EXIMBANK

Bank of INTESA SANPAOLO

JSCB EXIMBANK

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

(FREE TRANSLATION)*

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

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Independent Auditors' Report

(free translation[1])

To the sole Shareholder of Joint Stock Commercial Bank "EXIMBANK"

171/1 Stefan cel Mare si Sfant, mun. Chisinau, Republic of Moldova
Unique registration code: 1002600010273

Opinion

1. We have audited the financial statements of Joint Stock Commercial Bank "EXIMBANK" ("the Bank"), which comprise the statement of financial position as at 31 December 2020, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.
2. The financial statements as at and for the year ended 31 December 2020 are identified as follows:

• Total equity:	MDL 1,062,150,394
• Net loss for the year:	MDL -26,316,724

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

Basis for Opinion

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

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Other Information – Annual Report ("Management Report")

5. Management is responsible for the preparation and presentation of other information. The other information comprises the Management Report, but does not include the financial statements and our auditors' report thereon.

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

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

   With respect to the Management's Report we read and report whether the Management's Report is prepared, in all material respects, in accordance with the requirements of Law no. 287/2017 on Accounting and Financial Reporting, article 23, paragraphs 2 – 4.

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

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

   b) The Management's Report has been prepared in accordance with the requirements of Law no. 287/2017 on Accounting and Financial Reporting, article 23, paragraphs 2 – 4.

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

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

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

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

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

Auditors' Responsibility for the Audit of the Financial Statements

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

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

    - Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not

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detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

26 April 2021

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

Nicoleta Rusu

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Romanian version

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

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

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

Administrator of ICS KPMG Moldova S.R.L.

Tudor Grecu

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Romanian version

Partner

ICS KPMG Moldova S.R.L.

171/1 Stefan cel Mare Avenue, 8th floor
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Republic of Moldova

registered in the electronic public register
of audit firms under No.1903038

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BANCA COMERCIALA EXIMBANK S.A.

STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2020
(All amounts are in Moldovan Lei (MDL) unless otherwise stated)

	Note	31 December 2020	31 December 2019
Assets			
Cash and balances with National Bank of Moldova	14	1,181,840,018	1,371,252,424
Loans and advances to banks	15	722,263,103	727,159,071
Loans and advances to customers	17	1,528,027,317	1,067,551,455
Investment securities	16	814,524,516	815,074,362
Current tax asset		13,486,210	-
Intangible assets	18	36,688,012	38,646,587
Property and equipment	19	244,443,090	265,813,324
Assets held for sale	21	3,213,611	6,005,453
Other assets	20	42,202,615	33,814,331
Total assets		**4,586,688,492**	**4,325,317,007**
Liabilities			
Due to banks	22	173,990,927	-
Due to customers	23	3,219,566,729	3,095,357,657
Other liabilities	24	130,980,442	147,218,082
Total liabilities		**3,524,538,098**	**3,242,575,739**
Equity			
Share capital	26	1,250,000,000	1,250,000,000
Revaluation reserve on investment securities		-	(7,410)
Revaluation reserve on tangible assets		23,550,318	17,824,054
Accumulated losses		(211,399,924)	(185,075,376)
Total equity		**1,062,150,394**	**1,082,741,268**
Total liabilities and equity		**4,586,688,492**	**4,325,317,007**

These financial statements were signed on 26 April 2021 by:

Vitalie Bucătaru
First Deputy General Director

BANCA COMERCIALA "EXIMBANK" S.A.
EXIMBANK
IDNO 1002600010273
REPUBLICA MOLDOVA, mun CHIŞINĂU

Sergiu Suveica
Chief Accountant

The accompanying notes set on pages 6 to 111 form an integral part of these financial statements.

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BANCA COMERCIALA EXIMBANK S.A.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020
(All amounts are in Moldovan Lei (MDL) unless otherwise stated)

	Note	2020	2019
Interest income based on the effective interest method	6	156,304,613	163,730,709
Interest expense	6	(45,896,605)	(49,947,543)
Net interest income		**110,408,008**	**113,783,166**
Fee and commission income	7	67,834,048	69,853,907
Fee and commission expense	7	(30,111,617)	(30,226,308)
Net fee and commission income		**37,722,431**	**39,627,599**
Net trading income	8	47,441,315	31,351,247
Other operating income	9	2,657,478	5,437,527
Impairment charge on financial assets	10	(31,076,852)	63,796,757
Impairment charge on tangible assets	19	(7,149,042)	(1,009,424)
Administrative expenses	11	(137,356,296)	(123,394,880)
Other operating expenses	12	(48,963,766)	(70,404,050)
Profit/ (loss) before income tax		**(26,316,724)**	**59,187,942**
Income tax expense	13	-	(15,056,372)
Profit/ (loss) for the year		**(26,316,724)**	**44,131,570**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Changes in the fair value of equity investments valued at fair value through other comprehensive income		(414)	(7,410)
Revaluation reserve of tangible assets		5,726,264	(3,104,970)
Total other comprehensive income		**5,725,850**	**(3,112,380)**
Total comprehensive income for the year		**(20,590,874)**	**41,019,190**

These financial statements were signed on 26 April 2021 by:

Vitalie Bucătaru
First Deputy General Director

BANCA COMERCIALĂ "EXIMBANK" S.A.
EXIMBANK
IDNO 1002600010273
REPUBLICA MOLDOVA, mun. CHIŞINĂU

Sergiu Suveica
Chief Accountant

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STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020
(All amounts are in Moldovan Lei (MDL) unless otherwise stated)

	Share capital	Revaluation reserve on investment securities at FV through OCI	Revaluation reserve on tangible assets	Accumulated losses	Total
Balance as at 1 January 2020	**1,250,000,000**	**(7,410)**	**17,824,054**	**(185,075,376)**	**1,082,741,268**
Loss for the year	-	-	-	(26,316,724)	**(26,316,724)**
Other comprehensive income:					
Fair value change of investment securities	-	(414)	-	-	**(414)**
Net result from the sale of investment securities at FV through OCI		7,824		(7,824)	
Fair value change of tangible assets	-	-	5,726,264	-	**5,726,674**
Total other comprehensive income	-	***7,410***	***5,726,264***	***(7,824)***	***5,725,850***
Total comprehensive income	-	**7,410**	**5,726,264**	**(26,324,548)**	**(20,590,874)**
Balance as at 31 December 2020	**1,250,000,000**	**-**	**23,550,318**	**(211,399,924)**	**1,062,150,394**

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STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020
(All amounts are in Moldovan Lei (MDL) unless otherwise stated)

	Share capital	Revaluation reserve on investment securities at FV through OCI	Revaluation reserve on tangible assets	Accumulated losses	Total
Balance as at 1 January 2019	**1,250,000,000**	**-**	**20,929,024**	**(229,206,946)**	**1,041,722,078**
Profit / (loss) for the year	-	-	-	44,131,570	44,131,570
Other comprehensive income:					
Fair value change of investment securities	-	(7,410)	-	-	(7,410)
Fair value change of tangible assets	-	-	(3,104,970)	-	(3,104,970)
Total other comprehensive income	*-*	***(7,410)***	***(3,104,970)***	*-*	***(3,112,380)***
Total comprehensive income	**-**	**(7,410)**	**(3,104,970)**	**44,131,570**	**41,019,190**
Balance as at 31 December 2019	**1,250,000,000**	**(7,410)**	**17,824,054**	**(185,075,376)**	**1,082,741,268**

The accompanying notes set on pages 6 to 111 form an integral part of these financial statements.

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STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER 2020
(All amounts are in Moldovan Lei (MDL) unless otherwise stated)

	Note	2020	2019
Cash flow from operating activites			
Profit/ (loss) for the year		**(26,316,724)**	**44,131,570**
Adjustments for non-monetaru items			
Depreciation and amortization of tangibles, intangibles and rights of use of assets received in operating lease	11	23,730,132	23,999,926
Depreciation of other assets		693,159	800,183
Depreciation of tangible assets		7,149,042	1,009,424
Loss / (recovery) from impairment of financial assets		31,076,851	(63,796,757)
Loss from impairment of investment property and recovered collateral	12	960,838	2,060,191
(Profit) / loss on sale of assets		(538,922)	306,286
Interest income based on the effective interest method		(156,304,613)	(163,730,709)
Interest expense		45,896,605	49,947,543
Provision for employee benefits		1,024,882	1,816,282
Tax expense		-	15,056,372
Changes in assets and liabilities:			
Balances with National Bank of Moldova		(54,078,727)	(46,759,005)
Loans and advances to banks		113,166,260	265,575,767
Investments in securities		(63,032,748)	(1,734,668)
Loans and advances to customers		(462,157,140)	(411,603,889)
Assets held for sale		2,791,841	7,683,675
Other assets		(10,649,666)	2,616,370
Due to customers		129,480,138	308,603,120
Other liabilities		(29,128,854)	32,813,621
		(446,237,646)	**68,795,302**
Interest received		161,286,024	151,970,455
Interest paid		(50,580,024)	(53,747,841)
Income tax paid		(14,412,829)	(12,690,988)
Net cash flow from operating activities		**(349,944,475)**	**154,326,928**
Cash flow from investment activity			
Acquisitions of property and equipment	19*	(11,265,345)	(38,058,047)
Acquisitions of intangible assets	18	(7,000,750)	(17,859,402)
Net cash flow from investment activities		**(18,266,095)**	**(55,917,449)**
Cash flow from financial activity			
Proceeds from bank borrowings	22	173,990,927	-
Net cash flow from financial activities		**173,990,927**	**-**
Net increase / (decrease) in cash and cash equivalents		**(194,219,643)**	**98,409,479**
Cash and cash equivalents as at 1 January		**1,772,249,130**	**1,673,706,160**
Exchange rate effect		(2,066,891)	133,491
Cash and cash equivalents as at 31 December	**29**	**1,575,962,596**	**1,772,249,130**

*Additions presented in Note 19 consist of: (i) acquisitions of property and equipment in the amount of MDL 11,265,345 and (ii) additions of the right of use assets in the amount of MDL 6,546,084 (Note 33).

The accompanying notes set on pages 6 to 111 form an integral part of these financial statements.

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1 REPORTING ENTITY

The Commercial Bank EXIMBANK S.A. (the "Bank") was established in Republic of Moldova in 1994 as "Banca de Export-Import a Moldovei" and was registered by the National Bank of Moldova ("NBM") in 1994 as a limited liability company. In 1996 the Bank was transformed into a joint-stock commercial bank "Export-Import". In 2001 in accordance with the decision of the shareholders' meeting the Bank was renamed into BC EXIMBANK S.A. In May 2006 the new sole shareholder of the Bank became Veneto Banca Societa Cooperativa per Azioni (subsequently reorganized in Veneto Banca Societa per Azioni). In August 2006 to reflect its membership of the Italian Bank Group, the new name of the Bank was registered. In March 2018 the new sole shareholder of the Bank became Intesa Sanpaolo Group, Italy.

In June 2017, Veneto Banca Societa per Azioni was declared insolvent. According to an agreement between the Italian state and Intesa Sanpaolo Bank (Italy), the latter should acquire certain assets of Veneto Banca Societa per Azioni, including their shareholding in the Bank. The process of transferring of the ownership was finalized in March 2018, when Intesa Sanpaolo was registered as the Bank's sole shareholder.

The Bank provides retail and commercial banking services in Moldovan Lei ("MDL") and foreign currency for individuals and legal entities. These include: accounts opening, domestic and international payments, foreign exchange transactions, working capital finance, medium and long term facilities, retail loans (consumer and mortgage), bank guarantees, letter of credits and documentary collections, etc.

As at 31 December 2020 the Bank had 17 branches in Chisinau, Balti, Ungheni, Soroca, Comrat, Orhei, Cahul, Hancesti (2019: 17 branches and 5 agencies) which offer a wide range of banking services and operations.

As at 31 December 2020 the Board of Directors of the Bank comprised the following members:

- Massimo Lanza, chairman of the Board;
- Marco Capellini – vice-chairman of the Board;
- Giovanni Bergamini, member of the Board;
- Francesco Del Genio -member of the Board;
- Massimo Pierdicchi -member of the Board;
- Veronika Vavrova -member of the Board;
- Adriana Carmen Imbăruș -member of the Board.

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2 BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS).

2.2 Basis of measurement

The financial statements have been prepared under the historical cost basis or amortized cost basis, except for:

Element	Basis of evaluation
Financial assets measured at fair value through other comprehensive income	Fair value
Land and buildings	Fair value based on reevaluation model
Ivestment property	Fair value
Assets held for sale	The smallest amount between the net book value and the fair value less costs to sell

2.3 Functional and presentation currency

Items included in the Bank's financial statements are measured using the currency of the primary economic environment in which the Bank operates ("the functional currency"). The Bank's financial statements are presented in Moldovan Lei (MDL), which is the Bank's functional and presentation currency.

2.4 Use of estimates and judgements

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Actual results may differ from these estimates.

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

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in **Note 0**.

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2 BASIS OF PREPARATION (CONTINUED)

2.5 Reclassification

a. Statement of profit or loss and other comprehensive income

In the financial statements for the year ended 31 December, 2019, the Bank presented in the Statement of profit or loss and other comprehensive income the item "Interest income based on the effective interest method" some commissions related to lending that are not part of future cash flows estimated at the time the loan is initiated.

The Bank has analyzed the components of these positions and, in accordance with the presentation method as at 31 December 2020, reclassified them to the following positions:

a. Statement of profit or loss and other comprehensive income:

At 31 December 2019	Reported previously	Reclassifications	Reclassified
Interest income based on the effective interest method	168,818,875	(5,088,166)	163,730,709
Net interest income	**118,871,332**	**(5,088,166)**	**113,783,166**
Fee and commission income	64,765,741	5,088,166	69,853,907
Net fee and commission income	**34,539,433**	**5,088,166**	**39,627,599**
Net profit (loss) for the period	**44,131,570**	**-**	**44,131,570**

b. Statement of cash flow:

At 31 December 2019	Reported previously	Reclassifications	Reclassified
Interest income	(168,818,875)	5,088,166	(163,730,709)
Interest received	157,058,621	(5,088,166)	151,970,455
Cash and cash equivalents at 31 Decembrie 2019	**1,772,249,130**	**-**	**1,772,249,130**

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3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies described below have been consistently applied by the Bank for all periods presented in these financial statements.

3.1 Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of profit or loss. With the exception of changes in the fair value of the entity's own equity instruments in foreign currency classified as financial instruments FVOCI, foreign currency transactions are recognized in the statement of other comprehensive income.

Non-monetary items in foreign currency recognized at historical cost are converted applying the exchange rate on the date of initial recognition.

Operations in foreign currency are converted in functional currency using the exchange rate as at transaction date. The year end and average MDL exchange rates for 2020 and 2019 with EUR and USD were as follows:

		2020		2019
	USD	EUR	USD	EUR
Exchange rate as at 31 December	17,2146	21,1266	17.2093	19.2605
Average rate	17,3201	19,7436	17.5751	19.6741

3.2 Financial assets and liabilities

A **financial asset** is any asset that is:

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

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3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets and liabilities (continued)

A financial liability is any liability that is:

a. a contractual obligation:
(i) to deliver cash or another financial asset to another entity; or
(ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or

b. a contract that will or may be settled in the entity's own equity instruments and is:
(i) a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or
(ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

(i) Recognition and initial evaluation

The Bank recognizes financial assets and liabilities in its balance sheet only when it becomes part of the instrument's contractual provisions.

The Bank initially recognizes loans and advances, deposits, loans received at fair value at the date when they are initiated. Normal transactions with debt instruments and equity instruments are accounted for at the date of the transfer (settlement date). All other financial assets and liabilities are initially recognized at the transaction date at which the Bank becomes party to the contractual provisions of the instrument at fair value less costs to trade that can be directly attributable to the acquisition or issue.

Upon initial recognition, the Bank shall measure a financial asset or financial liability at its fair value plus or minus in the case of a financial asset or financial liability that is not at fair value through profit or loss, the transaction costs that are directly attributable acquisition or issue of the financial asset or financial debt.

Exceptions to the rule are trade receivables that are measured at their transaction price (as defined in IFRS 15) when the trade receivable does not contain a significant financing component in accordance with IFRS 15.

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4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets and liabilities (continued)

(i) Recognition and initial evaluation (continued)

The following table summarizes the rules for initial recognition:

Category	Initial recognition
Financial assets measured at fair value through profit or loss	The fair value without including the cost of the transaction
Financial assets measured at amortized cost Financial assets measured at fair value through other items of 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 issue
Financial liabilities measured at fair value through profit or loss	The fair value without including the cost of the transaction

(ii) Subsequent valuation of financial assets and liabilities

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

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

After initial recognition, the Bank values a financial liability at:

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

Valuation at amortized cost of financial assets and liabilities

The Bank assesses loans and receivables (current accounts and deposits with other banks, including the National Bank of Moldova, loans to customers and other trade receivables) and financial liabilities (deposits and current accounts of other banks and non-bank customers, loans and other commercial liabilities) at amortized cost.

The amortized cost of a financial asset or liability is the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments, plus or minus accumulated amortization using the effective interest method for each difference between the initial value and the maturity value and, for financial assets, modified for any reduction for expected impairment losses.

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets and liabilities (continued)

(ii) Subsequent valuation of financial assets and liabilities (continued)

The effective interest rate is the rate that accurately updates payments or future cash receipts estimated over the expected life of the financial asset or financial liability at the gross carrying amount of a financial asset or the amortized cost of a financial liability. When calculating the effective interest rate, the Bank estimates the expected cash flows taking into account all the contractual terms of the financial instrument (for example prepayment, extension, call options and similar options), but does not take into account expected credit losses. The calculation includes all commissions and points paid or receivable by parties to the contract that are integral to the actual interest rate, transaction costs and all other bonuses or discounts.
The Bank's management believes that it is not possible to reliably estimate the cash flows or expected lifetimes of the financial instruments and therefore uses contractual treasury flows over the entire contractual life of the financial instruments to calculate the effective interest and depreciable cost.

The Bank classifies financial assets as subsequently measured at either amortized cost or fair value through other comprehensive income or at fair value through profit or loss on the basis of the following:

a. the entity 's business model for managing financial assets; and
b. the characteristics of the contractual cash flow of the financial asset.

(iii) Classification and measurement of financial assets and liabilitie

A financial asset shall be measured at amortised cost if both of the following conditions are met:

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

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

- **a.** a. the financial asset is held within a business model whose objective is met both by collecting contractual cash flows and by selling financial assets; and
- **b.** the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost in accordance or at fair value through other comprehensive income. However an entity may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

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3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets and liabilities (continued)

(iii) Classification and measurement of financial assets and liabilities (continued)

The principal is the fair value of the asset at initial recognition.

Interest consists of consideration for the time value of money, the credit risk associated with the principal amount outstanding during a particular period of time and other basic lending risks and costs, as well as a profit margin.

The bank classifies all financial liabilities as subsequently measured at amortised cost, except for:

a. financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be subsequently measured at fair value;
b. financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;
c. financial guarantee contracts. After initial recognition, an issuer of such a contract shall subsequently measure it at the higher of:
(i) the amount of the loss; or
(ii) the amount initially recognized less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.
d. commitments to provide a loan at a below-market interest rate. An issuer of such a commitment shall subsequently measure it at the higher of:
(i) the amount of the loss allowance; or
(ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.
e. contingent consideration recognised by the Bank as an acquirer in a business combination to which IFRS 3 applies. Such a contingent consideration shall subsequently be measured at fair value with changes recognised in profit or loss.

The bank may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss when a hybrid contract comprises one or more embedded derivatives and the host instrument is not an asset covered by this standard, or when doing so results in more relevant information, because either:

a. it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
b. a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel (as defined in IAS 24 Related Party Disclosures).

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3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets and liabilities (continued)

(iv) Classification and measurement of financial assets and liabilities (continued)

The bank reclassifies its financial assets if the entity changes its business model for managing those financial assets. Such changes are expected to be very infrequent. Such changes are determined by the entity's senior management as a result of external or internal changes and must be significant to the entity's operations and demonstrable to external parties. Accordingly, a change in an entity's business model will occur only when an entity either begins or ceases to perform an activity that is significant to its operations.

