and relates to the difference between the assets impairment losses and provisions for conditional commitments, according to IFRS, and the amount calculated but unformed of allowances for losses on assets and conditional commitments, according to prudential regulations of the National Bank of Moldova.

Starting with 2012, general reserves for bank risks were made up of the reported result.

On 31 December 2020, the above-mentioned difference decreased from the balance reflected in the general reserve account for bank risks of 31 December 2019. Thus, the amount of 215,872 MDL'000 was returned in the retained earnings.

c. Statutory reserves

In accordance with the local legislation, 5% of the net profit of the Bank is required to be transferred to a non-distributable statutory reserve until such time as this reserve represents at least 10% of the share capital of the Bank. This reserve is non-distributable. According to Bank's statute these can be used to absorb losses.

d. Fair value reserve

The fair value reserve comprises:

- the cumulative net change in the fair value of equity securities measured at FVOCI (Note 3.15) and
- the cumulative net change in fair value of debt securities measured at FVOCI until the assets are derecognized or reclassified. This amount is increased by the amount of loss allowance (Note 3.14).

21. NET INTEREST INCOME

In MDL thousand	2020	2019
Interest income calculated using the effective interest method		
Loans to customers*	347,004	284,939
Current accounts and placements held with NBM, other banks	24,174	110,667
Investment securities at amortised cost	171,556	197,567
Investment securities at FVOCI	941	479
Total interest income	**543,675**	**593,652**

21. NET INTEREST INCOME (CONTINUED)

*The interest income on impaired loans for the year ended 31 December 2020 amounted 35,879 MDL'000 (2019: 20,245 MDL'000).

In MDL thousand	2020	2019
Interest expense		
Deposits from customers	(146,208)	(197,075)
Current accounts with banks	(7,072)	(8,128)
Deposits from banks	(70)	(26)
Other borrowings	(1,863)	(651)
Operational leasing	(668)	(815)
Total interest expense	**(155,881)**	**(206,696)**
Net interest income	**387,794**	**386,956**

The amounts reported above include interest income and expense, calculated using the effective interest method, that relate to the following financial assets and financial liabilities:

In MDL thousand	2020	2019
Financial assets measured at amortized cost	542,680	593,150
Financial assets measured at FVOCI	995	502
Total	**543,675**	**593,652**
Financial liabilities measured at amortized cost	**(155,881)**	**(206,696)**

22. NET FEE AND COMMISSION INCOME

In the following table, fee and commission income from contracts with customers in the scope of IFRS 15 is disaggregated by major type of services:

In MDL thousand	2020	2019
Fee and commissions income		
Bank cards operation	207,683	195,233
Transactions with customers	127,638	133,260
Clearing operations	24,994	23,021
Currency exchange operations	3,755	6,266
Commission for release of guarantees	2,617	2,400
Brokerage fees	541	526
Lending activity	652	695
Other commissions income	18,180	21,066
Total fee and commissions income	**386,060**	**382,467**
Fee and commissions expenses		
Commissions for card services	(145,833)	(139,566)
Payment transactions	(9,037)	(9,750)
Fee payment to the insolvency administrators	(4,489)	-
Commissions upon cash withdrawal and depositing	(33,578)	(31,540)
Other commissions related to borrowings	(84)	(142)
Total fee and commissions expenses	**(193,021)**	**(180,997)**
Net fee and commission income	**193,039**	**201,470**

Other commissions income represent the commissions charged for other bank operations (i.e. utilities payments), cash collection services and bancassurance fees.

* TRANSLATOR'S EXPLANATORY NOTE: The above translation of the financial statements is provided as a free translation from Romanian which is the official and binding version.

23. NET TRADING INCOME

In MDL thousand	2020	2019
Net income from foreign exchange transactions	186,224	145,342
Losses from the revaluation of foreign currency assets and liabilities	(8,311)	(11,315)
Dividends on equity investments measured at FVOCI	677	1,830
Other financial income	200	85
Total	**178,790**	**135,942**

24. OTHER OPERATING INCOME

In MDL thousand	2020	2019
Other operating income	10,388	-
Income from rent of safe-boxes	-	1,812
Fines and penalties received	6,492	5,478
Other income	3,038	10,215
Total	**19,918**	**17,505**

Other operating income includes the refund of amounts paid by Visa Inc. and MasterCard Incorporated to cover expenses related to promotional services.

25. NET IMPAIRMENT (LOSSES) / RELEASE ON FINANCIAL INSTRUMENTS AND ON PROVISIONS FOR OFF-BALANCE SHEET COMMITMENTS

Additional information on impairment of financial assets during the financial years 2020 and 2019 are presented in Note 36.1. (I. Amounts arising from ECL).

The following table provides reconciliation of position "Net impairment (lossess) / releases on financial instruments and on provisions for off-balance sheet commitments" in the statement of profit or loss:

In MDL thousand	2020	2019
Cash and balances with the National Bank of Moldova	448	1,141
Current accounts and placements with banks	1,320	(651)
Debt securities at amortized cost	(8,812)	1,813
Debt securities at FVOCI	(30)	(82)
Loans to customers at amortized cost	(112,805)	44,969
Receivables from customers at amortized cost	7,437	6,308
Other financial assets	(1,156)	(5,354)
Loan commitments and financial guarantee contracts	(11,734)	4,654
Total	**(125,332)**	**52,799**

26. NET IMPAIRMENT (LOSSES) / RELEASE ON NON-FINANCIAL ASSETS

In MDL thousand	2020	2019
Property and equipment, inventories	3	3
Repossessed collaterals	(32,207)	8,730
Total	**(32,204)**	**8,733**

27. PERSONNEL EXPENSES

In MDL thousand	2020	2019
Salaries and bonuses	(193,874)	(178,125)
Social insurance and contributions	(34,854)	(32,089)
Medical contributions	(9,823)	(8,026)
Net expenses with accruals for untaken holidays and other accruals	(713)	(18,213)
Other staff expenses (other payments, meal vouchers)	(19,898)	(26,492)
Total	**(259,161)**	**(262,945)**

27. PERSONNEL EXPENSES (CONTINUED)

The average monthly number of employees active in the Bank during 2020 was 1,088 people (in 2019 was 1,178).

The Bank's expenses related to the share-based payments are included in the salaries and bonuses and amounted to MDL 864 thousand in 2020 (2019: MDL 285 thousand). The related contributions were MDL 57 thousand in 2020 and MDL 16 thousand in 2019.

The Bank established a Shadow Shares Plan ("SSP"), by which members of the executive committee may exercise the right and option to receive a number of shadow shares, as part of their variable remuneration.

Vesting conditions for 2021 related to SSP 2020:

- Achievement of performance and prudential indicators during 2020;
- Compliance with certain individual eligibility and/or performance criteria, in accordance with the applicable remuneration policy and standard, related to the year for which shares are granted;
- Being an employee upon the granting of the SSP right (15 June 2020) and when exercising such right (starting from June 2021);

Contractual vesting period for the shares granted for the year 2020 through SSP:

- Release after 1 June 2021;
- Deferral period for the identified personnel – 3 - 5 years, subject to applicable restrictions, pursuant to internal regulations in force.

As at 31 December 2020 the Bank accrued MDL 830 thousand for SSP expected to vest in 2021 and MDL 40 thousand of related taxes and contributions (as 31 December 2019 MDL 269 thousand for SSP expected to vest in 2020 and MDL 12 thousand of related taxes and contributions).

The total deferred variable remuneration as 31 December 2020, for SSP expected to vest after 31 December 2021 is estimated at MDL 2,480 thousand and MDL 112 thousand of related contributions.

28. OTHER OPERATING EXPENSES

In MDL thousand	**2020**	**2019**
Utilities and rent	(8,313)	(8,706)
Repairs and maintenance expenses	(13,163)	(13,543)
Contribution to the Bank Deposit Guarantee Fund and Resolution Fund	(18,976)	(13,883)
Security and protection	(6,327)	(7,928)
Advertising, marketing, entertainment and sponsorship expenses	(12,485)	(14,752)
Expenses for maintaining intangible assets	(30,279)	(24,181)
Mail, telecommunication and SMS traffic expenses	(9,220)	(7,653)
Stationery and supplies	(2,710)	(3,109)
Audit, advisory and legal expenses	(21,875)	(7,280)
Training	(1,128)	(2,073)
Travel and transportation	(370)	(2,598)
Expenses related to the disposal of other assets	(6,211)	(8,589)
Taxes and penalties	(5,299)	(1,122)
Other operating expenses	(36,300)	(31,805)
Total	**(172,656)**	**(147,224)**

Other expenses include expenses related to the seconded employees, insurance of Bank's property and other non-deductible expenses.

29. DEPRECIATION

In MDL thousand	2020	2019
Property and equipment (Note 9)	(24,247)	(20,557)
Right-of-use assets (Note 11)	(29,036)	(29,882)
Intangible assets (Note 10)	(12,739)	(13,280)
Total	**(66,022)**	**(63,719)**

30. INCOME TAX EXPENSES

Income tax expenses consist of current tax and deferred tax are presented as follows:

Income tax recognized in profit and loss account

In MDL thousand	31 December 2020	31 December 2019
Current tax		
Current tax expenses	(3,389)	(32,053)
Deferred tax		
Deferred tax (expenses) / income	(16,663)	17,966
Total income tax expenses recognized during the year	**(20,052)**	**(14,087)**

Income tax expenses reconciles to profit before tax as follows:

In MDL thousand		2020		2019
Profit before tax		**255,969**		**331,575**
Tax using the Bank's domestic tax rate	12.00%	(30,716)	12.00%	(39,789)
Tax effect of non-deductible expenses	1.36%	(3,470)	(4.36%)	14,443
Tax-exempt income	(5.52%)	14,134	(3.40%)	11,259
Income tax expense recognized in profit and loss account	7.83%	**(20,052)**	4.25%	**(14,087)**

Tax-exempt income represents interest income from state securities.

Non-deductible expenses are related to some expenses related to detached employees, insurance premiums and other non-deductible expenses according to provisions of Tax Code of Republic of Moldova.

Income tax recognized in other comprehensive income

In MDL thousand	31 December 2020	31 December 2019
Current income tax		
Current tax	-	-
Deferred income tax		
Change in fair value of equity investments securities designated at FVOCI	-	5,890
Total income tax recognized in other comprehensive income	**-**	**5,890**

* TRANSLATOR'S EXPLANATORY NOTE: The above translation of the financial statements is provided as a free translation from Romanian which is the official and binding version.

