

APPROVED:

by the Board of Directors Decision
of November 27th, 2024

ACCOUNTING POLICIES JSCB “EXIMBANK”

**IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS**

Applicable: As of 1st of January 2025

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1 GENERAL PROVISIONS

1.1 The basis of accounting

The accounting policies presented are applied by JSCB “Eximbank” (hereinafter referred to as “the Bank”) constantly throughout the financial years presented in the financial statements.

The reporting period for which the financial statements are prepared coincides with the calendar year and covers the period from 1st January to 31st December.

The Bank's accounting policies are prepared based on the requirements of:

- the Law on Accounting and Financial Reporting no. 287 of the 15th of December 2017 (with subsequent modifications);
- Conceptual Framework for Financial Reporting (hereinafter referred to as the “Conceptual framework”);
- International Financial Reporting Standards (hereinafter referred to as the “IFRS”);
- International Accounting Standards (IAS);
- Regulation on Accounting in Banks of the Republic of Moldova, approved by the DCA of the NBM no. 238 of October 10, 2002 (with subsequent modifications);
- Accounting Policies of the Parent Bank, applicable starting June 30, 2024.

The bank, being a public interest entity, applies the generally accepted international principles.

The Bank keeps the accounting records in accordance with the Chart of Accounts of the bookkeeping within the licensed banks approved by the Decision of the Board of Directors of the National Bank of Moldova no.15 of the 26th of March 1997, as amended and supplemented.

1.2 Fundamental principles for the preparation of financial statements

The general purpose of the financial statements is to provide information on the Bank's activity to be useful to existing and potential investors, borrowers and other creditors in their decisions regarding the provision of resources to the Bank.

For this purpose, the Bank ensures that the information presented in the financial statements is:

- relevant;
- accurate;
- comparable;
- verifiable;
- timely;
- understandable.

1.2.1 Composition of financial statements

The Bank prepares and presents individual financial statements in accordance with IFRS, which include:

- a statement of the financial position at the end of the period;
- a profit or loss statement and other comprehensive income for the period;
- a statement of changes in equity for the period;
- a statement of cash flows for the period;
- notes, comprising information regarding material accounting policies and other explanatory information.

When the financial statements are presented in the annual report or other document, they are clearly identified and marked distinct from the rest of the information included in that document.

The Bank does not prepare consolidated financial statements. As a controlled entity, the Bank prepares and presents financial statements for consolidation purposes in accordance with IFRS 10 and the internal requirements of the group.

1.2.2 Fair presentation

The financial statements of the Bank must present the financial position, financial performance and cash flows of the Bank. The fair presentation provides for the accurate representation of the effects of transactions and other events and conditions, according to the definitions and recognition criteria for assets, liabilities, revenues and expenses established in the Conceptual framework.

1.2.3 Going concern

The financial statements are prepared in accordance with the going concern basis, except when the Bank's Management intends to liquidate the Bank or to cease its activity, or has no other realistic alternative than

to do so. The assessment of the Bank's ability to continue its activity is carried out by the Bank's Management at each reporting date.

1.2.4 Accrual basis of accounting

Financial statements are prepared in accordance with the accrual basis of accounting, except for cash flow information, transactions and events are recognised when they occur (and not as cash or cash equivalents are collected or paid), are recorded in the bookkeeping and are reported in the financial statements of the periods to which it refers. The expenses are recognised in the profit and loss account on the basis of a direct association (correlation) between the costs incurred and the obtaining of specific elements of income.

1.2.5 Consistency of presentation

The Bank will maintain the way of presenting and classifying the items in the financial statements from one period to another, unless:

- a) following a significant change in the nature of the Bank's activity or following an analysis of its financial statements, it is obvious that another presentation or classification would be more appropriate given the selection and application criteria of the accounting policies provided by IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors; or
- b) an IFRS requires a modification of the presentation.

In the event of a change in the presentation and classification of items in the financial statements, the Bank will reclassify the comparative information, unless the reclassification is impracticable, and will present in the explanatory notes the following information:

- a) the nature of the reclassification;
- b) the value of each item or class of reclassified items;
- c) the reason for the reclassification.

If the reclassification of comparative information is impracticable, the Bank will present:

- a) the reason the information was not reclassified;
- b) the nature of the adjustments that would have been necessary if the information had been reclassified.

In case of a change in the way of presenting and classifying the items in the financial statements, the Bank will present comparative information within the statement of financial position and the related notes for at least two years. Thus, the statement of financial position will include:

- a) balances at the end of the current period;
- b) balances at the end of the previous period (same as the opening balances of the current period);
- c) balances at the beginning of the previous period.

1.2.6 Recognition of the items in the financial statements

Recognition is a process of inclusion in the statement of financial position at the end of the period or in the statement of other comprehensive income of an item that corresponds to the definition of an asset, a liability, an element of equity, income or expense and that meets the following recognition criteria:

- it is likely that future economic benefits associated with the item will enter or exit the Bank; and
- the cost or value of the item can be reliably assessed.

The items of the financial statements are defined as follows:

- a) An asset represents a resource controlled by the Bank as a result of past events and from which it is expected to generate future economic benefits that will have effect on the Bank;
- b) A liability represents a current obligation of the Bank resulting from past events, the settlement of which is expected to result in an outflow of resources incorporating economic benefits from the Bank;
- c) Equity represents the residual interest in the assets of the Bank after deducting all its liabilities.
- d) Income is increases in economic benefits during the accounting period, in the form of asset inflows or increases in assets or a decrease in debt, which results in increases in equity, other than those related to participants' contributions to equity;
- e) Expenses are decreases in economic benefits during the accounting period, in the form of outflows or exhaustion of assets, or of incurring liabilities, which result from the decrease in equity, other than those related to the distribution to the participants in the equity.

1.2.7 Assessment of the items of the financial statements

The financial statements are prepared by applying the accrual basis of accounting and by using the historical cost or the amortized cost, except for the following assets and liabilities that are assessed at the fair value:

- Property, plant and equipment accounted for according to the revaluation model;
- financial assets and financial liabilities measured at fair value through profit or loss;
- financial assets valued measured at fair value through other comprehensive income;
- financial assets available for sale;
- non-current assets held for sale;
- financial derivatives;
- real estate investments accounted for according to the fair value model.

1.2.8 Functional currency and presentation currency

The Management of the Bank has determined the Moldovan leu (MDL) as the functional and presentation currency of the Bank. The financial statements are presented in Moldovan lei, rounded to the nearest unit.

1.2.9 Responsibility for preparing financial statements

The Management Committee is responsible for preparing the financial statements. The financial statements are signed by the General Manager or First Deputy General Manager, CFO and the Chief Accountant of the Bank.

In the process of preparation of financial statements, the Bank ensures the clear identification of each financial statement and the related notes highlighting and, when necessary, repeating following information in order to ensure the proper understanding of presented information:

- a) the name or other means of identification, and any change in that information from the end of the preceding reporting period;
- b) whether the financial statements are of an individual entity or for an eventual group of entities;
- c) the date of the end of the reporting period or the period covered by the set of financial statements or notes;
- d) the presentation currency;
- e) the level of rounding used in presenting amounts in the financial statements; and
- f) relevant comparative information.

If during the process of aggregation and classification into classes of the financial statements elements designated as insignificant individually are identified, then they can be aggregated with other elements in the financial statements. An item that is not significant enough to be presented separately in the financial statements may however be presented separately in the notes.

In addition to the professional expertise, the Bank establishes a significance threshold of 3,000,000 lei in order to identify the elements, which shall be identified in the notes to the financial statements.

The Bank uses the same significance threshold when dealing with transactions that took place within the time interval from the closing of the last banking business day to the 00:00 hour of the last day of the financial year. If the transactions of a similar nature exceed the established significance threshold, they will be considered as processed during the reporting period, and the Bank will adjust the financial statements accordingly, otherwise they will be processed and reported within the financial period subsequent the reported one.

The financial statements prepared are reviewed and compared with disclosure checklists by the persons responsible for their certification to ensure that they meet the disclosure requirements specified by the IFRS.

1.3 Untreated aspects

This Policy does not deal with aspects not applicable to the Bank's activity, such as:

- Post-employment benefits and other long-term employee benefits (IAS 19);
- The Effects of Changes in Foreign Exchange Rates (IAS 21);
- Accounting and Reporting by Retirement Benefit Plans (IAS 26);
- Investments in subsidiaries, associates and joint ventures (IAS 27, IAS 28, IAS 31);
- Financial reporting in hyperinflationary economies (IAS 29);
- Earnings per share (IAS 33);
- Intangible asset with indefinite life and the model of revaluation of intangible asset (IAS 38);
- Hedge accounting (IAS 39);
- Agriculture (IAS 41);
- First-time Adoption of International Financial Reporting Standards (IFRS 1);
- Share-based Payment (IFRS 2);
- Business Combinations (IFRS 3);
- Insurance Contracts (IFRS 17);
- Exploration for and Evaluation of Mineral Resources (IFRS 6);
- Operating Segments (IFRS 8);
- Consolidated Financial Statements (IFRS 10);
- Joint Arrangements (IFRS 11);
- Disclosure of Interests in Other Entities (IFRS 12).

In the case of carrying out operations for which there are no express provisions in this Policy, the Accounting Department will make the accounting records in accordance with IFRS rules and principles, making and subsequently approving the necessary adjustments in the Accounting Policy, but not later than the date of the preparation of the annual financial statements.

1.4 General requirements for the items of the financial statements

1.4.1 Compensation of the items of the financial statements

The compensation of the items either in the statement of the comprehensive income or in the statement of the financial position at the end of the period, unless it reflects the economic background of a transaction or other event, limits the ability of the users both to understand the transactions carried out and to evaluate the future cash flows of the Bank.

Assets and liabilities may not be offset unless compensation is required or permitted under IFRS.

If the Bank records gains and losses from the disposal of fixed assets (including investment assets and operating assets), they are presented by deducting from the proceeds from the disposal of the asset or the carrying amount of the asset and the related sales expenses.

Also, expenses related to a provision that is recognized in accordance with IAS 37 - Provisions, Contingent Liabilities and Contingent Assets and reimbursed on the basis of a contractual agreement with a third party (e.g. a guarantee contract with a supplier) can be offset by the reimbursements related.

Climate issues may affect the recognition, measurement and disclosure of liabilities in the financial statements that apply IAS 37, for example, related to:

- (i) taxes imposed by government for non-compliance with climate targets or for discouraging/encouraging a specific activity;
- (ii) regulatory requirements for remediation of environmental damage;
- (iii) contracts that may become onerous (e.g. due to potential loss of revenue or increased costs as a result of climate-related legislative changes);
- (iv) restructuring to redesign products/services to meet climate objectives.

In addition, the Bank presents on a net basis the gains and losses arising from a group of similar transactions, for example gains and losses from exchange rate differences or gains and losses from financial instruments held for trading. However, if they are significant, the Bank presents these gains and losses separately in order not to limit the users' understanding of the transactions carried out.

A **financial asset** and a **financial liability** can be offset, and the net amount will be presented in the statement of financial position when and only when the Bank:

- have a legal and exercisable right to offset the recognized values, and
- intends to either settle them on a net basis or to realize the asset and extinguish the obligation simultaneously.

When accounting for a transfer of a financial asset that is not derecognized, the Bank will not offset the transferred asset and the liability associated with it.

1.4.2 Cash Flow Statement

The Bank prepares and presents within the financial statements a statement of the cash flows for each period covered by the financial statements.

Cash flows represent inflows or outflows of cash and cash equivalents.

The cash includes the available in cash offices, banks and demand deposits.

Cash equivalents represent the financial assets held for the purpose of fulfilling short-term cash commitments whose maturity does not exceed 90 days (unrestricted balances with the National Bank of Moldova, treasury bills, certificates issued by the National Bank of Moldova, availability placed at other banks and amounts being settled)

Operating (operational) activities are the main income producing activities of the Bank, as well as other activities that are not investment or financing activities.

Investment activities consist of the acquisition and disposal of fixed assets and other investments that are not included in the cash equivalents.

Financing activities are activities that result in changes in the size and composition of the Bank's equity and loans.

