mobiasbanca
otp group

2020

Annual Report

30 years of trust and responsibility

SUMMARY:

Message from Chairman of the Supervisory Board

Zoltán MAJOR

In 2020, we pursued the development strategy validated by OTP Group, since becoming the major shareholder - we accelerated the transformation of the IT infrastructure and we advanced in the digitization projects, by implementing the entire investment plan. At the same time, we had a steady growth and our financial performance is up to standard, despite the impact of the global context generated by the pandemic, the increase in risk provisions and market shocks that have stagnated economic activity.

Our bank is still mentioned among the top systemic banks in the country, with an upward index of market share, due to the dynamic growth of lending, revived in the second half of last year. Total assets increased by 17.5%, while the gross value of loans increased by 22.8% compared to the previous year, generating a gross profit of MDL 164.2 million.

The experience of the OTP Group, but also the global context, nurtured our agility to implement innovations, to develop new market segments and to offer customers solutions for their needs. We managed, with the support of the Group, to launch digital solutions long awaited by both individuals, and corporate customers.

In 2020 we had other moments of pride - the 30th anniversary since the bank's foundation, during which we marked the result of a solid organization developing and maintaining a strong team of professionals, which has won the trust of customers and international partners, an important ally of the Republic of Moldova's economy.

We continued to invest in social projects and support culture, sports and financial education, becoming a perfect prototype of a responsible social actor who is involved in supporting the community in which it operates. The founding of the "OK" Foundation for Financial Education is a logical continuation of the OTP Group's effort to increase the financial discipline of the population in all its subsidiary's countries.

It has been a year and a half since the bank became part of OTP Group, one of the largest independent financial services providers in Central and Eastern Europe, launching a ubiquitous digitization process, clients-centered services and penetration of new market segments. 30 years of success on the banking market, powered by OTP Group's expertise of over 70 years on the European financial landscape, as well as prompt actions in the pandemic context, strengthened the confidence of clients and business partners in Mobiasbanca - OTP Group, to substantiate the development and future ascent.

We will continue to innovate and offer the services expected on the market in a personalized manner, starting from the current needs and at the same time, from the new habits generated by this context brought by the pandemic. Our strategic vision, aimed at digitizing services, will be observed in the future in terms of commercial and financial performances, and 2021 will be another year of strong mobilization. First of all, our clients will truly need our advice and funding, and we will be next to them.

Message from Chairman of the Management Committee - CEO

László DIÓSI

2020 can truly be considered a year of adaptation and change within Mobiasbanca - OTP Group: we have demonstrated our resilience and efficiency in managing the situation, we have limited the cost of the risk through the quality of our credit portfolios while cautiously anticipating default risks, and have demonstrated our ability to control costs. Above all, we have a solid balance sheet, with a growing capital ratio that exceeds regulatory requirements and very good liquidity. Of course, our profitability had its caveats in exceeding the shareholders' expectations, but our financial stability is a critical asset during this period, it allowed us to respond quickly to the needs of clients in overcoming an unforeseen reality.

In the midst of the process of integration into the OTP Group, adjacent to a new, unexpected global context, we managed to come up with new products and technologies, to adjust staff activity remotely and to reorganize the sales processes. We have continued to invest in modernizing the IT infrastructure, to cover the bank's ambitions to implement the new internet banking solutions, part of the development and digitalization strategy announced by OTP Group. The need for online banking tools has intensified in the pandemic, accelerating the launch of Internet and Mobile Banking services in the pilot phase, at the end of 2020.

Despite the economic turmoil, the Bank consolidated its position in the top of financial institutions, registering increases of the utmost important financial indicators in terms of assets, loans, deposits, with a share of 20,1% on the unsecured loans market and 22,4% in terms of mortgages, due to the return of lending activity in the second half of the year.

Equity, at the end of 2020, was at an exceptional rate of 11,7% (-0.36 pp). The registered return on capital was over 7,3% (-41.4% vs. 2019), due to the decrease of net interest income by MDL 33.7 million (-7%) against the background of the pandemic, the increase of operational expenses by MDL 62.5 million (+ 15%) as an impact of investments for alignment and integration in the OTP Group, and the increase in impairment losses on financial assets by MDL 64,8 million (+116%).

Partnerships with international financial institutions have allowed us to provide advantageous funding with a grant component to small and medium-sized enterprises to continue development projects. This advantage also allowed us to shape the leasing product, which gained the interest of the business environment and became, over time, a separate financial service, ranking the bank in the top 3 financiers on the national leasing market.

Given the agricultural specifics of the country, we strategically approached this segment of customers by setting up a dedicated team and launched an offer to finance farmers under the generic AgroFactory, in collaboration with International Financial Corporation.

In addition to the improved results during the year, the strategic measures and initiatives we have launched have shown that we have a genuine capacity for adaptation and resilience. That's why we can look back to 2020 with some satisfaction. We have demonstrated an exceptional capacity to respond to the crisis, especially in terms of client support and care for employees. We have managed to stay close to the community and our partners in more difficult times, we have continued to invest in social programs - our long-term goal remains to invest in financial education.

Based on the expertise of the OTP Group and the professional potential of Mobiasbanca , we expect to emerge from this situation wiser and stronger than ever, to learn, to adapt, to value the team of extraordinary people with whom we will achieve our common goal of becoming the trusted advisor and financial partner for our clients.

THE MANAGEMENT OF THE BANK

Members of the Supervisory Board

Zoltán Major - Chairman of the Supervisory Board

Attila Beer – Member of the Supervosy Board

Rodica Hîncu – Member of the Supervosy Board

Eszter Erika Huszár - Member of the Supervosy Board

Executive Committee of the bank

László Diósi - President of the Executive Committee
CEO

Stela Ciobanu - Deputy CEO
General Secretary

Elena Guzun - Deputy CEO
Commercial Director Corporate Banking

Petru Delinschi - Deputy CEO
Commercial Director Retail Banking

Iurie Rusu - Deputy CEO
COO, Head of IT & Operations Division

MOBIASBANCA - OTP GROUP S.A.

Mobiasbanca - OTP Group S.A. is a stable and reliable financial institution in the top of the banking system of the Republic of Moldova, through its sound management system, responsible labor force management, active participation in community's life, ethical conduct towards stakeholders and reducing the negative impact on the environment, while contributing to the improvement and development of the country's socio-economic environment.

The bank was founded in 1990 with legal status of Limited Liability Company. In 2007, the French financial group Société Générale became the majority shareholder of Mobiasbanca, which spurred the development of a universal banking model.

The bank offers a wide range of high quality financial products and complete banking services to all types of customers, from individuals to large companies, segmented on three main axes:

- Retail bank, offering credit products, cards, savings accounts, current operations and remote banking for individuals and entrepreneurs;
- Corporate & Investment Banking, with a broad range of services, products and banking consultancy for multinational companies headquartered in Moldova, local private and state companies, local authorities and financial institutions. Thanks to the extended network of branches, Mobiasbanca may serve corporate clients throughout the country, and corporate consultants offer expertise in various key banking areas;
- Specialized services with a full range of specialized financial and treasury services, including financial, operational leasing, consumer loans in markets, titles, insurance products, pensions and other.

The bank's strategy is oriented towards the organic development of the business, the consolidation of the position on the banking market, the profitability increase and of the operational efficiency.

Today, the bank serves about 165,000 customers through its 52 branches and 824 employees across the country. Supported by strong shareholders, with innovative products and services, the bank has experienced a constant exponential evolution, reaching the top three of systemic banks by volume of loans, with a share of 16,85%, and fourth place by share of assets in the banking system of 13,8 %.