31. GUARANTEES AND OTHER FINANCIAL COMMITMENTS

The cumulated amounts of guarantees in balance and other off-balance sheet elements as at 31 December 2020 and 2019:

In MDL thousand	31 December 2020	31 December 2019
Letters of credit	828	132,825
Issued guarantees	121,467	88,862
Commitments to issue guarantees	58,932	50,420
Loan commitments	369,039	355,021
Total	**550,267**	**627,128**

The Bank issues guarantees and letters of credit on behalf of its customers. The credit risk on guarantees is similar to that arising from granting of loans. Financing commitments represent the Bank's commitments to grant loans to customers. Financing commitments do not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

32. CONTINGENT LIABILITIES AND LITIGATIONS

The Bank was notified on 6 July 2020 that it is being investigated in a case instrumented by the Prosecutor's Office of the Republic of Moldova and on 6 August 2020, a precautionary seizure was placed on some of the Bank's assets, in order to cover the claims in the file - amounting to approximately MDL 2.2 billion. Considering the nature of the case, current status of the investigation, legal limitations related to the investigation, the lawyers' analysis of the content of investigators case files, corroborated with the lawers's legal opion on the background facts and evidence provided by the prosecutors, the management of the Bank concluded that the disclosure of a contingent liability in the financial statements satisfies the requirements of IAS 37. The Bank will monitor the evolution of the topic at each reporting date, in accordance with the relevant provisions of the accounting stantards and regulations.

As detailed in Note 17, as at 31 December 2020 and 31 December 2019, the Bank is involved in a litigation which resulted in the blockage of the amount of USD 13,174 thousand on the correspondent account held by the Bank at the Bank of New York Mellon.

Based on consultations with its lawyers and understanding the risks associated with the case, the Bank did not form any provision related to this dispute as of 31 December 2020 (as of 31 December 2019, the provision formed for this dispute was MDL 136,029 thousand) and concluded that the disclosure of a contingent liability in the financial statements satisfies the requirements of IAS 37. The Bank will monitor the evolution of the topic at each reporting date, in accordance with the relevant provisions of the accounting standards and regulations.

The Bank is also involved as defendant in a number of other litigations as at 31 December 2020 and 31 December 2019, emerged from normal banking activities.

33. BASIC EARNINGS PER SHARE

MDL thousand	31 December 2020	31 December 2019
Profit for the year	235,917	317,488
The number of ordinary shares	25,000,091	25,000,091
Basic earnings per share	**9.44**	**12.70**

The basic earnings per share is calculated by dividing the net profit for the year attributable to the holders of ordinary equity by the average weighted number of ordinary shares issued during the year. The calculation of the basic earnings per share as at 31 December 2020 and as at 31 December 2019 was based on the number of outstanding shares during the period, this number being unmodified – 25,000,091 – since 2011.

As at 31 December 2020 and 2019 there were no diluted equity instruments issued by the Bank.

34. FAIR VALUE OF THE FINANCIAL INSTRUMENTS

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments according to the valuation method:

Level 1 in the fair value hierarchy

The fair value of financial assets and liabilities allocated to Level 1 in the fair value hierarchy is determined based on quoted prices in active markets for identical financial assets or liabilities. The price quotations used are regularly and immediately available on active markets / exchange indices and the prices that represent current and regular market transactions according to the arm's length basis.

Level 2 in the fair value hierarchy

The fair value of financial assets and liabilities included in Level 2 in the fair value hierarchy is determined by using evaluation methods which contain observable market data when market prices are not available.

Level 3 in the fair value hierarchy

The fair value of financial assets and liabilities included in Level 3 in the fair value hierarchy is determined by using input data that are not based on observable market information (unobservable data inputs shall reflect the assumptions made by the market participants to establish the price of an asset or a liability, including risk assumptions).

The objective of valuation techniques is to derive the fair value that reflects a price for the financial instrument at the reporting date, price that would be obtained by the market participants acting at arm's length.

The availability of observable market data and models reduces the need for the Management to operate judgements and estimations and also reduces the uncertainty associated with the determination of the fair value. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

34. FAIR VALUE OF THE FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy analysis of financial instruments carried at fair value

The following table shows the fair value and fair value hierarchy for financial assets and liabilities as at 31 December 2020:

31 December 2020		**Carrying**			**Fair value hierarchy**	
In MDL thousand	**Notes**	**amount**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Financial assets						
Current accounts and placements with banks	**5**	1,816,719	1,816,719	-	1,816,719	-
Frozen Nostro account	**5**	226,785	226,785	-	-	226,785
Financial assets measured at amortized cost – debt instruments	**6**	3,555,397	3,581,990	-	3,581,990	-
Debt securities at fair value through other comprehensive income	**6**	16,800	16,800	-	16,800	-
Equity securities at fair value through other comprehensive	**8**	3,200	3,200	-	-	3,200
Loans to customers	**7**	4,180,251	4,165,195	-	-	4,165,195
Other financial assets	**12**	109,730	109,730	-	-	109,730
Total		**9,908,882**	**9,920,419**	**-**	**5,415,509**	**4,504,910**
Financial liabilities						
Deposits from banks	**15**	73,302	73,302	-	73,302	-
Deposits from customers	**16**	11,957,226	11,893,210	-	7,740,633	4,152,577
Other borrowings	**14**	69,445	69,445	-		69,445
Other financial liabilities	**19**	210,989	210,989	-	-	210,989
Total		**12,310,962**	**12,246,946**	**-**	**7,813,935**	**4,433,011**

At level 2 in the fair value hierarchy, the Bank has classified the current accounts and placements in banks, debt instruments at amortised cost, debt instuments at FVOCI, as well as deposits from banks.

The fair value of non-interest sight deposits represents their carrying amount and these liabilities have been classified in level 2 of the fair value hierarchy.

The equity securities in the Bank's portfolio do not have an active market, so their fair value was classified at level 3.

At Level 3 in the fair value hierarchy, the Bank has also classified the following financial assets: frozen Nostro account, loans to customers and other financial assets. The fair value of the loans represents the value of future cash flows updated at the market rate (published by the NBM).

At Level 3 in the fair value hierarchy, the Bank has classified as financial liabilities: deposits from customers, other borrowings and other financial liabilities.The fair value of interest-bearing term deposits represents the present value of future cash flows at the market rate (published by the NBM) for liabilities with similar maturities.

34. FAIR VALUE OF THE FINANCIAL INSTRUMENTS (CONTINUED)

The following table shows the fair value and fair value hierarchy for financial assets and liabilities as at 31 December 2019:

31 December 2019 *In MDL thousand*	**Notes**	**Carrying amount**	**Fair value**	**Level 1**	**Fair value hierarchy** **Level 2**	**Level 3**
Financial assets						
Current accounts and placements with banks	**5**	2,713,419	2,713,419	-	2,713,419	-
Frozen Nostro account	**5**	226,716	226,716	-	-	226,716
Financial assets measured at amortized cost – debt instruments	**6**	3,164,870	3,180,055	-	3,180,055	-
Debt securities at fair value through other comprehensive income	**6**	13,048	13,048	-	13,048	-
Equity securities at fair value through other comprehensive	**8**	3,258	3,258	-	-	3,258
Loans to customers	**7**	3,665,002	3,814,561	-	-	3,814,561
Other financial assets	**12**	115,743	115,743	-	-	115,743
Total		**9,902,056**	**10,066,800**	**-**	**5,906,522**	**4,160,278**
Financial liabilities						
Deposits from banks	**15**	52,074	52,074	-	52,074	-
Deposits from customers	**16**	11,436,371	11,436,309	-	6,707,572	4,728,738
Other borrowings	**14**	47,289	47,289	-	-	47,289
Other financial liabilities	**19**	320,202	320,202	-	-	320,202
Total		**11,855,936**	**11,855,874**	**-**	**6,759,646**	**5,096,229**

At level 2 in the fair value hierarchy, the Bank has classified the current accounts and placements in banks, debt instruments at amortised cost, debt instuments at FVOCI, as well as deposits from banks.

The fair value of non-interest sight deposits represents their carrying amount and these liabilities have been classified in level 2 of the fair value hierarchy.

The equity securities in the Bank's portfolio do not have an active market, so their fair value was classified at level 3.

At Level 3 in the fair value hierarchy, the Bank has also classified the following financial assets: frozen Nostro account, loans to customers and other financial assets. The fair value of the loans represents the value of future cash flows updated at the market rate (published by the NBM).

At Level 3 in the fair value hierarchy, the Bank has classified as financial liabilities: deposits from customers, other borrowings and other financial liabilities.The fair value of interest-bearing term deposits represents the present value of future cash flows at the market rate (published by the NBM) for liabilities with similar maturities.

35. RELATED PARTIES

The main shareholders of the Bank, holding individually more than 1% of the share capital, are disclosed in Note 20.

The Bank engages in transactions with shareholders, key management personnel and other related parties.

During 2020 banking transactions with related parties were conducted in the normal course of business. These include lending, deposit taking and making transactions in national and foreign currency. All these transactions were carried out under similar conditions, including the interest rates and terms on similar transactions with customers.

Transactions with other related parties include transactions with shareholders and key personnel family members and companies where they are shareholders and pursuing a relationship with the Bank.

The balances, income and expenses resulting from related party transactions carried out during the year are presented below:

	2020				2019			
In MDL thousand	Shareholders > 1 %	Key-management personnel	Other related parties	Total	Shareholders > 1 %	Key-management personnel	Other related parties	Total
Balance								
Current accounts to banks	34,251	-	-	**34,251**	81,190	-	-	**81,190**
Loans to customers	-	308	48,993	**49,301**	-	121	39,064	**39,185**
Deposits from customers	16,179	3,628	23,702	**43,509**	24,162	6,829	62,020	**93,011**
Commitments								
Given loan commitments and financial guarantees	-	462	1	**463**	13,482	426	29	**13,937**
Income and expenses								
Interest income	31	30	2,023	**2,084**	294	345	903	**1,542**
Fee and commissions income	141	30	364	**535**	86	28	6,319	**6,433**
Interest expenses	(2,082)	(9)	(25)	**(2,116)**	(1,162)	(147)	(729)	**(2,038)**
Fee and commissions expenses	(159)	-	-	**(159)**	(204)	-	(23)	**(227)**

Remuneration of Executive Management and Board of Administration

The total amount of remuneration expenses for Executive Management was MDL'000 19,441 for the year 2020 (2019: MDL'000 15,769). The amount of expenses for the remuneration of the Board of Administration was MDL'000 6,171 for the year 2019 (2019: MDL'000 5,281).

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36. FINANCIAL RISK MANAGEMENT

The Bank defined the risks it manages derived from the use of financial instruments:

- Credit and concentration risk;
- Liquidity risk;
- Market risk;
- Operational risk.

Market risk includes currency risk and interest rate risk.

Risk management is part of all decisional and business processes that take place in the Bank's activity. The Board of Administration has the responsibility regarding the definition and monitoring of the general risk management framework for the Bank.

The risk management in Victoriabank is performed at 2 levels: a strategic level represented by the Board of Administration and the Executive Committee and an operational level represented by: Assets - Liabilities Committee (“ALCO”), Credit Approval Committees, Credit Workout Committee (“CRW”), the Bank’s Administration Board and risk management structures within the Bank that are responsible for the definition and/or monitoring of risk management policies in their field of expertise. The Board of Administration periodically reviews the activity of these committees.

The Board of Administration monitors the compliance with the Bank’s risk policies and the adequacy of the general risk management framework in connection with the risks to which the Bank are exposed to.

The Risk Management Committee advises the Board of Administration regarding the risk appetite and the global strategy regarding the management of the current and future risks and assists the Board of Administration in overseeing the implementation of the strategy by the Executive Committee.