The Bank reports the cash flows from operating activities using the indirect method, by which the profit / loss is adjusted with:

- the effects of non-monetary transactions;
- deferrals or commitments of past or future cash payments or receipts from operation; and
- the items of income and expenses associated with the cash flows from investments or financing.

Cash flows arising from the following operating, investment or financing activities can be reported at net value:

- a) cash receipts and payments made on behalf of customers, when cash flows reflect the activities of customers rather than the activities of the Bank;
- b) cash receipts and payments for fast turnover items, high values and short maturity.

The following cash receipts and payments are reported on a net basis:

- a) granting loans to and repayment of loans by clients;
- b) accepting and reimbursing of interbank deposits and customers deposits.

The cash flows from the transactions performed in foreign currency are booked in the functional currency of the Bank (MDL) by applying, on the value in foreign currency, the exchange rate between the functional currency and the respective currency on the date of the cash flow.

Investment and financing transactions that do not require the use of cash or cash equivalents (e.g. the acquisition of property, plant and equipment under financial leasing contracts) are excluded from the cash flow statement.

1.4.3 Accounting policies, changes in accounting estimates and errors

The provisions of this section are applied by the Bank for:

- selecting and applying accounting policies;
- accounting for changes in accounting policies;
- accounting for changes in accounting estimates; and
- corrections of previous period errors.

1.4.3.1 Selection and application of accounting policies

When an IFRS is specifically applied to a transaction, other event or condition, the method of bookkeeping and reporting of that item is determined by applying that IFRS.

In the absence of an IFRS that specifically applies to a transaction, other event or condition, the Bank's Management will exercise its professional reasoning in developing and applying an accounting policy that results in information that will comply with the principles set out in the section 1.2:

In exercising the professional reasoning, the Bank's Management shall refer to, and consider, the applicability of the following sources in descending order:

- a) the requirements in IFRSs dealing with similar and related issues; and
- b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Conceptual Framework.
- c) other regulatory acts or accepted practices in the field of activity if they do not contradict the sources mentioned above.

1.4.3.2 Consistency of applying accounting policies

The Bank will consistently select and apply its accounting policies for transactions, other similar events and conditions, unless a Standard specifically provides or permits the classification of items for which different accounting policies would be appropriate.

If a Standard provides or permits such classification, an appropriate accounting policy is selected and applied consistently to each category.

1.4.3.3 Changes in accounting policies

The Bank will change the accounting policy only if the change:

- is required by a Standard or an Interpretation, or
- leads to financial statements that provide reliable and more relevant information about the effects of transactions, other events or conditions on the financial position, financial performance or cash flows of the Bank.

The following are not changes to accounting policies:

- a) applying an accounting policy for transactions, other events or conditions that differ, in substance, from those that have taken place previously; and
- b) applying an accounting policy for transactions, other events and conditions that have not previously occurred or that were insignificant.

Initial application of an asset revaluation policy in accordance with IAS 16 - Property, plant and equipment is an accounting policy change that is treated as a revaluation rather in accordance with IAS 16, rather than in accordance with this chapter.

Adopting a standard or an interpretation and other voluntary changes in accounting policies

If a change in accounting policy is required by a new Standard or Interpretation, the change will be accounted for in accordance with the transitional provisions of the new Standard or Interpretation. If the new Standard or Interpretation does not include transitional provisions, then the change in the accounting policy will be applied retroactively.

Retroactive application

When a change in accounting policy is applied retroactively, the Bank will adjust the initial balance of each affected component of equity for the furthest presented period, as well as other comparative values presented for each prior period, as if the new accounting policy were always applied.

In the case of the retroactive application of an accounting policy change, the Bank will present comparative information within the statement of financial position and the related notes for at least two years. Thus, the statement of financial position will include:

- a) balances at the end of the current period;
- b) balances at the end of the previous period (same as the opening balances of the current period);
- c) balances at the beginning of the previous period.

Limits of retroactive application

When it is impossible to determine the effects of changing the accounting policy on comparative information for one or more previous periods, the Bank applies the new accounting policy to assets and liabilities as from the beginning of the furthest period for which retroactive application is possible, which may be the current period, and makes adjustments corresponding to the initial balances of each affected component of equity for that period.

When at the beginning of the current period, it is impossible to determine the cumulative effect of applying the new accounting policies to all previous periods, the Bank adjusts the comparative information to apply the new accounting policies prospectively from the farthest possible date.

1.4.3.4 Changes in accounting estimates

The effect of modifying an accounting estimate is recognised prospectively by including it in profit or loss:

- the period in which the change occurs, if it only affects the period in question, or
- the period in which the modification takes place and the future periods, if the modification takes effect on them.

At the same time, if a change in the accounting estimates leads to changes in assets and liabilities, or items in equity, this will be recognised by adjusting the related elements of assets, liabilities and equity during the period in which the modification occurred.

1.4.3.5 Correcting Errors

The bank retroactively corrects the significant errors of the previous period in the first set of financial statements after their discovery by:

- adjusting comparative values for previous periods in which the error occurred, or
- if the error occurred before the farthest previous period, adjust the initial balances of assets, liabilities and equity for the farthest period.

In the case of the retroactive application of an accounting policy change, the Bank will present comparative information within the statement of financial position and the related notes for at least two years. Thus, the statement of financial position will include:

- a) balances at the end of the current period;
- b) balances at the end of the previous period (same as the opening balances of the current period);
- c) balances at the beginning of the previous period.

Limitations on retroactive restatement

An error of the previous period is corrected by retroactive retraction, unless it is impossible to determine either the specific effects of the period or the cumulative effect of the error.

When it is impossible to determine the effects of the error on comparative information for one or more previous periods, the Bank adjusts the initial balances to the initial balances of assets, liabilities and equity for the furthest period for which retroactive adjustment is possible.

When, at the beginning of the current period, it is impossible to determine the cumulative effect of an error on all previous periods, the Bank adjusts the comparative information to correct the error prospectively starting with the furthest possible date.

1.4.4 Events subsequent to the reporting period

Events subsequent to the reporting period are those events, favorable or unfavorable, that occur between the date of the reporting period and the date on which the financial statements are authorized for issuance. The bank identifies two types of events:

- a) events that provide evidence of the conditions existing at the reporting period (events leading to the adjustment of the financial statements after the reporting period date); and
- b) events that indicate conditions that appeared after the reporting period (events that do not lead to the adjustment of the financial statements after the reporting period).

Examples of events subsequent to the reporting period, which shall be reflected in the financial statements:

- settling a dispute after the reporting period requires adjustment of an already recognised provision or recognition of a new provision;
- obtaining information after the reporting period indicating that an asset was impaired at the end of the reporting period, for example the bankruptcy of a client confirming the existence of a loss in the lending activity at the reporting date (in this case, the Bank will consider adjusting the individual provision already recognised for the respective client according to the methodology of loan impairment or the need to register an individual provision and to eliminate the respective debtor from the collective assessment);
- determining, after the end of the reporting period, the cost of the assets acquired or the receipts resulting from the assets sold before the reporting date;
- finding frauds or errors that show that the financial statements are incorrect;

- disclosure of risks related to changes in macroeconomic indicators due to the impact of possible pandemics and military conflicts at the country's borders, which may influence the Bank's business model.

Examples of events subsequent to the reporting period, which should not be reflected in the financial statements, but require presentation in the explanatory notes:

- the significant decline of the market value of the investments made by the Bank between the reporting date and the date on which the statements are authorized to be published;
- declaration of dividends after the end of the reporting period;
- announcing or commencing the implementation of a major restructuring;
- significant commitments or contingent liabilities arising after the reporting date;
- the purchase or sale of subsidiaries or significant assets made after the reporting date;
- changes in the tax legislation specific to the Bank's activity, which entered into force or announced after the end of the reporting period, which have a significant impact on current and deferred tax assets and liabilities;
- significant transactions with the Bank's equity instruments after the end of the reporting period;
- major changes in foreign exchange rates after the reporting date;
- launch of major disputes arising strictly from events that occurred after the end of the reporting period;
- disclosure of information about the Bank's financial problems or financial performance related to environmental climate change as required by IAS 1.

2 ACCOUNTING POLICIES RELATING TO THE FINANCIAL STATEMENTS

2.1 Property, plant and equipment

2.1.1 Composition of property, plant and equipment

The Bank includes in the composition of property, plant and equipment, the assets used for more than one year, held for the provision of services or for administrative purposes such as: land, buildings, means of transport, office furniture and equipment, other property, plant and equipment.

Also, the assets taken in financial leasing serve as property, plant and equipment (leasing contracts in which the risks and rewards related to the ownership on a supporting asset are transferred to the Bank).

2.1.2 Criteria for the recognition and evaluation of property, plant and equipment

The cost of a tangible asset is recognised as an asset only if that asset will generate economic benefits and this cost can be reliably measured.

An item of property, plant and equipment that is recognised, as an asset will be initially valued at its cost.

The cost of a property, plant and equipment, consists of:

- a) the purchase price, including non-recoverable customs duties and purchase taxes, after deducting commercial discounts and rebates;
- b) any costs that can be directly attributed to bringing the asset to the location and condition necessary for it to be used in the manner desired by the Management (salaries and other personnel benefits, the cost of preparing the location, the initial delivery and handling costs, the installation and assembly costs, the cost of testing the correct functioning of the asset, the professional fees);
- c) the initially estimated value of the costs related to the removal and relocation of the item and the restoration of the place where it will be moved, if the respective costs arise from an obligation which the Bank acquires when purchasing the item or as a consequence of using the item.

The cost of a self-constructed asset is determined by using the same principles as for a purchased asset.

2.1.3 Cost assessment

The cost of an item of property, plant and equipment is the cash equivalent at the date of recognition. If the payment is deferred beyond the normal credit terms, the difference between the equivalent cash price and the total payment is recognised as interest on the credit period, unless such interest is recognised in the carrying amount of the item in accordance with IAS 23 - Borrowing costs.

One or more items of property, plant and equipment can be purchased in exchange for an asset or non-monetary assets, or a combination of monetary and non-monetary assets. The cost of such an item of property, plant and equipment is valued at fair value only if:

- a) the exchange transaction is not of a commercial nature; or
- b) neither the fair value of the asset received nor of the disposed one can be measured credibly.

If the received item is not measured at fair value, its cost is measured at the carrying amount of the assets disposed.

The bank determines whether an exchange transaction is commercial in nature by analyzing the extent to which future cash flows are expected to change as a result of the transaction. An exchange transaction is commercial in nature if:

- a) the configuration (risk, timing and value) of the cash flows of the received asset differs from the configuration of the cash flows of the transferred asset; or
- b) the specific value for the Bank of the part of the Bank's activities affected by the trading changes, as a result of the exchange; and
- c) the difference in (a) and (b) is significant relative to the fair value of the exchanged assets.

For the purpose of determining whether an exchange transaction is of a commercial nature, the specific value for the Bank of the part of the Bank's activities affected by the transaction reflects cash flows after taxation.

If the Bank can reliably determine the fair value of both a received asset and a disposed asset, then the fair value of the disposed asset is used to evaluate the cost of the asset received, if the fair value of the asset received is not clearly more obvious.

The cost of an item of property, plant and equipment owned by the Bank under a lease agreement is determined in accordance with IFRS 16 - Leases (see section 2.7 Leasing).

In cases where the component parts of the property, plant and equipment have a different useful service life, they are accounted for as (significant) items separated from the property, plant and equipment.

The profit or loss arising as a result of the exit of a property, plant and equipment is recognised as a net amount in the composition of "other income or expenses".

2.1.4 Evaluation after initial recognition

The subsequent evaluation method is determined at the asset class level: the cost-based model or the revaluation model.

After the initial recognition, the property, plant and equipment are accounted for at their cost less any accumulated depreciation and any accumulated impairment losses, except the "Land and Buildings" class.

Land and buildings are accounted for at a revalued amount, this being its fair value at the date of revaluation minus any subsequent accumulated impairment and any accumulated impairment losses. The revaluations are made with sufficient regularity to ensure that the carrying amount does not differ significantly from what would have been determined by using the fair value at the end of the reporting period.