In its 30 years of presence on the Moldovan banking market, Mobiasbanca– OTP Group S.A. has become a leader in lending to individuals, a supporter of entrepreneurs and the financial advisor of the largest multinational companies,while being a reputable partner of the International Financial Institutions.

After joining, in July 2019, the OTP Group - the largest independent banking group in Central and Eastern Europe, the bank entered into an extensive transformation process. The bank has maintained its universal banking model, adopted a new development strategy and readjusted the institution's long-term vision, with the aim of becoming the main provider of financial services to its loyal customers and meeting their technological development needs and expectations.

MOBIASBANCA - OTP GROUP S.A.

In the same time, were drawn priorities for the penetration of new customer segments, an extensive process of financial and technological consolidation has started, also the integration in the organizational culture of the OTP Group.

For the successful achievement of the strategic objectives in 2020, the bank's actions focused on the following dimensions: the development of a modern Internet and Mobile Banking solution, both for individuals and for legal entities, micro enterprises; implementation of a Card Processing Center in Mobiasbanca; initiating the change of the core-banking system, implementation of a data storage and processing center.

The balanced and sustainable strategy, the efficient management of resources at the same time as the implementation of actions to support the community, ensured the maintenance in the top of local banks in 2020, the bank having a very good capitalization and an improved risk profile.

The own funds ratio registered increase by 1.2 p.p. vs 2019, reaching 21,4%. The Bank adopted a prudent approach in relation to the risk profile, during 2020 it increased the cost of risk by 127,8 million MDL, in order to cautiously and preventively manage the additional credit risk arising from market uncertainty in the context of the economic and health crisis.

As part of the community, Mobiasbanca - OTP Group wants to be a good citizen, involved in the community through social projects and programs dedicated to educational, cultural and sports activities. The bank wants to become a responsible provider of financial services by providing education and financial advice, to support its customers and partners, guided by the bank's values - innovation, quality, solutions, people, integrity - on which the corporate social responsibility and sustainability approach is built.

OTP GROUP

OTP Group as a dominant banking player in Hungary and the Central and Eastern European region, with over 70 years of history in the banking sector, provides high quality financial services for its more than 19 million private, retail and corporate clients in eleven countries through its 1600 branches, over 4900 ATMs, internet and electronic channels for remote services.

With diversified business lines, OTP Group provides traditional financial services through its subsidiaries, including specialized services - car leasing, investment and insurance products.

OTP Bank, the Hungarian parent bank of the OTP Group, with a dominant 26% market share in Hungary, has completed several successful acquisitions in recent years, becoming the most active player of the CEE banking market. OTP Group currently operates in 11 countries of the region: Hungary, Albania, Bulgaria, Croatia, Romania, Serbia, Slovenia, Ukraine, Montenegro, Russia and Moldova.

On July 25, 2019, the OTP Group also entered the market of the Republic of Moldova, becoming a majority shareholder of Mobiasbanca, through the acquisition of the majority stake from the Société Générale Group.

OTP GROUP

- 11 COUNTRIES
- 40 K EMPLOYEES
- 19 MIL CLIENTS

In 2020, OTP Bank successfully adapted to the ever-changing operating environment, maintaining its position in the capital market with strong liquidity, remaining stable in several business segments, as well as in terms of profitability, maintaining its ROE index of 13%. At the same time, the OPT Group stood out through a series of important awards in the ranking of financial institutions for 2020, awarded by reputable business magazines - Global Finance Awards, Euromoney, The Banker.

ECONOMIC ENVIRONMENT

The impact of the COVID-19 pandemic has led to a severe decline in economic activity worldwide. In particular, as per National Bureau of Statistics, the GDP of the Republic of Moldova decreased by 9.7% (in the 3rd quarter of 2020) and the World Bank forecasted a decrease of 7.2% at the YE 2020. The main drivers were the reduction of household consumption expenditure, as a result of the cessation of trade and industrial production following the restrictive measure against the spread of the pandemic, and last but not least, the drought that has hit the agricultural sector.

The decrease in domestic demand had a disinflationary influence, therefore, in December 2020, the annual inflation rate was 0.4%, being below the range of variation of the inflation target set by the National Bank of Moldova (NBM) (5% +/- 1.5%). In order to alleviate the disinflationary pressure, on 06.11.2020 the NBM took the decision to reduce the base rate from 2.75% to 2.65%.

The reduction of external demand on the one hand and the decrease in consumption on the other hand had a positive impact on the trade balance of the Republic of Moldova. In the first ten months of the year, exports decreased by 12.6% (forecast for 12 months: -14.5%), and imports by 9.9% (forecast for 12 months: -9.1%), the negative balance being about 1.3 mild. US dollars, which is 7.3%, lower than in the same period in 2019.

According to the National Bank of Moldova, in 2020, the total volume of money transferred to individuals, residents of the Republic of Moldova, amounted to 1,486.74 million US dollars, out of which 83.2% of transfers were made via remittance systems, and 16.8% are bank transfers carried out via the SWIFT system. The total amount of money transfers made in US dollars increased in 2020 by 21.6% compared to 2019 (1,222.89 million US dollars), including by 3.3 p.p., mainly as a result of the appreciation of euro against US dollar.

From the beginning of the year, the Moldovan leu registered a depreciation of 9.7% against euro in nominal terms (from 19.26 lei for 1 euro on 01.01.2020, to 21.12 lei on 31.12.2020).

Banking system evolution

Despite the challenge posed by the pandemic, the banking system proved to be resilient and solid thanks to the high degree of liquidity and capital, and the upward trend in assets, loans, deposits and equity continued with confidence. Moreover, the non-performing loans indicator shows a considerable improvement in the loan portfolio, decreasing by 1.11 pp. from 8.49% as of 31.12.2019 to 7.38% as of 31.12.2020, varying depending on the bank from 3.63% to 16.63%.

In the context of the pandemic, the National Bank of Moldova came up with measures to support banks and their customers. Thus, the Executive Committee of the National Bank of Moldova issued two decisions with respect to individuals and legal entities, according to which banks have been allowed to postpone the payment deadlines of clients that encountered difficulties due to emergency state, without classifying them in a harsher category.

ECONOMIC ENVIRONMENT

The NBM gradually adjusted monetary policy instruments:

– reduced the base rate applied to the main short-term monetary policy operations from 4.5% to 2.6% annually;

– reduced the interest rate on overnight loans and deposits from 7.5% to 5.15% and from 1.5% to 0.15% per year, respectively;

– decreased the norm of required reserves from funds attracted in Moldovan lei and in non-convertible currency by 2 p.p. from 34% to 32%;

– increased the norm of required reserves from funds attracted in freely convertible currency up to 30%.

As of 31 December 2020, the banking system constituted 11 banks licensed by the National Bank of Moldova, while the 4 largest banks held 78% of assets, 79% of loans, 80% of attracted deposits, 76.5% of capital and 79% of net income.

As of 31 December 2020, the banking sector recorded the following performance:

- The total assets amounted to 103.9 billion lei, increasing during the year by over 13 billion lei or 15%.

- The gross (prudential) balance of loans represented 43.2% of total assets or 44.9 billion lei, increasing during the analyzed period by 9.7% or 4 billion lei.

– The most significant increases in the loan portfolio have been registered for loans granted for the purchase or construction of real estate - by 26% or 1.6 billion lei and for loans granted for agriculture - by 29% or 878 million lei.