The Bank’s objective in terms of risk management is to integrate the assumed risk appetite in the decision-making process, by promoting a proper alignment between assumed risks, available capital and performance targets, while also considering the tolerance to financial and non-financial risks. In determining the risk appetite and tolerance, the Bank takes into consideration all the material risks it is exposed to, given its specific activity and being mainly influenced by the credit risk.

Risk management policies and systems are reviewed regularly (mainly annually) with the participation of the Executive Committee and the responsible persons from different Departments involved, in order to reflect the changes in the market conditions, the products and services provided.

The crisis simulation program (stress testing) is an integral part of the risk management framework and of the internal risk capital adequacy assessment process.

The Bank reviews the crisis simulation program regularly, at least semi-annually, and assesses its efficiency and adequacy to the defined purposes/objectives.

The Bank’s Audit Committee reports to the Board of Administration and is responsible for monitoring compliance with the Bank’s risk management procedures. The Audit Committee is assisted in these functions by the Internal Audit. The Internal Audit department undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1 Credit Risk

Credit risk is the risk of financial loss to the bank if a customer or counterparty fails to fulfill its contractual obligations to a financial instrument. The bank is exposed to credit risk both in lending, holdings in current accounts (correspondent) and investment in banks, investment activities and the issuance of a bank guarantees.

Credit risk associated with investment activities is reduced by selecting those counterparty's good credit ratings and monitoring their activities by using exposure limits.

The highest exposure to credit risk of the Bank derives its loans to customers by financing commitments and issue guarantees.

To minimize credit risk, the Bank has internal acts and laws designed to assess the financial condition of customers before granting loans, to monitor their ability to repay principal and interest on loans during the development and set exposure limits.

Both in the case of securities and bank guarantees for investments, PD parameter is determined based on studies of Moody's rating companies, taking into account the estimated PD sites for both corporate and sovereign level estimates.

Exposure to correspondent banks are restricted by the limits covering balance sheet or off-balance sheet exposures and daily delivery risk limits on trade items such as foreign exchange contracts. To determine the limits on counterparty valuations and rating agencies use Moody's, Standard & Poor's and IBCA assigned Fitch- counterparty or country resident financial situation, AML policies, transparency and competence shareholders Executive Board. The Bank monitors compliance with the limits daily balances on correspondent accounts registered.

I. Amounts arising from expected credit losses (ECL)

Significant increase of the credit risk

Each financial asset is monthly evaluated in order to determine whether the bank is experiencing a significant increase in credit risk (probability of default risk) relative to the original recognition date or whether that credit is impaired. The ultimate goal is to determine the applicable provisioning method (12 month ECL or Lifetime ECL).

In general, there will be a significant increase in credit risk before the financial asset is impaired as a result of credit risk or the occurrence of the non-fulfillment of the obligations.

For irrevocable credit commitments the Bank considers changes in the risk of non-compliance with the borrowing obligations associated with the lending commitment. In determining the expected credit loss, the Bank sets the expected percentage for the undrawn part to be used over the lifetime of the credit commitment when lifetime losses are estimated. Regarding contractual period, for credit commitments and financial guarantee contracts, the Bank will use the maximum contractual period during which the bank has the contractual obligation to grant the loan.

The Bank defines three risk stages:

- **Stage I** includes financial assets for which there is no significant increase in credit risk at the time of the analysis compared to the origination date or which have a low credit risk exemption at the time of the analysis. For these assets, an impairment adjustment will be determined using the below presented method "ECL 12M".

  Estimated loan losses for 12 months = ECL 12M = The portion of lifetime expected credit losses that represent the expected credit losses that result from default events of a financial instrument that are possible within the 12 months after the reporting date.

- **Stage II** includes financial assets for which there was a significant increase in credit risk at the time of the analysis compared to the original recognition date (except for assets that have a low credit risk exemption) and which are not reported as impaired (or impairment evidence is not identified). For these assets, an impairment adjustment will be determined using the below method presented "Lifetime ECL".

  Estimated lifetime loss = Lifetime ECL = resulting from all possible default events over the expected life of a financial instrument, further reflected trough the average credit losses weighted by the respective risk of default (measured through PD).

- **Stage III** (default) includes financial assets for which impairment evidence have been identified at the reporting date. For these assets, a "Lifetime ECL" depreciation adjustment will be determined, with the assigned PD of 100%.

This model is based exclusively on credit risk assessment. Therefore, the aggregation of financial assets for impairment purposes takes into account the relevant indicators used by the bank in the current credit risk management system.

Classification of financial assets is done case-by-case. This means that a loan may be included in stage I and another loan held by the same client may be included in stage II, all depending on the outcome of the analysis between the risk elements existing at the initial recognition date and the situation at the reporting date.

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1 Credit Risk (continued)

I. Amounts arising from expected credit losses (ECL) (continued)

However, for stage III, the Bank applies the contamination principle, which means that all financial assets of the same customer will be included in this stage if impairment evidence is found for at least one of their assets.

Criteria for selecting the increase in the degree of risk

In **Stage 1** there are placed credit assets which have not decreased significantly the loan quality since the initial recognition or which have a low credit risk since the reporting date. The contracts which have not been qualified in any of the stages and have less than 31 days past due will be classified in Stage 1.

In **Stage 2** will be placed the credit assets which have recorded a significant risk increase from the initial recognition but which don't bring an objective impairment evidence. Therefore, the selection criteria are:

- Delays to the planned payments which exceed 30 days but are less than 90 days;
- The analyzed loan has suffered a prorogation/restructuration in the last 12 months and the financial asset was not derecognized;
- The loan was classified according to National Bank of Moldova regulation in the "C" prudential category;
- The absence of significant cash flow operations for the last 45 days (at least 1000 MDL) ;

Several financial indicators are recorded, corresponding to the latest available financial statements, which indicate objective evidence of impairment.

Stage 3 (default): In order to update the Bank's procedures to the international standards requirements and the equalization of the "default" concept to the "non-performing exposures" is considered that a credit is determined as default when:

- Has 91 or more days past due, being applied the process of contamination of all the exposures of a client if at least one of them becomes default;
- The Bank has started the recovery procedure by enforced execution;
- Has, at the moment when analyzed, more than 3 payment schedule restructurings, the last being realized maximum one year before the analyze is dated, the following 2 being realized in successive time intervals not longer than 2 years. (Example: The present date: 31.12.2020, the last restructuring : max. 31.12.2019, the second restructuring: max. 31.12.2017 and the 3rd : max. 31.12.2015);
- According to the NBM Regulation, the exposure in classified as "D" prudential category or lower;
- The sale-purchase contracts concluded with the debtor/ the pledge debtor of the pledged object connected to the exposures extinguished from the execution of this guarantee will be automatically classifies in Stage 3;
- In the absence of guarantee (collateral) execution measures, the borrower is assessed as unlikely to honor its credit obligations in full to the Bank. The rating of the issuer/counterparty is set in the rating categories associated to the default;
- There was submitted a request for starting the bankruptcy procedure against the debtor or applying other similar methods.

Once a borrower's loan is registered in stage 3, all the debtor's loans will be classified in stage 3. If the risk signal(s) that included the asset in stage 3 are no longer found, then it will be re-classified in stage 1 or stage 2, as appropriate.

Loans classified in stage 3 will be reported as "impaired".

There is a specific treatment for Default loans, as it follows: they will remain for 6 months ("quarantine period") in the Default loans group. When the "quarantine period" ends, in case of missing any Default criteria, the loan will be included in the group to which it normally belongs. Otherwise, the "quarantine period" will be prolonged for 6 months.

Incorporating forward-looking information

IFRS 9 requires an appraisement of elements of expected impairment loss, which means that PD ratios should consider not only the current realities of the economy, but the economic circumstances subsequent alternations.

To achieve this level of anticipation, the Bank has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. The expert opinion was also taken into account in this process. Key variables were estimated for the next three years. The forecast of these economic variables was performed over the next three years.

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1 Credit Risk (continued)

I. Amounts arising from expected credit losses (ECL) (continued)

Incorporating forward-looking information (continued)

After three years, to project the economic variables out for the full remaining lifetime of each instrument, a mean reversion approach has been used. The impact of these economic variables has been determined by performing statistical regression analysis.

The table below lists the macroeconomic assumptions over the three-year period, used as an input into expected credit loss as at 31 December 2020:

Baseline	**Q4 2020**	**2021**	**2022**	**2023**
Gross domestic product, %	0.0	8.4	8.8	8.5
Average monthly consumption expenditure per person (%, YoY)	-2.5	8.2	7.5	7.1
Gross salary, nominal, %	5.2	8.3	8.5	8.1
Unemployment rate, %	4.7	4.8	3.9	3.8
Inflation, %	1.6	4.8	4.3	4.0
Price of construction assembly works (%)	2.6	8.3	8.7	8.3
Interest rate on new loans granted, national currency, %	7.8	7.8	7.3	6.5
Interest rate on new loans granted, foreign currency, %	3.6	3.6	4.2	4.6
Interest rate on newly attracted deposits, national currency, %	3.3	3.3	4.2	4.9
Interest rate on newly attracted deposits, foreign currency, %	0.8	0.8	1.0	1.2
Base rate, %	2.7	2.9	3.6	4.0

Optimistic	**Q4 2020**	**2021**	**2022**	**2023**
Gross domestic product, %	0.0	8.9	9.2	9.4
Average monthly consumption expenditure per person (%, YoY)	0.0	8.2	7.8	7.4
Gross salary, nominal, %	5.2	9.1	9.4	9.6
Unemployment rate, %	4.1	4.0	3.0	3.0
Inflation, %	1.6	2.3	3.5	3.5
Price of construction assembly works (%)	5.2	9.1	9.4	9.6
Interest rate on new loans granted, national currency, %	7.8	6.9	6.5	6.0
Interest rate on new loans granted, foreign currency, %	3.6	3.4	4.0	4.4
Interest rate on newly attracted deposits, national currency, %	3.3	2.4	3.4	4.4
Interest rate on newly attracted deposits, foreign currency, %	0.8	0.6	0.8	1.1
Base rate, %	2.7	2.0	2.8	3.5

Pessimistic	**Q4 2020**	**2021**	**2022**	**2023**
Gross domestic product, %	0.0	6.8	6.2	6.2
Average monthly consumption expenditure per person (%, YoY)	-2.5	7.7	7.1	6.7
Gross salary, nominal, %	5.2	7.0	6.3	6.3
Unemployment rate, %	5.3	5.4	5.5	5.6
Inflation, %	1.6	5.9	5.1	4.2
Price of construction assembly works (%)	2.6	6.9	6.3	6.3
Interest rate on new loans granted, national currency, %	7.8	8.9	8.0	6.7
Interest rate on new loans granted, foreign currency, %	3.6	3.9	4.4	4.6
Interest rate on newly attracted deposits, national currency, %	3.3	4.4	5.0	5.1
Interest rate on newly attracted deposits, foreign currency, %	0.8	1.1	1.2	1.3
Base rate, %	2.7	4.0	4.4	4.2

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1 Credit Risk (continued)

I. Amounts arising from expected credit losses (ECL) (continued)

Incorporating forward-looking information (continued)

The table below lists the macroeconomic assumptions over the three-year period, used as an input into expected credit loss as at 31 December 2019:

Baseline	**2020**	**2021**	**2022**
Gross domestic product, %	10.2	8.5	9.6
Average monthly consumption expenditure per person (%, YoY)	8.6	7.0	7.1
Gross salary, nominal, %	7.5	8.5	9.5
Unemployment rate, %	2.8	2.8	2.7
Inflation, %	6.5	5.4	5.5
Price of construction assembly works (%)	7.3	7.1	7.1
Interest rate on new loans granted, national currency, %	7.6	8.2	7.8
Interest rate on new loans granted, foreign currency, %	5.1	5.0	4.9
Interest rate on newly attracted deposits, national currency, %	2.0	2.3	2.3
Interest rate on newly attracted deposits, foreign currency, %	1.1	1.1	1.0
Base rate, %	5.5	5.5	5.5

Optimistic	**2020**	**2021**	**2022**
Gross domestic product, %	14.0	12.0	13.0
Average monthly consumption expenditure per person (%, YoY)	14.0	13.0	14.0
Gross salary, nominal, %	8.0	9.0	11.0
Unemployment rate, %	2.0	2.0	2.0
Inflation, %	5.0	5.0	5.0
Price of construction assembly works (%)	9.0	9.0	9.0
Interest rate on new loans granted, national currency, %	6.0	8.0	6.0
Interest rate on new loans granted, foreign currency, %	5.0	4.0	5.0
Interest rate on newly attracted deposits, national currency, %	1.0	2.0	1.0
Interest rate on newly attracted deposits, foreign currency, %	1.0	1.0	1.0
Base rate, %	5.0	5.0	5.0

Pessimistic	**2020**	**2021**	**2022**
Gross domestic product, %	3.0	1.0	1.0
Average monthly consumption expenditure per person (%, YoY)	7.0	5.0	4.0
Gross salary, nominal, %	5.0	6.0	7.0
Unemployment rate, %	6.0	6.0	6.0
Inflation, %	7.0	7.0	7.0
Price of construction assembly works (%)	5.0	5.0	6.0
Interest rate on new loans granted, national currency, %	8.0	10.0	8.0
Interest rate on new loans granted, foreign currency, %	6.0	6.0	6.0
Interest rate on newly attracted deposits, national currency, %	2.0	3.0	3.0
Interest rate on newly attracted deposits, foreign currency, %	2.0	2.0	2.0
Base rate, %	7.0	7.0	8.0

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36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1 Credit Risk (continued)

II. Amounts arising from expected credit losses (ECL) (continued)

Incorporating forward-looking information (continued)

The Bank uses three scenarios: base scenario (which is the most probable scenario of the economic environment), optimistic and adverse scenario (for these two scenarios, the probabilities are lower than for the base scenario). The scenario weightings are determined by a combination of statistical analysis and expert judgement, taking into account the range of possible representative outcomes for each chosen scenario.

The weights of the scenarios were set at another level of concretization (optimistic 2.5%, baseline 50.0%, pessimistic 47.5%), in determining the adjustments for depreciation on 31 December 2020 compared to 31 December 2019 (optimistic 10%, baseline 80%, pessimistic 10%) .

The most important macroeconomic indicators used in the ECL calculation are:

For loans granted to individuals:

- Average monthly consumption expenditures per person
- The price of construction and assembly works
- Gross domestic product
- Unemployment rate
- Interest rate on newly attracted deposits, foreign currency.

For loans granted to legal entities:

- Interest rate on new loans granted, national currency
- Unemployment rate.

The table below illustrates the impact of setting maximum weights for each scenario:

Weight of scenario	100% adverse	100% baseline	100% optimistic
Change in ECL, *MDL thousand*	8,005	(6,530)	(21,484)

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes and has 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 determination of the expected loss of credit (ECL)

The EAD assessment methods depends on the financial asset determined stage and the type of the product it represents:

- The CCF parameter shall be estimated for calculating the EAD for revolving products which are not in default;
- The EAD for non-default credits is calculated from the contractual repayment schedule;
- The EAD for instruments which are already in default are equal to the current value of the balance sheet exposure.

For other financial assets the EAD parameter will be determined depending on the asset type:

- In case of T-bills / NBM certificates, the EAD parameter will be determined according to the value of the amortized cost of the associated exposure as at the reporting date.
- In case of placements to other banks and NOSTRO accounts, the EAD parameter is calculated by summing the principal and receivables attached reflected at the date of calculation of the impairment losses expected from impairment.
- Issued guarantees by the Bank – EAD parameter is calculated based on the value of the guarantee obligations related to the guarantee, reflected at the date of the calculation of the reductions for expected impairment losses, adjusted with the CCF parameter which is set at a value of 100%.

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1 Credit Risk (continued)

I. Amounts arising from expected credit losses (ECL) (continued)

The determination of the expected loss of credit (ECL) (continued)

LGD parameter stands for the loan exposure non-coverage degree by the estimated recovery value for each period within the loan lifetime. LGD parameter does not vary according to the loan stage.

With a view to estimate the recovery value of the collateral, it will be determined as the minimum of the liquidation value of the collateral and the market value with discount (Haircut statistic), based on the valuation report held by the Bank. In case of undetermined liquidation value of some objects, it will be applied a discount (Haircut statistic) to the market value to obtain an estimated liquidation value according to the collateral type.

For over-collateralized exposures, the recoverable amount of collateral will be limited to the minimum value between RA and 98% of the exposure.

Also, if the guarantees are established in the form of a lower rank pledge and / or are future pledges, they will participate in the calculation of the LGD with a liquidation value of "0".

LGD in the case of debt securities, investments in other banks are calculated based on studies conducted by Moody's, based on recovery rates for a representative sample of issuers, by averaging the 4 hypotheses proposed for the analysis of the recovery rate.

PD, LGD and EAD value, as well as the effect of discounting reflect the expected life or period of exposure. Each of these components is calculated on a facility basis on a pool level approach for a series of annual time intervals until maturity to derive the lifetime ECL.

The following table sets out information about the credit quality of financial assets measured at amortised cost and debt investments measured through FVOCI. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

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36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1 Credit Risk (continued)

I. Amounts arising from expected credit losses (ECL) (continued)

Credit quality analysis depending on the class of financial assets

				31 December 2020
In MDL thousand	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and Balances with National Bank of Moldova	5,012,184	-	-	5,012,184
Current accounts and placements with banks	1,818,316	-	-	1,818,316
Frozen Nostro account	226,785	-	-	226,785
Investment securities measured at amortized cost	3,587,013	-	-	3,587,013
Investment securities measured at FVOCI	16,800	-	-	16,800
Loans to customers	3,137,742	732,169	711,675	4,581,586
Other financial assets	79,883	193	73,431	153,507
Expected credit loss allowance for financial assets	*(104,177)*	*(40,284)*	*(337,199)*	*(481,660)*
Carrying amount	**13,774,546**	**692,078**	**447,907**	**14,914,531**

				31 December 2019
In MDL thousand	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and Balances with National Bank of Moldova	4,449,104	-	-	4,449,104
Current accounts and placements with banks	2,716,227	-	-	2,716,227
Frozen Nostro account	226,716	-	-	226,716
Investment securities measured at amortized cost	3,187,559	-	-	3,187,559
Investment securities measured at FVOCI	13,048	-	-	13,048
Loans to customers	2,629,621	648,815	697,750	3,976,186
Other financial assets	79,280	5,361	85,506	170,147
Expected credit loss allowance for financial assets	*(76,316)*	*(12,586)*	*(305,850)*	*(394,752)*
Carrying amount	**13,225,239**	**641,590**	**477,406**	**14,344,235**

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1 Credit Risk (continued)

I. Amounts arising from expected credit losses (ECL) (continued)

The following table presents information about the overdue status of financial assets in Stages 1, 2 and 3:

31 December 2020 *In MDL thousand*	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and Balances with National Bank of Moldova				
Current	5,012,184			5,012,184
Overdue ≤ 30 days	-	-	-	-
Overdue > 30 days ≤ 90 days	-	-	-	-
Overdue > 90 days	-	-	-	-
Loss allowance	(3,130)			(3,130)
Carrying amount	**5,009,054**	**-**	**-**	**5,009,054**
Current accounts and placements with banks				
Current	1,818,316			1,818,316
Overdue ≤ 30 days	-	-	-	-
Overdue > 30 days ≤ 90 days	-	-	-	-
Overdue > 90 days	-	-	-	-
Loss allowance	(1,597)	-	-	(1,597)
Carrying amount	**1,816,719**	-	-	**1,816,719**
Frozen Nostro account				
Restricted	226,785	-	-	226,785
Overdue ≤ 30 days	-	-	-	-
Overdue > 30 days ≤ 90 days	-	-	-	-
Overdue > 90 days	-	-	-	-
Carrying amount	**226,785**	**-**	**-**	**226,785**
Investment securities measured at amortized cost				
Current	3,587,013			3,587,013
Overdue ≤ 30 days	-	-	-	-
Overdue > 30 days ≤ 90 days	-	-	-	-
Overdue > 90 days	-	-	-	-
Loss allowance	(31,616)	-	-	(31,616)
Carrying amount	**3,555,397**	-	-	**3,555,397**
Investment securities measured at FVOCI				
Current	16,800	-	-	16,800
Overdue ≤ 30 days	-	-	-	-
Overdue > 30 days ≤ 90 days	-	-	-	-
Overdue > 90 days	-	-	-	-
Loss allowance	(205)	-	-	(205)
Carrying amount	**16,595**	**-**	**-**	**16,595**

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1 Credit Risk (continued)

I. Amounts arising from expected credit losses (ECL) (continued)

31 December 2020

In MDL thousand	Stage 1	Stage 2	Stage 3	Total
Loans to customers				
Current	3,041,015	685,665	22,150	3,748,830
Overdue ≤ 30 days	96,710	20,918	29,582	147,210
Overdue > 30 days ≤ 90 days	17	25,586	13,660	39,263
Overdue > 90 days	-	-	646,283	646,283
Loss allowance	(65,919)	(40,284)	(295,132)	(401,335)
Carrying amount	**3,071,823**	**691,885**	**416,543**	**4,180,251**
Other financial assets				
Current	79,883	-	11,300	91,183
Overdue ≤ 30 days	-	193	-	193
Overdue > 30 days ≤ 90 days	-	-	-	-
Overdue > 90 days	-	-	62,131	62,131
Loss allowance	(1,710)	-	(42,067)	(43,777)
Carrying amount	**78,173**	**193**	**31,364**	**109,730**

31 December 2019

In MDL thousand	Stage 1	Stage 2	Stage 3	Total
Cash and Balances with National Bank of Moldova				
Current	4,449,104	-	-	4,449,104
Overdue ≤ 30 days	-	-	-	-
Overdue > 30 days ≤ 90 days	-	-	-	-
Overdue > 90 days	-	-	-	-
Loss allowance	(3,491)	-	-	(3,491)
Carrying amount	**4,445,613**	**-**	**-**	**4,445,613**
Current accounts and placements with banks				
Current	2,716,227	-	-	2,716,227
Overdue ≤ 30 days	-	-	-	-
Overdue > 30 days ≤ 90 days	-	-	-	-
Overdue > 90 days	-	-	-	-
Loss allowance	(2,809)	-	-	(2,809)
Carrying amount	**2,713,419**	**-**	**-**	**2,713,419**
Frozen Nostro account				
Restricted	226,716	-	-	226,716
Overdue ≤ 30 days	-	-	-	-
Overdue > 30 days ≤ 90 days	-	-	-	-
Overdue > 90 days	-	-	-	-
Carrying amount	**226,716**	**-**	**-**	**226,716**