A change in the objective of the entity's business model must be effected before the reclassification date, applying reclassification prospectively from the reclassification date. In the case of reclassifications, the Bank does not redeem earnings, losses (including impairment gains or losses) or interest previously recognized. The Bank does not reclassify financial liabilities.

(v) Derecognition

Derecognition of fiancial assets

The Bank derecognises a financial asset (or part of a financial asset or a group of similar financial assets, hereinafter referred to as the "financial asset") when the contractual rights to the cash flows of the asset expire or when it transfers the financial asset 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 receive 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 amounts to potential recipients, unless it collects equivalent amounts from the original asset;
   ii. The Bank is prohibited by the terms of the transfer contract from selling or pledging the original asset for reasons other than guaranteeing the obligation to pay treasury flows to potential recipients.
   iii. The Bank has the obligation to remit any cash flows it collects on behalf of potential recipients without significant delays. In addition, the Bank does not have the right to reinvest these cash flows unless the investments are made in cash or in cash equivalents during the short settlement period from the date of collection and until the date on which the payment to potential partners, and the interest earned on such investments is passed on to potential recipients.

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3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets and liabilities (continued)

(v) Derecognition (continued)

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 rewards of ownership of the asset.

If the Bank transfers substantially all the risks and rewards of ownership of the asset, the Bank derecognises the financial asset and recognizes separately as assets or liabilities any rights and obligations created or retained in the transfer.

The Bank enters into transactions in which it transfers the assets recognized in the balance sheet, but retains both the risks and the benefits over the transferred assets or part of them. If all or a significant part of the risks and benefits are retained, the transferred assets are not derecognised from the balance sheet. Asset transfers with the retention of all or a significant part of the risks and rewards of benefits include, for example, redemption transactions. Securities sold under resale / repurchase agreements are derecognised in the balance sheet and the corresponding receivables from the buyer for payment are recognized from the date the Bank transfers the assets. The Bank uses the specific identification method to determine the gain or loss on derecognition.

If the Bank retains substantially all the risks and rewards of ownership of the asset, the Bank continues to recognize the financial asset.

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

Retaining control of the transferred asset depends on the ability of the party to which the asset was transferred to sell the asset. If the third party to whom the asset has been transferred has the practical ability to sell the asset and can exercise that unilateral capacity and without the need to impose additional restrictions on the transfer, the Bank has not retained control. In all other cases, the Bank retained control.

If the Bank does not retain control, the Bank derecognises the financial asset and recognizes separately as assets or liabilities any rights and obligations created or retained in the transfer.

If the Bank retains control, the Bank continues to recognize the financial asset to the extent that it continues to be involved in that asset. The extent to which the Bank continues to be involved in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset. For example, when the continued involvement of the Bank takes the form of the guarantee of the transferred asset, the extent to which the Bank continues to be involved is the lower of (i) the value of the asset and (ii) the maximum amount of consideration received that the Bank may have to reimburse it ("the amount of the guarantee").

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3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets and liabilities (continued)

(v) Derecognition (continued)

When the Bank continues to recognize an asset as long as it continues to engage in the asset, it will recognize a related liability.

Derecognition of financial liabilities

The Bank derecognises 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 terms of an existing or part of an existing financial liability (whether or not it may be attributable to the financial difficulty of the debtor) is accounted for as a winding-up of the original financial liability and recognition of a new financial liability.

The terms of a financial liability are substantially changed if the present value of cash flows under the new conditions (including any commission paid, net of any commission received) differs by at least 10% from the present value of the cash flows remaining under the original instrument, both calculated using the effective interest rate of the original instrument determined before the change.
The Bank recognizes in profit or loss any difference between the carrying amount of a financial liability (or part of a financial liability) liquidated or transferred to another party and the consideration paid, including any assets other than cash or liabilities assumed.
If the Bank redeems part of a financial liability, it allocates the previous carrying amount of the financial liability between the part that continues to be recognized and the portion that is derecognised based on the relative fair values of those parties at the date of the redemption.

The Bank participates in repurchase and repurchase agreements (REPOs) in which it transfers financial assets recognized in the statement of financial position but retains all or substantially all the risks and rewards of transferred assets. In this case, the transferred assets are not derecognised.

The bank derecognizes a financial liability when the contractual obligations are canceled or expired.

(vi) Compensation

Financial assets and liabilities are offset and the net amount is recognized in the statement of financial position only when the Bank has a legally enforceable right to offset the amounts recognized and intends to settle on a net basis or realize the asset and settle the liability simultaneously.

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

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3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets and liabilities (continued)

(vii) Fair value measurement

Fair value is the price that would have been received in order to sell an asset or to transfer a liability in a normal transaction between the main market participants or, failing that, the most advantageous market to which the Bank has access to the valuation date.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is considered active if the active or passive transactions take place at a frequency and volume sufficient to provide pricing information on a continuous basis.

If there is no quoted price on an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The selected valuation technique includes all the factors that market participants would consider when determining the price of a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - ie the fair value of the consideration given or received. If the Bank determines that the fair value of the initial recognition differs from the transaction price and the fair value is not evidenced either by a quoted price on an active market for an identical asset or liability or by an evaluation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to postpone the difference between the fair value of the initial recognition and the transaction price. Subsequently, this difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the measurement is fully backed by observable market data or the transaction is closed.

(viii) Identification and measurement of impairment of financial assets

The Bank recognizes a loss allowance for the expected loss on a financial asset that is measured at amortized cost or measured at fair value through other comprehensive income, a receivable arising from a lease, a contract asset or a a credit commitment and a financial guarantee contract.

At each reporting date, the Bank assesses the loss adjustment for a financial instrument at an amount equal to the lifetime expected loss of credit if the credit risk of that financial instrument has increased significantly since initial recognition.

However, if, at the reporting date, the credit risk for a financial instrument has not increased significantly since initial recognition, the Bank assesses the loss adjustment for that financial instrument at a value equal to the expected 12-month credit losses.

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3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets and liabilities (continued)

(viii) Identification and measurement of impairment of financial assets (continued)

The Bank assesses 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 unreasonable cost or effort on the reporting date on past events, current conditions and forecasts regarding future economic conditions.

The Bank considers the following in determining the impairment:

- at the date of initial recognition and at each subsequent reporting date, a one-year one-off loss is attributed to instruments classified in Stage 1 (ie financial assets for which there has been no significant increase in credit risk compared to that risk incurred at date initial recognition of the asset);
- verify that there has been a significant increase in credit risk for these assets between the date of the first recognition and the reporting date so that they can be allocated correctly in the three classification steps provided for by the Standard and defining the associated adjustment levels;
- recognize an expected loss for the full residual duration of the financial instrument for exposures classified in phase 2 (with a significant increase in credit risk since the initial recognition date) and in Stage 3 (non-performing exposures).

IFRS 9 provides for the application of a single depreciation model for all financial assets that have not been recognized at fair value through profit or loss. This model is considered in perspective, ie it should consider a broad set of information, including information about future events and macroeconomic scenarios. Therefore, all reasonable and demonstrable information should be taken into account before recognizing the impairment, including prospective information, in order to:

a. determine the significant increase in credit risk for the stage assignment (i.e., to define the correct assignment of credit exposures in Stage 1, 2 and 3);
b. calculate of expected ECL for the next 12 months (Stage 1) and ECL Life (Stage 2 and 3).

Financial assets measured at fair value through profit or loss are not subject to impairment, as this component is included in the total fair value adjustment already recognized in profit / loss for the year.

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3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets and liabilities (continued)

(viii) Identification and measurement of impairment of financial assets (continued)

If during the previous year there was a significant increase in credit risk for an individual financial asset and therefore an accumulated depreciation was recognized for the entire life of the ECL but the significant increase in credit risk does not there is still at the current reporting date, the exposure in question must be reset from Stage 2 to Stage 1. Therefore, the associated adjustment should no longer be equivalent to the lifetime of ECL, but rather the expected loss for the next 12 months. Like the previous adjustment, the associated reversal of the impairment loss should be recognized in profit or loss.

In order to fully comply with the IFRS 9 principle, the Bank has decided to determine the impairment loss for non-performing exposures (Stage 3 exposures), including an Add-on, forward-looking estimate, and the current level of NPL- hate.

In the process of estimating the need for provisions for impairment of non-performing loans, the Bank determines the recoverable amount of loans in accordance with the provisions of IFRS 9 that are embedded by the bank in an internal regulatory document called "IFRS 9 Methodological Document", the details of which are described later in Note 5 "Critical Accounting Estimates and Judgments in the Application of Accounting Policies". If it is determined that there is no objective evidence of impairment for an individually assessed financial asset, the bank shall include the asset in a group of financial assets that have similar credit risk characteristics and assess them for collective impairment.

The methodology for estimating the impairment losses for Stage 3 is applied to the entire non-performing perimeter (both collective and individual assessments).

(ix) Restructured loans

The restructuring measures represent some concessions to a debtor which faces or is likely to face difficulties in fulfilling its financial liabilities (“financial difficulties”).

A concession may refer to one of the following actions:

a) change of initial terms and conditions of a contract which cannot be respected by the debtor due to financial difficulties, in order to allow a sufficient level of the debt servicing which normally would not be applied should the debtor not be in financial difficulty;

b) full or partial refinancing of a problem asset, which normally would not be done should the debtor not be in financial difficulty.

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3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets and liabilities (continued)

(ix) Restructured loans (continued)

In order to consider an exposure as restructured, the following two conditions must be fulfilled simultaneously:

- the Bank must identify the financial difficulties faced / are likely to be faced by the client;
- the exposure must be subject of a concession.

The exposures subject of some concession as described above are classified in the category of restructured loans being kept in this category up to the maturity.

(x) Removal policy

Debentures and debt securities are written off (partially or wholly) when there is no reasonable expectation of full or partial recovery of the financial asset. This is generally the case when the Bank determines that the debtor has no assets or sources of income that could generate sufficient cash flows to repay the amounts to be removed from the records. This valuation is performed at the individual asset level. Recoveries of amounts previously removed are included in the "Depreciation and amortization charge" in the profit or loss account.

3.3 Interest income and expense

Effective interest rate

Interest income and expense is recognized in profit or loss using the effective interest rate. The effective interest rate (EIR) is the rate that accurately updates the estimated future cash flows or the estimated cash flows of the financial instrument over the estimated life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortized cost of the financial debt.

When calculating the effective interest rate for financial instruments, the Bank estimates the future cash flows of the financial instrument, but not ECL. For financial assets purchased or initially impaired as a result of credit risk (POCI), an effective interest rate is calculated using estimated future cash flows, including ECL.

Future cash flows are estimated taking into account all the contractual terms of the instrument. The EIR calculation includes all fees and charges paid or received between the parties to the contract, which are incremental and directly attributable to the specific lending agreement, transaction costs and all other premiums or discounts.

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3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Interest income and expense (continued)

Amortized cost and gross book value

"Amortized cost" of a financial asset or financial liability is the amount at which the asset or financial liability less the principal repayments plus or minus the cumulative depreciation using the effective interest method of any difference between the initial amount and the amount at maturity and for financial assets, adjusted for impairment losses for the expected impairment loss.

"The gross carrying amount of a financial asset" is the amortized cost of a financial asset before adjusting it with the allowances for the expected impairment losses.

Calculation of interest income and expenses

The effective interest rate of a financial asset or financial liability is calculated on the initial recognition of a financial asset or financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (if the asset is not impaired) or to the amortized cost of the liability.

The effective interest rate is revised as a result of the periodic reassessment of the cash flows of variable rate instruments to reflect market interest rate movements.

For financial assets that have become impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer depreciated, interest income is calculated by applying the effective interest rate to the gross carrying amount of the asset.
For financial assets that were impaired at initial recognition, interest income is calculated by applying the effective interest rate adjusted to the amortized cost of the asset. The calculation of interest income does not return to gross book value, even if the credit risk of the asset is improved.

3.4 Fee and commission income

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate on the loan. Commission and fees arising from negotiating, or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognized on completion of the underlying transaction. Other fee and commission income arising from the financial services provided by the Bank including investment management services, brokerage services, and account service fees are recognized as the related service is provided in the statement of profit or loss and other comprehensive income. Other fees and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

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3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Dividends

Dividend income is recognized in the statement of profit or loss and other comprehensive income on the date that the dividend is declared. Income from equity investments and other non-fixed income investments is recognized as dividend income when it accrues.

Dividends are treated as an appropriation of profit in the period they are declared and approved by the General Assembly of Shareholders.

3.6 Net trading income

This comprises gains less losses related to trading assets and liabilities and includes all realized and unrealized foreign exchange differences.

The transaction date is the date on which an entity first recognizes the non-cash asset or non-monetary liability resulting from the payment or receipt of advance consideration.

3.7 Income tax

Income tax for the year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the end of reporting period, and any adjustment to tax payable in respect of prior periods.

Deferred tax is provided using the balance-sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of reporting period.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend.

The tax rate used to calculate the current and deferred tax position at 31 December 2020 is 12% (31 December 2019: 12%).

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3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Intangible assets

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on the basis of the expected useful lives (three to twenty years).

Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Bank, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognized as assets are amortized using the straight-line method over their useful lives. Generally, the useful life of intangible assets does not exceed five years, except for the core banking system that is amortized over 20 years and the application for monitoring of loan granting process that is amortized over 10 years.

3.9 Property and equipment

(i) Initial recognition and measurement

All items of property and equipment are initially recognized at cost.

Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

(ii) Subsequent measurement

Subsequent to initial recognition, land and buildings are measured at revalued amount less accumulated depreciation and any impairment losses since the most recent revaluation. Other tangible assets are measured at cost, less any cumulative depreciation and any impairment losses.

Revaluations of land and buildings are performed with sufficient regularity so that the carrying amount does not differ substantially from that that would be determined using fair value at the end of the reporting period.

When a building is revalued, the gross carrying amount is restated in proportion to the change in the carrying amount and the depreciation accumulated at the revaluation date is adjusted to the extent that it is equal to the difference between the gross carrying amount and the carrying amount of the asset after taking into account impairment losses accumulated.

When significant components of tangible assets have different useful lives, they will be accounted for as separate components (main components) of the tangible asset. Any gain or loss on the expense of a tangible asset is recognized in profit or loss.

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3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Property and equipment (continued)

(iii) Subsequent costs

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

(iv) Depreciation

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

– Buildings	33 years to 50 years
– Leasehold improvements	over the life of the lease
– Equipment and other fixed assets	5 years
– Vehicles	5 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

Assets under construction are not depreciated until brought in use.

(v) Reclassification to investment property

When the use of property changes from owner-occupied to investment property, the property is reclassified as investment property and continues to be measured at cost.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount. These are included in their operating income or expenses in the statement of profit or loss and other comprehensive income.

(vi) Revaluation reserve

The difference between the revalued amount and the net book value of tangible assets is recognized as a revaluation reserve in equity.

If the carrying amount of an asset is increased as a result of a revaluation, that increase is recorded and accrued in equity to revaluation reserves. However, the increase is recognized in profit or loss to the extent that it offsets a decrease with the same amount of the asset previously recognized in profit or loss.

If the carrying amount of an asset is reduced as a result of a revaluation, that decrease is recognized in profit or loss. However, the impairment is recognized in equity in revaluation reserves if there is a revaluation reserve in the revaluation reserve for that asset.

The revaluation reserve is transferred to retained earnings when disposing of an asset.

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3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Impairment of non–financial assets

Assets that are amortized are valued at impairment whenever events or changes in circumstances indicate that the carrying amount may not be recovered. Impairment loss is recognized in the amount of the difference between the carrying amount and the recoverable amount. Recoverable amount is estimated to be the greater of fair value less costs to sell and the amount of use. For the purpose of estimating impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units). At each reporting date, non-financial assets, with the exception of goodwill, that have been impaired are reviewed for a possible write-down of impairment.

The recoverable amount of an asset or cash-generating unit is the maximum of the amount of use and fair value less costs to sell. The amount of use is based on expected future cash flows, updated at present value using a pre-tax discount rate that reflects current market assessments of the time value of the money and the risks specific to the asset or cash-generating unit.

An impairment loss is recognized if the carrying amount of an asset or a cash-generating unit exceeds the recoverable amount.

Impairment losses are recognized in profit or loss, except for tangible assets measured at revalued amount, in which case the impairment loss is recognized in other comprehensive income and decreases the revaluation reserve in equity to the extent that it reverses a surplus of revaluation previously recognized in respect of the same asset.

An impairment loss is reversed only to the extent that the carrying amount of the asset does not exceed the carrying amount of the net depreciation that would have been determined had no impairment loss been recognized.

Reversing an impairment loss that does not relate to revalued assets is recognized in profit or loss. Reversing an impairment loss on a revalued asset is recognized in profit or loss to the extent that it reverses an impairment loss in respect of the same asset previously recognized as an expense in profit or loss. Any further increase in the carrying amount of an asset is treated as a revaluation increase.

3.11 Leases

The bank assesses at the beginning of the contract whether a contract is or contains a lease, ie whether the contract confers the right to control the use of an identified asset for a period of time in exchange for consideration.

This policy applies to contracts initiated, or amended on, or after 1 January 2019.

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3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Leases (continued)

In transition to the provisions of IFRS 16, the Bank applied the permitted practical solutions and valued the asset at fair value at the date of initial application for leases previously recognized as operating leases in accordance with IAS 17. Contracts that were not identified as being subject to IAS 17 and IFRIC 4 have not been revalued in light of IFRS 16.

The Bank has applied this standard for leasing contracts since 1 January 2019, with certain simplifications and derogations, the cumulative effect of the initial application of this standard being recognized at the date of initial application, the comparative information not being restated, as allowed under the transitional provisions.

In accordance with IFRS 16, a contract is or contains a lease if it transfers the right to control the use of an identified asset for a period of time in exchange for a mandatory payment. In the case of such contracts, the new model requires a lessee to recognize an asset with a right of use and a lease liability. The usable asset is impaired and the debt accrues interest. This will result in a pattern of higher payments at the beginning of the lease period for most leases, even when the tenant pays constant annual rents.

A lease is classified as a finance lease if it transfers essentially all the risks and rewards of ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer essentially all the risks and rewards of ownership of an underlying asset.

(i) The Bank as a lessee

The bank as a tenant uses spaces intended for the location of its branches and agencies.

On the other hand, the Bank recognizes an asset related to the right of use at the date of initial application, valued at a value equal to the debt arising from the lease, adjusted by the value of any lease payments paid in advance or increased / accumulated under that lease recognized in the statement of financial position immediately after the date of initial application.

The Bank applies a single recognition and valuation approach to all leases except short-term leases and the leasing of low-value assets. The Bank recognizes the lease liabilities for making the lease payments and the right-of-use assets that represent the right to use the underlying assets.

A short-term lease is a lease that, at the commencement date, has a lease term of 12 months or less.

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3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Leases (continued)

(i) The Bank as a lessee (continued)

A lease of an asset is considered to be of low value when leases have an underlying asset with a value equal to or less than EUR 5 000.

Assets related to the right of use

At the beginning of the development, as a lessee, the bank recognizes an asset related to the right of use and a debt arising from the leasing contract.
At the start of the development, the cost of the asset related to the right of use is determined, which includes:

a) the value of the initial valuation of the debt deriving from the leasing contract;
b) any lease payments made on or before the commencement date, less any lease incentives received;
c) any initial direct costs incurred by the bank; and
d) estimations of the costs to be borne by the lessee for the dismantling and removal of the underlying asset, for the restoration of the place where it is located or for bringing the underlying asset to the condition imposed in the terms and conditions of the leasing contract.

Debt arising from the leasing contract

At the commencement date, the debt arising from the lease is measured at the present value othe lease payments not paid on that date.

The lease payments included in the valuation of the debt arising from the lease include the following payments related to the right to use the underlying asset during the lease that are not paid at the inception:

a) fixed payments, minus any leasing incentives received;
b) variable leasing payments that depend on an index or a rate, initially assessed on the basis of the index or rate from the date of commencement of the development;
c) the amounts expected to be owed by the lessee on the basis of guarantees related to the residual value;
d) the exercise price of a call option if the Bank has reasonable assurance that it will exercise it; and
e) payments of the leasing termination penalties, if the duration of the leasing contract reflects the exercise by the Bank of a termination option.