During 2020, there has been a significant increase in attracted resources. The outstanding deposits in December 2020 amounted 79.7 billion lei, being by 16.6% or 11.3 billion lei higher than in the same period of the previous year. Out of which, 64% are deposits attracted from individuals and 36% from legal entities (including banks). Concerning currency, 58% are in national currency and 42% in foreign currency respectively.

In the pandemic context, the profit in the banking system decreased by 27% as of December 2020 comparing to December 2019, amounting to 1.65 billion lei. The determining factors were: the decrease of interest income by 140 million lei or 3%, (as a result of the decrease of the average rate on loans in national currency by 0.52 p.p., and those in foreign currency - by 0.22 p.p., compared to the same period of the previous year) and the increase of financial assets impairment by 839 million lei.

As at 31 December 2020, the return on assets and the return on equity constituted 1.66% and 9.60% respectively, decreasing by 0.81 p.p. and 5.03 p.p. comparing to the year-end 2019.

BANK'S PERFORMANCE

Mobiasbanca is a stable, well-capitalized and resilient bank with a capital adequacy ratio of 21.4%, increasing with 1.2 p.p. compared to 2019. Equity of the bank increased by 7.6% during 2020, and as of year-end constitutes over 2,028 million lei. The bank records profits, even if a decrease is observed for 2020, this was due to the increase of operational expenses because of realization of the bank's strategy to extend on the market and to align to OTP Group requirements, for which are allocated significant resources. The decrease of the profits is also related to the pandemic impact. Therefore, the return on equity registered at the end of 2020 was of over 7.3%, while the return on assets was of 1.08%.

Mobiasbanca is positioned in the top 4 banks of the banking system, with a share of assets per sector of 13.8%. In 2020, the bank recorded an increase in assets of 17.5%, mainly due to the spore of the volume of granted loans by 23%, the loans to total assets ratio being 51.4% (up by 2.1 p.p. compared to 2019).

At the same time, Mobiasbanca ranks 3rd in terms of the volume of granted loans to both individuals and legal entities, with a share of 16.85%, up by 1.35 p.p. compared to 2019. In 2020, the Bank reached a market share of 14.7% in the segment of legal entities and 20.71% in the segment of individuals, focusing in particular on providing resources for financing mortgages (market share 22.43%), due to which the bank is among the top 2 leaders on the market, and on consumer loans (market share 20.12%).

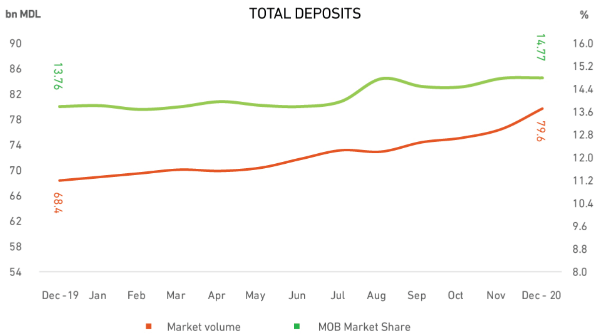
BANK'S PERFORMANCE

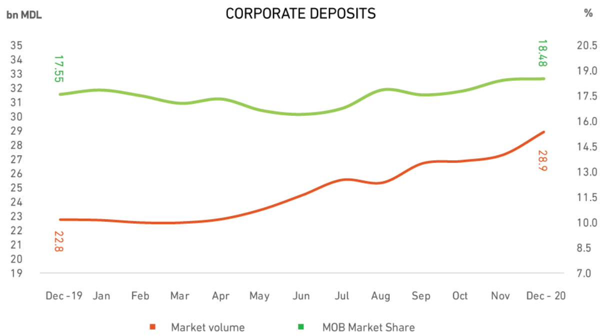
Fig.1. Evolution of the market volume of loans versus Mobiasbanca – OTP Group S.A. market share

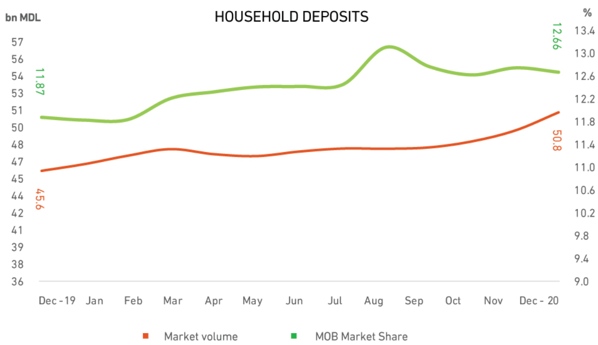
BANK'S PERFORMANCE

The advantageous interest rates proposed by the bank stimulated the increase of the deposits volume by 2.3 billion lei million lei or 25%, amounting to 11.76 billion at the year-end 2020. Mobiasbanca has a market share of 18.48% related to deposits attracted from legal entities, ranking 2nd among market favorites and 12.66% related to resources attracted from individuals.

Fig.2. Evolution of the market volume of deposits versus Mobiasbanca – OTP Group S.A. market share







BANK'S PERFORMANCE

The main projects and events in 2020:

- 30th anniversary of the founding of Mobiasbanca-OTP Group S.A.
- Launching innovative online service solutions in the pilot phase.
- Opening of the Mobiasbanca Leasing Center.
- Relocation and rebranding of Ismail, Soroca, Causeni branches and Ungheni agency according to OTP Group standards.
- Signing of a new agreement, amounting to 5 million euros with grant component, between Mobiasbanca - OTP Group and EBRD, within the EU4Business-EBRD credit line for SME financing.
- Mobiasbanca - OTP Group has concluded a partnership with the Organization for the Development of the Small and Medium Enterprises Sector of the Republic of Moldova (ODIMM).
- Mobiasbanca - OTP Group was awarded the "Service Excellence 2019" diploma for portfolio quality by its sustainable partner - the international payment company Mastercard.
- The "Most Active Issuing Bank in Moldova in 2019" award was offered by the EBRD under the Trade Facilitation Program (TFP), for the fifth consecutive year.
- Mobiasbanca - OTP Group was designated "Highly Credible Taxpayer" by the State Tax Service.
- As an active member of the profile associations: European Business Association, Association of Moldovan Banks, Association of Romanian Investors in the Republic of Moldova, Mobiasbanca - OTP Group develops sustainable partnerships for economic development.
- Establishment of the Foundation for Financial Education „OK" - a unique educational project in Moldova, sponsored by the bank.
- The bank provided an important support to the medical sector to combat the COVID-19 pandemic, by donating of two modern intubation equipment on behalf of the Republican Hospital „Timofei Moșneaga".
- The National Museum of Art of Moldova appreciated the bank for promoting the cultural heritage with The ARTMUSEUM trophy.
- A significant donation of books reached 1,000 children from vulnerable families and special schools.
- The bank joined the development of the next generation of footballers, being the main partner of the „ZIMBRU" Football Academy in Chisinau.
- Mobiasbanca - OTP Group was, for the fifth consecutive year, the partner of the Hospice Bike Tour event, organized by Hospice of Hope for fundraising in charitable purposes.
- The Bank continued to sponsor the "Regional Economy" section of the economic magazine Logos Press.
- The renovation of the "Mihai Eminescu" park was possible due to the important contribution of the bank in partnership with the local authorities.

CORPORATE GOVERNANCE

Corporate governance is an important means of ensuring that Bank's strategic objectives are met. A reliable governance system, organization, management and control of Company's resources, financial planning, responsible management and adequate control mechanism provide a stable basis for efficiency and profitable functioning, secure and transparent business, as well as balanced relations between the management body (Supervisory Board and the Executive Committee), the control authorities, shareholders and other interested entities.