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36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1 Credit Risk (continued)

I. Amounts arising from expected credit losses (ECL) (continued)

31 December 2019

In MDL thousand	Stage 1	Stage 2	Stage 3	Total
Investment securities measured at amortized cost				
Current	3,187,559	-	-	3,187,559
Overdue ≤ 30 days	-	-	-	-
Overdue > 30 days ≤ 90 days	-	-	-	-
Overdue > 90 days	-	-	-	-
Loss allowance	(22,689)	-	-	(22,689)
Carrying amount	**3,164,870**	**-**	**-**	**3,164,870**
Investment securities measured at FVOCI				
Current	13,048	-	-	13,048
Overdue ≤ 30 days	-	-	-	-
Overdue > 30 days ≤ 90 days	-	-	-	-
Overdue > 90 days	-	-	-	-
Loss allowance	(176)	-	-	(176)
Carrying amount	**12,873**	**-**	**-**	**12,873**
Loans to customers				
Current	2,525,786	592,060	82,676	3,200,523
Overdue ≤ 30 days	103,834	11,287	253	115,374
Overdue > 30 days ≤ 90 days	-	45,468	50,915	96,382
Overdue > 90 days	-	-	563,907	563,907
Loss allowance	(45,165)	(12,373)	(253,645)	(311,184)
Carrying amount	**2,584,455**	**636,442**	**444,105**	**3,665,002**
Other financial assets				
Current	76,952	2,316	12,990	92,258
Overdue ≤ 30 days	2,328	3,045	-	5,373
Overdue > 30 days ≤ 90 days	-	-	3,290	3,290
Overdue > 90 days	-	-	69,226	69,226
Loss allowance	(1,987)	(213)	(52,204)	(54,404)
Carrying amount	**77,293**	**5,148**	**33,302**	**115,743**

The following table presents information about the classification of financial assets according to internal credit risk ratings, based on NBM prudential requirements:

31 December 2020

In MDL thousand	Stage 1	Stage 2	Stage 3	Total
Current accounts and placements with banks				
Standard	1,666,211	-	-	1,666,211
Supervised (Watch)	102,987	-	-	102,987
Substandard	42,578	-	-	42,578
Doubtful	6,540	-	-	6,540
Compromised (losses)	-	-	-	-
Loss allowance	(1,597)			(1,597)
Carrying amount	**1,816,719**	**-**	**-**	**1,816,719**

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36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1 Credit Risk (continued)

I. Amounts arising from expected credit losses (ECL) (continued)

31 December 2020

In MDL thousand	Stage 1	Stage 2	Stage 3	Total
Frozen Nostro account				
Standard	226,785	-	-	226,785
Supervised (Watch)	-	-	-	-
Substandard	-	-	-	-
Doubtful	-	-	-	-
Compromised (losses)	-	-	-	-
Loss allowance	-			-
Carrying amount	**226,785**	-	-	**226,785**
Investment securities measured at amortized cost				
Standard	3,351,598	-	-	3,351,598
Supervised (Watch)	235,415	-	-	235,415
Substandard	-	-	-	-
Doubtful	-	-	-	-
Compromised (losses)	-	-	-	-
Loss allowance	(31,616)	-	-	(31,616)
Carrying amount	**3,555,397**	-	-	**3,555,397**
Loans to customers				
Standard	2,783,660	177,989	8,885	2,970,534
Supervised (Watch)	353,757	522,848	6,484	883,089
Substandard	293	31,332	13,319	44,944
Doubtful	-	-	142,757	142,757
Compromised (losses)	32	-	540,230	540,262
Loss allowance	(65,919)	(40,284)	(295,132)	(401,335)
Carrying amount	**3,071,823**	**691,885**	**416,543**	**4,180,251**
Other financial assets				
Standard	75,847	-	-	75,847
Supervised (Watch)	4,025	-	-	4,025
Substandard	11	193	2,070	2,274
Doubtful	-	-	2,856	2,856
Compromised (losses)	-	-	68,505	68,505
Loss allowance	(1,710)	-	(42,067)	(43,777)
Carrying amount	**78,183**	**193**	**31,364**	**109,730**

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1 Credit Risk (continued)

I. Amounts arising from expected credit losses (ECL) (continued)

31 December 2019

In MDL thousand	Stage 1	Stage 2	Stage 3	Total
Current accounts and placements with banks				
Standard	2,439,584	-	-	2,439,584
Supervised (Watch)	188,638	-	-	188,638
Substandard	84,885	-	-	84,885
Doubtful	3,121	-	-	3,121
Compromised (losses)	-	-	-	-
Loss allowance	(2,809)	-	-	(2,809)
Carrying amount	**2,713,419**	**-**	**-**	**2,713,419**
Frozen Nostro account				
Standard	226,716	-	-	226,716
Supervised (Watch)	-	-	-	-
Substandard	-	-	-	-
Doubtful	-	-	-	-
Compromised (losses)	-	-	-	-
Carrying amount	**226,716**	**-**	**-**	**226,716**
Investment securities measured at amortized cost				
Standard	2,972,087	-	-	2,972,087
Supervised (Watch)	215,472	-	-	215,472
Substandard	-	-	-	-
Doubtful	-	-	-	-
Compromised (losses)	-	-	-	-
Loss allowance	(22,689)	-	-	(22,689)
Carrying amount	**3,164,870**	**-**	**-**	**3,164,870**
Loans to customers				
Standard	2,316,909	71,545	-	2,388,454
Supervised (Watch)	312,711	504,761	7,604	825,076
Substandard	-	72,509	1,629	74,138
Doubtful	-	-	23,926	23,926
Compromised (losses)	-	-	664,592	664,592
Loss allowance	(45,165)	(12,373)	(253,645)	(311,184)
Carrying amount	**2,584,455**	**636,442**	**444,105**	**3,665,002**
Other financial assets				
Standard	73,183	-	-	73,183
Supervised (Watch)	6,084	5,361	-	11,445
Substandard	13	-	14,000	14,013
Doubtful	-	-	2,953	2,953
Compromised (losses)	-	-	68.553	68,553
Loss allowance	(1,987)	(213)	(52,204)	(54,404)
Carrying amount	**77,293**	**5,148**	**33,302**	**115,743**

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36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1 Credit Risk (continued)

I. Amounts arising from expected credit losses (ECL) (continued)

The following tables show the effect of changing the expected loss reductions at the level of financial asset groups and contingent liabilities.

In MDL thousand	**2020**	**2019**
Cash and Balances with National Bank of Moldova		
Balance at 1 January	3,491	4,641
Net remeasurement of loss allowance	(448)	(1,141)
Foreign exchange and other movements	87	(9)
Balance at 31 December	**3,130**	**3,491**
Current accounts and placements with banks		
Balance at 1 January	2,809	2,215
Net change due to changes without recognition	(1,372)	(22)
Increases due to initiation and acquisition	1,951	1,693
Decreases due to derecognition	(1,899)	(1,020)
Other adjustments (including exchange rate influence)	108	(58)
Balance at 31 December	**1,597**	**2,809**
Investment securities measured at amortized cost		
Balance at 1 January	22,689	24,527
Net change due to changes without recognition	(452)	(7,472)
Increases due to initiation and acquisition	75,947	64,752
Decreases due to derecognition	(66,682)	(59,094)
Other adjustments (including exchange rate influence)	114	(24)
Balance at 31 December	**31,616**	**22,689**
Investment securities measured at FVOCI		
Balance at 1 January	176	94
Net change due to changes without recognition	(19)	(13)
Increases due to initiation and acquisition	220	234
Decreases due to derecognition	(172)	(138)
Other adjustments (including exchange rate influence)		-
Balance at 31 December	**205**	**176**

* TRANSLATOR'S EXPLANATORY NOTE: The above translation of the financial statements is provided as a free translation from Romanian which is the official and binding version.

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1 Credit Risk (continued)

I. Amounts arising from expected credit losses (ECL) (continued)

	31 December 2020				31 December 2019			
In MDL thousand	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortized cost								
Balance at 1 January	45,165	12,373	253,645	311,184	70,923	8,622	499,976	579,521
Transfer to Stage 1	2,582	(1,610)	(972)	-	1,077	(656)	(421)	-
Transfer to Stage 2	(8,738)	9,909	(1,171)	-	(6,416)	6,456	(40)	-
Transfer to Stage 3	(562)	(4,865)	5,427	-	(66)	(272)	338	-
Net remeasurement of loss allowance	491	24,249	190,610	215,350	(48,172)	(1,515)	1,920	(47,767)
New financial assets originated or purchased	33,508	-	-	33,508	33,628	-	-	33,628
Financial assets that have been derecognized	(5,728)	(610)	(66,198)	(72,536)	(6,203)	(351)	(5,340)	(11,894)
Write-offs	-	-	(96,708)	(96,708)	-	-	(238,831)	(238,831)
Foreign exchange and other movements	(799)	838	10,499	10,537	394	89	(3,957)	(3,473)
Balance at 31 December	**65,919**	**40,284**	**295,132**	**401,335**	**45,165**	**12,373**	**253,645**	**311,184**

	31 December 2020				31 December 2019			
In MDL thousand	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortized cost – *retail*								
Balance at 1 January	5,364	818	17,731	23,913	1,845	378	5,485	7,708
Transfer to Stage 1	1,150	(225)	(925)	-	469	(49)	(421)	-
Transfer to Stage 2	(97)	1,237	(1,140)	-	(50)	89	(40)	-
Transfer to Stage 3	(303)	(399)	702	-	(35)	(239)	274	-
Net remeasurement of loss allowance	22,802	2,682	52,990	78,474	773	751	15,449	16,973
New financial assets originated or purchased	5,804	-	-	5,804	2,792	-	-	2,792
Financial assets that have been derecognized	(826)	(236)	(3,923)	(4,985)	(434)	(109)	(1,285)	(1,828)
Write-offs	-	-	(3,674)	(3,674)	-	-	(1,732)	(1,732)
Foreign exchange and other movements	(3,237)	60	(542)	(3,719)	3	(4)	-	(1)
Balance at 31 December	**30,657**	**3,937**	**61,219**	**95,813**	**5,364**	**818**	**17,731**	**23,913**

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1 Credit Risk (continued)