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3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Leases (continued)

Leasing payments are discounted using the internal rate calculated by the Treasury Department of the parent bank for this purpose. In 2020, the following rates were used:

a) 7.89% - for the period of 3 years;
b) 9.19% for the period of 5 years.

(ii) The Bank as a lessor

The bank has its own spaces that it leases to third parties. They are classified as operational leasing of real estate investments.

The minimum lease payments in a lease agreement in which the Bank is the lessor are those payments that the lessee is or may be required to make to the Bank during the lease period, less contingent rents and the cost of services and fees paid by the lessor. Bank and re-billed to the tenant.

The Bank recognizes the income related to financial leasing on the basis of a model that reflects a constant periodic rate of return related to the Bank's net investment in financial leasing.

Revenue from operating leases is recognized as income on a straight-line basis over the lease term. The initial direct costs incurred by the Bank are added to the carrying amount of the leased asset and recognized as an expense over the lease term, on a basis similar to the lease income. Assets given under operating leases are depreciated in accordance with the depreciation rules of other similar tangible or intangible assets.

In 2020, the Bank was not exposed to financial leasing contracts as a lessor.

3.12 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise assets with less than three months' maturity at acquisition dates including: cash, non-restricted balances with National Bank of Moldova, treasury bills, amounts due from other banks and amounts due from international money transfer systems. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

3.13 Loans and advances

Loans and advances, comprising loans and advances to banks and loans and advances to customers, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near future. Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method less loan loss provisions.

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3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 Investment securities

Recording of securities in the statement of financial position includes:

- Debt securities (State Bonds, Securities Issued by the Government of the Republic of Moldova and Certificates of the National Bank of Moldova) valued at amortized cost; they are initially measured at fair value plus incremental direct transaction costs and then measured at amortized cost using the effective interest rate method.
- Participating interests evaluated at FIVOT; they are measured at fair value, the changes being recognized in the statement of other comprehensive income.

As at 31 December 2020 and 2019 the Bank does not hold investments in debt securities at FVOCI, or FVTPL.

3.15 Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation to transfer economic benefits as a result of past events, it is more likely that not than an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

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

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

3.16 Financial guarantee contracts

Financial guarantees are contracts that oblige the Bank to make specific payments to repay a loss to the holder because a specific debtor fails to make a payment when it is due under the terms of a debt instrument. Credit commitments are firm commitments to provide credit under pre-established terms and conditions.

Financial guarantees issued or credit commitments at a lower interest rate than on the market are initially measured at fair value and the fair value of the original is depreciated over the life of the collateral or the commitment.

Subsequently, they are measured at the highest of the value of the impairment adjustment determined in accordance with IFRS 9 and the amount initially recognized less, where applicable, the accrued income recognized in accordance with IFRS 15.
The Bank has not issued any credit commitment that is rated at FVTPL. The Bank also has no credit commitments at a lower interest rate than the market.

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3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 Financial guarantee contracts (continued)

For credit commitments, the Bank recognizes write-downs for expected impairment losses in accordance with IFRS 9 - see 3.2 vii accounting policy;

Obligations arising from financial guarantees and credit commitments are included in provisions.

3.17 Employee benefits

The Bank, in the normal course of business makes payments to the Moldovan State funds on behalf of its employees for pension, health care and unemployment benefit. All employees of the Bank are members of a state pension plan. All relevant contributions to state pension plan are recognized as an expense in the income statement as incurred. The Bank does not have any further obligations.

The Bank does not operate any other pension scheme and, consequently, has no further obligation in respect of pensions. The Bank does not operate any defined benefit plan or post-retirement benefit plan. The Bank has no obligation to provide further services to current or former employees. Employee benefits include salaries and discretionary bonuses.

3.18 Borrowings

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

3.19 Due to banks and repurchase agreements (REPO)

Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortized cost.

The REPO agreements represent transactions when the Bank sells a financial asset (Treasury Bills) and simultaneously enters into an agreement to repurchase the same asset (or similar asset) at a fixed price on a future date. The agreement is accounted for as a liability to banks, and the underlying asset continues to be recognized in the Bank's financial statements.

The REPO agreements are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method.

3.20 Due to customers

Due to customers are non-derivative financial liabilities to individuals, state or corporate customers and are carried at amortized cost.

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3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 Other liabilities

Other liabilities include payables accrued when the counterparty has performed its obligations under the contract and are carried at amortized cost.

3.22 Non-current assets held for sale

Non-current assets held for sale, or disposal group comprising assets and liabilities, are classified as held-for sale if it highly probable that they will be recovered primarily through sale rather than continuing use, and the sale is highly probable within one year after the reporting date.

Non-current assets held for sale include non-performing loan portfolio and equity investments that are subject to assignment, based on a re-transfer/ assignment agreement with Veneto Banca LCA (in liquidation), its shareholder. The re-transfer/ assignment Agreement was signed with the purpose of execution the Italian State Decree dated 25 June 2017 (the so-called “Decree on Veneto Banks”).

Non-current assets held for sale include as well as foreclosed collateral executed in respect of non-performing loans.

These are initially recognized at fair value and are subsequently measured at the lower of carrying amount and fair value less costs to sell.

3.23 Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. This property has been acquired through the enforcement of security over loans and advances. Investment property is measured at cost on initial recognition and subsequently continues to be measured at cost less any accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the investment property.

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

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

3.24 Integration Costs

In the Intesa Sanpaolo press release of December 28, 2017, the Bank was informed about the public contribution in the form of a grant granted by the Italian Government to the Italian banking group Intesa Sanpaolo in order to cover the restructuring and integration costs of all ex-Veneto Banca banks, including Eximbank. In order to ensure the commitments assumed, Intesa Sanpaolo planned and coordinated the Bank's integration plan. The amounts have been allocated on the basis of the actual costs incurred and properly documented and are not subject to refunds or reimbursements.

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3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.24 Integration Costs (continued)

The expenses incurred related to the integration costs do not aim at reducing the own capital, because they are fully recovered from the means of the Italian Government received in this respect through Intesa Sanpaolo. The Bank considers the use of IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance Information" as the most rational method of recognizing and presenting the costs of full payments.

The Bank applies the income-based approach, according to which integration funds are recognized in the profit or loss of one or more periods. Thus, the financial sources allocated to cover certain expenses are recognized in the statement of profit or loss in the same period as the relevant expense being presented as a reduction of the related expenses. Similarly, funds related to depreciable assets are recognized in the statement of profit or loss over periods and to the extent that the depreciation of those assets is recognized.

The integration funds related to the assets are presented in the statement of financial position by recording them as deferred income, which is subsequently recognized in the statement of profit or loss on a systematic basis, over the useful life of the asset as a reduction of depreciation expense.

3.25 New standards and interpretations not yet adopted

Certain new standards, amendments and interpretations of the standards are not yet in force for the financial year ended 31 December 2020 and have not been applied in the preparation of these individual financial statements:

IFRS 17 Insurance contracts
(Effective for annual reporting periods beginning on or after 1 January 2023; applicable prospectively. Application prior to this date is allowed).

IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches.

The Bank expects that the standard, when first applied, will not have a significant impact on the financial statements.

Amendments to IAS 1 *Presentiation of financial statements – classification of liabilities as current or non-current*
(Issued on 23 January 2020, effective for annual reporting periods beginning on or after 1 January 2022).

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3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.25 New standards and interpretations not yet adopted (continued)

Changes aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. Furthermore, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. “Settlement” is defined as extinguishing a liability with cash, other resources which incorporate economic benefits or an entities equity instruments. There is an exception for convertible items which can be converted to equity, but only for those instruments where the conversion option is classified as a separate equity instrument component of a compound financial instrument.

The bank expects that when the amendments will be applicable for the first time, they will not have a significant effect on financial statements.

Amendments to IAS 16 *Property plant and equipment – proceeds before intended use*
(Effective for annual reporting periods beginning on or after 1 January 2022).

Changes prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the lication and condition necessary for it to be capable of operating in the manner intended by manamgent. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.

The bank expects that when the amendments will be applicable for the first time, they will not have a significant effect on financial statements.

Amendments to IAS 37 *Provisions, contingent liabilities, and contingent assets – Onerous contracts – cost of fulfilling a contract*
(Effective for annual reporting periods beginning on or after 1 January 2022).

Changes specify that the ‘cost of fulfilling’ a contract comprises the ‘costs that relate directly to the contract’. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The bank expects that when the amendments will be applicable for the first time, they will not have a significant effect on financial statements.

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3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.25 New standards and interpretations not yet adopted (continued)

Amendments to IAS 1 *Presentation of financial statements – Disclosure of accounting policies*
(Effective for annual reporting periods beginning on or after 1 January 2023).

Changes specify that an entity is now required to disclose its material accounting policy information instead of its significant accounting policies. The amendments explain how an entity can identify a material accounting policy. To support the change, guidance and examples have been added to explain and demonstrate the application of the "materiality process".

The bank expects that when the amendments will be applicable for the first time, they will not have a significant effect on financial statements.

Amendments to IAS 8 *Accounting policies, changes in accounting estimates and errors – Defining accounting estimates*
(Effective for annual reporting periods beginning on or after 1 January 2023).

Changes replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. Changes clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error.

The bank expects that when the amendments will be applicable for the first time, they will not have a significant effect on financial statements.

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4. RISK MANAGEMENT

The Bank's activities expose it to a variety of risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Bank's Treasury department identifies, evaluates and hedges financial risks in close co-operation with the Bank's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, liquidity risk and credit risk. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The most important types of risk are credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk, interest rate and other price risk.

4.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments.

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4 RISK MANAGEMENT (CONTINUED)

4.1 Credit risk (continued)

4.1.1 Credit risk measurement

(a) Loans and advances

Evaluating the credit risk for loans and advances to customers and banks at the level of the contracting parties, the Bank reflects three components (i) "default probability" (PD) by the client or contractual party to the contractual obligations; (ii) the current exposure to the Contracting Party and its likely future evolution, from which the Bank derives the "Exposure to Default" (EAD); (iii) the loss ratio for non-compliant Loss Loss (LGD) liabilities.

The Bank's clientele is segmented in three stages. The steps presented below reflect a series of non-compliance probabilities for each stage. This means, in principle. that the exposure migrates between stages with the assessment of changes in the probability of default. The criteria for classifying loans and advances by stages are presented below.

Stage	Description of the stage
1	Loans and advances without significant credit risk increase after initial recognition.
2	Loans and advances with a significant increase in credit risk after initial recognition, but not impaired.
3	Depreciated loans and advances.

Criterion for classification of financial assets into Stages 1, 2 and 3 are as follows:

- *Stage 1*: when credit risk has not increased significantly since the initial recognition. For these financial assets, the Bank recognizes the estimated 12-month credit losses and gross interest income (is calculated from the gross carrying amount of the financial asset to the expected loss adjustments).

- *Stage 2*: when credit risk has increased significantly since the initial recognition. Estimated loss on lifetime credit is recognized and continuing interest income is recognized on a gross basis.

- *Stage 3*: when the financial asset is impaired. For these financial assets, the Bank recognizes an estimated loss in credit over the life of the asset, while interest is recognized on a net basis.

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4 RISK MANAGEMENT (CONTINUED)

4.1 Credit risk (continued)

4.1.1 Credit risk measurement (continued)

(b) Debt securities and other treasury bills

For debt securities and other treasury bills, the Bank's Risk Department for managing of the credit risk exposures uses ratings depending on of the issuer: Government and National Bank of Moldova. The investments in those securities and bills are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

4.1 .2 Staging criteria for loans

This paragraph presents the staging criteria in order to classify each financial instrument to a stage, for the purposes of IFRS9 to classify each financial instrument within a stage. Their function is to separate exposures according to their credit risk increase since initial recognition.

The indicators of significant increase of credit risk that classify a loan into Stage 2 are:
- days past due;
- forborne status (restructured loans);
- early warning signals / internal watchlists / proactive credit exposure management (PCEM);
- significant increase of PD since initial recognition.

The application of each criteria is described below:

a) Days past due

According to IFRS9 "there is a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due". To comply with this requirement Parent Company adopts days past due criterion at a Group level. In addition to 30 days past due (DPD), Parent Company incorporates into criterion a materiality threshold of 2,5% that is related to overdue exposure of a client as requested by regulatory requirements.

b) Forborne status

Forborne status for performing exposures is identified as another criterion of credit deterioration since it represents a risk of concession towards a client facing or about to face difficulties in meeting its financial commitments. The rules of identifying and applying forborne status of exposure are those defined at Parent Company level.

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4 RISK MANAGEMENT (CONTINUED)

4.1 Credit risk (continued)

4.1.2 Staging criteria for loans (continued)

c) Early Warning Signals / Watchlists / PCEM

Exposures with active Early Warning signals (EWS) are classified in Stage 2 since they can be considered as exposures that have deteriorated significantly in credit quality since their recognition. Similarly to forborne status, identification and application of Early Warning signals follow the rules defined by Parent Company for Foreign Subsidiaries.

d) Significant increase of PD since origination

Significant increase of PD between origination (or initial recognition) and reporting date is used as an indicator of credit quality deterioration according to the IFRS9 principle “at each reporting date, an entity shall assess whether the credit risk on a financial instrument has increased significantly since initial recognition”.

When performing this assessment, an entity should use the change in the risk of default over the expected life of a financial instrument instead of the change in the amount of expected loss of credit. PD at initiation is used exclusively for classification purposes in the 3 Stages.

To assess whether credit risk has increased significantly since initiation, it is necessary to compare the PD at the initiation date and PD at the reporting date.

The following table summarizes the Loans staging criteria that are used by the Bank:

Stage 1	Stage 2	Stage 3
• *Performing exposures without days past due* • *Performing exposures with more than 30 days past due under materiality threshold*	• *Performing exposures with more than 30 days past due over materiality threshold* • *Forborne performing exposures* • *Performing exposures presented in the local Watchlist/PCEM* • *PD at initiation compared to PD at the reporting date*	• *Exposures with more than 90 days past due over materiality threshold* • *Unlikely to Pay* • *Doubtful*

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4 RISK MANAGEMENT (CONTINUED)

4.1 Credit risk (continued)

4.1.3 Risk limit control and mitigation policies

The Bank manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, and to industries and countries.

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

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below.

(a) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice:

- mortgages over residential properties;
- charges over business assets such as premises, inventory and accounts receivable; and
- charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimize the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

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4 RISK MANAGEMENT (CONTINUED)

4.1 Credit risk (continued)

4.1.3 Risk limit control and mitigation policies (continued)

At 31 December 2020, the net book value of loans and advances to customers amounted to MDL 1,528,027,317 (2019: MDL 1,067,551,455) and the value of identifiable collateral (mainly commercial property) was MDL 3,887,668,356 (2019: 1,452,111,417 MDL).

The value of the collateral is distributed according to the following categories:

	2020	**2019**
Mortgages over residential properties	2,925,631,698	1,217,562,799
Cash collateral	83,114,893	15,104,607
Investment property	10,463,540	-
Other collateral	868,458,225	219,444,011
	3,887,668,356	**1,452,111,417**

(b) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw amounts from the Bank up to a stipulated amount under specific terms and conditions – are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments.

However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

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4 RISK MANAGEMENT (CONTINUED)

4.1 Credit risk (continued)

4.1.4 Impairment and provisioning policies

Impairment provisions are recognized for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment (see Note 3.2.viii).

Write-off policy

The Bank writes off a loan (and any related allowances for impairment losses) when the Bank's Credit Department / Management Committee determines that the loans / securities are uncollectible. This determination is reached after considering relevant information and appropriate documentation.

The impairment provision shown in the statement of financial position at year-end is derived from each of the 3 internal rating stages.

The table below shows the share of balance sheet items on loans and advances to customers at each stage and the share of the depreciation adjustment associated with each step of the total amount of credit impairment adjustments and advances to customers.

	31 December 2020		31 December 2019	
	Loans and advances (%)	**Impairment provision (%)**	**Loans and advances (%)**	**Impairment provision (%)**
Stage 1	79.09	24.62	82.61	42.49
Stage 2	18.02	48.58	10.54	16.54
Stage 3	2.89	26.8	6.85	40.97
	100.00	**100.00**	**100.00**	**100.00**

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4 RISK MANAGEMENT (CONTINUED)

4.1 Credit risk (continued)

4.1.4 Impairment and provisioning policies (continued)

Changes in the allowances for losses on loans and advances are presented as follows:

				2020
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January	**34,638,662**	**13,486,708**	**33,402,692**	**81,528,062**
Transfer to Stage 1	31,705	(30,284)	(1,421)	-
Transfer to Stage 2	(15,851,527)	15,851,527	-	-
Transfer to Stage 3	(11,202,466)	(1,237,601)	12,440,067	-
Net remeasurement of loss allowance	905,083	21,426,016	(13,218,479)	**9,112,620**
New financial assets originated or purchased	23,125,075	2,808,992	320,759	**26,254,826**
Recoveries	135	-	6,014,352	**6,014,487**
Financial assets that have been derecognised	(5,669,888)	(265,164)	(2,107,759)	**(8,042,812)**
Cancellations	(135)	(61,679)	(476,132)	**(537,946)**
Effect of foreign currency movements	511,726	295,531	207,189	**1,014,446**
Cession Veneto Banca / Transfer of assets / Loans sold	-	-	(7,736,946)	**(7,736,946)**
Balance at 31 December	**26,488,370**	**52,274,046**	**28,844,321**	**107,606,736**

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

4 RISK MANAGEMENT (CONTINUED)

4.1 Credit risk (continued)

4.1.4 Impairment and provisioning policies (continued)

				2019
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January	**24,960,414**	**48,556,751**	**74,421,996**	**147,939,161**
Transfer to Stage 1	10,092,504	(2,817,869)	(7,274,635)	-
Transfer to Stage 2	(438,314)	1,888,395	(1,450,081)	-
Transfer to Stage 3	(583,145)	(1,721,243)	2,304,388	-
Net remeasurement of loss allowance	(33,418,392)	(18,277,714)	(27,160,610)	(78,856,716)
New financial assets originated or purchased	36,480,945	7,804,841	134,425	44,420,211
Recoveries	-	-	-	-
Financial assets that have been derecognised	(2,509,736)	(21,895,168)	(7,862,732)	(32,267,636)
Effect of foreign currency movements	54,386	(51,285)	289,941	293,042
Balance at 31 December	**34,638,662**	**13,486,708**	**33,402,692**	**81,528,062**

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4 RISK MANAGEMENT (CONTINUED)

4.1 Credit risk (continued)

4.1.5 Loans and advances

The following table provides information on credit risk associated with financial assets measured at amortized cost. Unless expressly stated for financial assets, the amounts in the table are gross book values. For financial collateral contracts and credit commitments, the values in the table are the amounts committed or guaranteed. The explanation of the terms "Stage 1", "Stage 2" and "Stage 3" is included in Note 4.1.2.