The corporate governance framework determines the distribution of rights and responsibilities between Bank's management body, describes in details the rules and procedures for making corporate decisions. A good corporate governance structure involves the establishment of the successful system for setting objectives, making decisions, including the control and monitoring of the execution of established decisions and objectives. At the same time, effective corporate governance means that the role and relationships established in the team building of the bank are based on ethical behavior, minimizing conflict of interest. Successful corporate governance is based on the principles of responsibility, transparency and control of decision makers.

Mobiasbanca - OTP Group S.A. complying with all requirements of the legislation in force, including those of the Group, ensures the development and maintenance of an advanced system of corporate governance that respects local and international standards, being of primary importance and ensuring simultaneously the trust and satisfaction of the Bank's customers, the increase of the shareholders' value and the corporate behavior of the Bank.

According to the legislation in force, all information/materials related to the Bank and which have the influence over the price of Bank's shares are published accurately, in full and in a timely manner.

Providing regular and authentic information is essential for shareholders and other capital market participants to make sound decisions, but the way the Bank discloses information also has an impact on its reputation.

Taking this into account, the bank publicly discloses the important information about the events that influence the Bank in accordance with the National Legislation, placing them on the Bank's website:
https://mobiasbanca.md/information-guvernance
and in the Official Information Storage .

The Bank discloses the information in strict accordance with the provisions of the Legislation in force, namely the Civil Code, the Law on the banks' activity, the Law on the capital market, the Law on joint stock companies, NBM/NCFM Regulations. In addition, the Bank has effective internal regulations that ensure compliance with mandatory disclosure of information.

The most important internal documents, that regulate the corporate governance of the bank, are:

– The Article of Association of the Bank https://bit.ly/2X085dn

– The Corporate Governance Code https://bit.ly/3dEDAQ4

– Directive no. 1: The rules of organization and internal functioning of the bank.

CORPORATE GOVERNANCE

These Bank's documents determine in details the standards for the Governance and management of the management bodies of the Bank.
According to the principles of good corporate governance, the Corporate Governance Code establishes the structure of relationships and processes in order to be able to cope effectively with environmental change, to createa transparent and understandable system of governance that will increase the confidence of local and foreign investors, employees, customers, suppliers, supreme governance institutions and society.
The code can be accessed on the official website of the Bank, on the page dedicated to the disclosure of information regarding the governance of the bank, along with the Corporate Governance Statement "Compliance or justification".

https://mobiasbanca.md/information-guvernance.

Directive no. 1 regulates the general aspects regarding the organization and functioning of the Corporate Governance within Mobiasbanca - OTP Group SA, inclusively establishes the individual attributions, competencies and responsibilities of the Chairman of the Executive Committee - CEO, members of the Executive Committee, and establishes the organization, functioning and competencies of the Committees established within the Bank. The purpose of Directive no. 1 consists in regulating the internal procedures, obligations and responsibilities of the Bank's management.

During the reporting period, the Management and the Bank's employees acted according to the internal documents, that regulate the corporate governance of the Bank, namely, the Article of Association, the Corporate Governance Code, Directive no. 1, ensuring maximum transparency in the Bank's activity, acting according to the legislation in force.

The principles of corporate governance, which include the creation of an effective system to ensure the security of funds offered by shareholders and their use in efficient way, respect of the rights of all shareholders, structuring of relationships and processes to cope effectively with environmental change, have been respected. In its interest, the Bank continuously monitors governance practices; identifying any weaknesses arising from external and internal changes which are examined and adapted taking into account the requirements of the legislation in force.

Internal control within the Bank is a set of means that allow the Bank's management to ensure that the operations performed, the organization and the procedures put into practice comply with the legal provisions, professional and ethical rules, internal normative documents and Bank's strategy.

The purpose of internal control includes failure prevention, measuring and exercising of the sufficient control over the involved risks, ensuring the adequacy and efficiency of internal processes, detecting irregularities, ensuring the reliability, integrity and availability of financial and management information, verification of the quality of information and communication systems.

CORPORATE GOVERNANCE

The Bank has its own internal control mechanism which is in accordance with the legal framework, the normative acts of the National Bank of Moldova and the accepted general practice in this field, which ensures the efficient management of the Bank, the conduct of financial activities in a safe and secure manner, compliance with the provisions of the legislation in force, as well as protecting the interests of depositors. Thus, the internal control functions (risk management function, compliance function and internal audit function) comply with strict standards, but their effectiveness is proved not only within the internal corporate governance system, but also for the satisfaction of external supervision. The internal control functions are independent and have sufficient resources, knowledge and experience to perform their tasks, and report directly to the Bank's Supervisory Board.

As important elements of the internal control are the internal normative documents, which are reviewed annually upon the necessity of their updating. Thus, during 2020, 189 internal normative documents were updated and/or elaborated, which constitute 38.57% of the total issued documents.

Ownership structure:

The Bank's shareholding structure as of December 31, 2020 was not modified compared to the end of 2019.

By the end of 2020, the Bank had 129 shareholders, of which 128 minority shareholders holding 1.69% of the Bank's capital. The rights and legitimate interests of the Bank's shareholders are guaranteed by law, by the Article of Association and the internal normative documents of the Bank. According to the requirements of the legislation in force, the shareholders are entitled to request the redemption of the shares belonging to them. The decision regarding the redemption of the shares is taken by the General Meeting of Shareholders or by the Supervisory Board of the Bank within the limits of the competences established by the legislation in force.

CORPORATE GOVERNANCE

Structure of shareholders of the Bank:

Category	Holding in social capital, %	Number of shareholders
Legal persons >= 1%	98.26 %	1
Physical persons >=1%	0.00	0
Legal persons < 1%	0.10 %	14
Physical persons <1%	1.59 %	114
Treasury shares	0.06 %	x
TOTAL	100 %	129

The bank's shareholders and groups of persons acting jointly and holding qualified holdings in the bank's share capital:

Name of shareholder	Country of residence	Number securities, unites	Holding in social capital, %	Effective benefici-aries of qualified holdings
OTP BANK NYRT	Hungary	9,825.785	98.26 %	N/A

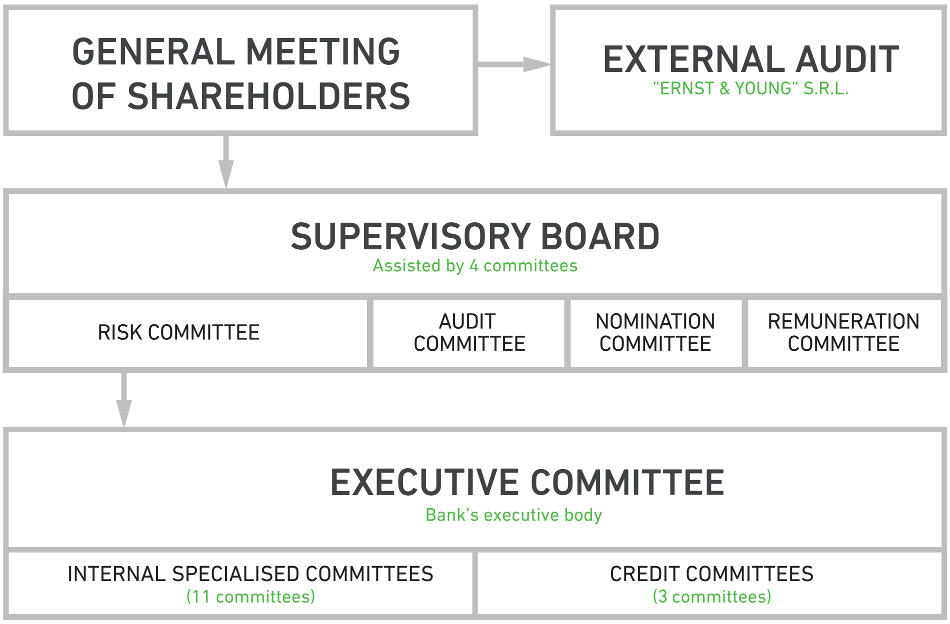
The majority shareholder of the Bank is OTP Bank Nyrt. (Hungary), which is listed on the Budapest Stock Exchange. The headquarters of the parent bank is: 16 Nador str., Budapest, 1051, Hungary.
The securities of the Bank are admitted for trading on the regulated market - the Stock Exchange of Moldova.
Keeping of the shareholders' records is performed by the „Central Single Depository of Securities" S.A.