I. Amounts arising from expected credit losses (ECL) (continued)

	31 December 2020				31 December 2019			
In MDL thousand	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost – *corporate customers*								
Balance at 1 January	39,802	11,555	235,914	287,271	69,085	8,237	494,491	571,813
Transfer to Stage 1	1,432	(1,385)	(47)	-	607	(607)	-	-
Transfer to Stage 2	(8,641)	8,672	(31)	-	(6,367)	6,367	-	-
Transfer to Stage 3	(259)	(4,466)	4,725	-	(31)	(33)	64	-
Net remeasurement of loss allowance	(22,314)	21,566	137,623	136,875	(48,945)	(2,266)	(13,529)	(64,740)
New financial assets originated or purchased	27,705	-	-	27,705	30,837	-	-	30,837
Financial assets that have been derecognized	(4,902)	(374)	(62,276)	(67,552)	(5,769)	(242)	(4,055)	(10,066)
Write-offs	-	-	(93,034)	(93,034)	-	-	(237,099)	(237,099)
Foreign exchange and other movements	2,438	778	11,041	14,257	383	100	(3,957)	(3,473)
Balance at 31 December	**35,261**	**36,346**	**233,915**	**305,522**	**39,802**	**11,555**	**235,914**	**287,271**

	31 December 2020				31 December 2019			
In MDL thousand	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Other financial assets - receivables to customers at amortized cost								
Balance at 1 January	11	213	39,216	39,440	13	1,172	44,816	46,001
Transfer to Stage 1	-	-	-	-	(2)	-	-	(2)
Transfer to Stage 2	-	-	-	-	-	-	(25)	(25)
Transfer to Stage 3	(5)	(211)	216	-	-	-	26	26
Net remeasurement of loss allowance	(804)	(2)	(6,561)	(7,367)	-	(935)	(3,066)	(4,000)
New financial assets originated or purchased	-	-	-	-	-	-	-	-
Financial assets that have been derecognized	-	-	(70)	(70)	-	-	(2,308)	(2,308)
Write-offs	-	-	-	-	-	-	-	-
Foreign exchange and other movements	810	-	(2,021)	(1,211)	-	-	(253)	(253)
Balance at 31 December	**12**	**-**	**30,780**	**30,792**	**11**	**213**	**39,216**	**39,440**

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36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1 Credit Risk (continued)

I. Amounts arising from expected credit losses (ECL) (continued)

In MDL thousand	31 December 2020	31 December 2019
Other financial assets		
Balance at 1 January	14,963	13,813
Net remeasurement of loss allowance	5,204	5,828
New financial assets originated or purchased	2,131	2,287
Financial assets that have been derecognized	(6,171)	(2,761)
Write-offs	(34)	(1,351)
Foreign exchange and other movements	(3,108)	(2,852)
Balance at 31 December	**12,985**	**14,963**

In MDL thousand	31 December 2020	31 December 2019
Loan commitments and financial guarantee contracts		
Balance at 1 January	4,599	9,209
Net remeasurement of loss allowance	5,384	(13,272)
New financial assets originated or purchased	11,241	11,910
Financial assets that have been derecognized	(4,891)	(3,292)
Foreign exchange and other movements	435	45
Balance at 31 December	**16,768**	**4,599**

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1 Credit Risk (continued)

I. Amounts arising from expected credit losses (ECL) (continued)

The following table presents a reconciliation between:

- amounts shown in the above tables reconciling opening and closing balances of loss allowance per class of financial instruments; and
- the "Net impairment (losses) / release on financial instruments and on provisions for off-balance sheet commitments" line item in the statement of profit or loss and other comprehensive income.

2020

In MDL thousand	**Cash and Balances with National Bank of Moldova**	**Current accounts and placements with banks**	**Investment securities at amortized cost**	**Investment securities measured at FVOCI**	**Loans to customers at amortized cost**	**Receivables to customers at amortized cost**	**Other financial assets**	**Loan commitments and financial guarantee contracts**	**Total 2020**
Net remeasurement of loss allowance	(448)	(3,271)	(67,135)	(190)	142,814	(7,437)	(966)	493	63,860
New financial assets originated or purchased	-	1,951	75,947	220	33,508	-	2,131	11,241	124,998
Total	**(448)**	**(1,320)**	**8,812**	**30**	**176,322**	**(7,437)**	**1,165**	**11,734**	**188,858**
Recoveries of amounts previously written off	-	-	-	-	(63,517)	-	(9)	-	(63,526)
Total	**(448)**	**(1,320)**	**8,812**	**30**	**112,805**	**(7,437)**	**1,156**	**11,734**	**125,332**

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36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1 Credit Risk (continued)

I. Amounts arising from expected credit losses (ECL) (continued)

	2019								
In MDL thousand	**Cash and Balances with National Bank of Moldova**	**Current accounts and placements with banks**	**Investment securities at amortized cost**	**Investment securities measured at FVOCI**	**Loans to customers at amortized cost**	**Receivables to customers at amortized cost**	**Other financial assets**	**Loan commitments and financial guarantee contracts**	**Total 2019**
Net remeasurement of loss allowance	(1,141)	(1,042)	(66,565)	(152)	(59,661)	(6,308)	3,067	(16,564)	(148,366)
New financial assets originated or purchased	-	1,693	64,752	234	33,628	-	2,287	11,910	114,504
Total	**(1,141)**	**651**	**(1,813)**	**82**	**(26,033)**	**(6,308)**	**5,354**	**(4,654)**	**(33,862)**
Recoveries of amounts previously written off	-	-	-	-	(18,937)	-	-	-	(18,937)
Total	**(1,141)**	**651**	**(1,813)**	**82**	**(44,969)**	**(6,308)**	**5,354**	**(4,654)**	**(52,799)**

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36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1 Credit Risk (continued)

I. Collateral held

The Bank holds collateral against loans to customers in the form of mortgages over land and buildings, pledges on equipment and inventories and other guarantees. The estimates of fair value are based on the collateral value assessed on the loan granting date and periodically updated afterwards.

“Property” includes land, residential and commercial buildings, "Security interests in movable property" includes pledges on movable assets (cars, equipment, inventories etc.).

Retail customers

The analysis of the fair value by types of guarantees for loans granted to individuals is presented below:

In MDL thousand	31 December 2020	31 December 2019
Property	1,954,610	1,520,898
Security interests in movable property	1,862	1,862
Cash deposits	570	798
Total	**1,957,042**	**1,523,558**

Mortgage lending

The following tables determine the credit exposures from mortgage loans to retail customers by ranges of loan-to-value (LTV) ratio. The LTV is calculated as the ratio between the gross value of the loan and the fair value of the collateral at the reporting date. The fair value of the collateral for residential mortgages is based on the fair value originally discounted based on changes in housing price indices.

In MDL thousand

LTV ratio	**Note**	31 December 2020	31 December 2019
Less than 50%		140,822	127,436
51-70%		161,420	109,349
71-90%		174,211	104,843
91-100%		8,008	8,937
More than 100%*		729,989	385,575
Total	**7**	**1,214,450**	**736,141**

*The gross value of MDL 725,499 thousand of mortgage loans with LTV ratio more than 100% (2019: MDL 51,514 thousand) represents loans granted under the state program “First House”. The value of collateral for these loans is considered only within the limit of 50% of the value. The another 50% of loans exposure are covered by the state guarantees issued in favor of the Bank.

Corporate customers

In MDL thousand	**Note**	31 December 2020		31 December 2019	
		Gross value	**Collateral amount**	**Gross value**	**Collateral amount**
Stages 1 and 2		1,741,608	5,401,590	1,795,019	6,342,675
Stages 3		632,440	1,954,104	668,494	1,919,579
Total	**7**	**2,374,048**	**7,355,694**	**2,463,513**	**8,262,254**

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1 Credit Risk (continued)

II. Concentration of credit risk

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

The analysis of the exposure to credit risk related to financial assets by geographical regions and industrial sectors at 31 December 2020 and 31 December 2019 are presented below:

Concentration of credit risk by geographic location

31 December 2020

In MDL thousand	**Moldova**	**OECD countries**	**Non-OECD countries**	**Total**
Current accounts and placements with banks	117	1,696,394	120,208	1,816,719
Frozen Nostro account	-	226,785	-	226,785
Investment securities – debt instruments	3,338,072	42,323	191,802	3,572,197
Equity investment securities designated as at FVOCI	2,477	723	-	3,200
Loans to customers	4,180,251	-	-	4,180,251
Other financial assets	109,730	-	-	109,730
Total	**7,630,647**	**1,966,225**	**312,010**	**9,908,882**

31 December 2019

In MDL thousand	**Moldova**	**OECD countries**	**Non-OECD countries**	**Total**
Current accounts and placements with banks	79	2,531,998	181,342	2,713,419
Frozen Nostro account	-	226,716	-	226,716
Investment securities – debt instruments	2,963,627	38,585	175,706	3,177,918
Equity investment securities designated as at FVOCI	2,636	622	-	3,258
Loans to customers	3,665,002	-	-	3,665,002
Other financial assets	115,743	-	-	115,743
Total	**6,747,087**	**2,797,921**	**357,048**	**9,902,056**

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1 Credit Risk (continued)

III. Concentration of credit risk (continued)

Concentration of credit risk by sector

31 December 2020 *In MDL thousand*	**Financial institutions**	**Government/ Public Administration**	**Farming and food industry**	**Production and trade**	**Real estate**	**Transport and road construction**	**Energy sector**	**Mortgage loans**	**Consumer loans**	**Others**	**Total**
Current accounts and placements with banks	1,816,719	-	-	-	-	-	-	-	-	-	1,816,719
Frozen Nostro account	226,785	-	-	-	-	-	-	-	-	-	226,785
Investment securities – debt instuments	42,323	3,529,874	-	-	-	-	-	-	-	-	3,572,197
Equity investment securities designated as at FVOCI	-	-	-	-	-	-	-	-	-	3,200	3,200
Loans to customers:								-			
Retail	-	-	-	-		-	-	1,201,240	910,485	-	2,111,725
Corporate	-	147,877	388,060	795,594	100,067	32,551	211	-	23,644	580,522	2,068,526
Other financial assets	-	-	-	-	-	-	-	-	-	109,730	109,730
Total	**2,085,827**	**3,677,751**	**388,060**	**795,594**	**100,067**	**32,551**	**211**	**1,201,240**	**934,129**	**693,452**	**9,908,882**

31 December 2019 *In MDL thousand*	**Financial institutions**	**Government/ Public Administration**	**Farming and food industry**	**Production and trade**	**Real estate**	**Transport and road construction**	**Energy sector**	**Mortgage loans**	**Consumer loans**	**Others**	**Total**
Current accounts and placements with banks	2,713,419	-	-	-	-	-	-	-	-	-	2,713,419
Frozen Nostro account	226,716	-	-	-	-	-	-	-	-		226,716
Investment securities – debt instuments	38,585	3,139,333	-	-	-	-	-	-	-	-	3,177,918
Equity investment securities designated as at FVOCI	-	-	-	-	-	-	-	-	-	3,258	3,258
Loans to customers:											
Retail	-	-	-	-		-	-	730,806	757,954	-	1,488,760
Corporate	-	29,591	421,750	827,573	129,377	33,796	86	-	14,399	719,670	2,176,242
Other financial assets	-	-	-	-	-	-	-	-	-	115,743	115,743
Total	**2,978,720**	**3,168,924**	**421,750**	**827,573**	**129,377**	**33,796**	**86**	**730,806**	**772,353**	**838,671**	**9,902,056**

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36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.2 Market risk

Market risk, the risk of loss related to balance sheet and off-balance sheet due to unfavorable fluctuations in the market price of the financial instrument held for trading equities, interest rates and exchange rate.