If an item of property, plant and equipment is revalued, then the entire class of property, plant and equipment of which that item is part must be revalued.

If the carrying amount of an asset is increased as a result of the revaluation, then the increase is recognised in other comprehensive income and accumulated in equity, at the position "Excess from revaluation". However, the increase is recognized in profit or loss to the extent that it compensates for a reduction in the revaluation of the same asset, previously recognised in profit or loss.

If the carrying amount of an asset is impaired as a result of a revaluation, this decrease is recognized in profit or loss. However, the reduction is recognized in other items of the overall result to the extent that the revaluation excess presents a credit balance for that asset. The reduction recognized in other elements of the overall result reduces the amount accumulated in equity at the position "Excess from revaluation".

2.1.5 Reclassification from the category of property, plant and equipment into fixed assets held for sale

Property, plant and equipment whose value will be mainly recovered by selling them and not by their continuous use are reclassified to the category “property, plant and equipment held for sale”. Reclassification takes place only if:

- a) the assets are available for immediate sale in the present condition, the sale being subject only to terms and conditions that are common for transactions with the respective type of assets;
- b) there is a plan to sell the assets;
- c) the sale is very likely;
- d) the sale will meet the recognition criteria as a “finalized sale” within one year from the date of classification, except for the extension permit of the term provided in IFRS 5¹.

Assets held for sale are measured in the financial statements at the lower of the book value and the fair value less costs to sell.

When the fair value less costs to sell is lower than the book value, the impairment value is recognised in the profit or loss account. The recognition of subsequent gains is limited to impairment losses previously recognised for the asset in question.

Assets held for sale are not depreciated.

Assets held for sale, which have not been traded for one year from the date of classification, cease to be classified as held for sale, being reclassified into inventories of goods and materials, property, plant and equipment, intangible assets, etc. depending on the characteristics of the assets and the Bank's intention to use them later.

The Bank is entitled to classify in the balance sheet the tangible assets transferred to the Bank in exchange for the repayment of loans as assets held for sale within 12 months² from the date of their recognition in the accounting records.

Property, plant and equipment transferred in exchange for loan repayment are reflected in the book of accounts at the lower of the total amount of the debtor's debt (credit balance, interest calculated and reflected in the balance sheet, commissions, penalties and other receivables related to the loan) and fair value (market value) of those assets less any costs arising from their sale.

2.1.6 Subsequent expenses with property, plant and equipment

When a part of property, plant and equipment needs to be replaced with a new one, the cost of the new part is capitalized if the Bank expects to obtain future economic benefits from this new part and its cost can be credibly evaluated. The value of the replaced part is derecognised.

Expenses related to the daily maintenance of property, plant and equipment are recognised in profit or loss.

2.1.7 Depreciation of property, plant and equipment

The depreciable value of a property, plant and equipment is represented by the cost of the asset, or another value that replaces the cost (for example, the revalued value), minus the residual value.

The residual value is the estimated value that could be obtained at the current date of the disposal of the asset, after deducting the estimated costs of the sale, if the asset already had the expected seniority and status at the end of its useful life.

The useful life is the period that the asset is expected to be used by the Bank.

Depreciation represents the systematic allocation of the depreciable value of a property, plant and equipment over its useful life.

¹ There are events or circumstances that may extend the sale period beyond one year. An extension of the period required to complete a sale does not preclude the classification of an asset (or disposal group) as held for sale if the delay is caused by events or circumstances beyond the entity's control and if there is sufficient evidence that the entity remains committed to its asset sale plan (or disposal group).

² Point 13 of *The Regulation on the bank's investments in real estate, HCE of the NBM no. 114 of 02.06.2022* “If the assets transferred to the bank in possession/purchased in exchange for debt disbursement have not been sold for objective reasons (events or circumstances beyond the bank's control) within the 12-month period, the bank may apply to the National Bank of Moldova for approval to extend the period of their classification in the respective category. The extension of the classification period of the assets concerned shall be requested by the bank at least 2 months before the expiry of the period indicated in item 12, only in situations where the events or circumstances determined by International Financial Reporting Standard 5”.

The value of the depreciation of property, plant and equipment is recognized in profit or loss by applying the linear method, based on the estimated useful life for each property, plant and equipment. Assets used in financial leasing should be depreciated over the shorter of the lease term or the useful life of the asset. For land, depreciation is not calculated.

The estimated useful lives for the property, plant and equipment of the Bank are:

Category	Class	Estimated useful life
Property, plant and equipment	Land	Indefinite
	Buildings	35-65 years (depending on characteristics)
Modernizations / investments in leased spaces		Duration of the lease
Furniture and fixtures	Furniture	4-6 years
	Fixtures	4-6 years
	Office equipment	3-5 years
	Metal furniture and equipment	9-10 years
Equipment	Alarms	5 years
	Video and monitoring systems	5 years
	Systems and equipment	6-10 years
	Electronic equipment	3-5 years
	ICT electronic equipment	3-5 years
	Electronic components – Hardware	4-8 years
	ATM's and similar equipment	5-7 years
	Wireless electronic devices	2-5 years
Electric systems	4-8 years	
Other tangibles	Building lighting systems	10 years
	Vehicles	3-7 years
	Other assets	3-5 years

Climatic changes may lead to changes in the estimated residual value and estimated useful life of property, plant and equipment, e.g. due to ageing, legal restrictions or inaccessibility.

For assets acquired during the reporting period, depreciation is calculated from the date the asset is available for use. For assets transferred or sold during the reporting period, the calculation of depreciation ceases on the date of transfer or sale.

Depreciation does not cease when the asset is not used or decommissioned unless it is fully depreciated.

The depreciation method, useful life and residual value are reviewed at each reporting date.

2.1.8 Criteria for derecognition of property, plant and equipment

Property, plant and equipment are derecognised from the position of the financial position from the moment of its exit (sale, disposal, etc.) or from the moment when no future economic benefits from its use or exit are expected.

The bank records in profit or loss the gain or loss resulting from the derecognition of an item of property, plant and equipment, determined as the difference between the net proceeds of disposal, if any, and the book value of the item.

2.2 Intangible assets

2.2.1 General criteria for recognition and evaluation

An intangible asset is an identifiable non-monetary asset without physical substance.

Intangible assets held by the Bank mainly represent software licences and computer programs

An asset is identifiable if it meets one of the following requirements:

- a) is separable, respectively it is capable of being and sold, transferred, rented by the Bank, (regardless of the Bank's intention); or
- b) arises from contractual or legal rights. The characteristics required for an asset to be recognized as intangible asset are: it must be identifiable (according to the criteria above); controlled by the Bank, to generate future economic benefits and its cost may be credibly evaluated.

In the absence of at least one of the mentioned requirements, the expenses incurred in the acquisition or internal generation of the asset is recognized in the profit or loss account.

An intangible asset is initially valued at cost.

The cost of an intangible asset purchased separately consists of:

- a) its purchase price, including related and non-refundable taxes and excise duties, after deducting commercial rebates; and
- b) any cost directly attributed to the preparation of the intangible asset the intended use.

The cost of an internally generated intangible asset includes the expenses incurred in the development phase of the asset, after which the Bank can demonstrate all of the following:

- a) the technical feasibility required to complete the intangible asset so that it is available for use or sale;
- b) its intention to complete the intangible asset and use or sell it;
- c) its ability to use or sell intangible assets;
- d) the way that intangible asset will generate probable future economic benefits;
- e) the availability of adequate technical, financial and other resources for completing the development of the intangible asset and for its use or sale;
- f) its ability to reliably assess the expenses attributable to intangible asset during its development.

The expenses related to the research phase are not recognized in the value of the intangible asset generated internally, but are recognized as expenses when they are incurred. Also, the following costs are recognized as expenses when incurred:

- a) constituting expenses;
- b) personnel training expenses;
- c) expenditure on promotional and advertising activities;
- d) relocation or reorganization expenses.

After initial recognition, the intangible assets are valued by the Bank at cost, less accumulated depreciation and accumulated impairment losses.

The Bank has no intangible assets with indefinite useful lives.

2.2.2 Depreciation of intangible assets

The depreciable value of an intangible asset is represented by the cost of the asset, or another value that replaces the cost, less the residual value.

The residual value is the estimated value that could be obtained at the current date of the disposal of the asset, after deducting the estimated costs of the sale, if the asset already had the expected seniority and status at the end of its useful life.

Depreciation represents the systematic allocation of the depreciable value of intangible asset over its useful life and must begin when the asset is available for use, that is, when it is in the place and condition necessary to function as intended by the management.

After the initial recognition, the intangible assets are recorded at cost, less the accumulated depreciation value and the accumulated depreciation losses.

The calculation of depreciation stops when:

- i) Intangible assets are held for sale in accordance with IFRS 5;
- ii) Intangible assets are outdated, will no longer be used or usable in banking activities and are therefore derecognized. Intangible asset with an indefinite useful life, as well as those that are in the process of being put in use are not amortized.

The useful life of these intangible assets is reviewed at each reporting date to determine whether events and circumstances continue to indicate the impossibility of determining the useful life.

The value of the depreciation of intangible asset is recognized in profit or loss by applying **the linear method**. Depreciation is calculated from the date the asset is available for use.

The amortization method, useful life and residual value are reviewed at each reporting date.

Issues related to weather may affect the estimated residual value and expected useful lives of intangible assets, for example, due to moral amortization, legal restrictions or inaccessibility of assets.

2.2.3 Useful life of intangible assets

Useful life is the period over which the asset is expected to be used by the Bank.

The determination of the useful life of an intangible asset is a judgement based on the Bank's experience with similar assets and its asset management policy, which may differ from the useful life of the asset.

The bank determines the useful life at the asset level for up to 7 years, depending on the future economic benefit of the individual intangible asset. In limited cases, a longer useful life may be determined on the basis of a specific assessment by the ICT Department, which must be accompanied by documented justification.

As a general rule, modernisation costs to be capitalised at the asset's initial value are to be depreciated over the remaining useful life of the asset, unless the upgrading has characteristics that justify a restatement of the useful life of the asset.

During the useful life of an intangible asset, it may become obvious that the initial estimate of its useful life is no longer reasonable. Therefore, the useful life determined for intangible assets should be reassessed at least at the end of each reporting period. Only if the estimated useful life of the asset is significantly different (at least 2 years) from previous estimates, the depreciation period allocated will be adjusted correspondingly. The useful life may be changed as a result of subsequent actions that may either extend the use of the intangible asset or reduce the useful life of the asset in the case of:

- (i) new projects that result in the operational disposal of an intangible asset earlier than its original useful life; or
- (ii) in the case of impairment losses or specific corporate decisions (such as leaving a business for which the software was developed); or
- (iii) in the case of climatic changes that may directly affect intangible assets.

The annual reassessment of the useful life of an intangible asset is carried out at the initiative of the Departments responsible for the management of intangible assets, following the annual inventory of the Bank's patrimony. Changes in the useful life in the operational system are made by the Accounting Department on the basis of the Management Committee's decision.

In accordance with IAS 8, the Bank recognises prospectively accounting changes in depreciation arising from extending/shortening the useful life of the asset.

2.2.4 Subsequent measurement

The changes to intangible assets are intended to enable the Bank to ensure the functionality and safety of its business processes in full compliance with the new regulations, guaranteeing effective risk management and business continuity.

Subsequent costs that modernise and/or modify the intangible asset, and are externally acquired, are not assets that can be capitalised if they are intended solely to maintain the same functionality/characteristics of the intangible asset. These are recognized as current expenses in the profit or loss statement as they are incurred.

At the same time, the Bank's information system architecture requires both upgrades and improvements of the existing intangible assets, in this case it is necessary to assess whether the change to the asset, will increase the existing asset specifications.

Subsequent costs related to intangible assets are capitalized only when they increase the future economic benefits related to the corresponding assets and these costs are directly attributable and necessary for the creation, production and preparation of the asset to function properly.

Modernisation costs which are to be capitalized to the original value of the asset will be amortized over the remaining useful life of the asset, unless the capitalization results in a significant change in useful life, which will be recognized as a separate intangible asset.