				2020
	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers	1,293,626,955	294,680,737	47,326,361	1,635,634,053
Allowance for impairment	(26,488,370)	(52,274,046)	(28,844,320)	(107,606,736)
Book value	1,267,138,585	242,406,691	18,482,041	1,528,027,317
Loans and advances to banks	722,906,710	-	-	722,906,710
Allowance for impairment	(643,607)	-	-	(643,607)
Book value	722,263,103	-	-	722,263,103
Treasury bills	823,080,848	-	-	823,080,848
Allowance for impairment	(8,556,332)	-	-	(8,556,332)
Book value	814,524,516	-	-	814,524,516
Cash at National Bank of Moldova	956,901,868			956,901,868
Allowance for impairment	(2,039,980)			(2,039,980)
Book value	954,861,888	-	-	954,861,888
Other financial assets	17,318,902		4,254,426	21,573,328
Allowance for impairment	-		(4,254,426)	(4,254,426)
Book value	17,318,902	-	-	17,318,902
Financial guarantee contracts and credit commitments	224,922,505	48,567,370	129,002	273,618,877
Allowance for impairment	(3,887,804)	(5,475,536)	(95,972)	(9,459,312)
Book value	221,034,701	43,091,834	33,030	264,159,565

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4 RISK MANAGEMENT (CONTINUED)G

4.1 Credit risk (continued)

4.1.5 Loans and advances (continued)

				2019
	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers	949,280,409	121,155,111	78,643,997	1,149,079,517
Allowance for impairment	(34,638,662)	(13,486,708)	(33,402,692)	(81,528,062)
Book value	914,641,747	107,668,403	45,241,305	1,067,551,455
Loans and advances to banks	727,689,340	-	-	727,689,340
Allowance for impairment	(530,269)	-	-	(530,269)
Book value	727,159,071	-	-	727,159,071
Treasury bills	827,185,078	-	-	827,185,078
Allowance for impairment	(12,110,716)	-	-	(12,110,716)
Book value	815,074,362	-	-	815,074,362
Cash at National Bank of Moldova	1,053,592,496	-	-	1,053,592,496
Allowance for impairment	-	-	-	-
Book value	1,053,592,496	-	-	1,053,592,496
Other financial assets	16,859,413	-	3,136,047	19,995,460
Allowance for impairment	-	-	(3,136,047)	(3,136,047)
Book value	16,859,413	-	-	16,859,413
Financial guarantee contracts and credit commitments	135,721,582	24,413,151	63,489	160,198,222
Allowance for impairment	(2,931,435)	(2,877,205)	(51,083)	(5,859,723)
Book value	132,790,147	21,535,946	12,406	154,338,499

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4 RISK MANAGEMENT (CONTINUED)

4.1 Credit risk (continued)

4.1.5 Loans and advances (continued)

The total impairment provision for loans and advances is MDL 107,606,736 (2019: MDL 81,528,062). Further information of the impairment allowance for loans and advances to banks and to customers is provided in Note 17.

(a) Loans and advances without significant credit risk increase after initial recognition (Stage 1)

Stage 1: **STAGE**	**Corporate entities**	**Individuals (mortgages)**	**Individuals (consumer loans)**	**Total loans and advances to customers**
31 December 2020				
Gross book value	421,774,377	718,733,662	153,118,916	**1,293,626,955**
Less: allowance for impairment	(7,183,480)	(12,446,816)	(6,858,074)	**(26,488,370)**
Net book value	**414,590,897**	**706,286,846**	**146,260,842**	**1,267,138,585**
31 December 2019				
Gross book value	298,765,579	536,614,447	113,900,383	949,280,409
Less: allowance for impairment	(4,825,681)	(19,622,367)	(10,190,614)	(34,638,662)
Net exposure	**293,939,898**	**516,992,080**	**103,709,769**	**914,641,747**

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4 RISK MANAGEMENT (CONTINUED)

4.1 Credit risk (continued)

4.1.5 Loans and advances (continued)

(b) Loans and advances with a significant increase in credit risk after initial recognition, but not impaired (Stage 2)

Stage 2:	Corporate entities	Individuals (mortgages)	Individuals (consumer loans)	Total loans and advances to customers
31 December 2020				
Gross book value of the exposure:				
- current	274,327,119	9,994,827	1,515,832	285,837,778
- overdue 30 to 60 days	593,724	3,040,223	596,746	4,230,693
- overdue 61 to 90 days	62,480	3,580,846	968,940	4,612,266
	274,983,323	**16,615,896**	**3,081,518**	**294,680,737**
of which supervised by the Proactive Credit Management Unit	24,054,017	-	-	*24,054,017*
Less: allowance for impairment	(42,642,750)	(8,095,233)	(1,536,063)	(52,274,046)
Net exposure	**232,340,573**	**8,520,663**	**1,545,455**	**242,406,691**
Fair-Value of collateral*	**580,150,743**	**28,211,673**	**3,057,800**	**611,420,216**

** The pledge value presented in the table includes the amount of collateral considered by the Bank to be granted to customers in the form of mortgage credit on residential and commercial property, as well as cash deposits, calculated on the basis of the values determined by independent values and adjusted by discount coefficients (" haircuts "). This value does not include financial guarantees in the form of transferable rights, pledge contracts and other financial collateral.*

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RISK MANAGEMENT (CONTINUED)

4.1 Credit risk (continued)

4.1.5 Loans and advances (continued)

(b) Loans and advances with a significant increase in credit risk after initial recognition, but not impaired (Stage 2) (continued)

Stage 2:	Corporate entities	Individuals (mortgages)	Individuals (consumer loans)	Total loans and advances to customers
31 December 2019				
Gross book value of the exposure:				
- current	117,040,330	308,809	1,830,027	119,179,166
- overdue 30 to 60 days	-	1,659,069	123,408	1,782,477
- overdue 61 to 90 days	-	-	193,468	193,468
	117,040,330	**1,967,878**	**2,146,903**	**121,155,111**
of which supervised by the Proactive Credit Management Unit	*28,054,431*	-	-	*28,054,431*
Less: allowance for impairment	(11,436,240)	(934,585)	(1,115,883)	(13,486,708)
Net exposure	**105,604,090**	**1,033,293**	**1,031,020**	**107,668,403**
Fair-Value of collateral*	**67,519,663**	**2,779,502**	**1,942,498**	**72,241,663**

** The pledge value presented in the table includes the amount of collateral considered by the Bank to be granted to customers in the form of mortgage credit on residential and commercial property, as well as cash deposits, calculated on the basis of the values determined by independent values and adjusted by discount coefficients (" haircuts "). This value does not include financial guarantees in the form of transferable rights, pledge contracts and other financial collateral.*

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4 RISK MANAGEMENT (CONTINUED)

4.1 Credit risk (continued)

4.1.5 Loans and advances (continued)

(c) Loans and advances individually impaired (stage 3)

The breakdown of the gross amount of individually impaired loans and advances by class, along with the value of related collateral held by the Bank as security, are as follows:

Stage 3:	Corporate entities	Individuals (mortgages)	Individuals (consumer loans)	Total loans and advances to customers
31 December 2020				
Gross exposure of loans individually impaired	18,318,197	12,207,124	16,801,040	47,326,361
Out of which are Unlikely To Pay	11,926,218	2,389,458	4,412,404	*18,728,080*
Less: allowance for impairment	(8,622,676)	(7,786,674)	(12,434,970)	(28,844,320)
Net exposure	**9,695,521**	**4,420,450**	**4,366,070**	**18,482,041**
Fair-Value of collateral	**70,898,807**	**45,593,569**	**2,409,561**	**118,901,937**
31 December 2019				
Gross exposure of loans individually impaired	53,981,441	22,290,656	2,371,900	78,643,997
Out of which are Unlikely To Pay	*19,173,726*	*2,602,089*	*282,996*	*22,058,811*
Less: allowance for impairment	(18,895,000)	(13,099,267)	(1,408,425)	(33,402,692)
Net exposure	**35,086,441**	**9,191,389**	**963,475**	**45,241,305**
Fair-Value of collateral	**78,099,274**	**30,146,043**	**701,368**	**108,946,685**

* The pledge value presented in the table includes the amount of collateral considered by the Bank to be granted to customers in the form of mortgage credit on residential and commercial property, as well as cash deposits, calculated on the basis of the values determined by independent valuers and adjusted by discount coefficients (" haircuts "). This value does not include financial guarantees in the form of transferable rights, pledge contracts and other financial collateral.

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4 RISK MANAGEMENT (CONTINUED)

4.1 Credit risk (continued)

4.1.5 Loans and advances (continued)

(d) Loans and advances renegotiated

Restructuring activities include extended payment arrangements, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans. Renegotiated loans that would otherwise be past due or impaired amounted to MDL 30,646,336 at 31 December 2020 (2019: MDL 23,596,463).

	31 December 2020	**31 December 2019**
Loans and advances to customers**:**		
Corporate entities	24,386,000	19,549,160
Individuals	6,260,336	4,047,303
Total	**30,646,336**	**23,596,463**

(e) Loans and advances to banks and investments in securities

As at 31 December 2020 the Bank has correspondent accounts in banks of de MDL 722,263,103 (2019: MDL 727,159,071) and investments in securities amounting to MDL 814,514,516 MDL (2019: MDL 815,058,112).

The Bank policy is to limit exposures in countries with low ratings, normally below BBB- rating. As at 31 December 2020, the amount of due to banks, rated to below BBB- rating, represented MDL 2,493,762 (2019: MDL 1,537,637), all other exposures to banks are toward banks with rating higher than BBB-.

Short term loans on the interbank market are usually secured by State Treasury Bills and are employed for short term. The Bank also makes investments in State Treasury Bills and Certificates of the National Bank of Moldova, which are considered sovereign risk investments.

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4 RISK MANAGEMENT (CONTINUED)

4.1 Credit risk (continued)

4.1.5 Loans and advances (continued)

(g) Loans and advances to banks and investments in securities (continued)

The table below shows the rating ranges for interbank and government securities and certificates issued by the National Bank of Moldova:

	31 December 2020	31 December 2019
Loans and advances to banks, net		
Rating from AA- to AA+	55,256,472	60,375,981
Rating from A- to A+	1,350,339	664,038,108
Rating from BBB to BBB+	663,162,530	1,207,345
Rating BBB- and less	2,493,762	1,537,637
	722,263,103	**727,159,071**
Investments in securities nad NBM Certificates		
Rating BBB- and less (rating sovereign)	**814,514,516**	**815,058,112**

4.1.6 Repossessed collateral

The bank has guarantees for certain credit exposures. The overall credit standing of a client tends to be the most relevant indicator of credit quality. However, the pledge provides additional security, and the Bank generally asks customers to provide this. Bank can take pledges in the form of real estate, deposits (cash) and other types of pledge.

In 2020 and 2019, the Bank did not obtain any assets by taking over collateral on non-performing loans.

Assets held in possession are sold as quickly as possible, collections being used to reduce outstanding debt. Further details on the pledges held in possession on 31 December 2020 and 31 December 2019 are included in Note 21.

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4 RISK MANAGEMENT (CONTINUED)

4.1 Credit risk (continued)

4.1.7 Concentration of risks of financial assets with credit risk exposure

(a) Maximum exposure to credit risk before pledge or other credit risk mitigation instruments

	Maximum exposure	
	31 December 2020	**31 December 2019**
The exposure to asset credit risk is as follows:		
Cash and balances at the National Bank of Moldova	1,181,840,018	1,371,252,424
Government Securities and Certificates of the NBM	814,524,516	815,058,112
Loans and advances to banks	722,263,103	727,159,071
Loans and advances to customers	1,528,027,317	1,067,551,455
Other financial assets	17,318,902	16,859,413
Exposure to credit risk of off-balance sheet items:		
Financial guarantee contracts	48,160,280	72,251,146
Crediting commitments	225,458,597	87,947,076
At 31 December	**4,537,592,733**	**4,158,078,697**

The above table is the most pessimistic scenario for exposure to credit risk on 31 December 2020 and 31 December 2019, without taking into account collateral held or other credit risk mitigation instruments included. For balancing assets, the exposures set out above are based on the net book value reported in the financial position.

(b) Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by geographical region as of 31 December 2020 and as of 31 December 2019. For this table, the Bank has allocated exposures to regions based on the country of domicile of its counterparties.

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4 RISK MANAGEMENT (CONTINUED)

4.1 Credit risk (continued)

4.1.7 Concentration of risks of financial assets with credit risk exposure (continued)

31 December 2020	Moldova	OECD countries	Non-OECD countries	Total
Credit risk exposures relating to on-balance sheet assets are as follows:				
Cash and balances at the NBM	1,181,840,018	-	-	1,181,840,018
Treasury bills and Certificates of the NBM	814,524,516	-	-	814,524,516
Loans and advances to banks	2,222,846	713,129,690	6,910,567	722,263,103
Loans and advances to customers	1,528,019,498	7,819	-	1,528,027,317
Other financial assets	17,318,902	-	-	17,318,902
As at 31 December 2020	**3,543,925,780**	**713,137,509**	**6,910,567**	**4,263,973,856**

31 December 2019	Moldova	OECD countries	Non-OECD countries	Total
Credit risk exposures relating to on-balance sheet assets are as follows:				
Cash and balances at the NBM	1,371,252,424	-	-	1,371,252,424
Treasury bills and Certificates of the NBM	815,058,112	-	-	815,058,112
Loans and advances to banks	1,453,171	723,094,921	2,610,979	727,159,071
Loans and advances to customers	1,067,543,696	7,759	-	1,067,551,455
Other financial assets	16,859,413	-	-	16,859,413
As at 31 December 2019	**3,272,166,816**	**723,102,680**	**2,610,979**	**3,997,880,475**

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4 RISK MANAGEMENT (CONTINUED)

4.1 Credit risk (continued)

4.1.7 Concentration of risks of financial assets with credit risk exposure (continued)

(c) Industry sectors

31 December 2020	**Agriculture and food industry**	**Trade**	**Construction**	**Emergy***	**Financial institutions**	**Government and NBM**	**Consumer goods to individuals**	**Production**	**Other**	**Total**
Cash and balances at NBM						1,181,840,018				1,181,840,018
TB and NBM certificates	-	-	-		-	814,524,516	-	-	-	814,524,516
Loans and advances to banks	-	-	-		722,263,103	-	-	-	-	722,263,103
Loans and advance to customers:										-
Loans to individuals	-	-	719,227,959	-	-	-	115,624,686	-	36,547,681	871,400,326
Loans to companies	87,476,094	266,716,253	2,651,695	124,586,232	27,718,407	-	-	45,044,932	102,433,378	656,626,991
Other financial assets									17,318,902	17,318,902
As at 31 December 2020	**87,476,094**	**266,716,253**	**721,879,654**	**124,586,232**	**749,981,510**	**1,996,364,534**	**115,624,686**	**45,044,932**	**156,299,961**	**4,263,973,856**
As at 31 December 2019	**115,732,396**	**175,876,861**	**525,674,947**	**-**	**737,153,562**	**2,186,310,536**	**55,507,037**	**34,050,247**	**167,574,889**	**3,997,880,475**

During 2020, BC “EXIMBANK” SA and Privredna Banka Zagreb (Croatia), a member of the Intesa Sanpaolo Group, granted a cross-border Moldova-Croatia loan worth 25 million euros to an energy company.

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4 RISK MANAGEMENT (CONTINUED)

4.1 Credit risk (continued)

4.1.7 Concentration of risks of financial assets with credit risk exposure (continued)

(c) Industry sectors (continued)

31 December 2019	**Agriculture and food industry**	**Trade**	**Constructio n**	**Financial institutions**	**Government and NBM**	**Consumer goods to individuals**	**Production**	**Other**	**Total**
Cash and balances at NBM	-	-	-	-	1,371,252,424	-	-	-	1,371,252,424
TB and NBM certificates	-	-	-	-	815,058,112	-	-	-	815,058,112
Loans and advances to banks	-	-	-	727,159,071	-	-	-	-	727,159,071
Loans and advance to customers:									
Loans to individuals	-	-	524,698,192	-	-	55,507,037	-	52,715,797	632,921,026
Loans to companies	115,732,396	175,876,861	976,755	9,994,491	-	-	34,050,247	97,999,679	434,630,429
Other financial assets	-	-	-	-	-	-	-	16,859,413	16,859,413
As at 31 December 2019	**115,732,396**	**175,876,861**	**525,674,947**	**737,153,562**	**2,186,310,536**	**55,507,037**	**34,050,247**	**167,574,889**	**3,997,880,475**
As at 31 December 2018	**34,579,899**	**111,697,609**	**239,859,577**	**827,010,068**	**2,217,289,582**	**27,082,270**	**90,556,263**	**88,771,394**	**3,636,846,663**

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4 RISK MANAGEMENT (CONTINUED)

4.1 Credit risk (continued)

4.1.7 Concentration of risks of financial assets with credit risk exposure (continued)

At 31 December 2020, 100.00% (31 December 2019: 100.00%) of the borrowers included in the Bank's loan portfolio are residents of the Republic of Moldova.

On December 31, 2020, there are no significant transactions with local subsidiaries of companies incorporated in the Euro area, which are experiencing financial difficulties materialized through the existence of financial assistance programs or other risk factors.

At 31 December 2020, all investment securities recognized in the portfolio are classified using a Held to Collect business model, ie they are measured at amortized cost and represent certificates issued by the National Bank of Moldova and debt securities issued by the Ministry of Finance.

4.1.8 Impact of COVID-19 pandemic

The COVID-19 pandemic led to a short, but profound global recession. In January and February the effects where concentrated in China and have affected the rest of the world primarily through trade. Nevertheless, between February and March, the epidemic spread to Europe and the United States. All countries affected by the virus had to adopt isolation measures based on social distancing, the closing of numerous companies and restrictions on travel and tourism. Countries have been forced to impose lengthy suspentions of production activities. Even in places where less restrictive measures where adopted, the economic activity was well below the norm.

In Europe, the impact was felt in March. The extremely uncertain outlook for the pandemic has had a violent impact on financial markets, with sharp declines in stock prices and rising credit risk premiums on sovereign and corporate issuers. Money market interest rates have also come under pressure, despite abundant excess liquidity. Restrictions were gradually eased from late April to early June, but with limitations that continued to affect cross-border travel and social gatherings.

In the Republic of Moldova, the GDP decreased by 8.2% in the first 9 months of 2020. At the same time, the restrictive measures imposed in the context of the spread of the pandemic led to a sharp decrease in final consumption, especially private consumption, influencing economic growth by – 7,7 p.p. Most companies have diminished their investment activity, being constrained by the insufficiency of financial means and, thus, the gross capital formation had a contribution of -1,9 p.p. to the evolution of GDP.

The prospect of possible business closures and rising unemployment have led governments to take immediate support measures, with a considerable impact on government budgets: postponing tax payments, providing guarantees for bank credit, subsidies for households and strengthening social security mechanisms.

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4 RISK MANAGEMENT (CONTINUED)

4.1 Credit risk (continued)

4.1.8 Impact of COVID-19 pandemic (continued)

In order to mitigate the impact of the effects generated by the COVID-19 pandemic for the emergency period, the following measures were taken in the Republic of Moldova:

- The NBM has implemented monetary policy easing measures. Thus, the base rate was gradually decreased from March 2020 from 4,5% to 2,64% on 06.11.2020;
- At the same time, the norm of required reserves was increased from the funds attracted in freely convertible currency up to 30%, and the norm of required reserves maintained in Moldovan lei decreased to 32%;
- The NBM approved measures to support individuals consuming bank loans for the emergency period. On March 17 2020, the Executive Committee of the National Bank of Moldova issued a decision allowing the licensed banks to flexibly manage the payment obligations of individuals in difficulty of paying for the contracted loans, under the state of emergency. The decision facilitates the granting by licensed banks of payment facilities for existing loans of individuals until 31 May 2020. The change until 31 July 2020 of the due dates of payments and / or the amounts of payments on these loans will not have as effect their classification in a tougher category than the one existing at the date of adoption of this decision. The decision concerns persons whose financial situation has been temporarily affected as a result of the state of emergency and the economic consequences generated by COVID-19;
- A similar facility was granted to economic agents that have bank loans. Thus, the NBM has taken a decision that allows licensed banks to postpone or modify due dates of payments and / or amounts of payments due until June 30 2020 to the loans granted to economic agents. The modification of the mentioned terms will not have the effect of automatically classifying the respective credits in a lower category than the one existing at the date of the adoption of this decision.

Similarly, various European regulators have issued a number of measures (summarized below in terms of accounting aspects) aimed at giving intermediaries flexibility in managing this period of stress. In the first instance, it consists of supporting measures taken by national governments to deal with the systemic economic impact of the COVID-19 pandemic, in the form of a legislative payment moratorium. Banks have also been encouraged to apply their professional judgment in assessing forward-looking IFRS 9 information in assessing credit risk in order to better understand the specifics of this exceptional situation. Given the current uncertainty, documents published by authorities and issuers of standards suggest that existing approaches should not be applied mechanically when determining expected credit loss (ECL) under IFRS 9 and remind banks of the need to use appropriate judgment.

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4 RISK MANAGEMENT (CONTINUED)

4.1 Credit risk (continued)

4.1.8 Impact of COVID-19 pandemic (continued)

A summary of the main documents is provided below.