Monitoring and management of market risk indicators is performed on two levels, namely at Board of Administration / Executive Committee and at Assets and Liabilities Management Committee (ALCO).

For each type of market risk simulation exercises are conducted periodically (monthly stress testing).

36.2.1 Currency risk

Foreign currency exposure is limited by NBM and the Bank has set internal limits (falling within NBM) for the sum of ratios of open foreign exchange positions aiming to identify early risk of increasing rates.

The tables below shows the Bank's exposure to currency risk at 31st of December 2020 and 31st of December 2019. The Bank's financial assets and liabilities are stated at carrying amounts, categorized by currency.

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.2 Market risk (continued)

36.2.1 Currency risk (continued)

31 December 2020

In MDL thousand	Notes	MDL	EUR	USD	Other currencies	Total
Financial assets						
Cash and Balances with National Bank of Moldova	4	3,012,669	1,516,477	460,962	18,946	5,009,054
Current accounts and placements with banks	5	-	1,180,884	620,072	15,763	1,816,719
Frozen Nostro account	5	-	-	226,785	-	226,785
Investment securities measured at amortized cost	6	3,321,271	234,126	-	-	3,555,397
Investment securities measured at FVOCI	6	16,800	-	-	-	16,800
Equity investment securities designated as at FVOCI	8	2,477	723	-	-	3,200
Loans to customers	7	3,212,312	849,131	118,808	-	4,180,251
Other financial assets	12	73,957	24,695	10,701	377	109,730
Total financial assets		**9,639,486**	**3,806,036**	**1,437,328**	**35,086**	**14,917,936**
Financial liabilities						
Deposits from banks	15	5,050	10,699	57,547	6	73,302
Deposits from customers	16	6,933,889	3,671,094	1,318,412	33,831	11,957,226
Other Borrowings	14	15,278	53,441	726	-	69,445
Lease liabilities	11	4,157	45,073	34	-	49,264
Other financial liabilities	19	137,994	39,752	30,634	2,609	210,989
Total financial liabilities		**7,096,368**	**3,820,059**	**1,407,353**	**36,446**	**12,360,226**
Net currency position		**2,543,118**	**(14,023)**	**29,975**	**(1,360)**	**2,557,710**

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36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.2 Market risk (continued)

36.2.1 Currency risk (continued)

31 December 2019

In MDL thousand	Notes	MDL	EUR	USD	Other currencies	Total
Financial assets						
Cash and Balances with National Bank of Moldova	**4**	3,325,046	789,055	305,683	25,830	4,445,613
Current accounts and placements with banks	**5**	-	1,782,780	919,871	10,768	2,713,419
Frozen Nostro account	**5**	-	-	226,716	-	226,716
Investment securities measured at amortized cost	**6**	2,950,578	214,291	-	-	3,164,870
Investment securities measured at FVOCI	**6**	13,048	-	-	-	13,048
Equity investment securities designated as at FVOCI	**8**	2,636	623	-	-	3,258
Loans to customers	**7**	2,559,347	927,803	177,839	13	3,665,002
Other financial assets	**12**	70,872	29,395	15,139	336	115,743
Total financial assets		**8,921,528**	**3,743,947**	**1,645,248**	**36,947**	**14,347,669**
Financial liabilities						
Deposits from banks	**15**	771	9,498	41,633	173	52,074
Deposits from customers	**16**	6,540,237	3,490,491	1,373,980	31,663	11,436,371
Other Borrowings	**14**	8,363	37,861	1,066	-	47,289
Lease liabilities	**11**	4,644	60,335	116	-	65,095
Other financial liabilities	**19**	148,133	155,393	14,477	2,199	320,202
Total financial liabilities		**6,702,148**	**3,753,579**	**1,431,272**	**34,035**	**11,921,031**
Net currency position		**2,219,380**	**(9,631)**	**213,976**	**2,912**	**2,426,638**

Other currencies mainly include the Russian ruble, the Ukrainian hryvnia and Romanian leu.

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.2 Market risk (continued)

36.2.1 Currency risk (continued)

The table below presents the Profit or Loss sensitivity in the event of potential changes of the exchange rates applicable at 31st of December 2020 and 31st of December 2019 in relation to the functional currency of the Bank, considering that all the other variables would be unchanged remain constant:

	Impact on Profit or Loss	
In MDL thousand	**2020**	**2019**
EUR increase by up to 10%	(1,024)	(1,450)
EUR decrease by up to 10%	1,024	1,450
USD increase by up to 10%	2,958	5,704
USD decrease by up to 10%	(2,958)	(5,704)

36.2.2 Interest rate risk from the banking book

Interest rate risk is the current or future risk of adverse outcome on Bank's earnings and capital due to adverse changes in interest rates.

The purpose of the interest rate risk management is to establish the main elements related to the interest risk management from activities outside the trading portfolio in order to obtain the discounted yields of the assets, under the conditions of an adequate management and adapted to the market conditions and to the institution's development.

The main sources of interest rate risk is the mismatch between the maturity dates (for fixed rate instruments) or dates of re-pricing (for variable interest rates instruments) for interest-bearing assets and liabilities, adverse development of yield curve (non-parallel evolution of yield curves for interest-bearing assets and liabilities).

The management of interest-bearing asset and liabilities is performed in the context of the Bank's exposure to interest rate fluctuations.

Interest rate risk is managed by monitoring of the interest rate GAP (mismatch) on and through a system of limits and approved indicators for repricing bands.

These limits are monitored on two levels: Board of Administration / Executive Committee and Assets and Liabilities Committee (ALCO).

Managing interest rate risk on interest rate gap limits is supplemented by monitoring the sensitivity analysis of financial assets and liabilities in various standard scenarios of interest rates.

In the sensitivity analysis regarding interest rate variation, the Bank have calculated the impact of potential market interest rate changes on the interest margin for the future financial periods, by taking into consideration the interest rate resetting / re-fixing date with respect to the balance sheet assets and liabilities.

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

In MDL thousand	**31 December 2020**	**31 December 2019**
Own funds	1,984,047	1,652,361
Potential decline in economic value +/- 200bp		
Absolute value	41,703	26,938
Impact on own funds	2.10%	1.63%

The tables below shows the Bank's exposure to interest rate risk as at 31 December 2020 and 31 December 2019. The table includes financial assets and liabilities of the Bank at their carrying amounts, classified based on the earliest date between repricing and maturity dates.

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36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.2 Market risk (continued)

36.2.2 Interest rate risk from the banking book (continued)

31 December 2020

In MDL thousand	Notes	Carrying amount	Less than 6 months	6 months – 1 year	1 – 5 years	More than 5 years	Non-interest bearing
Financial assets							
Cash and Balances with National Bank of Moldova	**4**	5,009,054	2,925,445	-	-	-	2,083,609
Current accounts and placements with banks	**5**	1,816,719	1,713,411	103,308	-	-	-
Frozen Nostro account	**5**	226,785	-	-	-	-	226,785
Investment securities measured at amortized cost	**6**	3,555,397	2,286,339	751,101	517,957	-	-
Investment securities measured at FVOCI	**6**	16,800	8,438	3,419	4,943	-	-
Loans to customers	**7**	4,180,251	4,159,996	3,044	14,334	2,877	-
Other financial assets	**12**	109,730	1,157	-	-	-	108,573
Total financial assets		**14,914,736**	**11,094,786**	**860,872**	**537,234**	**2,877**	**2,418,967**
Financial liabilities							
Deposits from banks	**15**	73,302	73,302	-	-	-	-
Deposits from customers	**16**	11,957,226	11,904,356	14,411	-	-	38,458
Other Borrowings	**14**	69,445	69,445	-	-	-	-
Lease liabilities	**11**	49,264					49,264
Other financial liabilities	**19**	210,989	-	-	-	-	210,989
Total financial liabilities		**12,360,226**	**12,047,104**	**14,411**	**-**	**-**	**298,711**
Net position			**(952,318)**	**846,461**	**537,234**	**2,877**	**2,120,256**
Net position aggregated			**(952,318)**	**(105,857)**	**431,377**	**434,254**	**2,554,510**

* TRANSLATOR'S EXPLANATORY NOTE: The above translation of the financial statements is provided as a free translation from Romanian which is the official and binding version.

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.2 Market risk (continued)

36.2.2 Interest rate risk from the banking book (continued)

31 December 2019

In MDL thousand	Notes	Carrying amount	Less than 6 months	6 months – 1 year	1 – 5 years	More than 5 years	Non-interest bearing
Financial assets							
Cash and Balances with National Bank of Moldova	4	4,445,613	2,982,392	-	-	-	1,463,221
Current accounts and placements with banks	5	2,713,419	2,713,419	-	-	-	-
Frozen Nostro account	5	226,716	-	-	-	-	226,716
Investment securities measured at amortized cost	6	3,164,870	2,321,101	424,537	419,232	-	-
Investment securities measured at FVOCI	6	13,048	2,747	5,514	4,787	-	-
Loans to customers	7	3,665,002	3,636,155	4,927	21,495	2,425	-
Other financial assets	12	115,743	4,586	-	-	-	111,157
Total financial assets		**14,344,411**	**11,660,400**	**434,978**	**445,514**	**2,425**	**1,801,094**
Financial liabilities							
Deposits from banks	15	52,074	52,074	-	-	-	-
Deposits from customers	16	11,436,371	11,342,262	82,363	-	-	11,746
Other Borrowings	14	47,289	47,289	-	-	-	-
Lease liabilities	11	65,095	-	-	-	-	65,095
Other financial liabilities	19	320,202	-	-	-	-	320,202
Total financial liabilities		**11,921,031**	**11,441,625**	**82,363**	**-**	**-**	**397,043**
Interest gap			**218,775**	**352,615**	**445,514**	**2,425**	**1,404,051**
Cumulative interest gap			**218,775**	**571,390**	**1,016,904**	**1,019,329**	**2,423,380**

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36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.3 Liquidity risk

Liquidity risk represents the current or future risk that the profit and capital may be negatively affected as a result of the Bank's incapacity to pay its due and payable debts when they become due.

Liquidity risk has 2 components: the difficulty in procuring funds at maturity in order to refinance current liabilities or the inability to convert an asset into cash at a value near its fair value in a reasonable period of time.

The purpose of the liquidity risk management is to obtain the expected return on assets, through a proper management of the liquidities, consciously assumed and adapted to the market conditions, the growth of the institution and the general current legal framework.

The Bank is continuously acting to manage this type of risk.

Bank tries to maintain a balance between continuity and flexibility in attracting funds, by signing financing contracts with different maturities and in different currencies. The Bank continually assess liquidity risk by identifying and monitoring changes in the financing contracts, and by diversifying the funding sources.

The operational liquidity management is also performed intraday, so as to ensure all the settlements/payments assumed by the Bank, on its own behalf or on behalf of its clients, in lei or foreign currency, on account or in cash, within the internal, legal and mandatory limits.

Monitoring and management of liquidity risk indicators is performed on two levels, namely at Board of Administration / Executive Committee and at Assets and Liabilities Management Committee (ALCO).

The Assets and Liabilities Management Committee of the Bank is responsible with the periodic review of liquidity indicators and with the establishment of corrective measures regarding balance sheet figures, so as to eliminate unacceptable deviations in terms of liquidity risk.