2.2.5 Criteria for derecognition

An intangible asset is derecognized from the moment of its exit (sale, disposal, etc.) or from the moment when no future economic benefits from its use or exit are expected.

The bank records in profit or loss the gain or loss resulting from the derecognition of an item of intangible assets, determined as the difference between the net proceeds of disposal, if any, and the book value of the item, in case it is sold, transferred or derecognised.

Amortisation of an intangible asset with a finite useful life does not end when the intangible asset is no longer in use, unless the asset has been fully amortised or is classified as held for sale in accordance with IFRS 5.

2.3 Impairment of property, plant and equipment and intangible assets

2.3.1 Applying the impairment test

At each reporting date (annually) the Bank evaluates the existence of internal or external impairment indicators for property, plant and equipment and intangible asset and estimates the recoverable amount of the fixed assets for which such indicators have been identified.

Even if there is no indication of impairment, the Bank tests for impairment intangible asset, by comparing the book value with the recoverable amount.

The impairment test can be carried out during the financial year, provided that the testing is carried out on the same date each year. Different intangible asset may be tested for impairment at different times. However, if such intangible asset were initially recognized during the current period, they will be tested for impairment prior to the end of the reporting period.

When evaluating the existence of asset impairment indices, at least the following elements are taken into account:

External sources of information

- a) over the period, the market value of the asset decreased significantly more than would have been expected as a result of the passage of time or use;
- b) during the period significant changes have taken place, with negative effect on the Bank, or such changes will occur in the near future on the technological, commercial, economic or legal environment in which the Bank carries out its activity or on the market to which the asset is dedicated.
- c) interest rates on the market or other market rates of return on investments increased during the period, as these increases are likely to affect the discount rate used in calculating the value of the use of an asset and lead to a significant decrease in the recoverable value of the asset.
- d) the book value of net assets is higher than its market capitalization.

IAS 36 also notes that externally information on significant changes in the environment (e.g. the introduction of emissions reduction legislation leading to increased costs) that would affect cash flows, the business environment in which the Bank operates, may therefore have a negative effect on the banking business and is considered an indication of impairment.

Internal sources of information

- a) there are indications of physical or moral wear of an asset;
- b) during the period significant changes have occurred, with negative effect on the Bank, or such changes will occur in the near future, regarding the degree or the way in which the asset is used or expected to be used. Such changes include situations in which an asset becomes unproductive, plans to restructure or discontinue the activity to which the asset is dedicated, planning the exit (disposal) of the asset before the previously expected date, as well as reassessing the useful life of an asset as finite, and not indeterminate.

- c) internal reports provide indices on the fact that the economic results of an asset are or will be worse than expected.

Indices of impairment of assets made available by internal reporting include:

- a) the cash flows for the acquisition of the asset or the subsequent cash requirement for the operation or maintenance of the asset are significantly higher than those initially provided in the budget;
- b) actual net cash flows or profit, respectively the operating loss generated by the asset, are visibly lower than those initially provided in the budget;
- c) a significant decrease of the net cash flows provided in the budget or the operating profit provided in the budget, respectively a significant increase of the losses foreseen in the budget, generated by the asset; or
- d) operating losses or net outflows of cash flows related to the asset, when the amounts of the current period are aggregated with the future amounts provided in the budget.

If there are indications that an asset may be impaired, the Bank must estimate the recoverable amount for that asset or for the cash-generating unit to which the asset belongs.

The cash-generating unit represents the smallest identifiable group of assets that generates cash inflows largely independent of the cash inflows generated by other assets or groups of assets.

At Bank level, a single cash-generating unit was identified, established at the level of the entire banking activity.

2.3.2 Calculation of recoverable amount

The recoverable amount represents the largest value of the fair value of an asset or cash-generating unit less costs to sell and value of use.

The recoverable amount is determined at the level of the individual asset, except when the asset does not generate cash flows that are largely independent of those generated by other assets or groups of assets. In this case, the recoverable amount is determined for the cash-generating unit to which the asset belongs (i.e. for the entire banking activity), unless:

- the fair value less the cost of selling the asset is greater than its book value; or
- the value of use of the asset can be estimated to be close to fair value less costs to sell and fair value less costs to sell can be determined (for example, for an asset that is held for sale).

Fair value less costs to sell

The best evidence of fair value less the costs of selling an asset is the sale price of a firm sales and purchase agreement in a transaction carried out under objective market conditions, adjusted with the incremental costs directly attributable to the sale of the asset.

If there are no firm sales and purchase agreement but the asset is traded on an active market, the fair value less the selling costs is the market price of the sale less the selling costs.

If there is no firm sales and purchase agreement or an active market for an asset, fair value less costs to sell is determined on the basis of the best available information to reflect the value that the Bank may obtain at the end of the reporting period, from the sale of the asset in a transaction carried out under objective market conditions between the parties who are aware of the case and willing to trade, after deducting the selling costs. In determining this value, the Bank considers the result of transactions with similar assets within the same industry. Fair value less costs to sell does not reflect a forced sale, except when the Management is obliged to sell immediately.

Value in use

The value in use is the present value of future cash flows that are expected to be generated by an asset or cash-generating unit.

When calculating the value in use of an asset, the following elements will be considered:

- estimating future cash flows that the Bank expects to obtain from the respective asset;
- expectations regarding possible variations in the value or placement over time of those cash flows;
- time value of money, depending on the current interest rate on risk-free investments on the market;
- the price to bear the uncertainty inherent in the asset; and

- other factors, such as the lack of liquidity, which market participants would take into account when estimating the value of future cash flows that the Bank expects to obtain from the respective asset.

Estimating the value in use of an asset involves the following steps:

- a) estimating the outflows and inflows of cash flows that can be obtained from the continuous use of the asset and its subsequent disposal;
- b) updating the cash flows by applying the corresponding discount rate.

2.3.3 Determination of impairment loss

An impairment loss is recognized for an individual asset if and only if the recoverable amount of the asset is lower than its book value.

An impairment loss is recognized for a cash-generating unit if and only if the recoverable amount of the unit is lower than the book value of the unit.

Impairment loss is allocated to reduce the book value of assets in the unit in the following order:

- first, to reduce the book value of any goodwill allocated to the cash-generating unit; and
- then, to any other assets of the unit proportionately, based on the weight of the book value of each asset in the unit.

When allocating the impairment loss, the Bank will not reduce the book value of the asset under the greater of:

- the fair value less costs to sell (if it can be determined);
- the value in use (if it can be determined); and
- zero.

Impairment loss is recognized immediately in profit or loss, except when the asset is measured at revalued value. In this case, the impairment loss will be treated as a reduction of the revaluation in accordance with IAS 16 - Property, plant and equipment.

After the recognition of an impairment loss, the depreciation calculated for the respective asset will be adjusted in future periods to reflect the reviewed book value of the asset.

2.3.4 Resumption of impairment loss

The Bank evaluates at each reporting date whether there are indications that an impairment loss recognized in prior periods for an asset (other than goodwill) no longer exists or has decreased. If there are such indications, the Bank will estimate the recoverable amount of the asset.

An impairment loss related to a goodwill is not resumed. As for other assets, impairment losses are resumed if the estimates used to determine the recoverable amount have been modified.

An impairment loss is resumed only to the extent that the increased book value of the asset does not exceed the book value that would have been established (less accumulated depreciation) if no impairment loss had been recognized for that asset.

The resumption of impairment loss will be recognized immediately in profit or loss, unless the asset is valued at revalued. In this case, the resumption of impairment loss will be treated as an increase in revaluation in accordance with IAS 16 - Property, Plant and Equipment.

2.4 Real-estate investment

For the purpose of the Bank's current activity, real estate investments represent real estate (land or buildings / parts of some buildings or both) that are held mainly for the purpose of obtaining rents or increasing the value of capital, and not for use in the provision of services, for administrative purposes or to be sold during the normal course of business.

The following are examples of real estate investments:

- the land held rather for the purpose of long-term increasing of the value of the capital, than for the purpose of selling it in the short term, during the normal course of business;
- land held for future use that is still undetermined;
- a building owned (or held under a financial lease agreement) and leased under one or more operational lease agreements;
- a building that is vacant but is held for rent under one or more operational lease agreements;
- real estate under construction or development for future use as real estate investments.

A real estate investment is recognized as an asset if and only if: the future economic benefits associated with the real estate investment are likely to revert to the Bank and the cost of the real estate investment can be measured reliably.

Real estate investments are initially recognized at cost. Trading costs are included in the initial valuation. The bank does not recognize in the carrying amount of a real estate investment the costs of daily maintenance of such real estate. These costs are recognized in profit or loss as they are incurred.

After initial recognition, the bank uses the fair value model. Any gain or loss generated by a change in the fair value of the real estate investment is recognized in profit or loss in the period in which it appears.

The bank determines the fair value of real estate investments based on a valuation carried out by an independent appraiser who has a relevant and recognized professional qualification and who has recent experience regarding the location and category of real estate investment being evaluated.

If the Bank has previously evaluated a real estate investment at fair value, it will continue to evaluate the real property concerned at fair value until the time of the sale or until the real estate becomes the real estate used by the Bank or begins to arrange the property for the purpose of the subsequent sale during the usual activity.

Transfers to or from real estate investments are made only when there is a change in the use of the asset. For the transfer of an investment property measured at fair value through property, plant and equipment, the default cost of the asset for subsequent recognition will be at fair value at the date of the change in use.

Gains or losses arising from the scrapping or sale of a real estate investment are recognized in the income statement at the date of scrapping or sale.

2.5 Financial assets and liabilities

A **financial asset** is represented by any asset that represents:

- a) cash;
- b) an equity instrument of another entity;
- c) a contractual right to receive cash / other financial assets from another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favorable to the Bank;
- d) a contract that will be or can be settled in the Bank's own equity instruments and is a non-derivative instrument for which the Bank is or may be obliged to receive a variable number from its own equity instruments or a derivative instrument that will or may be settled otherwise than by exchanging a fixed amount of cash or another financial asset with a fixed number from its own equity instruments.

A **financial liability** is any liability that represents:

- a) a contractual obligation:
 - (i) to deliver cash or other financial assets to another entity; or
 - (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable; or
- b) a contract that will be or can be settled in the Bank's own equity instruments and is:
 - (i) a non-derivative instrument for which the Bank is or may be obliged to deliver a variable number of its own equity instruments; or
 - (ii) a derivative instrument that will be or may be settled otherwise than by exchanging a fixed amount of cash or another financial asset with a fixed number from its own equity instruments.

An equity instrument is any contract that certifies the existence of a residual interest in the Bank's assets after deduction of all its debts.

2.5.1 Classification and recognition of financial assets and liabilities

The bank shall classify **financial assets** depending on the business model used for asset management and the characteristics of the contractual cash flows in one of the following categories:

- amortized cost;
- fair value through other comprehensive income (**FVTOCI**);
- fair value through profit or loss (**FVTPL**).

A financial asset is measured at amortized cost if both of the following conditions are met:

- a) the financial asset is held in the framework of a business model whose objective is to hold financial assets to collect the contractual cash flows and
- b) the contractual terms of the financial asset generate, at certain dates, cash flows that are exclusively payments of the principal and the interest related to the value of the principal due ("SPPI Test").

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

- a) the financial asset is held within a business model whose objective is fulfilled both by collecting the contractual cash flows and by selling the financial assets and
- b) the contractual terms of the financial asset generate, at certain dates, cash flows that are exclusively payments of the principal and the interest related to the value of the principal due.

A financial asset is measured at fair value through profit or loss, unless it is measured at amortized cost or at fair value through other comprehensive income. However, the Bank may make an irrevocable choice upon initial recognition for certain investments in equity instruments that would otherwise be measured at fair value through profit or loss to present further changes in fair value in other comprehensive income.

The SPPI test

The bank conducts the assessment of the characteristics of the contractual cash flows in order to identify whether the contractual cash flows are “exclusively payments of the principal and the interest at the value of the outstanding principal balance” - the SPPI test. The SPPI assessment is a unique exercise and is performed at the initial recognition of the financial asset in order to examine the financial assets for which the effective interest method application is either not technically viable or does not provide useful information regarding the uncertainty, timing and the value of the contractual cash flows.