Type and the class of securities	Ordinary shares
Country	Moldova
Code ISIN	MD14MBIS1000
Securities admitted for trading at the regulatory market	Stock Exchange of Moldova 16, Maria Cibotari str., MD-2012, Chișinău, RM, Tel: 022-277-592

CORPORATE GOVERNANCE

Registry of Bank's shareholders	Central Unique Depository of Securities 57/1, Mitropolit Gavriil Bănulescu Bodoni str., MD-2005, Chișinău, RM, Tel. 0 22 999 871
Contact details	Mobiasbanca – OTP Group S.A. 81 A, Ștefan cel Mare și Sfînt bd., MD-2012, Chișinău, RM, of. 319, Corporate Governance Department Tel: 022-812-431, 022-812-438

Statutory governing bodies:



CORPORATE GOVERNANCE

General Meeting of Shareholders

Bank's General Meeting of Shareholders has an important role within Bank's control and verification system. Bank's General Meeting of Shareholders holds sufficient competences that do allow to fully influence the politics promoted by Supervisory Board and Executive Committee activities.

Bank's shareholders have all the rights, obligations and responsibilities settled by the legislation, by Bank's Article of Association and internal normative documents.

The right of taking part at the General Meeting is held by Bank's shareholders included in Bank's Shareholders list, as well as in the list related to the shareholders who have the right to take part within the General Meeting. The shareholders can personally take part within the general Meetings or via power of attorney. Also, shareholder's right to vote can be suspended/limited on the basis of the legislation in force or via court decision, but the actions which the vote right is suspended/limited for are not excluded when the General Meeting of Shareholders is being convoked, as well as for settling the quorum, exceptions being the ones stipulated in the legislation in force. Upon case, these shares do not participate at voting when adopting decisions regarding the matters included in the General Meeting of Shareholders agenda.

During 2020 there have been convoked and held two General Meetings of Shareholders. Due to COVID-19 pandemic cause, the Bank undertook responsible measures, in conformity with the legislation and sanitary rules, taking into account person's health and life as the most important value.

The General Meetings of Shareholders were held having the National Bank of Moldova Opinion regarding the list of shareholders who have the right to participate within Bank's General Meeting of Shareholders, as well as observing the epidemiological rules applied during the respective period.
The General Meetings of Shareholders were held via correspondence. In order to diminish the infection risk, Bank's shareholders had several possibilities to vote, and namely by conveying the ballot papers via electronic means, without being physically present within Bank's headquarters. The shareholders could get acquainted with the materials for the General Meeting of Shareholders agenda on a dedicated page on Bank's site:

https://mobiasbanca.md/infoactionari/.

During the General Meeting of Shareholders from July 03, 2020, where had been examined the subjects both, for shareholders' interest as well for Bank's one, were approved the annual reports of Supervisory Board, Executive Body, external audit company, etc.

CORPORATE GOVERNANCE

During the extraordinary General Meeting of Shareholders from November 27, 2020, there was approved the new version of Bank's Article of Association, there had been put forward and approved new candidates in Supervisory Board membership, as well as other issues related to its exclusive competence.

Also, taking into account NBM recommendations regarding the temporary refraining the distribution of dividends , and in order to maintain at an adequate level the proper funds and Bank's liquidity during the pandemic period, the shareholders decided to reflect the gained profit according to 2019 results as "Non-distributed profit"

Supervisory Board

Supervisory Board is Bank's management body who has the role to supervise Bank's performance, approving and monitoring the implementation of the strategic objectives, management frame and corporative culture by Bank's Executive Body. In this context, the Supervisory Board defines Bank's activity administration frame, by assuring the elaboration, approval, implementation, permanent monitoring and periodical revision of the primary internal regulations that make the subject of all Bank's activity domains, inclusively the division of responsibilities within the company and the prevention of the conflicts of interests.

The Supervisory Board is responsible both for assuring certain best practices and institution's good management, as well as for regular financial reporting to the National Bank of Moldova. The functions of Risks, Compliance and Internal Audit are under the direct supervision and responsibility of Supervisory Board.

Supervisory Board has 5 members, assigned and suspended by the General Meeting of Shareholders. Candidates' identification and recommendation for being assigned as Supervisory Board members, is carried out by Bank's Nomination Committee upon the proposal of the shareholders who hold at least 5% from the total number of shares with voting right and upon personal initiative. At least 1/3 from Supervisory Board members are independent according to the definition settled in the Law regarding banks' activity.

Supervisory Board Members have a four-year mandate. The empowerments of each member from the Supervisory Board can cease before the settled term in case of resignation or based on the General Meeting of Shareholders decision, as well as in the case of approval's withdrawal by the National Bank of Moldova. In case if Supervisory Board membership is reduced with at least one member, a new Supervisory Board membership (full) is elected during the next annual ordinary General Meeting of Shareholders or during an extraordinary one. Thus, the quorum for holding Supervisory Board Meetings is kept in initial form that is at least half from the full membership. During 2020, the new Supervisory Board membership was named twice, being integrated managers with large banking experience.

CORPORATE GOVERNANCE

The members of Mobiasbanca – OTP Group S.A. Supervisory Board as of 31.12.2020:

Supervisory Board members	Start of Supervisory Board Member	Mandate start	Mandate end	Is the member independent or not
President	Zoltan Major	25.07.2019	27.11.2024	Non-independent
Members	Attila Beer	19.11.2020	27.11.2024	Independent
	Eszter Erika Huszár	20.03.2020	27.11.2024	Independent
	Rodica Hîncu	20.05.2015	27.11.2024	Independent

Supervisory Board members contribute to an adequate governance within the Bank, inclusively via personal behavior , and while carrying out their responsibilities do take into account the legal interests of the bank, and of its deponents and shareholders. Supervisory Board members perform their responsibility with honesty, integrity, objectivity and loyalty, do dedicate sufficient time and prudence, and in conformity with the legal provisions and normative frame.

In 2020, the Supervisory Board had 17 meetings, 3 in mixed form and 14 via correspondence, during which 184 issues were discussed. Thus, Supervisory Board activity in 2020, as well as for the previous years, was oriented for ensuring the performance of the strategic objectives settled by the bank, as well as the main activity directions.

Supervisory Board members was collectively reevaluated, in this context relating to the corresponding of criteria of art. 43 from the Law regarding banks' activity, afterwards being reconfirmed their appropriateness at the collective level taking into account their knowledge, aptitudes and experience.