Crisis simulation scenarios have been elaborated by considering various intensity levels, various probabilities and different periods of occurrence. Their purpose is to identify / assess potential losses, the potential impact of events or the factors that may generate a liquidity crisis.

The tables below present an analysis of maturities of assets, liabilities and contingent liabilities of the Bank into relevant maturity groups based on the remaining period at balance sheet date to the contractual maturity date, as of 31 December 2020 and 31 December 2019. Payments that are subject to contracts in breach are immediately treated as payable on demand.

* TRANSLATOR'S EXPLANATORY NOTE: The above translation of the financial statements is provided as a free translation from Romanian which is the official and binding version.

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.3 Liquidity risk (continued)

31 December 2020

In MDL thousand	Notes	Carrying amount	Less than 3 months	3 months - 1 year	1 – 5 years	More than 5 years	No maturity
Financial assets							
Cash and Balances with National Bank of Moldova	**4**	5,009,054	5,009,054	-	-	-	-
Current accounts and placements with banks	**5**	1,816,719	1,481,125	240,671	-	94,923	-
Frozen Nostro account	**5**	226,785	-	-	226,785	-	-
Investment securities measured at amortized cost	**6**	3,555,397	1,432,634	1,575,610	547,153	-	-
Investment securities measured at FVOCI	**6**	16,800	3,550	7,010	6,240	-	-
Equity investment securities designated as at FVOCI	**8**	3,200	-	-	-	-	3,200
Loans to customers	**7**	4,180,251	613,426	724,189	1,771,169	1,071,467	-
Other financial assets	**12**	109,730	107,208	2,522	-	-	-
Total financial assets		**14,917,936**	**8,646,997**	**2,550,002**	**2,551,347**	**1,166,390**	**3,200**
Financial liabilities							
Deposits from banks	**15**	73,302	73,302	-	-	-	-
Deposits from customers	**16**	11,957,226	9,138,100	1,988,373	823,798	6,954	-
Other Borrowings	**14**	69,445	1,486	20,791	42,506	4,662	-
Lease liabilities	**11**	49,264	249	4,149	44,866	-	-
Other financial liabilities	**19**	210,989	210,989	-	-	-	-
Total financial liabilities		**12,360,226**	**9,424,127**	**2,013,313**	**911,170**	**11,616**	**-**
Net balance sheet position		**2,557,710**	**(777,130)**	**536,689**	**1,640,177**	**1,154,774**	**3,200**
Loan commitments and financial guarantee contracts	**31**	490,506	490,506	-	-	-	-
Total off-balance sheet		**490,506**	**490,506**	**-**	**-**	**-**	**-**
Total net on- and off-balance sheet position		**3,048,216**	**(286,624)***	**536,689**	**1,640,177**	**1,154,774**	**3,200**

* The evolution of the current accounts and short term deposits indicate a growing trend and a constant renewal pattern. Also, the liquidity gap for the bucket “less than 3 months” is easily manageable, in case needed, by using investment securities from other liquidity bands for REPO transactions.

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36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.3 Liquidity risk (continued)

31 December 2019

In MDL thousand	Notes	Carrying amount	Less than 3 months	3 months - 1 year	1 – 5 years	More than 5 years	No maturity
Financial assets							
Cash and Balances with National Bank of Moldova	**4**	4,445,613	4,445,613	-	-	-	-
Current accounts and placements with banks	**5**	2,713,419	2,618,995	-	-	94,424	-
Frozen Nostro account	**5**	226,716	-	-	226,716	-	-
Investment securities measured at amortized cost	**6**	3,164,870	1,857,885	876,251	430,734	-	-
Investment securities measured at FVOCI	**6**	13,048	2,748	5,514	4,787	-	-
Equity investment securities designated as at FVOCI	**8**	3,258	-	-	-	-	3,258
Loans to customers	**7**	3,665,002	530,345	715,642	1,712,233	706,782	-
Other financial assets	**12**	115,743	105,405	7,929	2,410	-	-
Total financial assets		**14,347,669**	**9,560,991**	**1,605,336**	**2,376,880**	**801,206**	**3,258**
Financial liabilities							
Deposits from banks	**15**	52,074	52,074	-	-	-	-
Deposits from customers	**16**	11,436,371	7,639,384	2,571,475	1,219,458	6,054	-
Other Borrowings	**14**	47,289	9,165	13,907	24,082	135	-
Lease liabilities	**11**	65,095	5	2,271	59,938	2,881	-
Other financial liabilities	**19**	320,202	300,052	20,150	-	-	-
Total financial liabilities		**11,921,031**	**8,000,680**	**2,607,803**	**1,303,478**	**9,070**	**-**
Net balance sheet position		**2,426,638**	**1,560,311**	**(1,002,467)**	**1,073,402**	**792,136**	**3,258**
Loan commitments and financial guarantee contracts	**31**	444,483	444,483	-	-	-	-
Total off-balance sheet		**444,483**	**444,483**	**-**	**-**	**-**	**-**
Total net on- and off-balance sheet position		**2,871,121**	**2,004,794**	**(1,002,467)**	**1,073,402**	**792,136**	**3,258**

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.3 Liquidity risk (continued)

The tables below set our the remaining contractual maturities of the Bank's financial liabilities as at 31 December 2020 and 31 December 2019:

31 December 2020

In MDL thousand	Note	Carrying amount	Gross value (outflow)	Less than 3 months	3 months - 1 year	1 - 5 years	More than 5 years
Financial liabilities							
Deposits from banks	**15**	73,302	(73,302)	(73,302)	-	-	-
Deposits from customers	**16**	11,957,226	(11,965,417)	(9,135,721)	(1,991,538)	(831,112)	(7,045)
Other Borrowings	**14**	69,445	(69,445)	(1,487)	(20,791)	(42,506)	(4,661)
Lease liabilities	**11**	49,264	(49,264)	(249)	(4,149)	(44,866)	-
Other financial liabilities	**19**	210,989	(210,989)	(210,989)	-	-	-
Loan commitments and financial guarantee contracts	**31**	-	(490,506)	(490,506)	-	-	-
Total financial liabilities		**12,360,226**	**(12,858,923)**	**(9,912,254)**	**(2,016,478)**	**(918,484)**	**(11,706)**

31 December 2019

In MDL thousand	Note	Carrying amount	Gross value (outflow)	Less than 3 months	3 months- 1 year	1 - 5 years	More than 5 years
Financial liabilities							
Deposits from banks	**15**	52,074	(52,074)	(52,074)	-	-	-
Deposits from customers	**16**	11,436,371	(11,581,630)	(7,654,280)	(2,643,066)	(1,276,007)	(8,277)
Other Borrowings	**14**	47,289	(49,650)	(12,638)	(13,626)	(23,247)	(139)
Lease liabilities	**11**	65,095	(65,095)	(5)	(2,271)	(59,938)	(2,881)
Other financial liabilities	**19**	320,202	(320,202)	(300,052)	(20,150)	-	-
Loan commitments and financial guarantee contracts	**31**	-	(444,483)	(444,483)	-	-	-
Total financial liabilities		**11,921,031**	**(12,513,134)**	**(8,463,532)**	**(2,679,113)**	**(1,359,192)**	**(11,298)**

* TRANSLATOR'S EXPLANATORY NOTE: The above translation of the financial statements is provided as a free translation from Romanian which is the official and binding version.

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.4 Capital management

Capital management – compliance with capital requirements

National Bank monitors capital requirements and own funds are should be maintained at a minimum:

- 5.5 %for core tier 1 own funds;
- 7.5 % for tier 1 own funds;
- 10 % for total own funds.

Likewise, Bank maintains the capital buffers required by the National Bank of Moldova:

- a capital preservation buffer of 2.5% of the total value of the risk-weighted exposures;
- a systemic risk buffer of 1% of the total value of the risk-weighted exposures;
- other companies enhanced systemic level in buffer of 1% of the total weighted exposure.

The National Bank of Moldova, following the results examination of the supervision process ("SREP Methodology"), determined the capital requirement rates at a minimum level of:

- 7.07% for the basic level 1 own funds rate;
- 9.64% for the level 1 own funds rate;
- 12.85% for the total own funds rate.

To determine the own funds of regulatory requirements the Bank uses the following calculation methods:

- Credit risk: standardized method;
- Market risk: for calculating own funds requirements related to currency risk and trading - standard method is used;
- Operational risk: for the calculation of own funds requirements for operational risk, the Basic indicator method is used.

The Bank complied with the above regulations, the level of the risk capital adequacy indicator, far exceeding the minimum limits imposed by legislation: for 2020 the average level was 35.92% (in 2019 the average level was 32.42%).

The Board of Administration decides on the directions to be followed in the capital adequacy process, establishes the main projects in the field to be carried out as well as the main objectives to be met in order to better control the correlation of risks to which the Bank is exposed and necessary equity to cover them and the development of sound risk management systems.

36.5 Operational risk

Operational risk is the current or future risk of impairment of profits and capital that results from inadequate or failed internal processes or systems and / or from the action of external persons or events. In order to identify, evaluate, monitor and reduce operational risk, the bank provides:

- Integration of the process of assessing and guiding the operational risk into the decision-making process;
- Evaluation of products, processes and systems for determining the associated risk levels and measures to eliminate/mitigate them at accepted levels;
- Control and transfer of operational risks.

The Bank's strategy for mitigating operational risk exposure is based mainly on: permanent compliance of legal acts with legal regulations and market conditions, staff training, efficiency of internal control systems, continuous improvement of IT solutions and strengthening the Bank's information security systems, use of complementary risk mitigation means (contracting risk-specific insurance policies), the application of measures to limit and mitigate the effects of identified operational risk incidents such as: standardization of current activity, automation of as many processes as possible; the assessment of products, processes and systems for determining the significant ones as regarding the inherent operational risk, the use of recommendations and conclusions resulting from the controls performed by internal and external control bodies in the field of operational risk, ensuring the development and implementation of business continuity plans.

The operational risk assessment process is closely related to the Bank's overall risk management process, which result is an integral part of the operational risk monitoring and control processes and aims on maintaining the Bank's minimum exposure level to operational risks.

37. SUBSEQUENT EVENTS

As described in Note 17, the Bank is subject to a litigation which resulted in freezing the amount of USD 13,174 thousand on the Bank's correspondent account in Bank of New York Mellon. In February 2021, the Bank received a favorable court decision and the seizure of the account was lifted. However, in March 2021, the Bank acknowledged that the same amount of USD 13,174 thousand was blocked in the Nostro bank account held by the Bank at Bank of New York Mellon on the basis of another order, the details of which were not disclosed to the Bank. The Bank is in the process of obtaining clarifications related to this order. The Bank assessed the above mentioned events as non adjusting for these financial statements and did not recognize a provision for this case, but will monitor the evolution of the topic at each reporting date, in accordance with the relevant provisions of the accounting regulations.

On 31 March 2021 the Parliament of the Republic of Moldova adopted the state of emergency for two months, till 30 May 2021. Several restrictions were announced, mainly related to circulation regime, work regime for several types of companies, quarantine measures etc. The Bank's management assessed that these measures will not have a significant impact on the Bank's activity and on these financial statements.