The bank shall classify all **financial debts** as subsequently assessed at amortized cost, except:

- a) financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, should be subsequently measured at fair value;
- b) the financial liabilities that arise when a transfer of a financial asset does not meet the conditions to be derecognised or is accounted using the continuous involvement approach;
- c) financial guarantee contracts. After the initial recognition, the Bank as issuer of such a contract must subsequently evaluate to the highest value between:
 - i) the value of the adjustment for losses and
 - ii) the amount initially recognized less, where applicable, the cumulative amount of the income recognized in accordance with the principles of IFRS 15.
- d) commitments to provide a loan at an interest rate below market value. The bank as issuer of such a commitment subsequently evaluates it to the highest value of:
 - i) the value of the adjustment for losses and
 - ii) the amount initially recognized less, where applicable, the cumulative amount of the income recognized in accordance with the principles of IFRS 15.
- e) of the contingent compensation recognized by the Bank as acquirer in a combination of undertakings to which IFRS 3 applies. Such contingent compensation should be subsequently measured at fair value with recognized changes in profit or loss.

The bank may, upon initial recognition, irrevocably designate a financial liability as valued at fair value through profit or loss when a hybrid contract comprises one or more derivatives incorporated, and the host instrument is not an asset that falls under the impact of this standard, or when this action generates more relevant information, because either:

- a) eliminates or significantly reduces an inconsistency of valuation or recognition (sometimes referred to as an “accounting mismatch”) that would otherwise result from the assessment of assets or liabilities or the recognition of their related gains and losses on different bases; or
- b) a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on the basis of fair value, in accordance with a documented risk management or investment strategy, and group information is provided internally on that basis to key personnel in the Management of the Bank (as defined in IAS 24 Related party disclosures).

2.5.2 Reclassification of financial assets and liabilities

In case the Bank changes its business model for managing its financial assets, all the affected financial assets are reclassified. It is estimated that such changes will be very rare. Such changes are determined by the Management Bodies of the Bank as a result of significant external or internal changes to the Bank's operations and demonstrable to external parties. As a result, a change in the business model will only occur if the Bank either starts or ceases an activity that is significant for its operations.

A modification of the Bank's business model objective is made before the reclassification date, applying the reclassification prospectively from the reclassification date. In the case of reclassifications, the Bank does not recover any gains, losses (including impairment gains or losses) or previously recognized interest.

The bank does not reclassify its financial liabilities.

2.5.3 Initial assessment

Upon initial recognition, the Bank evaluates a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or a financial liability that is not at fair value through profit or loss, the transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial debt. Exceptions to the rule are trade receivables that are valued at the transaction price (as defined in IFRS 15) when the trade receivable does not contain a significant financing component in accordance with IFRS 15.

The following table summarizes the rules for initial recognition:

Category	Initial recognition
Financial assets measured at fair value through profit or loss	Fair value without including transaction cost
Financial assets measured at amortized cost Financial assets measured at fair value through other comprehensive income	Fair value + transaction costs directly attributable to the acquisition of the financial asset
Financial liabilities measured at amortized cost	Fair value + transaction cost directly attributable to financial debt issuance
Financial assets measured at fair value through profit or loss	Fair value without including transaction cost

2.5.4 Subsequent evaluation of financial assets and liabilities

After the initial recognition, the Bank evaluates a financial asset at:

- a) amortized cost;
- b) fair value through other elements of the comprehensive income; or
- c) fair value through profit or loss.

After the initial recognition, the Bank assesses a financial debt at:

- a) amortized cost; or
- b) fair value through profit or loss.

2.5.5 Valuation at amortized cost of financial assets and liabilities

The Bank evaluates loans and receivables (current accounts and deposits with other banks, including the National Bank of Moldova, debt securities portfolios, loans granted to clients and other commercial receivables) and financial liabilities (deposits and current accounts of other banks and non-bank clients, contracted loans and other loans) at amortized cost.

Amortized cost of an asset or financial obligation is the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments, plus or minus accumulated depreciation using the effective interest method for each difference between the initial value and the maturity value and, for financial assets, modified for any adjustment for losses.

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

The effective interest rate is the rate that exactly updates the future cash payments or receipts estimated over the expected life of the financial asset or financial debt at the gross book value of a financial asset or at the amortized cost of a financial debt. When calculating the effective interest rate, the Bank estimates the expected cash flows taking into account all the contractual conditions of the financial instrument (for example, prepayment, extension, call options and other similar options), but does not take into account the expected credit losses. The calculation includes all commissions and points paid or collected by the

contracting parties that form an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

The Management Bodies of the Bank considers that it is not possible to estimate the cash flows or expected lifetimes of the financial instruments credibly and therefore uses the contractual cash flows over the entire contractual duration of the financial instruments for the calculation of the effective interest and the amortized cost.

2.5.6 Identification and assessment of impairment of financial assets

The bank recognizes a loss adjustment for *credit losses expected* related to a financial asset that is measured at amortized cost or measured at fair value through other comprehensive income, a debt arising from a leasing agreement, an asset related to the contract or a loan commitment and a financial guarantee contract.

IFRS 9 establishes a three-stage impairment model, based on the existence of significant increases in the credit risk of a financial asset since its initial recognition. These three steps then determine the amount of the impairment loss that is to be recognized as the expected credit loss (ECL) at each reporting date:

- Stage 1: Credit risk has not increased significantly on / since the initial recognition of the instrument - the Bank recognizes ECL for a period of 12 months, and interest income will be calculated on the gross balance;
- Stage 2: The credit risk has increased significantly since the initial recognition of the instrument - the Bank recognizes the ECL for the entire life, and the interest income will be calculated on the gross balance;
- Stage 3: The financial asset is significantly impaired - the Bank recognizes the ECL for the life of the asset.

At each reporting date, the Bank evaluates the adjustment for losses related to a financial instrument to an amount equal to the expected loan losses over the entire life if the credit risk related to the respective financial instrument has increased significantly since the initial recognition (stage 2).

However, at the reporting date, the credit risk for a financial instrument has not increased significantly since the initial recognition (stage 1); the Bank evaluates the adjustment for losses for that financial instrument at an amount equal to the expected 12-month credit losses.

The Bank evaluates the expected credit losses of a financial instrument in a way that reflects:

- a) impartial value, weighted by probabilities, which is determined by evaluating a range of possible outcomes;
- b) time value of money; and
- c) reasonable and justifiable information that is available without undue cost or effort at the reporting date regarding past events, current conditions and forecasts regarding future economic conditions.

The bank uses the following criteria for determining the credit risk increase compared to the one associated with the initial recognition:

1. the number of days outstanding for payment with the meeting of the materiality threshold (as defined in the Bank's internal methodology);
2. restructuring of the contract;
3. early warning signals / monitoring lists;
4. a significant increase in the probability of default for the entire life of the asset;
5. climate change issues may also affect the accounting of financial instruments.

The bank considers the following types of assets as low risk carriers:

- a) sovereigns: central banks, governments, local authorities, public sector entities;
- b) other financial institutions (banks);

At each reporting date, the Bank assesses the amount of the expected loss reduction / provision for a financial instrument based on the evolution of the credit risk associated with that financial instrument. The Bank estimates and recognizes expected losses (ECLs) for financial instruments that it has not designated as measured at fair value through profit or loss.

The Bank recognizes in profit or loss, as a gain or loss on impairment, the amount of the expected loss on credit / provision (or reversal) that is required to adjust the reductions for loss / provision at the reporting date to the amount to be recognized in accordance with IFRS 9.

The Bank analyzes financial assets at each reporting date to identify objective evidence of impairment and whether it is necessary to recognize an impairment loss and / or a provision in the income statement. The assessment of expected losses reflects:

- a) an unbiased, probability-weighted value that is determined by evaluating a range of possible outcomes;
- b) the time value of money; and
- c) reasonable and justifiable information, which is available at no cost or undue effort at the reporting date, on past events, current conditions and forecasts of future economic conditions.

In estimating provisions, the Bank uses the following components:

- probability of default (PD) - is an estimate of the probability of default in a given time horizon. A delay may occur only at a certain point in the assessed period, if the financial instrument has not already been derecognised and is still in the portfolio;
- exposure at default (EAD) - is an estimate of the exposure at a future default date, taking into account expected changes in exposure after the reporting date, including repayments of principal and interest, scheduled by contract or otherwise, expected withdrawals of committed facilities and accrued interest on lost payments;
- loss given default (LGD) - is an estimate of the loss that occurs if a default occurs at any given time. This is based on the difference between the contractual cash flows due and those that the Bank expected to receive, including from the performance of any guarantees.

The Bank uses an impairment model based on changes in the quality of the financial instrument since initial recognition, as set out below:

- a) a financial instrument whose credit risk has not increased significantly since the date of initial recognition is classified in "Stage 1". Their ECL is measured at an amount equal to the expected loss of credit over its life resulting from possible default events in the next 12 months or less if the financial instrument is less mature, EAD at the reporting date / estimated evolution according to the chart and LGD;
- b) if a significant increase in credit risk is identified from the initial recognition, the financial instrument is transferred to "Stage 2", but is not yet considered to be impaired. The Bank recognizes a provision for losses equal to the expected credit losses over its entire life calculated at the estimated exposure according to the payment schedule by applying the conditional PD for that maturity and the LGD until those financial instruments are derecognised, classified in "Stage 1" or "Stage 3". At the same time, for the calculation of the expected credit loss for positions expiring in the first year, in order to avoid counting the annual PD, the residual maturity is taken into account, the PD being adjusted according to the Bank's internal methodologies;
- c) if signs of impairment are identified, the financial instrument is transferred to "Stage 3". The Bank recognizes a provision for losses equal to the expected loss in credit over the life of each reporting date, taking into account a probability of default of 100% and the LGD, until those financial instruments are derecognised or are classified as "Stage 1" or "Stage 2";

For impaired assets acquired or issued (POCI) as a result of credit risk, the Bank recognizes at the reporting date only the cumulative changes in credit losses expected over the life of the initial recognition as a provision for losses. POCI assets are recorded at fair value at initial recognition and interest income is subsequently recognized on an annual interest rate (EIR) adjusted for credit risk. ECLs are recognized or adjusted only to the extent that there is a subsequent change in anticipated credit losses.

For non-performing financial assets that are considered significant, the Bank applies individual treatment, resulting in expected credit losses as the difference between all cash flows expected to be received, discounted at the initial annual effective interest rate (EIR).

In this case, weighted scenarios are taken into account for all probable cash flows, namely: contractual asset flows, flows from the sale of collateral and other credit enhancements.

In determining expected losses on credit commitments and guarantees, the Bank applies the standardized approach to determining the credit conversion factor (CCF) used and estimates the expected portion of the loan commitment that will be translated into a balance sheet statement.

The Bank analyzes the correlation of the evolution of PD and of the various economic / macroeconomic factors (GDP, inflation rate, unemployment rate, industrial production volume index, etc.) integrating in the depreciation methodology the valid correlations by determining and applying a factor of PD adjustment for a period of 12 months.

The Bank uses a simplified approach in assessing loss reductions equal to the expected life losses on loans for trade receivables or contract assets resulting from transactions under IFRS 15.

The bank sometimes renegotiates or changes the contractual cash flows of loans to customers. When this happens, the Bank assesses whether or not the new deadlines are substantially different from the original deadlines. Thus, if the terms are not substantially different, the renegotiation or change does not lead to derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a gain or loss from the change in profit or loss. The new gross carrying amount is recalculated by updating the modified cash flows at the initial (original) effective interest rate;

The default risk for these assets is measured at the reporting date and is compared to the risk under the original recognition date, when the change is not substantial and thus did not result in the derecognition of the original asset. The bank monitors the subsequent performance of the modified assets and determines whether the credit risk has significantly improved after the restructuring, so that the assets are transferred from Stage 3 or Stage 2 to Stage 1.

The bank classifies intra-group exposures to the parent Bank or other subsidiaries as being at Stage 1, estimating the expected 12-month loan losses.