Executive Committee

Bank's Executive body is a collegial body, named Bank's Executive Committee, and pursues its management function upon all structural subdivisions, Bank's domains and direction, excepting the ones that are under the competence of the General Meeting of Shareholders and Supervisory Board.

The Executive Committee is composed of 7 persons with diverse experience and competence, whose nominal membership is approved by Supervisory Board. The President of the Executive Committee – CEO and the Vice-presidents of the Executive Committee act without power of attorney on behalf of the bank in any circumstance related to the activities it coordinates, as well as having the right to issue powers of attorney on behalf of the Bank.

The members of the Executive Committee, inclusively the President and the Vice-presidents of the Executive Committee are appointed for a 3 years term and begin carry out their function after being approved by the National Bank of Moldova. Members' mandate can be renewed by the Supervisory Board, for unlimited times for a 3 years term.

CORPORATE GOVERNANCE

Members of the Executive Committee of Mobiasbanca – OTP Group S.A. as of 31.12.2020:

Members of Bank's Executive Committee	Start date of being member of the Executive Committee	Mandate's start / NBM approval	Mandate's end
László Diósi President of the Executive Committee - CEO	26.07.2019	16.04.2019 / 26.07.2019	16.04.2022
Stela Ciobanu Vice president of the Executive Committee – General Secretary	19.06.2015	20.06.2018	19.06.2021
Elena Guzun Vice president of the Executive Committee – Commercial Director Corporate Banking	19.06.2015	20.06.2018	19.06.2021
Petru Delinschi Vice president of the Executive Committee – Commercial Director Retail Banking	30.01.2020	20.11.2019 / 30.01.2020	20.11.2022
Iurie Rusu Vice president of the Executive Committee – COO, Head of IT & Operations Division	01.04.2020.	28.01.2020	28.01.2023

CORPORATE GOVERNANCE

The Executive Committee carries out the Bank's current management in order to achieve the settled objectives within the business strategy and plan. The Executive Committee acts in Bank's interests, as well the ones of Bank's shareholders when carrying out its responsibilities, inclusively is responsible for Bank's financial performance.

Thus, the Executive Committee assures the adequate implementation of bank's administrative frame, works out and approves upon case the secondary internal regulations, knows and understands Bank's organizational structure, the risks it generates in order to assure the carrying out of Bank's activities in correspondence with Bank's strategy, appetite for risk and policies approved by Supervisory Board.

The Executive Committee quarterly reports to Supervisory Board regarding its activity, focusing on the following subjects: important changes in the banking system, the situations that can influence the strategy and/or Bank's administrative activity frame, Bank's financial performance, balance evolution, the evolution of the credits portfolio, resources' evolution, the evolution of incomes and expenses report, the observing of limits related to the conformity risks or rules, internal deficiency control system, etc..

The activity of the Executive Committee is annually evaluated by the Supervisory Board, at collectively and individual level, thus noting its members compliance with the criteria settled in art.43 from the Law regarding banks' activity, as well as reconfirming their adequacy in the context of knowledge, aptitudes and experience.

During 2020, the Executive Committee had 34 meetings, 24 being with presence or video conference and 10 via correspondence, during which there had been discussed 378 issues.

Supervisory Board specialized committees

There are four Supervisory Board specialized committees that are responsible for offering the necessary support to the Supervisory Board in order to carry out its responsibilities:

- Risks Committee
- Audit Committee
- Nomination Committee
- Remuneration Committee

The reporting committees are subordinated to Supervisory Board, are independent in front of the executive body and have a consultative function, putting forward proposals and recommendations to the Supervisory Board. The committees are exclusively composed of Supervisory Board members, where most of them must be independent, according to the criteria settled by the legislation in force.

The specialized committees interact among them in order to assure the coherence and in order to avoid discrepancies when taking decisions. This interaction happens by cross participation, so that the president or a member of a specialized committee can also be member of another specialized committee.

Risks Committee

Risks Committee offers support to the Supervisory Board regarding the appetite for risks and to the actual and future bank's risk strategy, and supports the Supervisory Board in monitoring the application of this strategy by the Executive Body. The general responsibility regarding risks is attributed to Supervisory Board.

CORPORATE GOVERNANCE

The Risks Committee offers support to the Supervisory Board in order to settle the type, volume, format and frequency of the information regarding risks.

The Risks Committee had 4 meetings in 2020,where the following issues had been discussed: banking, economic, political environment; the analysis of credit portfolio; recuperation portfolio; market and country risk; structural risks; operational risk (inclusively the legal risk, banking security, conformity and reputational one); IT risk management; dashboard of the appetite for risk, etc.

Audit Committee

The Audit Committee has the mission of monitoring the domains regarding the modality of accounting and financial information is prepared and controlled. It has also the mission of monitoring the independence of statutory (external) auditors, as well as the efficiency of the internal control systems, of risks' measurement, supervision and control related to the accounting and financial processes.

The Audit Committee had 5 meetings in 2020.

There had been presented and examined the following issues within the committee: the synthesis of audit activities, the carrying out of the internal audit recommendations, statistics regarding the external audit recommendations that included the stage of finishing the NBM action plan and the one for external audit, the dynamics of recommendations, the statistics of NBM recommendations and of the external audit.

Nomination Committee

The Nomination Committee identifies and recommends the candidates for vacancies in the Supervisory Board, Executive Committee, as well as for the key functions.

The Nomination Committee had 5 meetings in 2020, where there had been identified and evaluated the candidates for the vacancies in the Supervisory Board and Executive Body, there were identified and approved the evaluation of persons who have key function in the Bank, there were approved the reevaluations of the collective adequacy of Supervisory Board Bank members and of the Executive Committee members.

Remuneration Committee

The mission of the Remuneration Committee is to examine the Bank's annual remuneration policy, and namely: proposes Bank's principles of the remuneration policy, analyzes the remuneration policy of diverse personnel categories, proposes the decisions of Supervisory Board regarding the benefits offered to Supervisory Board/Executive Body members, as well as the ones related to different personnel categories.

The Remuneration Committee collaborates with other specialized committees whose activities can have impact on policy' and remuneration practices' formulation and good functioning, and also offers the Supervisory Board, and upon case to the General Meeting of Shareholders, adequate information concerning the held activities.

The Remuneration Committee had 2 meetings in 2020, where there had been examined the payment of the performances carried out by the personnel identified at local level.

CORPORATE GOVERNANCE

Internal Specialized Committees

There are the following internal specialized Committees within the Bank, constituted in order to assure a good level of protection against the risks the Bank is exposed to:

1. Monthly Performance Analysis Committee
2. AML Committee
3. Products & Pricing Committee
4. Monitoring Committee
5. IT & Investments Committee
6. Operational risks Committee
7. Assets and Liability management Committee
8. Crisis Situation Management Committee
9. Work-out Committee
10. Customer Experience Management Committee
11. Main Credit Committee

Credit Committees

According to the crediting policies, the Credit committees assure the examination, approval and appropriation of credits, other commitments within the limits of competences approved by Supervisory Board.

The following committees activated during 2020, depending on the settled competences:

- Bank's Credit Committee
- Retail banking Credit Committee
- Private Banking Credit Committee

Thus, the Bank has an adequate credit risk management frame, which takes into account Bank's appetite for risk and risk profile, as well as the macroeconomic market and conditions. Also, it has crediting policy and procedures for the identification, evaluation, monitoring and control of the risk credit, inclusively the counterparty credit risk.

Bank's operations/activities are regulated in details and continuously monitored by the supervision authorities, as in any other Company that offers financial and investments services.