On March 27, the IFRS Foundation published a document that intends to support the consistent application of the requirements of IFRS - "COVID-19 - Accounting for expected credit losses by applying IFRS 9 financial instruments in the light of the current uncertainty resulting from the COVID-19 pandemic". This document clarifies that "entities should not continue to apply their existing ECL methodology mechanically" and recognizes the difficulty of incorporating the effects of the pandemic and related government support into the models. Therefore, banks facing this difficulty will need to consider "post-model management" adjustments. With regard to classification, it is confirmed that the extension of the moratorium to customers should not automatically mean that all their contracts have suffered a significant increase in credit risk (SICR).

The European Central Bank provided guidance in its March 20 press release "ECB Banking Supervision offers banks flexibility in pandemic measures" on loan classification and valuation. In its announcement, the ECB assured banks that the adoption of a moratorium should not be interpreted as an automatic trigger for unlikely payments (unlikely to pay), as payments were legally deferred and, consequently, the counting of late days was deactivated until the end of the moratorium.

The ECB also sent a letter to supervised banks to provide additional guidance and references on the inclusion of forward-looking information in the determination of ECLs in accordance with IFRS 9 in the current context of the COVID-19 pandemic. In order to avoid the use of excessively pro-cyclical assumptions, given the extreme uncertainty of the context and the unavailability of reasonably forward-looking information, the ECB summarizes: „to mitigate regulatory capital volatility and the financial statements of institutions arising from IFRS 9 accounting practices in the current context of extraordinary uncertainty, we recommend that institutions i) opt for the application of the transitional provisions of IFRS 9 set out in CRR and ii) avoid excessively pro-cyclical assumptions in IFRS 9 Models to determine their provisions". The ECB also emphasizes the fundamental importance of governance in terms of model adjustments, overlaps and updates, which are considered necessary in the current situation. This letter is accompanied by an annex, which provides guidance on the following three issues:

(i) Collective assessment of the significant increase in credit risk

The ECB expects institutions to "consider whether a top-down approach to step-by-step transfers can be adopted", using the collective assessment, "and in the context of this approach, to recognize expected credit losses over the life of a parts of financial assets for which credit risk is considered to have increased significantly without the need to identify individual financial instruments that have suffered a significant increase in credit risk ".

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4 RISK MANAGEMENT (CONTINUED)

4.1 Credit risk (continued)

4.1.8 Impact of COVID-19 pandemic (continued)

(ii) Use of long-term macroeconomic forecasts

The ECB recognizes the current uncertainty in making macroeconomic forecasts and therefore calls on intermediaries to focus on long-term macroeconomic forecasts when determining IFRS 9 ECL, using all historical information covering at least one or more complete business cycles. In the ECB's view, the provisions of IFRS 9 lead to the conclusion that, where there is no reliable evidence for specific forecasts, the long-term macroeconomic outlook provides the most relevant basis for estimation.

(iii) Macroeconomic forecasts 2020, 2021 and 2022

The ECB provided recommendations on how the forecasts for the end-of-period estimates for March and June should be made, indicating that the macroeconomic projections produced by its staff on 12 March 2020 (for quarterly reports as at 31 March) and subsequent updates on 4 June for the half-yearly report, should be used as anchor points: "The next ECB publication on the euro area outlook, which is based on country-specific projections of the national central banks, is scheduled for 4 June 2020. The ECB expects the institutions to to take these future publications into account in preparing quarterly situations from 30 June 2020". In this latest update, the ECB forecasts a decline in euro area GDP by 8.7% in 2020 and a return of 5.2% in 2021, followed by a further recovery of 3.3% in 2022. Also, BCE foresees:

- A severe scenario predicting a decline in the GDP of the euro zone by 12.6% in 2020, followed by a recovery of 3.3% and 3.8% in 2021 and 2022, respectively;
- A moderate scenario, with a 5.9% decline in the euro zone GDP in 2020 and a recovery of 6.8% in 2021 and 2.2% in 2022.

The EBA provides the banking sector with clear guidance on how to consistently manage issues related to:

(i) classification of loans as default

Adherence to the public and private moratorium is not a default trigger and at the same time stops the counting of days of delay. While institutions remain obliged to continue assessing the debtor's ability to pay for the exposures included in the moratorium. However, the EBA emphasizes that although adherence to a moratorium program should not be automatically interpreted as a trigger, it is recommended that individual exposure be checked carefully, taking into account all public and private measures that have been implemented and that affect customer creditworthiness after expiration of the moratorium.

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4 RISK MANAGEMENT (CONTINUED)

4.1 Credit risk (continued)

4.1.8 Impact of COVID-19 pandemic (continued)

(ii) identification of forborne exposures

With regard to the consideration of moratoriums as major restructuring measures (forbearance), the EBA excludes that these exposures can be considered so, as the moratoriums introduced in response to the COVID-19 pandemic aim to address systemic risks and improve the potential risks that could arise in the future in the wider economy;

(iii) accounting treatment (for the purpose of classifying Stage 2 and for forward-looking estimates)

With regard to the possible classification in Stage 2 of the exposures subject to the moratorium, the EBA clarifies that the application of a public or private moratorium aimed at addressing the negative systemic economic impact of the COVID-19 pandemic should not be considered alone as a trigger to identify a significant increase in credit risk, thus excluding automatic classification in Stage 2.

Taking into account the recommendations of the NBM, EBA and the Parent Bank, BC Eximbank on March 23 2020 undertook the following measures to support debtors in the individual segment of the Bank:

- Temporary cessation of the algorithm for transferring overdue loans, until 31.05.2020. For the credits already overdue at the time of entry into force of the order (23.05.2020), the calculation of overdue days will be continued;
- Failure to apply the penalties for all active loans of individuals until 31.05.2020;
- In the case of funds available in customer accounts, payments will be reimbursed according to the schedule within the available limit;
- During the moratorium, the software and hard collection operations were stopped, as well as the meetings with non-performing debtors, being postponed for subsequent periods.

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4 RISK MANAGEMENT (CONTINUED)

4.1 Credit risk (continued)

4.1.8 Impact of COVID-19 pandemic (continued)

The amounts accumulated and unpaid during the moratorium period were due on 01.06.2020. In case of non-payment, customers were offered the option to submit requests for repayment of accumulated and unpaid amounts until 31.05.2020 as follows:

<table>
<tr><th rowspan="2">Part of the installment</th><th colspan="2">Rules for restructuring tranches</th></tr>
<tr><th>Consumer loans</th><th>Mortgage loans</th></tr>
<tr><td>Commisions</td><td colspan="2">The due date for the payment of commissions is set in the month immediately following the moratorium, i.e. June 2020 and paid in full by the debtor in June 2020.</td></tr>
<tr><td>Base loan amount (Principal)</td><td colspan="2">The accumulated base amount during the moratorium period will be deferred / transferred for payment towards the last three months of the loan life and distributed proportionately (the accumulated loan tranches during the moratorium period will be divided into three equal parts and will be allocated to the corresponding base amount of the last three months). These provisions apply only to consumer loans and mortgages, with the exception of credit cards.</td></tr>
<tr><td>High interest rates</td><td colspan="2">The amount of increased interest during the moratorium period, 25.03.2020 - 31.05.2020, will be distributed proportionately until December 2020, starting with:

- June 2020, if the loan product does not have commissions according to the credit agreement or the amount of commissions will be accessible to the debtor for repayment in the same month as interest, i.e. in June 2020 (necessary to be coordinated with the debtor);

- July 2020, if the loan product has commissions according to the loan agreement.

The Retail Division has the right to reduce the period of months until December 2020, if necessary.</td></tr>
<tr><td>Additional provisions</td><td colspan="2">No fees will be charged for changing contractual clauses, as a result of accepting the debtor's request and changing the terms and / or amounts of the related payments.</td></tr>
</table>

The list of eligible borrowers is approved by the Credit Committee. The following loan products for individuals were considered eligible for the modification of the terms and / or amounts of payments accumulated and not paid during the COVID moratorium period:

- Loans granted to individuals - consumer loans and mortgages, except for credit cards;

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4 RISK MANAGEMENT (CONTINUED)

4.1 Credit risk (continued)

4.1.8 Impact of COVID-19 pandemic (continued)

- Loans that do not record overdue payments at the beginning of the moratorium period (25.03.2020);
- Loans that record overdue payments of up to 30 calendar days as at 31.03.2020.

Legal entity debtors were analyzed individually and the approach was customized for each client.

At the end of June 2020, 653 requests for suspension related to the moratorium granted on 23.03.2020 were processed. Restructuring measures were applied for 578 of them. By the end of the reporting period, the number of customers that benefited from the restructuring and remained in balance was reduced to 491. The distribution at the end of the reporting period by types of customers is as follows:

Client type	Nr. contracts	Gross exposure	Impairment
Households	449	118,113,790	12,868,340
din care credite ipotecare	*200*	*104,273,289*	*9,512,226*
din care credite de consum	*249*	*13,840,501*	*3,356,114*
Non-financial corporations	40	31,848,052	4,763,807
Non-bank financial institutions	2	1,037,672	22,614
Total	**491**	**150,999,514**	**17,654,762**

During the moratorium, delay days were frozen, so the effect of the pandemic was captured in June and the increase in ECL by reviewing the forward-looking information that was incorporated. Thus, in June there was a total increase of 9,508,819 which is attributed to the FLI effect as a result of the reclassification of exposures with a value higher than the equivalent of EUR 100 thousand in Stage 2 applied individually for borrowers who benefited from restructuring measures.

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4 RISK MANAGEMENT (CONTINUED)

4.1 Credit risk (continued)

4.1.8 Impact of COVID-19 pandemic (continued)

At the same time, as a result of the effect of the pandemic on the evolution of customers' financial statements, future cash flows related to individually classified exposures in Stage 3 have been revised. The evolution of these exposures as at 31.12.2020 is as follows (net values):

Stage 31.12.2020 \ Stage 31.03.2020	Stage 1	Stage 2	Stage 3	Granted after 31.03.2020	Total
Stage 1	98,731,261	-	476,033	198,462	**99,405,756**
Stage 2	21,422,538	4,987,727	-	6,025,919	**32,436,184**
Stage 3	1,195,441	7,447	299,924	-	**1,502,812**
Total	**121,349,240**	**4,995,174**	**775,957**	**6,224,381**	**133,344,752**

The above-mentioned ECB forecasts for euro area GDP decline have been incorporated by the Bank in the calculation of risk parameters, namely the LGD.

At the same time, in order to have a more prudent approach to the calculation of risk parameters, the Bank applied a weight of 50% for the severe scenario, 45% for the basic scenario and 5% for the moderate one.

The long-term effect of “COVID-19” resulted from both the effect on ECL and the significant migration of positions in Stage 2, as a result of a significant increase in credit risk caused by the worsening of key financial indicators of clients such as equity, turnover, net result, degree of indebtedness, etc., as well as the number of outstanding days recorded in the reported month (net values 31.12.2020):

31.12.2020 \ 31.03.2020	Stage 1	Granted after 31.03.2020	**TOTAL**
Stage 1	-	-	-
Stage 2	38,890,597	115,555,562	**154,446,160**

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4 RISK MANAGEMENT (CONTINUED)

4.1 Credit risk (continued)

4.1.9 Post model adjustments and sensitivity analysis scenarios

According to provisions of IFRS 9, the Bank should calculate expected credit losses ('ECLs') under forward-looking judgements, models and data. Overlays, or post-model adjustments, are often used to address shortcomings where models or data have limitations. As a result of severe economic conditions and uncertainty arising due to coronavirus (COVID-19), there is an increased need to apply overlays in calculating ECLs.

Post-model adjustments (PMAs) are short-term adjustments to the ECL balance as part of the year-end reporting process to reflect late updates to market data, known model deficiencies and expert credit judgement. The Bank has internal governance frameworks and controls in place to assess the appropriateness of all PMAs. The aim is to incorporate these PMAs into the ECL models, where possible, as part of the periodic recalibration and model assessment procedures.

If the Bank had not applied the expert credit judgement, namely 56 Legal Entities loans would not have been classified in Stage 2, the total ECL at 31 December 2020 would have been 25.24 mln. MDL lower than reported.

			MDL
	31 December 2020 as reported	**31 December 2020 before PMA's**	***Delta***
Stage	**ECL allowances on loans**	**ECL allowances on loans**	**ECL allowances on loans**
1	30,376,174	33,425,239	*3,049,065*
2	57,749,582	29,458,745	*(28,290,837)*
3	28,940,292	28,940,292	-
Total	**117,066,047**	**91,824,276**	***(25,241,771)***

At the same time, in order to have a more prudent approach to the calculation of risk parameters, for the ECL calculation at 31 December 2020 the Bank applied a probability weighted ascenario of 50% for the severe scenario, 45% for the basic scenario and 5% for the moderate one.

According to IFRS9 provisions, Banks should consider providing an update of the sensitivity analysis, as it is likely that these will have changed due to market conditions existing at the end of 2020.

The tables below shows the loss allowance on loans and advances to corporate and retail customers assuming each forward-looking scenario (e.g. central, upside and downside) were weighted 100% instead of applying scenario probability weights across the three scenarios. For ease of comparison, the tables also includes the probability-weighted amounts that are reflected in the financial statements.

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4 RISK MANAGEMENT (CONTINUED)

4.1 Credit risk (continued)

4.1.9 Post model adjustments and sensitivity analysis scenarios (continued)

MDL

Stage	31 December 2020 as reported		31 December 2020 Baseline 100%		*Delta*
	Exposure	Allowances	Exposure	Allowances	Allowances
1	1,518,548,992	30,376,174	1,518,522,013	30,066,973	*(309,201)*
2	343,247,298	57,749,582	343,247,298	56,974,272	*(775,310)*
3	47,529,044	28,940,292	47,529,044	28,940,292	-
Total	**1,909,325,334**	**117,066,047**	**1,909,298,354**	**115,981,536**	***(1,084,511)***

MDL

Stage	31 December 2020 as reported		31 December 2020_Best 100%		*Delta*
	Exposure	Allowances	Exposure	Allowances	Allowances
1	1,518,548,992	30,376,174	1,518,522,013	25,237,197	*(5,138,977)*
2	343,247,298	57,749,582	343,247,298	54,094,946	*(3,654,635)*
3	47,529,044	28,940,292	47,529,044	28,940,292	-
Total	**1,909,325,334**	**117,066,047**	**1,909,298,354**	**108,272,435**	***(8,793,613)***

MDL

Stage	31 December 2020 as reported		31 December 2020_Adverce 100%		*Delta*
	Exposure	Allowances	Exposure	Allowances	Allowances
1	1,518,548,992	30,376,174	1,518,522,013	31,167,540	*791,366*
2	343,247,298	57,749,582	343,247,298	58,812,824	*1,063,242*
3	47,529,044	28,940,292	47,529,044	28,940,292	-
Total	**1,909,325,334**	**117,066,047**	**1,909,298,354**	**118,920,656**	***1,854,609***

4.2 Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Bank separates exposures to market risk into either trading or non-trading portfolios.

The market risks arising from trading and non-trading activities are concentrated in the Bank's Treasury department. Regular reports are submitted to the Board of Directors and heads of each business unit.

4.2.1 Foreign exchange risk

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

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4 RISK MANAGEMENT (CONTINUED)

4.2 Market risk (continued)

4.2.1 Foreign exchange risk (continued)

The table below summarizes the Bank's exposure to foreign currency exchange rate risk at 31 December 2020 and at 31 December 2019. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by currency.

At 31 December 2020	MDL	USD	EUR	Other foreign currencies*	Total
Assets					
Cash and balances with NBM	606,591,210	157,797,003	416,812,820	638,985	1,181,840,018
Loans and advances to banks	-	368,235,793	342,613,619	11,413,691	722,263,103
Loans and advances to customers	1,126,808,230	54,950,368	346,268,719	-	1,528,027,317
Investment in debt securities and NBM Certificates	814,524,516	-	-	-	814,524,516
Other assets	5,836,319	10,291,317	1,191,266	-	17,318,902
Total financial assets	**2,553,760,275**	**591,274,481**	**1,106,886,424**	**12,052,676**	**4,263,973,856**
Liabilities					
Due to banks	-	173,990,927	-	-	**173,990,927**
Due to customers	1,751,918,460	397,624,853	1,059,384,544	10,638,872	**3,219,566,729**
Other liabilities	30,289,225	5,931,030	41,552,803	191,778	**77,964,836**
Total financial liabilities	**1,782,207,685**	**577,546,810**	**1,100,937,347**	**10,830,650**	**3,471,522,492**
Net balance sheet position	**771,552,590**	**13,727,671**	**5,949,077**	**1,222,026**	**792,451,364**
Credit commitments and guarantees	126,239,817	12,703,495	134,675,565	-	273,618,877

* Other currencies mainly include the Russian Ruble, the British Pound, the Swiss Franc and the Romanian Leu.

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4 RISK MANAGEMENT (CONTINUED)

4.2 Market risk (continued)

4.2.1 Foreign exchange risk (continued)

At 31 December 2019	**MDL**	**USD**	**EUR**	**Other foreign currencies***	**Total**
Assets					
Cash and balances with NBM	958,975,743	98,119,787	311,417,805	2,739,089	1,371,252,424
Loans and advances to banks	-	151,728,387	569,600,392	5,830,292	727,159,071
Loans and advances to customers	841,295,600	89,432,968	136,822,887	-	1,067,551,455
Investment in debt securities and NBM Certificates	815,058,112	-	-	-	815,058,112
Other assets	5,645,784	11,157,994	55,635	-	16,859,413
Total financial assets	**2,620,975,239**	**350,439,136**	**1,017,896,719**	**8,569,381**	**3,997,880,475**
Liabilities					
Due to customers	1,752,152,920	348,910,346	987,198,278	7,096,113	3,095,357,657
Other liabilities	25,025,552	4,859,959	44,173,883	670,362	74,729,756
Total financial liabilities	**1,777,178,472**	**353,770,305**	**1,031,372,161**	**7,766,475**	**3,217,679,492**
Net balance sheet position	**843,796,767**	**(3,331,169)**	**(13,475,442)**	**802,906**	**827,793,062**
Credit commitments and guarantees	91,821,966	5,145,581	63,230,675	-	160,198,222

* Other currencies mainly include the Russian Ruble, the British Pound, the Swiss Franc and the Romanian Leu.

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4 RISK MANAGEMENT (CONTINUED)

4.2 Market risk (continued)

4.2.1 Foreign exchange risk (continued)

At 31 December 2020, if the MDL had weakened / (strengthened) by 10 per cent against the USD with all other variables held constant, the profit before-tax for the year ended 31 December 2020 would have been approximately MDL 1,372,767 (2019: MDL 333,117) lower / (higher). At 31 December 2020, if the MDL had weakened / (strengthened) by 10 per cent against the EUR with all other variables held constant, the profit before-tax for the twelve month period ended 31 December 2020 would have been approximately MDL 594,908 (2019: MDL 1,347,544) lower / (higher).

4.2.2 Interest rate risk

Interest sensitivity of assets, liabilities and off balance sheet items – re-pricing analysis

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored daily.

The tables below summarizes the Bank's exposure to interest rate risks at 31 December 2020 and 31 December 2019, respectively. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

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4 RISK MANAGEMENT (CONTINUED)

4.2 Market risk (continued)

4.2.2 Interest rate risk (continued)

	Up to 1 month	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
At 31 December 2020							
Assets							
Cash and balances with NBM	954,861,888	-	-	-	-	226,978,130	1,181,840,018
Loans and advances to banks	228,504,227	120,502,200	25,821,900	-	-	347,434,776	722,263,103
Treasury Bills	652,857,670	107,922,515	47,764,779	5,969,552	-	10,000	814,524,516
Loans to customers	689,621,336	180,914	5,749,512	158,283,135	674,192,420	-	1,528,027,317
Other financial assets	-	-	-	-	-	17,318,902	17,318,902
Total financial assets	**2,525,845,121**	**228,605,629**	**79,336,191**	**164,252,687**	**674,192,420**	**591,741,808**	**4,263,973,856**
Liabilities							
Due to banks	-	-	-	173,990,927	-	-	173,990,927
Due to customers	1,131,525,347	28,477,403	115,824,592	261,864,550	-	1,681,874,837	3,219,566,729
Other financial liabilities	-	-	-	-	-	77,964,836	77,964,836
Total financial liabilities	**1,131,525,347**	**28,477,403**	**115,824,592**	**435,855,477**	**-**	**1,759,839,673**	**3,471,522,492**
Interest re-pricing gap	1,394,319,774	200,128,226	(36,488,401)	(271,602,790)	674,192,420		

The term “Up to one month” includes all variable rate loans on which the Bank has the unilateral change right with 10 days notice. Fixed rate loans were treated according to their maturity.