For low-risk exposures such as sovereign exposures (central banks, governments, public sector entities) and other banks, the estimate of losses is determined based on a significant increase in the probability of default assessed by a rating agency and considering the residual maturity of the exposure.

Financial assets measured at fair value through profit and loss are not impaired, as this component is included in the total adjustment of the fair value already recognized in profit / loss for that year.

If, during the previous year, there was a significant increase in the credit risk for an individual financial asset and, therefore, a cumulative adjustment was recognized in the lifetime value of the ECL, but then a significant increase in the risk credit no longer exists at the current reporting date, the exposure in question will be reset from Stage 2 to Stage 1. Therefore, the associated adjustment will no longer be equivalent to the lifetime of the ECL, but to the expected loss of one year. Like the previous adjustment, the associated reversal of the impairment loss must be recognized in profit or loss.

The calculation of the provision for non-performing exposures (assets in stage 3) also includes the Add-on factor, the estimation of which is based on perspective elements, increasing the current level of coverage for non-performing exposures.

The methodology for estimating the provision for stage 3 must be applied to the entire non-performing perimeter (both collective and individual assessments), including revocable and irrevocable margins.

The Bank uses the following sources in addition to those established within the system of early warning signals to identify the default status, not limiting to them:

1. the number of overdue days for payments, considering also the materiality threshold (as defined in the Bank's internal methodology);
2. the status of revenue accounting;
3. credit risk adjustments;

When applying mentioned criteria, the Bank can establish individual significance thresholds for past due payments. These thresholds are determined within the internal rules.

The number of overdue days for the payments, considering also the materiality threshold (as defined in the Bank's internal methodology).

The Bank recognizes any amount due representing principal, interest or commission that was not paid until the due date, according to the repayment schedule established contractually, as an obligation from outstanding loans.

If a legal provision / decision of the competent courts will lead to the temporary suspension of the reimbursement obligation, the counting of the remaining days for payment will be suspended during this period, the Bank evaluating in these cases the existence of possible indicators of the improbability of payment.

In the event that the debtor is changed as a result of an event, such as a merger or acquisition of the debtor or any other similar transaction, the counting of the days outstanding for payment will begin as soon as a different person or entity falls under the obligation to pay the obligation.

The Bank considers that a debtor reporting arrears of 90 days is in default, except when the arrears were generated by a technical cause (errors in the information system, time lags between receiving the payment and distributing it to the relevant account).

The status of revenue accounting

If the interest on the credit obligations is no longer recognized in the Bank's profit account as a result of the decrease in the quality of the credit obligation / the termination of the calculation due to external factors, the exposure is considered to be in default.

Credit risk adjustments

The bank considers as being in default the assets classified at stage 3 and those for which specific adjustments related to credit risk (individually impaired) have been determined.

The assets are considered as defaulted for a probationary period after eliminating the event that led to the classification in it, which will last:

- for exposures that have not been restructured or forbearance measures have been applied: 3 months from the moment arrears of 90 days are not reported;
- for restructured exposures or forbearance measures have been applied: 12 months from the grace period set in the new payment schedule.

2.5.7 Derecognition of financial assets and liabilities

Derecognition of financial assets

The Bank derecognises a financial asset (or part of a financial asset or a group of similar financial assets, hereinafter referred to as a "financial asset") when the contractual rights to the cash flows of the asset expire or when the financial asset is transferred, and the transfer qualifies for derecognition.

The bank transfers a financial asset when and only when:

- a) transfers the contractual rights to collect the cash flows of the asset; or
- b) retains the contractual rights to collect the cash flows of the asset, but undertakes a contractual obligation to pay the cash flows to one or more recipients in a transaction that meets the following conditions:
 - i. The Bank has no obligation to pay sums to any recipients, unless it receives equivalent amounts from the original asset;
 - ii. The bank is prohibited by the terms of the transfer contract to sell or pledge the original asset for reasons other than guaranteeing the obligation to pay the cash flows to eventual recipients.
 - iii. The Bank has the obligation to remit any cash flows that it collects on behalf of any recipients without material delays. In addition, the Bank is not entitled reinvest such cash flows, unless the investments are made in cash or cash equivalents during the short settlement period from the date of collection until the date on which the payment to the potential partners, and the interest obtained from such investments is transmitted to the potential recipients.

In the case of a transfer of a financial asset, the Bank assesses the extent to which it has retained or transferred the risks and benefits of owning the asset.

If the Bank transfers most of the risks and rewards of ownership over the financial asset, the Bank derecognizes the financial asset and separately recognizes as assets or liabilities any rights and obligations created or retained during the transfer.

If all or a significant part of the risks and rewards of ownership over the transferred assets are retained, the Bank continues to recognize the financial asset in the balance sheet.

Example - most of the risks and rewards of owning the asset are transferred

- The sale of a financial asset if the Bank does not hold any rights and obligations (e.g. an option or a guarantee) associated with the transferred asset;
- The sale of a financial asset if the Bank retains the right to repurchase the financial asset, but the redemption price is established as the current fair value of the asset at the repurchase date;
- The sale of a financial asset if the Bank holds a purchase option (*call*) of the transferred asset, at the Bank's option, but that option has no value (*deep-out-of-the-money*), so it is unlikely that the option will be exercised;

- The sale of a financial asset if the Bank issues a sale option (*put*) that obliges him to repay the transferred asset, at the option of the buyer, but that option is worthless (*deep-out-of-the-money*), so it is unlikely that the option will be exercised;

Example - most of the risks and rewards of holding the asset are retained by the Bank

- Selling a financial asset if the Bank assumes the obligation to compensate the buyer for the probable credit losses associated with the transferred asset;
- The sale of a financial asset with a redemption clause, the redemption price being established as a fixed price or the selling price plus a financing interest;
- Selling a financial asset together with a sale option (*put*) or purchase (*call*) that has value (*deep-in-the-money*) so the option is unlikely to expire unexercised.

If the Bank neither retains nor transfers substantially all the risks and rewards of owning the asset, the Bank will determine the extent to which it retains control over the financial asset.

The retention of control over the transferred asset is determined by the ability of the party to whom the Bank transferred the asset to sell this asset. If the third party has the practical ability to sell the asset and can exercise this capacity unilaterally and without imposing additional restrictions on the transfer, the Bank has not retained control, derecognizes the financial asset and separately recognizes any rights and obligations as assets or liabilities, in all other cases, the Bank has retained control and continues to recognize the financial asset.

When the Bank continues to recognize an asset to the extent of its continued involvement in that asset, it will also recognize a related liability.

Example - continuous involvement in a transferred asset

An example of a transaction in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership is the sale of a loan portfolio when the Bank issues a guarantee that compensates the buyer for credit losses up to a certain amount that is smaller than expected losses for that portfolio.

Derecognition of financial liabilities

The bank derecognizes a financial liability (or part of a financial liability) from the statement of financial position when, and only when it is liquidated - that is, when the obligation specified in the contract is extinguished or canceled or expires.

A substantial change in the conditions of an existing financial debt or part of it (regardless of whether or not it can be attributed to the financial difficulties the debtor is in) is accounted for as a liquidation of the initial financial debt and recognition of a new financial debt.

The terms of a financial debt are substantially modified if the present value of the cash flows under the new conditions (including any commissions paid, net of any commissions received) differs by at least 10% from the present value of the remaining cash flows according to the original instrument, both calculated using the effective interest rate of the initial instrument determined prior to the change.

The Bank recognizes in profit or loss any difference between the book value of a financial debt (or part of a financial liability) liquidated or transferred to another party and the amount paid, including any assets other than those transferred or borrowed cash.

In the event that the Bank redeems part of a financial liability, it allocates the previous book value of the financial debt between the part that continues to be recognized and the part that is derecognised on the basis of the relative fair values of those parties at the redemption date.

2.6 Inventories

Inventories are valued at the lower of cost and net realizable value.

The net realizable value is the estimated selling price during the normal course of business, minus the estimated costs for completion and the estimated costs required to make the sale

The cost of inventories includes all the costs related to the acquisition and processing, as well as other costs incurred to bring the inventories in the form and place they are at present.

The cost of those inventories that are not usually fungible and of those goods or services produced and intended for certain projects is determined by the specific identification of their individual costs. The cost of inventories, other than those mentioned above, is determined by the weighted average cost method.

In the composition of the inventories are included the materials for the consumption and the provision of the services and the objects of small value and short duration.

The objects of small value and short duration represent assets, the unit value of which is less than the rule laid down in Article 26¹ of the Tax Code, regardless of the operating life or with a service life of less than one year, regardless of the value of a unit. Exceptions are the assets that are initially classified in the category of property, plant and equipment, based on their nature and functionalities and are used directly in the provision of banking services (example: POS terminals installed at the traders, etc.).

In the case of delivery from the deposit in operation of objects of small value and short duration, the unit value of which exceeds 3000 (three thousand) MDL, the depreciation is calculated in proportion of 100% of their cost less their residual value.

The objects of small value and short duration, whose unit value is in the range from 1500 (one thousand five hundred) MDL to 3000 (three thousand) MDL, will be passed on to the expenses as they are delivered from the deposit in operation and with the recording of the respective values in registers of quantitative records.

The objects of small value and short duration, whose value is less than 1500 MDL will be passed to the expenses as the delivery of these objects from the warehouse in operation without registration in the registers of quantitative records.

Inventories of goods and materials intended for consumption in the process of maintenance of assets and the provision of services refer to expenditures on the measure of use, separately on each type of asset, service or other destination.

Estimates of net realisable value are based on the most reliable evidence available, at the time estimates are made, of the value at which stocks are expected to be realised.

2.7 Leasing

A contract is, or contains, a lease if that contract grants the right to control the use of an identified asset for a certain period of time in exchange for a consideration.

For short-term leases and leases for which the underlying asset is of low value, the lease payments associated with these leases as an expense, using either a linear basis for the entire duration of the lease or another basis systematic.

2.7.1 Lessee

Initial evaluation of the asset related to the right of use

At the beginning of the operation, as a lessee, the Bank recognizes an asset related to the right of use and a debt arising from the lease agreement.

At the start date, the cost of the asset related to the right of use is determined, which includes:

- a) the value of the initial assessment of the debt arising from the lease agreement;
- b) any leasing payments made on or before the start date, minus any leasing incentives received;
- c) any initial direct costs incurred by the Bank; and
- d) estimation of the costs to be borne by the lessee for the disassembly and removal of the underlying asset, for the restoration of the place where it is located or for bringing the support asset to the condition imposed in the terms and conditions of the lease agreement.

Initial assessment of the debt arising from the lease agreement

At the start date, the debt arising from the lease agreement is valued at the present value of the lease payments that are not paid at that date. Leasing payments are updated using the internal transfer rate calculated by the Treasury Department of the parent Bank for this purpose.

Exemptions from recognition provisions

The provisions of IFRS 16 shall not apply to:

- a) short-term lease agreements; and
- b) lease agreements for which the underlying asset has a small amount (equal to or less than EUR 5,000).

Leasing payments associated with these lease agreements are recognized as an expense, using either a linear basis for the entire duration of the lease agreement or another systematic basis, if it is more representative.

A short-term lease agreement is a lease agreement that, at the start date, has a lease term of 12 months or less. A lease agreement that contains a purchase option is not a short-term lease agreement.

2.7.2 Lessor

Classification of lease agreements

A lease is considered to be a financial lease if it transfers substantially all the risks and rewards of ownership of the asset, regardless of whether the title is transferred or not.

A lease is considered an operating lease if it is not a financial lease.

The Bank recognizes in the statement of financial position the assets held under the financial leasing regime as receivables, at a value equal to the net investment in the lease, which represents the present value of the minimum leasing payments and the residual value not guaranteed for the Bank.

The minimum leasing payments in a financial lease agreement in which the Bank is the lessor are those payments that the lessee is or may be obliged to make to the Bank during the leasing period, less the contingent rents and the cost of the services and taxes paid by the Bank and rebilled to the lessee. From the Bank's perspective, the minimum leasing payments include the residual value guaranteed by the lessee or by a third party. The recognition of the financial income is based on a model that reflects the constant periodic rate of return related to the Bank's net investment in financial leasing.