Thus, in November 2020, NBM carried out a thematic control for the period 01.10.2019 – 20.10.2020, in order to verify bank's activity comply with the requirements of the normative acts in force related to the domain of prevention and anti-money laundering and terrorism financing. There were verified the undertaken by the Bank measures for identifying and verification of beneficiary/ customers effective beneficiaries' identity: application of caution requirements in what concerns the business relation with the politically exposed persons and the application of international restrictive measures. It was concluded that the Bank does generally observe the legislation in force, there were also issued certain recommendations for activity's improvement.

MANAGEMENT RISK AND CONFORMITY

Mobiasbanca - OTP Group approach in terms of risk management is in line with the business strategy and, therefore, the actions planned in order to achieve the business objectives are aligned with the goals of the risk strategy. The Bank aims to obtain a balanced ratio between risks and profitability in order to generate a sustained growth and an adequate return on capital.

The bank's policies in the field of risk man–agement are meant to ensure that the risks are assumed in the context of businesses, being recognized at an early stage and properly managed. This objective is achieved by integrating the risk management into daily business activities, in strategic planning and business development in accordance with the defined risk appetite.

Risk management includes the entire planning activity, respectively, the way in which the major risks will be reduced and managed once they are identified. Monitoring of the risk mitigation process includes tracking of identified risks, identifying new risks and the evaluation of the effectiveness of the entire process at the Bank level.

Mobiasbanca - OTP Group uses several risk mitigation techniques or - where possible – is avoiding the risk. This includes a framework of the internal control system and strict limits on risk-taking in accordance with the bank's risk appetite framework.

The main objectives of the risk management activities are the following:

- Establishing, within the Bank, a set of fundamental standards for risk management, while maximizing potential gains and protecting the depositors interests;
- Supporting the Bank's business strategy, in order to reach the commercial objectives in a prudent manner, in order to maintain the income stability and to cover against unexpected losses;
- Supporting the decision-making process at the Bank's level, by providing a global view on the risks to which the Bank is exposed;
- Ensuring the compliance with the best practices in risk management and complying with the requirements of legisla–tion in force;
- Promoting a risk of a knowledge and risk management culture, integrated at the overall Bank's level, based on a full understanding of the risks faced by the Bank and the way they are managed, taking into account the Bank's risk tolerance / appetite;
- Ensuring of adequate capital levels, as required by normative requirements;
- Development and implementation of a transparent risk management process for risks identification and management;
- Adequate monitoring, stress testing tools and escalation processes for relevant capital and liquidity limits and indicators.

To ensure an efficient risk management process, the control activities are implemented at all levels and functions within the bank. These include activities such as approvals, authorizations, verifications, dual control, reconciliations, reviews of operating methods, asset security and separation of responsibilities.

MANAGEMENT RISK AND CONFORMITY

An important element of the Bank's internal control system is also the establishment and maintenance of information security management systems to cover the full spectrum of activities of the Bank.The bank must have an adequate back-up facilities, to ensure the recovery of critical information and applications in case of disaster or system interruptions, which are tested periodically.

Internal control of the bank is organized in 3 lines of defense:

- Level 1, or operational control (on-line), is intended to ensure that transactions are executed correctly. These controls are performed by the staff of the business subdivisions and the operational management of the Bank, at the front-office and back-office levels, and are incorporated into the Bank's internal regulatory documents.
- Level 2, control of risk management functions, performed by Finance, Compliance, Risk Management, Information Security, Legal, whose responsibilities are distinct and independent from those of the Bank's business subdivisions.
- Level 3, controls performed by the Internal Audit of the Bank, which periodically evaluates and verifies the sufficiency, functionality and efficiency of the Bank's internal control system. The Internal Audit function is independent from other 2 levels.

  Mobiasbanca OTP Group ensures a proper governance in the field of risk's management and in setting the standards for each main risk category, for which the risk approaches are consistently defined and implemented:

A. Credit Risk Management

Mobiasbanca - OTP Group has implemented strategies, policies and processes for identifying, measuring, monitoring, controlling and reporting of the credit risk.

The objective pursued in the credit risk management process is to promote a responsible and prudent risk approach, in accordance with the provisions of the local legislation and best practices. The lending activity within Mobiasbanca - OTP Group respects the principles of adequate separation of attributions and responsibilities, in order to avoid conflicts of interest.

In 2020, the Bank continued to develop and improve its lending policies, with a key focus on the following development directions:

– alignment of internal processes and approaches with the OTP Group standards,

– application of moratorium instruments for loans granted to customers in accordance with the recommendations of the NBM and internally developed approaches for providing customer support,

– adjusting of the credit policy in line with the economic trends imposed by the pandemic crisis and adverse climatic conditions,

– analysis and monitoring of the customer exposures operating in economic sectors affected by the pandemic crisis,

– implementation of customer support instruments whose activity has been negatively impacted by weather conditions and macroeconomic effects as a result of the pandemic crisis,

– actions to reduce the concentration in the loan portfolio, being established exposure limits to different economic sectors as well as to foreign currency exposures,

– active examination of the portfolio, including the use of an early warning framework, allows early signaling of negative developments, in order to implement risk mitigation measures in a timely and appropriate manner.

MANAGEMENT RISK AND CONFORMITY

In 2020, the Bank focused on lending to legal entities clients and individuals with a strong financial standing. For the credit products granted to individuals, the Bank aims to implement the standardized, simple, transparent and easy approach in order to be understood by customers, bank consultants and all employees involved in the lending processes. The lending agreements in the corporate and SME area must contain an adequate financial and non-financial protection degree.

B. Market Risk Management

Market risk is defined as the risk of losses for on balance sheet or off-balance sheet items caused by changes in the market prices of financial instruments and securities held for trading, interest rates and the exchange rate.

Market risk within Mobiasbanca OTP Group is managed in accordance with the provisions of the Instruction on market risk management, which establishes the governance, measures and reporting standards for this risk. The existing processes, content, responsibilities and principles are specified in this internal normative document

The Bank has established a comprehensive framework on market risk limits, which is monitored regularly (daily, monthly or quarterly) and reported to the management.

The bank's reporting framework covers regulatory reporting requirements, internal reporting requirements and processes, and the reporting framework to third parties. The main developments regarding market risk management are covered by a series of dedicated reports

C. Operational Risk Management

The main operational risk management levers applied within the bank are:

– Self-assessment of risk's and internal control framework (Risk Control Self - Assessment) by identifying and assessing the inherent risks related to the bank's processes, assessment of the quality of implemented internal control system including identified vulnerabilities in prevention and control devices, as well as assessment / measurement the exposure to residual risks of each activity.

– Monitoring of Key Risk Indicators on sensitive processes, by early identification of risk areas.

– Scenario Analysis - prospective assessments of exposure to losses with significant impact but with a low probability of occurrence.

– Business Impact Analysis (BIA) – once with the alignment to the new group requirements, a review of all processes carried out within the bank was performed, in order to identify „critical" and „vital" activities for bank, subsequently to provide them with viable recovery solutions in case of exceptional situations, which may result in crisis situations.

In 2020, once with the occurrence of pandemic crisis (SARS-VOC-2), the Bank focused a special attention to manage the crisis by developing an actions plan and measures which continuously were adjusted according to the Crisis evolution and the decisions issued by authorities, aimed to:

– Ensuring the business continuity of activities,

– Protecting customers,

– Protecting employees.