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4 RISK MANAGEMENT (CONTINUED)

4.2 Market risk (continued)

4.2.2 Interest rate risk (continued)

	Up to 1 month	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
At 31 December 2019							
Assets							
Cash and balances with NBM	1,053,592,496	-	-	-	-	317,659,928	1,371,252,424
Loans and advances to banks	181,458,967	55,722,533	96,311,300	-	-	393,666,271	727,159,071
Treasury Bills	728,383,884	30,394,030	46,151,578	10,128,620	-	16,250	815,074,362
Loans to customers	478,521,917	58,236	4,137,631	113,669,501	471,164,170	-	1,067,551,455
Other financial assets	-	-	-	-	-	16,859,413	16,859,413
Total financial assets	**2,441,957,264**	**86,174,799**	**146,600,509**	**123,798,121**	**471,164,170**	**728,201,862**	**3,997,896,725**
Liabilities							
Due to customers	1,202,073,171	41,858,119	486,193,247	101,785,799	-	1,263,447,321	3,095,357,657
Other financial liabilities	-	-	-	-	-	74,729,756	74,729,756
Total financial liabilities	**1,202,073,171**	**41,858,119**	**486,193,247**	**101,785,799**	**-**	**1,338,177,077**	**3,170,087,413**
Interest re-pricing gap	**1,239,884,093**	**44,316,680**	**(339,592,738)**	**22,012,322**	**471,164,170**		

The term “Up to one month” includes all variable rate loans on which the Bank has the unilateral change right with 10 days notice. Fixed rate loans were treated according to their maturity.

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4 RISK MANAGEMENT (CONTINUED)

4.2 Market risk (continued)

4.2.2 Interest rate risk (continued)

The interest rate sensitivity analysis has been determined based on the exposure to interest rate risk at the reporting date. At 31 December 2020, if interest rates on Bank assets had been higher/lower by 0.2% on correspondent accounts, by 2.5% higher/lower on state securities, by 2.5% higher/lower on granted loans in MDL, by 1.0% higher/lower on loans granted in foreign currency and on Bank liabilities: had been higher/lower by 1.0% of borrowings, by 1.0% on customers' deposits in MDL and by 0.5% on customers' deposits in foreign currency, with all other variables were held constant, the Bank's before tax profit for the twelve month period ended 31 December 2020 would respectively increase/decrease by approximately MDL 26,241,467 (31 December 2019: MDL 22,324,744).

The table below summarizes the average effective interest rate by major currencies for monetary financial instruments not carried at fair value to profit or loss:

2020	**EUR**	**USD**	**MDL**
Financial assets			
Due from National Bank of Moldova	0.01%	0.01%	0.71%
Loans and advances to banks	0.03%	0.43%	-
Treasury bills	-	-	3.80%
Loans and advances to customers	4.35%	6.11%	9.94%
Liabilities			
Due to banks	-	3.82%	-
Due to customers	0.71%	1.29%	3.34%

2019	**EUR**	**USD**	**MDL**
Financial assets			
Due from National Bank of Moldova	0.12%	0.12%	3.47%
Loans and advances to banks	0.14%	1.97%	-
Treasury bills	-	-	6.59%
Loans and advances to customers	5.72%	6.43%	10.02%
Liabilities			
Due to banks	-	-	-
Due to customers	1.11%	1.83%	3.93%

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4 RISK MANAGEMENT (CONTINUED)

4.2 Market risk (continued)

4.2.3 Geographical analysis

The following table breaks down the Bank's financial assets and financial liabilities at their carrying amounts, as categorized by geographical region as at 31 December 2020 and 31 December 2019. For this table, the Bank has allocated exposures to regions based on the country of domicile of our counterparties.

As at 31 December 2020	**Total financial assets**	**Total financial liabilities**	**Off balance sheet commitments**
Moldova	3,543,924,469	3,044,920,959	272,922,532
Ireland	-	168	-
USA	55,256,581	5,661,134	100,000
Austria	1,350,340	421,746	-
Italy	656,528,213	383,230,780	96,345
Germany	-	1,672,112	-
Russia	6,641,905	550,721	-
France	-	6,629,495	500,000
Belgium	-	693,358	-
Turkey	512	4,087,646	-
Other countries	271,836	23,654,371	-
	4,263,973,856	**3,471,522,492**	**273,618,877**

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4 RISK MANAGEMENT (CONTINUED)

4.2 Market risk (continued)

4.2.3 Geographical analysis (continued)

As at 31 December 2019	Total financial assets	Total financial liabilities	Off balance sheet commitments
Moldova	3,272,183,064	2,950,935,459	159,506,048
Ireland	-	393	-
USA	60,383,107	10,221,971	92,174
Austria	11,062,193	692,752	-
Italy	651,657,307	177,797,543	100,000
Germany	-	1,202,337	-
Russia	1,207,346	477,114	-
France	-	6,098,191	500,000
Belgium	-	346,030	-
Turkey	-	4,807,747	-
Hungary	-	31,022	-
Other countries	1,403,708	17,476,854	-
	3,997,896,725	**3,170,087,413**	**160,198,222**

4.3 Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees. The Bank does not maintain cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

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4 RISK MANAGEMENT (CONTINUED)

4.3 Liquidity risk (continued)

4.3.1 Non-derivative cash flows

The table below presents the cash flows payable by the Bank under non-derivative financial assets and liabilities by remaining contractual maturities at the date of the statement of financial position. The amounts disclosed in the table are the contractual undiscounted cash flows:

At 31 December 2020	Carrying amount	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Assets							
Cash and balances with NBM	1,181,840,018	1,181,840,018	-	-	-	-	1,181,840,018
Loans and advances to banks	722,263,103	576,519,950	120,543,630	25,843,131	-	-	722,906,711
Investments in securities	814,524,516	654,762,522	110,614,537	51,008,816	6,684,973	-	823,070,848
Loans and advances to customers	1,528,027,317	39,646,501	57,943,264	355,141,941	766,280,396	573,059,591	1,792,071,693
Other financial assets	17,318,902	17,318,902	-	-	-	-	17,318,902
Total assets	**4,263,973,856**	**2,470,087,893**	**289,101,431**	**431,993,888**	**772,965,369**	**573,059,591**	**4,537,208,172**
Liabilities							
Due to banks	173,990,927	-	-	-	173,990,927	-	173,990,927
Due to customers	3,219,566,729	2,242,408,659	117,157,390	409,335,140	646,491,294	6,342,884	3,421,735,367
Other financial liabilities	77,964,836	58,990,226	936,918	4,216,130	13,821,562	-	77,964,836
Total liabilities	**3,471,522,492**	**2,301,398,885**	**118,094,308**	**413,551,270**	**834,303,783**	**6,342,884**	**3,673,691,130**
Net Position	**792,451,364**	**168,689,008**	**171,007,123**	**18,442,618**	**(61,338,414)**	**566,716,707**	**863,517,042**
Off-balance sheet items							
Guarantees issued	48,160,280	2,492,615	12,475,022	30,750,819	2,441,825	-	48,160,281
Commitments to extend the loan	225,458,597	-	282,139	72,393,489	96,427,039	-	169,102,667
Total off-balance sheet position	**273,618,877**	**2,492,615**	**12,757,161**	**103,144,308**	**98,868,864**	**-**	**217,262,948**

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4 RISK MANAGEMENT (CONTINUED)

4.3 Liquidity risk (continued)

4.3.1 Non-derivative cash flows (continued)

At 31 December 2019	Carrying amount	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Assets							
Cash and balances with NBM	1,371,252,424	1,371,252,424	-	-	-	-	1,371,252,424
Loans and advances to banks	727,159,071	575,125,233	55,722,538	96,311,300	-	-	727,159,071
Investments in securities	815,074,362	727,786,076	40,010,076	43,193,966	4,067,994	16,250	815,074,362
Loans and advances to customers	1,067,551,455	74,818,211	22,074,748	207,922,937	438,238,742	405,569,148	1,148,623,786
Other financial assets	16,859,413	16,859,413	-	-	-	-	16,859,413
Total assets	**3,997,896,725**	**2,765,841,357**	**117,807,362**	**347,428,203**	**442,306,736**	**405,585,398**	**4,078,969,056**
Liabilities							
Due to customers	3,095,357,657	1,874,298,744	133,065,844	796,660,207	276,400,376	18,020,843	3,098,446,014
Other financial liabilities	74,729,756	51,785,709	970,626	4,367,819	17,605,602	-	74,729,756
Total liabilities	**3,170,087,413**	**1,926,084,453**	**134,036,470**	**801,028,026**	**294,005,978**	**18,020,843**	**3,173,175,770**
Net Position	**827,809,312**	**839,756,904**	**(16,229,108)**	**(453,599,823)**	**148,300,758**	**387,564,555**	**905,793,286**
Off-balance sheet items							
Guarantees issued	72,251,146	7,753,815	14,740,732	38,530,085	11,226,514	-	72,251,146
Commitments to extend the loan	87,947,076	1,499,375	1,010,004	12,459,555	61,745,455	11,232,687	87,947,076
Total off-balance sheet position	**160,198,222**	**9,253,190**	**15,750,736**	**50,989,640**	**72,971,969**	**11,232,687**	**160,198,222**

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4 RISK MANAGEMENT (CONTINUED)

4.4 Fair values of assets and liabilities

Fair value of financial instruments and fair value hierarchy

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

Level 1: quoted prices in active markets for the same instrument (i.e., without modification or repackaging);

Level 2: quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

Level 3: valuation techniques for which any significant input is not based on observable market data.

As at 31 December 2020 the Bank has cash and balances with the National Bank of Moldova, loans and advances to banks, debt securities and other debts with Banks, which are classified as Level 2 for disclosure purposes. All the other financial assets and liabilities are classified as Level 3 for disclosure purposes.

The following table summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Banks balance sheet at their fair value. For details, please see the notes below the table.

	Carrying value		Fair value	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
Financial assets				
Cash and balances with NBM	1,181,840,018	1,371,252,424	1,181,840,018	1,371,252,424
Loans and advances to banks	722,263,103	727,159,071	722,263,103	727,159,071
Treasury bills	814,524,516	815,074,362	822,913,325	827,122,191
Loans and advances to customers	1,528,027,317	1,067,551,455	1,509,597,594	1,008,680,234
Other financial assets	17,318,902	16,859,413	17,318,902	16,859,413
	4,263,973,856	**3,997,896,725**	**4,253,932,942**	**3,951,073,333**
Financial liabilities				
Due to banks	173,990,927	-	173,990,927	-
Due to customers	3,219,566,729	3,095,357,657	3,231,340,692	3,104,599,473
Other financial liabilities	77,964,836	74,729,756	77,964,836	74,729,756
	3,471,522,492	**3,170,087,413**	**3,483,296,455**	**3,179,329,229**

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4 RISK MANAGEMENT (CONTINUED)

4.4 Fair values of assets and liabilities (continued)

(i) Cash and balances with National Bank of Moldova

Cash and cash equivalent with NBM are up to 1 month. The carrying value of cash and balances with NBM approximates their fair value.

(ii) Loans and advances to banks

Due from other banks includes inter-bank placements and items in the course of collection.

The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

(iii) Loans and advances to customers

Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates (based on data published by National bank of Moldova) to determine fair value.

(iv) Due to other banks and customers and other deposits

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest-bearing deposits and other borrowings not quoted in an active market is based on discounted cash flows using interest rates (based on data published by National bank of Moldova) for debts with similar remaining maturity.

(v) Other borrowings

Other borrowed funds are presented on the balance sheet at their fair carrying value. There is no active market with similar transactions to determine the borrowings' fair value. The borrowings are due to the shareholder, granted under specific conditions, therefore their fair value cannot be determined using current market information. Accordingly, the Bank considers borrowings' fair value equal to their carrying value.

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4 RISK MANAGEMENT (CONTINUED)

4.5 Taxation risk

The Bank is committed to ensure sustainable performance of tax risk management by building and maintaining an efficient, effective and transparent tax function within the organization. The Bank strictly complies with the legal norms regarding taxes and duties.

Effective from 1 January 2012, IFRS implementation has been considered for the revision of tax legislation in order to introduce particular rules for the treatment of adjustments resulted at the implementation stage and afterwards.

In this context, careful analysis was performed in identification of differences in accounting treatment, having tax impact, both in terms of current tax and deferred tax.

It is expected that also in the future the tax framework will be subject to further amendments. Given the precedents, they may have retroactive application. Tax liabilities of the Bank are opened to a general tax inspection for a period of four years.

4.6 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risk such those arising from legal and regulatory requirements and generally accepted standards of corporate governance. Operational risks arise from all of the Bank's operations and are faced by all business entities.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

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4 RISK MANAGEMENT (CONTINUED)

4.7 Operational risk (continued)

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorization of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risk faced, and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and professional development;
- Ethical and business standards;
- Risk mitigation, including insurance where this is effective.

The impact of the COVID-19 epidemic on operational results

As mentioned in point 4.1.8 above, in the last week of February 2020, the global health emergency caused by the pandemic affected both market performance and trade operations, the latter being penalized by the increasingly severe isolation measures that have led to the suspension of many production activities in Moldova and around the world.

Eximbank responded promptly to the emergency, immediately implementing a wide range of initiatives aimed at protecting the health of people and customers, to ensure business continuity and counteract the social and economic effects of COVID-19.

Following Decision no. 6 of the Extraordinary national public health commission of March 10 2020 on the evolution of the epidemiological situation of the COVID-19 infection, a working group was created within the Bank, meeting periodically (daily/weekly), which had the purpose of implementing the necessary action plan to ensure the continuity of the activity of the Bank's structures and to prevent the spread of the COVID-19 infection.

The main impact on operations and the effects on operating results, as well as the risk profile, are detailed below.

The actions taken to protect health, together with the business continuity measures described in detail in the specific paragraphs above, have had an impact on operating costs and the capital budget, mainly in relation to:

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4 RISK MANAGEMENT (CONTINUED)

4.7 Operational risk (continued) - The impact of the COVID-19 epidemic on operational results

- the prevention of occupational hazards, which involved the purchase of personal protective equipment to meet healthcare needs and the implementation of measures to contain the spread of the virus, together with the modification of operational processes and the adoption of specific associated measures, as well as the granting of additional rest leave to staff from branches where the phase of the emergency was the most acute;
- the widespread adoption of remote working, which specifically required the purchase and allocation of devices to enable the implementation of remote work;
- implementing measures to facilitate digital interaction with customers, by improving remote services, with consistent investments to improve remote contact channels with customers and strengthen IT security in terms of fraud prevention;
- temporary redirection of customers from one branch office to another, as a result of the branch collaborators testing positive to COVID – 19, in order to perform hygienic-sanitary activities;
- application of a working in shifts regime for the staff of the Bank's branches and some departments within the Central Office, such as the ICT Department and the Logistics Office;
- ceasing participation in trainings, workshops, instructional seminars involving physical presence, as well as limiting travel, gatherings and meetings (as appropriate);

In order to return to voluntary activity from the office of the employees within the structures of the Bank's central office, their physical presence not exceeding 20% per office was ensured, respecting the individual limit per person of maximum 2 working days per week, except for employees involved in the commercial activity and meetings with the Bank's clients. Thus, as a result of the measures taken by the Bank, operational losses were generated due to the cost of goods and services related to disinfection and guaranteeing business continuity, such as purchasing masks, sanitizing gel, gloves, antibacterial soap, disinfectant, etc. The table below shows the costs incurred by the Bank.

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4 RISK MANAGEMENT (CONTINUED)

4.6 Operational risk (continued) - The impact of the COVID-19 epidemic on operational results

Covid-19 Expenses	Q I	Q II	Q III	Q IV	TOTAL
Gloves, antibacterial soap, thermometers, reusable masks, protective screens	1.41%	2.01%	3.89%	6.73%	**14.04%**
Disinfection services	6.41%	16.50%	25.27%	28.17%	**76.34%**
IT developments	0.00%	7.70%	0.00%	0.00%	**7.70%**
Expenses related to informing the public	0.00%	0.04%	0.00%	0.09%	**0.12%**
Testing employees	0.00%	0.00%	1.73%	0.07%	**1.80%**
TOTAL	**7.82%**	**26.24%**	**30.89%**	**35.06%**	**100.00%**

4.8 Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- To comply with the capital requirements set by the regulators of the banking markets where the entities within the Bank operate;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee. The required information is filed with the local central bank on a quarterly basis.

The Authority requires each bank or banking group to maintain a ratio of total regulatory capital to the risk-weighted asset (the 'Basel ratio') at or above the internationally agreed minimum of 8%.

The Bank's regulatory capital is divided into two tiers:

1. Tier 1 capital:
   - ✓ Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings, which contributes essentially to ensuring the stability of the Bank and its efficiency;
   - ✓ additional tier 1 capital;
2. Tier 2 capital.

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4 RISK MANAGEMENT (CONTINUED)

4.8 Capital management (continued)

The elements held by the Bank in order to establish the Tier Capotal 1 meet the eligibility conditions and to which the deductions provided by the legislation have been applied.

Thus, according to the requirements of the NBM, it is necessary to maintain the following minimum requirements related to Tier Capital:

1. a base level tier 1 capital rate of 5.5%;.
2. a level tier 1 capital rate of 7.5%;
3. a total tier capital rate of 10.0%.

At the same time, the Bank is obliged to maintain the basic Tier 1 Equity funds required to meet the capital buffer requirements:

1. the rate of capital buffer equal to 2.5% of the total amount of the Bank's risk exposure;
2. the countercyclical buffer rate for credit exposures located in the Republic of Moldova equal to 0% of the amount of the Bank's risk exposure;
3. the systemic risk buffer rate for exposures located in the Republic of Moldova equal to 1% of the amount of the Bank's risk exposure.

Thus, the minimum capital requirement for the Bank is 13.5% of the total amount of the Bank's risk exposure.

In order to determine the risk-weighted exposure amounts for the purpose of calculating own funds requirements, the Bank shall use the standard approach applied to the following risk categories: (i) credit risk, (ii) market risk and (iii) operational risk.

During 2020, the Bank complied with all requirements regarding tier capital and capital amortization.

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5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The preparation of financial statements in accordance with IFRS requires the Bank's management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Evaluations and decisions are continually reviewed on the basis of past experience and other factors, including estimates of subsequent events that are considered reasonable under the circumstances.

a. Judgments

a.1 Classification of financial assets: evaluation of the business model in which the assets are held

See also Note 3.2 iii. An entity's business model refers to the way an entity manages its financial assets to generate cash flows. The Bank's financial assets are held within a business model whose objective is to hold assets to collect contractual treasury flows by collecting contractual payments over the life of the instrument.

The Bank classifies its financial assets by applying a business model "Held to Collect", considering the two characteristics below. It then assesses the financial assets at amortized cost.

(a) the entity 's business model for the management of financial assets; and

(b) the characteristics of the contractual treasury flow of the financial asset.

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

a) the financial asset is held within 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 principal and interest payments on the principal due.

a.2 Determining criteria for increasing credit risk

See also Note 3.2 viii. Establishment of criteria for determining whether credit risk for a financial asset has increased significantly since initial recognition, determining the methodology for incorporating prospective looking information into the discount model for expected impairment losses and selecting and approving the models used when estimating reductions for expected impairment losses.

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5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

b. Assumptions and estimates of uncertainties

b.1 Impairment losses on loans and advances, financial collateral and lending commitments.

See also Note 3.2 viii Depreciation of Financial Instruments: Determining input data and incorporating prospective information into the Expected Depreciation Asset (ECL) Determination Model.

The bank assesses and measures credit risk for all credit exposures. The measurement of provisions is based on the requirements of IFRS 9 and results in the appropriate and timely recognition of the ECL in accordance with the applicable accounting framework. ECL assessment takes place at the level of each credit exposure and also in the collective portfolio by grouping exposures based on common credit risk characteristics.