The income from operating leasing is recognized as income on a linear basis, for the lease period. The direct initial costs incurred by the Bank are added to the book value of the asset subject to the lease and recognized as an expense during the lease period, on a basis similar to the income from the lease. Assets given under operational leasing are depreciated consistent with the depreciation rules of other similar property, plant and equipment or intangible assets.

2.8 Financial means and cash equivalents

Financial means and their equivalents include cash balances, cash in transit and money in ATMs.

For the purposes of reporting cash flows, financial means and their equivalents include: balances of cash, financial means deposited with the National Bank of Moldova, Nostro accounts in banks, financial means placed in the NBM and other banks, with an initial maturity of less than 90 days.

2.8.1 Financial means due by the National Bank of Moldova

The financial means due by the National Bank of Moldova (NBM) include the Nostro account in the NBM, the mandatory regulatory reserves and the financial means placed in the NBM for a short term. The financial means due by the NBM are recorded in the balance sheet at amortized cost.

2.8.2 Financial means placed in banks

The financial means placed in banks include Nostro accounts and short-term financial means both in correspondent banks and in other banks. The financial means placed in banks are recorded in the balance sheet at amortized cost.

2.9 Debt securities

Debt securities include government securities issued by the Ministry of Finance of the Republic of Moldova and certificates of deposit of the NBM (CBN). Debt securities are valued at amortised cost. They are recognised at fair value plus direct transaction costs.

2.10 The effect of the exchange rate evolution

The provisions of this chapter are applied by the Bank for the accounting of transactions and balances in foreign currency, except for those transactions and balances related to derivatives.

The functional and presentation currency of the Bank is the Moldovan Leu (MDL). The management of the Bank may decide to present the Bank's financial statements in a currency other than MDL, but for the purposes of presenting to the National Bank of Moldova the financial statements are presented in the MDL.

Foreign currency is any currency other than the functional currency of the Bank, the Moldovan Leu.

Transactions in foreign currency are recorded at the time of initial recognition in the functional currency MDL, applying on the amount in foreign currency the exchange rate between the functional currency MDL and the foreign currency, at the date of the transaction.

At the end of each reporting dates:

- a) the monetary items expressed in foreign currency are converted using the closing rate;

- b) non-monetary items expressed in foreign currency valued on the basis of historical cost will be converted using the exchange rate from the date of the transaction; and
- c) non-monetary items expressed in foreign currency measured at fair value will be converted using the exchange rate from the date on which the fair value was determined.

Monetary items are units of currency held (cash) and assets or liabilities to be received or paid in a fixed or determinable number of monetary units (for example, current accounts and interbank deposits, loans contracted from other financial institutions, loans to customers, customer deposits, investments in debt instruments such as bonds, government bonds and treasury certificates, receivables and debts in relation to employees, state or third parties, provisions that will be settled in cash, etc.)

Non-monetary items are items that do not imply the existence of a right to receive or an obligation to pay a fixed or determinable number of monetary units (for example, advance payments or receipts for goods and services, property, plant and equipment and intangible assets, investments in instruments of equity of other entities, inventories, provisions that will be settled by the delivery of non-monetary assets, own share capital, etc.).

The exchange rate differences that arise when settling the monetary items or converting the monetary items at different rates from those at which they were converted to initial recognition during the period or in the previous financial statements are recognized in profit or loss in the period in which they occur.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. In the case of the Bank, this situation may arise for example if the revalued value of the buildings or land is determined in a foreign currency. To the extent that revaluation gains or losses are recorded in other comprehensive income in accordance with IAS 16 - Property, Plant and Equipment, and the related exchange rate gains or losses are recorded in other comprehensive income.

When a gain or loss on a non-monetary asset is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

2.11 Share capital

2.11.1 Ordinary shares

Ordinary shares are classified as share capital. The bank does not hold any other equity instruments classified as share capital.

The direct costs related to the issue of shares are recognized as a deduction from the equity, net of the related tax benefits.

Distributions to shareholders are debited directly into equity, net of the related tax benefits.

2.11.2 Treasury shares

The repurchased treasury shares are recognized as treasury shares and presented as a deduction from equity. When treasury shares are subsequently sold or remitted, the amount received is recognized as an increase in equity. The Bank does not recognize gains or losses from the purchase, sale, issue or cancellation of its own shares.

2.12 Provisions

The provision is a liability of uncertain chargeability or amount.

A provision is recognized when and only when:

- a) the Bank has a current obligation (legal or implicit) generated by a previous event;
- b) it is likely that the outflow of resources that incorporate economic benefits will be necessary to meet that obligation; and
- c) a credible estimate of the value of the obligation can be made.

A legal obligation is an obligation that results:

- a) from a contract (for its explicit or implicit causes);
- b) from the legislation; or
- c) from other sources of law.

An implicit obligation is an obligation that results from the Bank's actions if:

- a) The Bank has indicated to third parties, by its previously established practices, by its policies made public or by a recent statement, sufficiently clear, that it assumes certain responsibilities; and
- b) therefore, the Bank has determined the third parties concerned to expect, justifiably, that it will honour its responsibilities.

The value recognized as a provision will be the best estimate of the costs necessary to extinguish the current obligation at the reporting date. The best estimate of the expenses required to settle the current obligation is the amount that the Bank would reasonably pay for settling the obligation at the balance sheet date or for transferring it to a third party at that time.

Estimates of financial results and effects are determined by the reasoning of the Bank's management and supplemented by the experience of similar transactions and, in some cases, by the reports of independent experts. Elements taken into account include any additional evidence provided by events subsequent to the balance sheet date.

If the provision under assessment involves a wide range of elements, the obligation is estimated by weighting all possible outcomes according to their probabilities. This statistical method of evaluation is called "expected value".

If a single obligation is evaluated, the individual result is most likely to be the best estimate of the debt. However, even in such a case, the Bank is considering other possible outcomes. If other possible outcomes are, for the most part, either higher or lower than the most likely outcome, the best estimate will be a greater or lesser sum.

Where the effect of the time value of the money is significant, the value of the provision will represent the present value of the expenses estimated to be necessary to extinguish the obligation.

The discount rate used is the rate that reflects the current ratings on time-value market of money and debt-specific risks. The discount rate does not reflect the risks for which estimates of future cash flows have been adjusted.

If the provisions are updated, the book value of a provision increases each period to reflect the passage of time. This increase is recognized as the cost of borrowing.

Gains from the expected disposal of some assets are not taken into account when evaluating a provision.

If it expects a third party to reimburse, in whole or in part, the expenses required to settle a provision, the Bank recognizes the reimbursement if and only if it is almost certain that it will receive the reimbursement if it fulfills its obligation. Repayment is treated as a separate asset. The amount recognized as reimbursement does not exceed the amount of the provision. In the statement of comprehensive income, the costs of a provision are presented after deducting the amount recognized for a refund.

Provisions will be reviewed at each reporting date and adjusted to reflect the best current estimate. If it is no longer probable that the outflow of resources incorporating the economic benefits for extinguishing an obligation, the provision will be canceled.

The provision will be used only for the expenses for which it was initially recognized.

The bank does not recognize provisions for future losses from current business.

If the Bank has an onerous contract, the current contractual obligation provided in the contract is recognized and evaluated as a provision. An onerous contract is a contract in which the unavoidable costs associated with the fulfillment of the contractual obligations exceed the economic benefits expected to be obtained from the contract in question. The unavoidable costs of a contract reflect the net cost of leaving the contract, that is, the lower value of the cost of contract performance and any compensation or penalties generated by the non-performance of the contract. Prior to establishing a separate provision for an onerous contract, the Bank recognizes any loss due to impairment of the assets dedicated to the contract in question.

2.13 Profit tax

Income tax for the period includes current income tax and deferred income tax.

2.13.1 Current profit tax

The current profit tax represents the total value of the payment tax calculated at the value of the taxable profit for the reporting period, using the tax rate in force at the reporting date.

The current profit tax is paid quarterly, but not later than the term stipulated by the legislation (the 25th of the last month of each quarter), in amounts equal to $\frac{1}{4}$ of the amount of the income tax for the previous year.

Current income tax is recognized in profit or loss, except when it refers to items recognized in other comprehensive income or in equity, in which case current income tax is recognized in other comprehensive income respectively. For example, in the case of error corrections or changes in accounting policies that affect the deferred result, the effect from the point of view of the current profit tax (if any) will also be recorded through the deferred income.

The current profit tax for the current period and previous periods is recognized as a liability with the current profit tax, to the extent that it has not yet been paid. If the current profit tax already paid for the current period and for the previous periods exceeds the value of the profit tax due for these periods, the surplus is recognized as an asset (current profit tax debt).

2.13.2 Deferred profit tax

Deferred income tax is calculated by the method of the balance sheet obligation, which involves identifying the temporary differences between the tax base of assets and liabilities and their book value from the statement of financial position.

The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. Therefore:

- a) the tax base of an asset is the amount that can be deducted for tax purposes from the economic benefits that the Bank will obtain when recovering the book value of the asset; if the economic benefits are not taxable, the tax base of the asset is equal to its book value;
- b) the tax base of a debt is its book value, minus any amount that will be deductible for tax purposes in connection with that debt; in the case of anticipated income, the tax base of the debt is equal to its book value, minus the income that will not be taxable in future periods.

Temporary differences may be:

- a) taxable temporary differences, which are temporary differences that will result in taxable amounts when calculating taxable profit (tax loss) in the following periods when the asset or debt is to be recovered;
- b) deductible temporary differences, which are temporary differences that will result in deductible values when calculating taxable profit (tax loss) in the following periods when the asset is to be recovered or the debt settled.

The Bank recognizes a deferred income tax liability for each taxable temporary difference, except when the debt results from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction that does not represent a business combination and at the moment of the transaction does not affect the accounting profit nor the taxable profit (the tax loss).

The Bank recognizes a deferred income tax claim for each deductible temporary difference to the extent it is likely that there will be taxable profits that allow its use, less when the debt results from the initial

recognition of an asset or liability in a transaction that does not represent a combination of companies and at the time of the transaction does not affect the accounting profit nor the taxable profit (the tax loss).

The Bank also recognizes a deferred tax liability for deferred tax losses and unused tax credits, to the extent that it is likely that future taxable profits will be available to allow the use of deferred tax losses and unused tax credits.

The Bank will consider climate-related impacts on future taxable profits that may result in the Bank being unable to recognise deferred tax assets or being required to derecognise deferred tax assets previously recognised under IAS 12.

Deferred tax receivables and liabilities are measured at the expected tax rates to be applied for the period in which the asset is realized or the debt is settled, based on the tax rates (and tax laws) that have been adopted or are largely adopted up to the balance sheet date.

Assessment of deferred tax assets and liabilities reflects the fiscal consequences that would result from the way the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

The bank reviews the carrying amount of deferred income tax receivables and proceeds to reduce it if it considers that sufficient taxable profits are no longer likely to be available in the future allowing full or partial use of the debt. Such a reduction is resumed if it is likely that sufficient taxable profits will be available again.

Current income tax is recognized in profit or loss, except when it refers to items recognized in other comprehensive income or in equity, in which case current income tax is recognized in other comprehensive income respectively.. For example, if the differences in the fair value measurement of available-for-sale financial assets recorded in other comprehensive income results in deferred tax, it will be recognized in other comprehensive income.

The Bank shall offset current income tax receivables and liabilities if and only if:

- a) It has the legal right to compensate the recognized values;
- b) Intends to either settle the net amount or realize the asset and settle the debt simultaneously.

The Bank shall offset current income tax receivables and liabilities if and only if:

- a) has the legal right to offset current income tax receivables and debts;
- b) the receivables and debts regarding the deferred income tax refer to taxes levied by the same fiscal authority.

2.14 Employee Benefits

2.14.1 Short-term service benefits

From an accounting point of view, at the international and local level, the norm that discusses the provisions related to employee benefits is the International Accounting Standard - IAS 19 "Employee Benefits". Employee benefits are all forms of consideration that the Bank grants to employees in exchange for their work.

Short-term employee benefits are employee benefits (other than compensation for termination of employment contract) that are fully due within twelve months of the end of the period in which employees provide the services for which benefits are granted.

The Bank grants such short-term benefits to employees in the form of salaries, bonuses, paid leave and social security contributions. These are recognized as an expense as the employees provide the related services, except when they can be capitalized (for example, the salaries of the employees involved in the development of a computer program, when the conditions stipulated by IAS 38 are met - Intangible assets-see Chapter 2.2.).

If the amount already paid by the Bank to the employees exceeds the discounted value of the benefits, the Bank recognizes the surplus as an asset (expense paid in advance) insofar as the advance payment will lead, for example, to a reduction in future payments or to a cash reimbursement.

Expenses related to short-term employee benefits in the form of paid leave are recognized as follows:

- a) in the case of paid leave with accumulation right, as the employee provides the services in exchange for which his right to future paid leave accrues;
- b) in the case of paid leave without accumulation right, when the leave is made up.

The accrued leave payments are the ones that the employees can carry over and use in future periods, if they are not consumed during the current period (in the case of the Bank, the annual rest leave). The Bank evaluates the expected cost of the accrued leave as the additional amount that the Bank expects to pay as a result of the unpaid leave accrued at the end of the reporting period.

2.14.2 Plans determined by contributions

During the ordinary activity, Bank makes payments on behalf of the employees for social insurance and medical assistance, to the National House of Social Insurance and the National House of Medical Insurance. All relevant contributions paid by the Bank to the National House of Social Insurance and the National House of Medical Insurance are recognized in profit or loss, as expenses, as they are incurred. The bank has no other obligations in this regard, because it does not have an individual pension payment program.

The bank does not have any other defined benefit plan or a post-retirement benefit plan. The bank is not obliged to provide other services to current or former employees.

2.15 Income and expenses

The items of income and expenses are defined:

- a) Income is increases in economic benefits during the accounting period, in the form of asset inflows or increases in assets or a decrease in debt, which results in increases in equity, other than those related to participants' contributions to equity. Revenue is recognized when the Bank is likely to return certain economic benefits in the future and when these benefits can be reliably measured;
- b) Expenses are decreases of economic benefits during the accounting period in the form of outflows or exhaustion of assets or incurring liabilities, which result in reductions of equity, other than those related to the distribution to participants in equity.

2.15.1 Interest income and expenses

Interest income and expenses for all financial instruments bearing interest, except those classified as held for trading or designated at fair value through profit or loss, are recognized in the profit or loss account for all instruments valued at amortized cost based on the effective interest rate method.

The effective interest rate method is a method of calculating the amortized cost of a financial asset or financial debt and allocating the interest income or expenses during the relevant period. The effective interest rate is the rate that exactly updates the future estimated cash payments or receipts over the life of the financial instrument or, where appropriate, for a shorter period, to the net book value of the financial asset or financial debt. When calculating the effective interest rate, the Bank estimates the cash flows taking into account all the contractual conditions of the financial instrument, except for future credit losses.

The calculation includes all commissions paid or received between the contracting parties which are part of the effective interest rate, trading costs and all other premiums and discounts.

Once a financial asset or a class of financial assets has recorded an impairment loss, interest income is recognized by applying the interest rate used to update future cash flows for the purpose of assessing the impairment loss.

2.15.2 Income from fees and commissions

The expenses and commissions are usually recognized on the basis of the accounting of commitments at the time of rendering the respective service. The expenses for the loan commitments that are likely to be granted are deferred (along with the direct costs) and are recognized as an adjustment to the effective interest rate on loans. Commissions and expenses obtained from negotiations, or from participating in the negotiation of a transaction with a third party, such as arranging the purchase of shares or other shares, as well as the purchase or sale of the shares - are recognized at the date of completion of the transaction. Other expenses and commissions collected from the provision of services by the Bank, including those of investment management, brokerage or servicing fees are recognized as the provision in the profit or loss account. Other expenses and commissions paid are usually transactional and service fees, which are reflected in expenses as they are received.

Recognition of the revenues related to the fees for the financial services provided depends on the purpose for which these fees are collected and on the accounting basis applicable to the associated financial instruments, if any. The description of fees for financial services may not indicate the nature and economic background of the services provided. Therefore, it is necessary to distinguish between the fees that are an integral part of the effective interest rate of a certain financial instrument, the fees earned on the provision of services and the fees earned when fulfilling a main contractual obligation.

(a) Fees that are an integral part of the effective interest rate of a financial instrument

These fees are generally treated as an adjustment to the effective interest rate. However, when the financial instrument is measured at fair value, with the change in the fair value recognized in profit or loss, the fees are recognized as income when the instrument is recognized.

(i) Issuance fees received by the Bank following the creation or acquisition of a financial asset, other than those classified by IFRS 9 as financial assets “at fair value through profit or loss”

Such fees may represent compensation for activities, such as evaluating the financial position of the debtor, evaluating and recording collateral and other similar contracts, negotiating clauses related to the instrument, preparing and processing documents, as well as closing the transaction. These fees contribute to generating concern for the resulting financial instrument and, together with the related direct expenses, are deferred and recognized as an adjustment to the effective interest rate.

(ii) Commitment fees received by the Bank for granting a loan when the loan commitment is outside the scope of IFRS 9

If the Bank is likely to enter into a loan agreement and the loan commitment is not included in the scope of IFRS 9, the commitment fee received is a reward for the efforts generated by the purchase of a financial instrument. This fee and related direct expenses are deferred and recognized as an adjustment of the effective interest rate. If the commitment term expires without the loan being requested, the commitment commission is recognized as income at the expiration date. The loan commitments found in the scope of application of IFRS 9 are recorded in accounting as derivatives and are measured at fair value.

(iii) The issuance fees received at the issuance of the financial liabilities measured at amortized cost

These fees are an integral part of generating an involvement in a financial debt. When a financial debt is not classified as being “at fair value through profit or loss”, the issuance fees received are included, together with the related transaction costs, in the initial book value of the financial debt and recognized as an adjustment to the effective interest rate. The bank will distinguish between fees and costs that are an integral part of the effective interest rate for the financial debt, on the one hand, and the issuance fees and transaction costs related to the right to provide services, such as investment management, on the other hand.

(b) Fees earned as services are provided

(i) Fees for the administration of a loan

The fees received by the Bank for the administration of a loan are recognized as income as the services are provided.

(ii) Commitment fees for granting a loan, when the loan commitment is outside the scope of IFRS 9

If a certain credit agreement is unlikely to be concluded and the lending commitment is outside the scope of IFRS 9, then the commitment fee is recognized as income during the commitment period. Lending commitments that are within the scope of IFRS 9 are recorded in accounting as derivative instruments and measured at fair value.

(c) Fees earned on achieving a significant benefit

Fees are recognized as income for the achieving of a significant benefit, as in the examples below:

(i) Commission for the allocation of shares of a client

The commission is recognized as income after the allocation of shares.

(ii) Placement fees for arranging a loan between a debtor and an investor

The fee is recognized as income, after the loan has been arranged.

2.15.3 Net trading income

It includes the net gains realized from the trading of assets and liabilities and includes the currency exchange difference.

The transaction date is the date on which the Bank first recognizes the non-monetary asset or non-monetary debt that results from the payment or collection of an advance payment.

2.15.4 Dividend income

Dividend income is recognized when it is established the right of the Bank to receive them (e.g. when approved by shareholders / associates).

2.15.5 Other income / expenses

Other operating income / expenses, as well as general and administrative expenses are recognized on an accrual based accounting.

The expenses related to the litigation on the credit contracts, due to the non-payment (state taxes, notarial costs, execution, etc.) are recognized at the expenses as they occur. In the case of recovery by or on behalf of the client, they are recorded as a reversal of the respective expenses within the same year or recognized in income, if they refer to previous years.

2.15.6 Donations and monetary contributions

The main types of donations and monetary contributions that may be made by the Bank relate to:

- donations made within the autonomy of the Management Committee / Board of Directors;
- promotional expenses, sponsorships and membership fees in associations.

The table below summarizes the accounting for the different types of donations analyzed:

Type	Accounting treatment
Donations made within the autonomy of the Management Committee / Board of Directors	Other operating expenses
Promotional expenses, sponsorships and associations' membership fees	Administrative expenses

2.16 Contingent assets and liabilities

A contingent liability is:

- a) a possible obligation arising from past events and whose existence will be confirmed only by the production or not of one or more uncertain future events and which is not completely under the control of the Bank;
- b) a present obligation arising from past events but which is not recognized because:
 - i. it is not likely that an outflow of resources incorporating economic benefits will be required to settle the obligation;
 - ii. the value of the obligation cannot be sufficiently credible.

A contingent asset is a possible asset arising from past events and whose existence will be confirmed only by the production or not of one or more uncertain future events and which is not completely under the control of the Bank;

Contingent liabilities and assets are not recognized in the financial statements. Contingent liabilities are presented in the notes to the financial statements, except when the possibility of an outflow of resources incorporating economic benefits is removed. Contingent assets are presented in the notes to the financial statements if it is probable that the entry of economic benefits.

The table below summarizes the rules for recognizing and presenting contingent assets and liabilities:

Asset	Cert.	Recognition
Contingent asset	Probably	Disclosed
	Possible	Not disclosed
	Distant	Not disclosed
Liability	Cert.	Recognized
	Probably	Recognized
Contingent liability	Probably	Disclosed
	Possible	Disclosed
	Distant	Not disclosed
Thresholds used by the Bank: <ul style="list-style-type: none"> • Certainly:= 100% • Probably:> 50% • Possible: <50% • Distant: <10% 		

2.17 Related parties

The Bank's financial statements contain all information regarding:

- financial position and profit or loss, which are influenced by the existence of the related parties;
- transactions and balances with related parties.

Relations with related parties are a normal feature of the Bank's activity.

Related parties to the Bank are identified according to the provisions of Law no. 202/2017 on the activity of banks.

A related party transaction represents any transfer of funds or contractual obligations between the related parties and the Bank, whether or not a payment is levied, with the exception of foreign exchange transactions / operations, remittances, replenishment of accounts, payment of interest/ commissions/ debts on loans, transfers related to salary packages.

In the process of identifying and analysing the relationships / transactions with the related parties, the Management Body of the Bank must also include:

- close family members of the person / persons in relation to the Bank - family members who may influence or may be influenced by the respective person / persons in their relationship with the Bank;
- key management personnel of the Bank - staff members whose functions give them a significant influence on the Bank's direction, but who are not members of the governing body, identified in accordance with the provisions of the NBM Regulation on requirements towards members of the governing body of the bank, of the financial holding company or mixed holding company, the managers of the branch of a bank from another state, the persons holding key positions and towards the liquidator of the bank in liquidation process no. 292/2018.

Regarding the presentation of the information regarding the related parties in the notes to the Bank's financial statements:

- links between control-based related parties are presented regardless of whether or not there have been transactions between the parties;
- The bank presents the name of the parent Bank and, if different, the party that ultimately controls it;
- if neither the parent Bank nor the party that ultimately controls the financial statements available to the public, the name of the next higher parent company will be presented as important.

Also, the Bank presents in the notes to the financial statements, at least the following information regarding the nature and types of transactions with related parties, separately for each category of related parties:

- the nature of the relationship between the parties and information on transactions and balances;
- volume of transactions;
- the value of the balances, their terms / conditions, even if they are guaranteed;
- provisions and expenses regarding uncertain or doubtful debts.

2.18 Final provisions

The present Accounting Policies enter into force on the date of approval by the Board of Directors, being applicable starting with 01 January 2025.

From the date of entry into force of these accounting rules (Accounting Policies), the previous version 1.3 of the Accounting Policies approved by the decision of the Board of Directors dated 21.12.2022 and revised by the Board of Directors Decision of 21 December 2023, is repealed.

If one or more provisions of this normative act contradict the provisions of the legislation in force of the Republic of Moldova, the normative act issued / adopted by the authorized public authority will be directly applied.

Any non-compliance with this internal normative act constitutes a disciplinary violation and is sanctioned in accordance with the legislation in force and the internal normative acts of the Bank.

This normative act will be updated periodically and whenever it is considered necessary, taking into account the changes made in the applicable legislation.