Estimates of impairment adjustments take into account relevant factors and expectations at reporting date that may affect the collection of remaining cash flows for a group of credit exposures or individual exposures. The Bank considers information that goes further than historical and current data and considering reasonable prospective information, including macroeconomic factor, that are relevant to exposures evaluated under the applicable accounting framework.

The use of forward looking information is not a novelty introduced by IFRS 9. Thus, in order to predict future trends and events to determine both the "Probability of Default" and "Loss Given Default", the Bank considered three scenarios to cover potential future macroeconomic trends such as (i) best scenario, (ii) the baseline scenario and (iii) the adverse scenario, using the following macroeconomic factors: Gross Domestic Product, inflation rate, exchange rate, NBM base rate, unemployment rate, housing price.

The methodology applied by the Bank for the entire non-performing exposures perimeter is based on the objective loss factors supporting the reasoning that the contractual amount can not be fully recovered. In general, this assessment is based on the qualitative and quantitative analysis of the borrower's financial results, the degree of risk exposure, the risk mitigation factors (eg type of collateral), the external factors applied, and the financial impact of the period time required for recovery.

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5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

In line with the overall approach, loss provisions are recognized either on a 12-month ECL basis or on the basis of the ECL over the lifetime, depending on the significant increase in the credit risk of the financial instrument from the initial recognition. Under the simplified approach, tracking credit risk changes is not necessary, but instead, an ECL depreciation adjustment is recognized over the lifetime from the start.

The Bank uses the general approach for the loan portfolio and for sovereign banks and entities (for which it uses simplified credit risk low) and the simplified approach for assets other than loans.

Depending on asset quality, they are classified in 3 stages / stages. Stage 1 includes performing loans, in Stage 2, the performing portfolio with a significant increase in credit risk from initial recognition and in Stage 3 non-performing financial assets. The Bank considers that exposures to banks and sovereign entities as having a low credit risk (Step 1) if the external ratings of these exposures at the reporting date are within the "investment grade" range.

Collective assessment

Exposures in Stages 1 and 2 are subject to collective evaluation. For the purpose of determining an impairment adjustment on a collective basis, financial instruments are grouped on the basis of similar credit risk characteristics in order to facilitate an analysis that is designed to allow timely identification of significant credit risk increases.

The loan portfolio was divided into 3 groups, exposures to individuals (consumer credit), individuals (mortgages), corporations.

The Bank monitors that the exposures in the pools remain homogeneous in their response to the determinants of credit risk and the credit risk characteristics. Exposure groups are re-analyzed and exposures are re-segmented when there is a significant change in the loan portfolio or changes in the Bank's risk profile.

Stage 1 and Stage 2 ECLs are differentiated due to the residual residual maturity considered: for exposures classified in Stage 1, the 12-month horizon is considered a ceiling, while for transactions classified in Stage 2, the horizon over the of life.

The key input data in the ECL assessment include the following variables: PD, LGD, and EAD. PD and LGD are only involved in Stage 1 and 2 ECL calculations.

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5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

Individual assessment of impairment losses on loans and advances to customers

The purpose of estimating the expected loss of credit is neither estimating the most pessimistic scenario nor estimating the most optimistic scenario. Instead, an estimate of anticipated credit losses reflects the possibility that a credit loss may occur and the possibility that no credit loss may occur, even if the outcome is most likely not a credit loss. It is necessary that the estimate of anticipated credit losses reflects an impartial and probability-weighted amount that is determined by evaluating a possible range of results without the need for a large number of detailed scenario simulations. Expected credit losses reflect at least three scenarios. Scenarios and their likelihood of occurrence for each of the scenarios are properly documented and documented and reflect the recovery and recovery strategy at the client level. Scenarios are updated whenever significant developments occur to maintain relevance.

b.2 See also Note 3.7, Note 13 and Note 25: Recognition of the deferred income tax asset: the future profitability of the use of fi galling losses.

b.3 See also Note 4.4: Determining the fair value of instruments that are not traded on an active market.

b.4 See also Note 3.2 viii and Note 4.1.1: Depreciation of financial instruments: key assumptions used in estimating future cash flows to be recovered.

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6 NET INTEREST INCOME

	2020	2019
Interest income based on the effective interest method		
Loans and advances to customers	118,748,581	75,016,868
Investment securities available for sale	31,762,168	60,262,651
Due from NBM and from other banks	5,793,864	28,451,190
	156,304,613	**163,730,709**

Net interest income on impaired financial assets was MDL 4,805,587 (2019: MDL 12,281,044).

	2020	2019
Interest expense		
Due to customers – individuals	35,592,947	42,664,638
Due to customers – companies	6,540,849	5,365,370
Interest expense on leasing debts	1,929,858	1,917,535
Due to other banks	1,832,951	-
	43,896,605	**49,947,543**

7 NET FEE AND COMMISSION INCOME

	2020	2019
Fee and commission income		
Cards	28,626,863	27,877,947
Cash transactions	12,856,558	13,422,393
Payment transactions	11,916,499	13,708,360
Clients accounts admimistration	7,656,857	4,402,498
Guarantees and letters of credit	1,966,652	1,852,204
International money transfers payments	447,211	522,638
Other	4,363,408	8,067,867
	67,834,048	**69,853,907**
Fee and commission expense		
Card account services	26,026,760	27,031,623
Payment transactions	4,084,857	3,194,685
	30,111,617	**30,226,308**

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8 NET TRADING INCOME

	2020	2019
Net gains from foreign currency transactions	49,508,206	31,217,756
Net gain/ (losses) from foreign currency revaluation	(2,066,891)	133,491
	47,441,315	**31,351,247**

9 OTHER OPERATING INCOME

	2020	2019
Rent income	1,605,595	807,115
Recoveries from loans previously written-off	31,098	492,568
Gain /(loss) on disposal of repossessed assets held for sale	-	212,163
Expenses recovered and derecognized commitnets	21,238	3,623,959
Other income	999,547	301,722
	2,657,478	**5,437,527**

Other income relates to insurance compensations, disposals of property and equipment etc.

10 IMPAIRMENT CHARGE ON ASSETS

	2020	2019
Net impairment charge for:		
- loans and advances to customers	(27,324,632)	66,924,073
- commitments and contingent liabilities	(3,410,079)	4,859,855
- treasury bills	2,576,402	(7,845,644)
- cash and balances with the NBM	(1,061,999)	-
- loans and advances to banks	(102,237)	(141,527)
- other assets	(1,754,307)	-
	(31,076,852)	**63,796,757**

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10 IMPAIRMENT CHARGE ON ASSETS (CONTINUARE)

Movements in impairment charge of financial instumentsare presented as follows:

	Loans and advances to banks	Cash and balances with NBM	Treasury bills and NBM Certificates	Loans and advances to customers	Other assets	Commitments and contingent liabilities	Total
Balance at 1 January 2019	**422,306**	**3,057,230**	**4,265,071**	**147,939,161**	**3,138,020**	**10,642,995**	**169,464,783**
Charge	2,185,351	-	472,781,555	44,420,211	-	32,644,146	552,031,263
Release	(2,043,824)	(3,057,230)	(464,935,910)	(111,124,352)	-	(37,504,001)	(618,885,249)
Recoveries	-	-	-	-	-	-	-
Effect of foreign currency movements	(33,564)	-	-	512,974	(1,973)	76,583	554,020
Balance at 31 December 2019	**530,269**	**-**	**12,110,716**	**81,528,062**	**3,136,047**	**5,859,723**	**103,164,817**
Balance at 1 January 2020	**530,269**	**-**	**12,110,716**	**81,528,062**	**3,136,047**	**5,859,724**	**103,164,818**
Charge	876,805	2,039,980	192,698,570	26,254,825	1,135,153	23,692,037	246,697,370
Release	(752,791)	-	(196,252,954)	531,862	-	(20,281,958)	(216,755,841)
Recoveries	-	-	-	6,014,487	-	-	6,014,487
Effect of foreign currency movements	(10,675)	-	-	1,014,446	(16,774)	189,510	1,176,507
Cession to Veneto Banca / Transfer of assets / Loans sold	-	-	-	(7,736,946)	-		(7,736,946)
Balance at 31 December 2020	**643,608**	**2,039,980**	**8,556,332**	**107,606,736**	**4,254,426**	**9,459,312**	**132,560,394**

Financial instruments, with the exception of loans and advances granted to customers and other financial assets, throughout 2020 were classified in Stage 1 (2019: idem).

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11 ADMINISTRATIVE EXPENSES

	2020	2019
Salaries, wages and bonuses	74,762,065	64,214,164
Amortization of property and equipment (Note 19)	19,478,209	19,863,626
Administration expenses	3,220,940	6,016,506
Social security payments	14,734,763	12,506,116
Repairs and maintenance	13,301,041	9,094,108
Mail and communication expenses	2,906,247	2,757,541
Insurance	857,784	622,948
Remuneration of the members of the Board and members of censors' committee	990,923	997,992
Amortization of intangible assets (Note 18)	4,251,923	4,136,300
Utilities	2,852,401	3,185,579
	137,356,296	**123,394,880**

During 2020 the average number of employees of the Bank was 353 (2019: 346).

12 OTHER OPERATING EXPENSES

	2020	2019
Expenses related to current lease rentals and small value assets (Note 33)	1,036,056	887,694
Stationary expenses and related services	1,950,113	1,821,083
Consulting, legal and audit services	7,639,043	4,173,299
Advertising expenses	1,613,998	1,610,301
Contribution to Deposits Guarantee Fund	4,002,632	2,365,716
Taxes other than income tax	413,547	448,890
Expenses with representatives of Intesa Sanpaolo	2,620,599	2,845,840
Maintenance of intangible assets	23,749,814	29,005,954
Elegible integration expenses in Intesa Sanpaolo	-	63,782,269
Reimborsment of elegible integration expenses in Intesa Sanpaolo	-	(63,782,269)
Integration expenses in Intesa Sanpaolo	-	21,147,560
Other assets disposal	517,575	972,530
Expenses with depreciation of real estate investments	960,838	414,488
Expenses with impairment of recovered guarantees	2,139,139	1,645,703
Other expenses	2,320,412	3,064,992
	48,963,766	**70,404,050**

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13 INCOME TAX (EXPENSE)/ RELEASE

The income tax expense consists of current and deferred tax as follows:

	2020	2019
Current tax	-	(15,056,372)
Deferred tax expense (Note 25)	-	-
Total tax expense	**-**	**(15,056,372)**

Reconciliation between pre-tax profit (loss) and income tax expense / reversal of profit or loss and other comprehensive income:

		2020		2019
Profit/(loss) before tax		(26,316,724)		59,187,942
Taxation at statutory rate	12.00%	-	12.00%	7,102,553
Tax effect of non-deductible expenses	4%	(1,006,263)	9.57%	5,661,431
Tax effect of tax-exempt income	10%	(2,739,945)	3.87%	2,292,388
Use of deferred tax	0.00%	-	0.00%	-
(Income) / income tax expense in the statement of profit or loss and other comprehensive income	0.00%	-	25.44%	15,056,372

Further information about deferred income tax is presented in Note 25.

Starting 1 January 2012, the income tax rate is 12%.

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14 CASH AND BALANCES WITH THE NATIONAL BANK OF MOLDOVA

	31 December 2020	31 December 2019
Cash on hand	226,978,130	317,659,928
Current account with National Bank of Moldova, of which:		
- funds in (deficit) / excess of mandatory reserves	8,790,108	158,989,794
Included in cash and cash equivalents (Note 29)	**235,768,238**	**476,649,722**
- Current accounts with NBM:		
mandatory reserve in foreign currency	450,790,738	213,292,534
mandatory reserve in domestic currency	497,321,022	681,310,168
Allowance for expected impairment losses	(2,039,980)	-
	946,071,780	**894,602,702**
Total	**1,181,840,018**	**1,371,252,424**

These balances are neither collateralized, nor past due.

During 2020, the Bank implemented a model regarding the estimation of the reductions for expected losses from impairment of exposures to the NBM from the perspective of the credit risk associated with the counterparty, in accordance with IFRS 9.

Current accounts are required to satisfy the mandatory reserve requirements of the National Bank of Moldova. During 2020 the interest rate of remuneration of the obligatory reserves paid by the National Bank of Moldova ranged from .17% - 2.50% (2019: 3.5% - 4.50%) for reserves held in MDL and from 0.01% during 2020 for reserves held in USD and EUR (2019: 0.01% - 0.36%).

The mandatory reserves have to be kept at an average limit at the date of 16 and 15 of each month (2019: 16 şi 15 of each month). The level should be established at an average throughout a period of 30/31 days. During the dates of reporting to NBM (16 and 15 of each month) these can be used at any capacity needed by the Bank. The ratio of mandatory reserves as at 31 December 2020 was 32.0% (31 December 2019: 42.5%) for reserves held in MDL and 30.0% for reserves held in USD and EUR (31 December 2019: 17.0%).

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15 LOANS AND ADVANCES TO BANKS

	31 December 2020	31 December 2019
Placements with an initial maturity under 3 months, gross	249,665,017	86,098,453
Current accounts, gross	412,939,408	468,180,424
Allowance for expected impairment losses	(614,869)	(447,573)
Included in cash and cash equivalents (Note 29)	**661,989,557**	**553,831,304**
Placements with an initial maturity over 3 months, gross	60,302,285	173,410,463
Allowance for expected impairment losses	(28,739)	(82,696)
Net placements with an initial maturity over 3 months	**60,273,546**	**173,327,767**
Total	**722,263,103**	**727,159,071**

All loans and advances to banks are impaired in a total amount of MDL 643,608 (2019: MDL 530,269). These balances are neither collateralized, nor past due.

Placements with banks and current accounts with original maturities of less than three months are placed with large banks from OECD countries amounting to MDL 713,464,406 (2019: MDL 723,436,687). Balances with banks from non-OECD are MDL 9,442,305 (2019: MDL 4,252,653) and are placed with Moldovan, Russian, Ukrainian and Romanian banks.

As at 31 December 2020, the Bank has placements only in foreign currency. The interest rate on placements with banks in foreign currency varied from -0.70% to 2.00% (2019: from -0.60% to 2.94%).

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16 TREASURY BILLS

	31 decembrie 2020	31 decembrie 2019
Treasury bills measured at amortized cost, of which:		
- treasury bills with an initial maturity of less than three months and Certificates of the National Bank of Moldova	673,260,850	742,296,065
Allowance for expected impairment losses	(3,031,421)	(8,139,584)
Total included in cash and cash equivalents (Note 29)	**670,229,429**	**734,156,481**
- treasury bills with an initial maturity over three months	149,809,998	84,872,763
Allowance for expected impairment losses	(5,524,911)	(3,971,132)
	144,285,087	**80,901,631**
Total investments in treasury bills	**814,514,516**	**815,058,112**
Equity investments valued at fair value through other items of comprehensive income	10,000	16,250
Investments in bills	**814,524,516**	**815,074,362**
Current	808,544,964	810,990,119
Non-current	5,979,552	4,084,243

For debt securities, which represent State Securities and Bonds issued by the Government of the Republic of Moldova and Certificates issued by the National Bank, reductions for expected impairment losses of MDL 8,556,332 (2019: MDL 12,110,716) were recorded. Government securities include short, medium and long-term securities in the amount of MDL 236,142,919 (2019: MDL 122,764,904) issued by the Ministry of Finance of the Republic of Moldova and Certificates of the National Bank of Moldova amounting to MDL 578,371,597 (2019: MDL 692,239,209). The yield of these titles ranges from 4.25% to 6.47% % in 2020 (2019: from 4.32% to 7.02%) and for National Bank Certificates the yield was between 2.65%-5.50% in 2019 (2018: 6.14-7.50%).

As at 31 December 2020 and 31 December 2019 government securities are neither pledged nor expired.

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16 TREASURY BILLS (CONTINUED)

The movement in treasury bills may be summarized as following:

	2020	2019
Balance at 1 January	**815,058,112**	**1,015,809,074**
Additions	17,780,479,239	20,316,054,528
Disposals	(17,784,577,218)	(20,508,959,845)
Impairment	3,554,383	(7,845,645)
Balance at 31 December	**814,514,516**	**815,058,112**

At 31 December 2020, equity securities comprise participations in the form of minority interest in the capital of non-listed local companies.

The analysis of the units is as follows:

	Nature of business	Interest held (%)	31 December 2020	31 December 2019
Moldova Stock Exchange	Stock exchange	2.56	10,000	10,000
National Depository of Republic of Moldova	Registry keeping	0.25	-	6,250
			10,000	**16,250**

Movements in equity investments available for sale are as follows:

	2020	2019
Balance at 1 January	**16,250**	**16,250**
Additions	-	-
Disposals	(6,250)	-
Balance at 31 December	**10,000**	**16,250**

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17 LOANS AND ADVANCES TO CUSTOMERS

	31 December 2020	31 December 2019
Individual (retail customers):		
Mortgages	747,556,682	560,872,981
Consumer loans	155,127,874	103,078,018
Credit cards	17,873,600	15,341,168
	920,558,156	**679,292,167**
Legal entities	**715,075,897**	**469,787,350**
Gross loans and advances	**1,635,634,053**	**1,149,079,517**
Less: allowance for impairment losses on loans	(107,606,736)	(81,528,062)
Loans and advances, net	**1,528,027,317**	**1,067,551,455**
Current	140,175,873	153,024,370
Non-Current	1,387,851,444	914,527,085

All loans and advances to customers are granted to borrowers in the Republic of Moldova. Interest rates on commercial loans and advances denominated in Moldovan Leu granted during the year range between 3.65%-22.00% (2019: 4.50% and 22.00%). Interest rates on foreign currency denominated commercial loans are at nominal interest rates ranging between 3.00%-8.49% (2019: 3.25% and 8.59%).

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18 INTANGIBLE ASSETS

Intangible assets include software and licenses.

Cost	
At 1 January 2019	**46,526,500**
Additions	20,430,316
Disposals	-
At 31 December 2019	**66,956,816**
At 1 January 2020	**66,956,816**
Additions	7,000,750
Disposals	-
At 31 December 2020	**73,957,566**
Amortization and impairment	
At 1 January 2019	**21,603,014**
Amortization expenses (Note 11)	4,136,300
Amortization expenses (integration funds)*	2,570,915
Disposals	-
At 31 December 2019	**28,310,229**
At 1 January 2020	**28,310,229**
Amortization expenses (Note 11)	4,251,923
Amortization expenses (integration funds)*	4,707,402
Disposals	-
At 31 December 2020	**37,269,554**
Net book value	
At 1 January 2019	**24,923,486**
At 31 December 2019	**38,646,587**
At 31 December 2020	**36,688,012**

* Expenses related to the amortization of intangible assets in the amount of MDL 4,707,402 (31 December 2019: MDL 2,570,915) were covered from the integration funds (Note 3.24).

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19 PROPERTY AND EQUIPMENT

The movements in property and equipment are summarized as follows:

	Land and buildings	Equipment and furniture	Vehicles	Other assets	Assets in progress	Total
Cost						
Balance at 1 January 2019	**385,128,072**	**78,110,852**	**5,572,768**	**15,694,479**	**12,571,162**	**497,077,333**
Additions	3,964,508	7,013,897	4,279,745	14,253,956	21,512,068	51,024,174
Transfers	(520,866)	77,243	-	28,780,190	(28,336,567)	-
Reclassification to investment property	(13,342,119)	-	-	-	(232,109)	(13,574,228)
Disposals, cost	-	(2,424,094)	-	(822,394)	(5,192,035)	(8,438,523)
Reevaluation	(3,733,429)	-	-	-	(275,141)	(4,008,570)
At 31 December 2019	**371,496,166**	**82,777,898**	**9,852,513**	**57,906,231**	**47,378**	**522,080,186**
Balance at 1 January 2020	**371,496,166**	**82,777,898**	**9,852,513**	**57,906,231**	**47,378**	**522,080,186**
Additions	6,670,672	4,123,996	-	2,404,045	4,612,716	17,811,429
Transfers	3,048,275	397,867	-	-	(3,446,142)	-
Reclassification to investment property	(158,861)	-	-	-	-	(158,861)
Disposals, cost	(4,367,824)	-	(1,480,882)	-	(1,213,952)	(7,062,658)
Reevaluation	(10,174,992)	-	-		-	(10,174,992)
At 31 December 2020	**366,513,436**	**87,299,761**	**8,371,631**	**60,310,276**	**-**	**522,495,104**

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19 PROPERTY AND EQUIPMENT (CONTINUED)

	Land and buildings	Equipment and furniture	Vehicles	Other assets	Assets in progress	Total
Depreciation and impairment						
At 1 January 2019	**147,143,101**	**68,521,949**	**5,569,938**	**13,643,330**	**-**	**234,878,319**
Depreciation expense (Note 11)	13,662,625	4,435,485	2,829	1,762,687	-	19,863,626
Depreciation expense (integration funds)*	-	-	-	7,059,510	-	7,059,510
Reclassification to investment property	(3,301,070)	-	-	-	-	(3,301,070)
Disposal, cummulated depreciation	-	(2,424,094)	-	(818,852)	-	(3,242,946)
Impairment	1,009,424	-	-	-	-	1,009,424
At 31 December 2019	**158,514,080**	**70,533,340**	**5,572,767**	**21,646,675**	**-**	**256,266,862**
At 1 January 2020	**158,514,080**	**70,533,340**	**5,572,767**	**21,646,675**	**-**	**256,266,862**
Depreciation expense (Note 11)	13,410,990	4,375,131	855,949	836,139	-	**19,478,209**
Depreciation expense (integration funds)*	-	-	-	14,344,731	-	**14,344,731**
Reclassification to investment property	(10,189)					**(10,189)**
Disposal, cummulated depreciation	(18,219,881)	-	(956,760)	-	-	**(19,176,641)**
Impairment	7,149,042	-	-	-	-	**7,149,042**
At 31 December 2020	**160,844,042**	**74,908,471**	**5,471,956**	**36,827,545**	**-**	**278,052,014**
Book value						
At 1 january 2019	**212,344,253**	**9,588,903**	**2,830**	**2,051,149**	**12,571,162**	**236,558,297**
At 31 December 2019	**212,982,086**	**12,244,558**	**4,279,746**	**36,259,556**	**47,378**	**265,813,324**
At 31 December 2020	**205,669,394**	**12,391,290**	**2,899,675**	**23,482,731**	**-**	**244,443,090**

As at December 31, 2020, property and equipment also include assets related to the rights to use commercial spaces and means of transport amounting to MDL 20,429,930 (31 December 2019: MDL 25,100,038). See Note 32 "Leases".* Expenses on depreciation of property and equipment amounting to MDL 14,344,731 (31 December 2019: MDL 7,059,510) were covered by the integration funds (Note 3.24).

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20 OTHER ASSETS

	31 December 2020	31 December 2019
Other financial assets		
Included in cash and cash equivalents:		
Receivables from international money transfer systems	166,806	99,787
Receivables from Visa and MasterCard	7,808,566	7,511,836
Total included in cash equivalents (Note 29)	**7,975,372**	**7,611,623**
Settlements with other individuals and legal entities	7,880,205	7,890,797
Transit and restricted amounts	216,913	249,638
Other receivables	1,246,412	1,107,355
Total other financial assets	**17,318,902**	**16,859,413**
Other non-financial assets		
Investment property	10,204,841	11,017,006
Inventory and spare parts	2,593,561	2,166,616
Other prepayments	12,085,311	3,771,296
Total other non-financial assets	**24,883,713**	**16,954,918**
Other assets	**42,202,615**	**33,814,331**
Current	31,997,774	22,797,325
Non-current	10,204,841	11,017,006

All financial assets presented above are neither expired nor impaired.

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21 ASSETS HELD FOR SALE

Assets in possession include foreclosed collateral on non-performing loans and other assets.

	31 December 2020	31 December 2019
Repossessed collaterals, net	3,191,231	5,983,073
Other assets	22,380	22,380
Assets held for sale	**3,213,611**	**6,005,453**

22 DUE TO BANKS

Name of Bank	Currency	Maturity Date	31 December 2020	31 December 2019
INTESA SANPAOLO S.P.A. (ITALY)	USD	22.09.2025	173,990,927	-

On 22.09.2020 a loan has been obtained from Intesa Sanpaolo S.P.A. in an amount of 10.0 million USD and with the maturity date on 22.09.2025.

23 DUE TO CUSTOMERS

	31 December 2020	31 December 2019
Large corporate customers:		
– current/ settlement accounts	629,353,184	747,083,045
– term deposits	53,919,049	42,647,057
Small and medium sized enterprises:	751,552,946	525,737,689
– current/settlement accounts	136,099,986	118,269,449
– term deposits		
Individuals:	790,067,923	522,149,387
– current/demand accounts	858,573,641	1,139,471,030
– term deposits		
	3,219,566,729	**3,095,357,657**

Annual interest rates on deposits in MDL attracted by the Bank from customers in 2020 vary between 0% and 6.20% (2019: 0% and 6.50%). For deposits in MDL, the average market rate during 2020 had a range of 3.26% - 4.68% annualy (2019: 4.65% - 4.88%).
Annual interest rates on deposits in foreign currency attracted by the Bank from customers in 2020 had a range of 0% - 2.10% (2019: 0% - 2.50%). For foreign currency deposits. The average market rate during 2020 had a range of 0.58% - 1.06% (2019: 0.97% - 1.04%).

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24 OTHER LIABILITIES AND PROVISIONS

	31 December 2020	31 December 2019
Other financial liabilities		
Settlements with individuals and companies	35,836,159	37,139,113
Lease liabilities	23,300,074	25,305,121
Transfers to be collected by individuals	538,698	537,637
Amounts in transit	6,884,612	6,204,865
Other	11,405,293	5,543,020
Total other financial liabilties	**77,964,836**	**74,729,756**
Other non-financial liabilities		
Deffered income related to government grants*	28,539,946	47,592,079
Accrual for unused vacation	2,523,963	1,590,925
Accrual for employees bonus	9,359,897	9,305,983
Income tax liabilities	-	2,365,383
Other tax liabilities	2,373,391	4,887,653
Other Liabilities	**42,797,197**	**65,742,024**
Provisions		
Provision for integration cost into Intesa Sanpaolo Group	122,395	249,877
Provisions for financial guarantee contracts and loan commitments	9,459,312	5,859,723
Other provisions	636,702	636,702
Total provisions	**10,218,409**	**6,746,302**
Total other liabilities and provisions	**130,980,442**	**147,218,082**

* In the Intesa Sanpaolo communiqué of December 28, 2017, the Bank was informed about the public contribution in the form of a grant granted by the Italian Government to the Italian banking group Intesa Sanpaolo in order to cover the restructuring and integration costs of all ex-Veneto Banca banks, including those of the Bank.

The integration funds related to the assets are presented in the statement of financial position by recording them as deferred income, which is subsequently recognized in profit or loss on a systematic basis over the useful life of the asset as a reduction of depreciation expense.

For details see Note 3.24.

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25 DEFERRED TAX ASSETS AND LIABILITIES

Deferred income taxes are calculated on all temporary differences under the balance sheet method using an effective tax rate of 12% (2019: 12%). Te bank did not recognized deferred tax assets as at 31 December 2019.

Unrecognized deferred income tax

According to management estimates based on the Bank's background and plans for the future, in 2020 and 2019 the Bank did not recognize deferred income tax assets because it considered that it would not have sufficient taxable profits to benefit from deferred tax assets. Consequently, the Bank did not recognize the deferred tax assets as at 31 December 2020 and 2019 for the following items in the statement of financial position:

	31 December 2020		**31 December 2019**	
	Gross amount	**Tax effect**	**Gross amount**	**Tax effect**
Accrual for unused vacation	2,523,963	302,876	1,590,925	190,911
Liabilities related to calculated employees' bonuses	9,359,897	1,123,188	9,305,983	1,116,718
Provision for the integration cost within Intesa Sanpaolo Group	122,395	14,687	249,877	29,985
Other provisions	636,702	76,404	636,702	76,404
Accelerated tax depreciation for property and equipment	81,401,408	9,768,169	78,083,269	9,369,992
Total	**94,044,365**	**11,285,324**	**89,866,756**	**10,784,010**

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26 SHARE CAPITAL

As at 31 December 2020 the total number of authorized and issued ordinary shares was 1,250 thousand shares (2019: 1,250 thousand shares) with a par value of MDL 1,000 per share each (2019: MDL 1,000 per share). All shares are fully paid. During 2020 the Bank has not increased its share capital.

As at 31 December 2020 Intesa Sanpaolo S.p.A. held 100% of the Bank's shares (2019: Intesa Sanpaolo S.p.A. held 100% of Bank's shares).

Movements in the Bank's share capital are summarized as follows:

	2020		2019	
	Number of shares	**MDL**	**Number of shares**	**MDL**
Balance as at 1 January	1,250,000	1,250,000,000	1,250,000	1,250,000,000
Balance as at 31 December	1,250,000	1,250,000,000	1,250,000	1,250,000,000

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at the General Shareholders' Meetings of the Bank.

27 STATUTORY AND OTHER RESERVES

Statutory reserves

In accordance with local law, 5% of the Bank's net profit must be allocated to non-distributable statutory reserves, until such time as this reserve represents 10% of the Bank's share capital. These reserves are not distributable. According to the Bank's statute, they can be used to cover losses. Due to the fact that the Bank recorded a loss at the financial position both as at 31 December 2020 and 31 December 2019, statutory reserves were not formed. Thus, on December 31 2020 the balance of this reserve is 0 MDL (31 December 2018: 0 MDL). The decision on the formation of reserves based on financial results and their volume is to be taken by the General Shareholders' Meeting.

Other reserves

According to the regulations of the National Bank of Moldova, starting with 2012, banks must allocate from the result carried forward to reserves the amount that is the difference between the adjustment for impairment of assets calculated based on prudential rules of the National Bank of Moldova (NBM) and IFRS. These reserves are not distributable.

As at 31 December 2020, the reductions for expected losses from the impairment of assets calculated in accordance with IFRS are 10,769,901 higher than the reductions for losses on assets calculated on the basis of prudential rules (2019: they were 28,267,645 MDL lower than the reductions for losses on assets calculated on the basis of prudential rules). As the Bank has accumulated losses as at 31 December 2020, the Bank did not set up "other reserves".

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28 DIVIDENDS

Final dividends are not accounted for until they have been approved at an Annual General Meeting of the Shareholders. At the General Shareholders' Meetings held in 2020 no dividend distributions were approved. In 2020, the Bank did not pay dividends.

At the same time, in April 2020, the Executive Committee of the National Bank of Moldova unanimously approved, in an extraordinary meeting, a decision recommending licensed banks to refrain from distributing dividends to shareholders and other forms of capital distribution, at least until 30 September 2020. The decision comes in the context of mitigating the effects of the COVID-19 pandemic in order to keep banks sufficiently well-capitalized and stable.

29 CASH AND CASH EQUIVALENTS

Cash and cash equivalents as shown the cash flow statement comprise:

	31 December 2020	**31 December 2019**
Cash and balances with NBM (Note 14)	235,768,238	476,649,722
Loans and advances to banks (Note 15)	661,989,557	553,831,304
Treasury bills and NBM Certificates (Note 16)	670,229,429	734,156,481
Other assets (Note 20)	7,975,372	7,611,623
	1,575,962,596	**1,772,249,130**

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30 PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY

For the purposes of measurement, IFRS 9, Financial Instruments: Recognition and Measurement, the Bank classifies financial assets into the following categories: (a) measured at amortized cost; (b) measured at fair value through other comprehensive income. The following table provides a reconciliation of financial assets with these measurement categories as at 31 December 2020 and 31 December 2019:

	31 December 2020		31 December 2019	
	Financial assets measured at amortised cost	**Financial assets measured at fair value through other comprehensive income**	**Financial assets measured at amortised cost**	**Financial assets measured at fair value through other comprehensive income**
Assets				
Cash and balances with NBM	1,181,840,018	-	1,371,252,424	-
Investment securities AFS:		-	-	-
Treasury bills and NBM Certificates	814,514,516	-	815,058,112	-
Equity investments	-	10,000	-	16,250
Loans and advances to banks	722,263,103	-	727,159,071	-
Loans and advances to customers	1,528,027,317	-	1,067,551,455	-
Other financial assets	17,318,899	-	16,859,413	-
Total financial assets	**4,263,963,853**	**10,000**	**3,997,880,475**	**16,250**

As at 31 December 2020 and 31 December 2019 all financial liabilities were carried at amortized cost.

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31 COMMITMENTS AND CONTINGENT LIABILITIES

Credit related commitments and financial guarantees contarcts

The primary purpose of these instruments is to ensure that funds are available to a customer as required.

Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

	31 December 2020	31 December 2019
Guarantees issued	48,160,280	72,251,146
Commitments to grant the loans in the future	225,458,597	87,947,076
	273,618,877	**160,198,222**

Operating lease commitments

Where the Bank is lessee, the future minimum lease payments under non-cancellable building and vehicles operating leases are as follows:

	31 December 2020	31 December 2019
No later than 1 year	10,287,748	8,648,396
Later than 1 year and no later than 5 years	15,568,649	17,923,567
Later than 5 years	-	-
	25,856,397	**26,571,963**

Litigations

The Bank is involved in a number of litigations, as defendant, related to its current activity. The Bank's management estimates that the Bank will win the cases and that these litigations will not have a material impact on these financial statements.

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32 TRANSACTIONS WITH RELATED PARTIES

The nature of the related party relationships for those related parties with whom the Bank entered into significant transactions or had significant balances outstanding at 31 December 2020 and 31 December 2019 are detailed below. There are no other related party in accordance with IAS 24 "Related party disclosures".

As at 31 December 2020 the Bank is controlled by Intesa Sanpaolo Societa per Azioni, which owns 100% of the ordinary shares, being its ultimate parent. During 2018, Intesa Sanpaolo Societa per Azioni became the sole shareholder of the bank.

During 2020 the Bank entered into a number of banking transactions with related parties in the normal course of the business. These transactions include loans, deposits and foreign currency transactions. The volumes of related party transactions outstanding balances at year-end, and relating expense and income for the year are presented below.

	Director and Executive Management		**Parent**		**Subsidiaries and other entities in the same group**		**Other related parties**	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
(i) Loans and other interest-bearing assets								
At beginning of the year	838,760	706,849	259,436,297	370,915,735	-	81,356	-	-
Received during the year	149,361	123,723	796,407,099	737,695,755	-	-	200	
Repaid during the year	(401,845)	(180,874)	(745,948,712)	(849,175,193)	-	(81,356)	(200)	
Changes to affiliation status	(189,062)	189,062	-	-	-	-	-	
Loans outstanding as at the end of the year	**397,214**	**838,760**	**309,894,684**	**259,436,297**	-	-	-	-
Current accounts	-	-	346,868,784	392,458,740	219,745	1,319,797		
Interest income	27,891	25,841	1,154,838	3,267,234	380	176	-	-

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32 TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

	Director and Executive Management		Parent		Other related parties	
	2020	2019	2020	2019	2020	2019
(ii) Deposits and borrowings						
At beginning of the year	3,540,514	1,498,089	-	-	1,186,506	1,360,866
Received during the year	23,595,836	11,202,274	178,819,970	-	1,402,222	1,642,803
Repaid during the year	(21,638,735)	(9,981,500)	(4,829,044)	-	(1,414,982)	(1,920,708)
Changes to affiliation status	-	821,651	-	-	271,547	103,545
Loans outstanding as at the end of the year	**5,497,615**	**3,540,514**	**173,990,926***	**-**	**1,445,293**	**1,186,506**
Interest expense	6,624	13,051	1,832,951	31,487	76,662	20,018

* On 22.09.2020, a loan was contracted from Intesa Sanpaolo S.P.A. in the amount of USD 10.0 million with the maturity date of 22.09.2025.

Other related parties are entities which are controlled or are significantly influenced directly or indirectly by members of the Board of Directors.
In 2020 total salaries and short term benefits of the key management personnel was MDL 14,555,609 (2019: MDL 12,131,110).

In 2020, the total expenses with the representatives of Intesa Sanpaolo, which include the remuneration and accommodation expenses amounted to 0 (zero) MDL (2019: 0 (zero) MDL).

Remuneration of Board of Directors members in 2020 represented MDL 990,923 (2019: MDL 997,961).

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33 LEASING

The bank rents commercial space for the location of its branches and agencies as well as part of its car fleet. The contract duration varies between 36 and 60 months.
The analysis related to leasing contracts is presented below.

i. Right of use

Assets related to rights of use are presented in property, plant and equipment (Note 19).

	Land and buildings	**Vehicles**	**Total**
At 1 January 2019	**25,640,718**	**-**	**25,640,718**
Additions	3,352,168	4,279,745	7,631,913
Depreciation charge	(7,648,471)	(524,122)	(8,172,593)
At 31 December 2019	**21,344,415**	**3,755,623**	**25,100,038**
At 1 January 2019	**21,344,415**	**3,755,623**	**25,100,038**
Additions	6,546,084	-	6,546,084
Disposals	(3,905,677)	-	(3,905,677)
Depreciation charge	(6,634,566)	(855,949)	(7,490,515)
At 31 December 2020	**17,350,256**	**2,899,674**	**20,249,930**

Contractual cash flows discounted after maturity are shown in the table below.

	2020	**2019**
Under 1 months	4,325,464	2,361,074
Between 1 and 3 months	936,918	970,626
Between 3 months and 1 year	4,216,130	4,367,819
Between 1 – 5 years	13,821,562	17,605,602
Total leasing liabilities (Note 24)	**23,300,074**	**25,305,121**

ii. Amounts recorded in the profit and loss Statement

	2020	**2019**
Interest expense on operational lease (Note 6)	1,929,858	1,917,535
Expenses related to short term or low value items (Note 12)	1,036,056	887,694
Total	**2,965,914**	**2,805,229**

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33 LEASING (CONTINUED)

iii. Amounts recognized in the Statement of Cash Flows

	2020	2019
Operational leasing liabilities	12,098,293	10,090,128
Cash outflow due to leasing contract	10,168,457	8,886,796

34 SUBSEQUENT EVENTS

In the context of the COVID-19 pandemic, responding to the potentially serious threat that COVID-19 poses to public health, the Moldovan authorities have taken measures to counter the epidemic. Including the establishment of a special regime of entry and exit from the country, a special traffic regime, the introduction of a quarantine regime and the taking of other mandatory sanitary-anti-epidemiological measures. The establishment of a special working regime for all entities and the prohibition of meetings. The prohibition of public demonstrations and other mass actions. The implementation, if necessary, of a consumption rationalization program for food and other products of strict necessity. Starting with 1 March 2021, the Ministry of Education, Culture and Research (MECC) issued an order to suspend educational activities in public and private institutions, pre-school, primary, secondary, technical vocational, higher, extracurricular and special educational institutions, throughout the country. Some Moldovan companies have also instructed employees to stay home and have temporarily reduced or suspended commercial operations.

The National Bank recommended that licensed banks refrain from distributing dividends to shareholders and repurchases of equity instruments until audit companies present audited financial statements for the year ended 2020. This decision was taken to ensure the stability and viability of licensed banks in the context of the negative effects of the COVID-19 pandemic manifested during the current year and the precarious prospects of the spread of the pandemic.

The Bank, in turn, carefully monitors developments in the field in which it operates, in the general economic environment, as well as the effects of the economic measures applied at the national and international level. The Bank's Management has as permanent objectives the analysis of the future impact of the Covid-19 pandemic on financial performance, ensuring an adequate level of equity and liquid assets, maintaining the lending of the actual economy and taking appropriate measures to reduce related risks.

Based on currently available information to the public, the Bank's current key performance indicators and the actions initiated by Management, we do not anticipate a negative and significant impact of the Covid - 19 epidemic on the Bank, its operations, financial position and its operational results. However, we cannot rule out the possibility that prolonged quarantine periods, an intensification of the severity of these measures, or a secondary negative impact of these measures on the economic environment, will have a negative effect on the Bank and on its financial position and operating results, in the medium and long term.

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