MANAGEMENT RISK AND CONFORMITY

D. Liquidity Risk Management

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

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

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

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

All efforts are concentrated on identification of liquidity risk sources, assessing risk exposures and setting appropriate limits to reduce the possible consequences of liquidity risk.

The Bank assesses liquidity and liquidity risk through the following activities:

- Analyzing the structure of assets from the perspective of liquidity and capitalization possibilities;
- Analysis of liabilities from the perspective of stability in conditions of liquidity crisis;
- Calculation and monitoring of liquidity indicators, both from the regulator (NBM) and internally developed;
- Establishing minimum limits for liquidity indicators.

E. Interest rate Risk Management

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

The sensitivity on net interest income of the Bank is analyzed separately for variable rates (as effect of interest rate changes for variable rate assets and liabilities) and fixed rates (by revaluing fixed rate financial assets for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve). According to financial market evolution, the Bank estimates a fluctuation of +/- 10 basis points for its assets and liabilities, and determines the impact of this fluctuation on the net interest income.

CONFORMITY

Mobiasbanca OTP Group Compliance function is responsible for the overall management and oversight, as the second line of defense, for following domains: Regulatory Compliance, Ethics, Conflicts of interest and Reputation risk management practices, preventing: frauds, money laundering, terrorist financing and financial crimes, ensuring physical and informational security, protection of personal data, international tax compliance (FATCA) and compliance with international sanctions regime. Compliance participates in the prevention, detection and management of breaches of applicable laws, rules, regulations and relevant procedures and has a key role in helping Mobiasbanca OTP Group to achieve the right ethical and conduct outcomes.

MANAGEMENT RISK AND CONFORMITY

Bank's Management supports the Compliance function to be independent from operational functions and have sufficient authority, stature, resources and access to the management body.

On regular basis, the Compliance function submits compliance reports to the Management on the activities performed, specifically concerning the verifications made and the related outcome, as well as the measures implemented and/or planned to remedy any shortcomings. Furthermore, the Compliance function provides the Management with support and advice in order to prevent conducts that could lead to penalties, generate losses or cause significant damage to the Bank's reputation.
In this scope, compliance activities also contribute to increase the Bank's value to the benefit of all stakeholders.

In 2020, Mobiasbanca OTP Group adhered to OTP best practices and standards regarding compliance, ethics, conflicts of interest (including in investment services), the fight against bribery and corruption, assessment and evaluation of the compliance related risks, sanctions and sensitive transactions, due diligence, customer protection, personal data protection, investment services, identification and prevention of insider dealing and market manipulation, international tax compliance - FATCA by implementing new compliance related processes and redesigned/updated some of the existing ones.

Banks are required by regulatory provisions to permanently enhance their ability to prevent and detect financial crime and noncompliance.

There is an increased regulatory focus on frauds and compliance controls, with expectations that banks should do more to protect customers from frauds and identify noncompliance risks within business processes. Financial crime and fraud threats continue to evolve, often together with geopolitical developments. The evolving regulatory environment continues to present execution challenges.

Regulatory compliance risk is the risk that the Bank fail to observe the letter and spirit of all relevant laws, regulations, and standards of good practice, which as a consequence may result in fines and suffer damage to Bank's reputation and business. Regulatory noncompliance leads to risks associated with breaching Bank's duties to the customers and other counterparties, unethical conduct.

Bank's Compliance function provides independent, objective oversight and promotes a compliance-orientated culture that supports bank's customers, maintaining the integrity of services and achieving strategic objectives. The Bank implements high international regulatory standards promoted at OTP Group level.

The Bank regularly review all internal normative documents. Local and Group level standards require the prompt identification and escalation of any actual or potential regulatory breach to local or group level Compliance function.

COMMERCIAL ACTIVITY

The commercial activity of Mobiasbanca - OTP Group was characterized by a dynamic evolution, with the maintenance of its market share and growth on several segments. In the second half of the year, the lending to individuals and legal entities returned to normal, especially in the mortgage lending segment.

Despite the context generated by the pandemic, the bank registered a share of 20.7% on individuals lending market, with 20.12% share on consumer loans and a share of 22.43% on the mortgage market. The financing of legal entities brought the bank a share of 14.7% on the corporate market at the end of 2020.

The portfolio of deposits also increased, both in the segment of individuals and legal entities, illustrating the trust of customers in Mobiasbanca-OTP Group, but also the unstable economic context. These results were driven, among other things, by the promotional activities carried out during the year for targeted products and segments.

The mortgage loans offer, dedicated to employees of companies within the Information Technology Park „Moldova IT Park", with a fixed interest rate for the entire loan period for loans in USD and other advantageous conditions was successful, being extended during 2020. At the same time, in the context of promoting the credit offer for individuals, the bank launched the mortgage loan with clients' contribution of 15%, for financing the apartments in the new blocks of flats in the Chisinau town.

In 2020, consumer loans were intensively promoted through two dedicated campaigns under the „Upgrade" communication concept.

Promoting the offer through several innovative communication channels and platforms have generated direct benefits for customers, through the possibility of applying for credit online.

Innovations have also been implemented for card products. In 2020, the bank launched a unique state-of-the-art laser card personalization technology, which increases the level of durability and security of the financial instrument used by bank's customers. During the year, various promotion campaigns of cards were organized, both in partnership with MasterCard® and Visa® companies, as well as internal campaigns, such as the spring campaign, which brought 10 FURLA vouchers for 10 women worth MDL 5,000. Also, the Guaranteed CashBack campaign was activated for a period of 10 weeks, during which 2,300 customers of the Bank enjoyed a CashBack worth more than 700K MDL.

In addition to the fact that the entire range of cards issued by the bank bears the „contactless" label, it is noteworthy that the bank takes a step forward in the emergence of digital flows, managing to increase the number of Cash-in ATMs to 30 units. This generated a 46% increase in cash-in transactions during the year. Moreover, some Cash-in ATMs are equipped with a Braille keyboard, making them accessible for the visually impaired.

COMMERCIAL ACTIVITY

The development of alternative sales channels, the promotion of access to banking services through various remote service channels, including online, is one of the bank's strategic priorities. During 2020, the bank created, tested and launched in the pilot phase a new remote banking service solution. The Internet and Mobile Banking service for both, individuals and legal entities, is a first step in the process of digitizing the bank to be constantly improved with new features.

Its launch comes in response to customer requests to use reliable, versatile and fast solutions. The new solution also offers a wide range of operations, from transactions to updating customer data. Through this product, Mobiasbanca-OTP Group takes another step towards improving the quality of service and increasing customer satisfaction, by offering autonomy in performing remote banking operations.

In 2020, the bank came to support small and medium businesses with credit solutions and advantageous offers for business development. The promotional campaign „Upgrade your business" offered advantageous conditions of 7.9% annual interest and 0% commission for loans for SMEs. Likewise, the Promo package for current service was promoted, at a special price of 5 euro / month, with zero costs for a series of banking services and operations for business management.
Also, for customers' benefits, at the end of the year, was launched the special offer for Car Leasing in foreign currency, with 5.99% annually, granting commission of 1% and a minimum advance of 30%.

Following the strategic directions of the OTP Group, Mobiasbanca focused more on a new market segment, that of customers in the agricultural sector. In this sense, in 2020, the internal structure for providing services dedicated to this segment was consolidated and a new financing concept was launched - AgroFabrica. This concept comes to support agricultural businesses with fast and efficient lending solutions, aligned with the needs and specifics of the activity of companies in the field of primary agriculture. Also, special financing offers were launched with 0% free grant and early repayment fee.

The pandemic caused by COVID-19 has become a real business challenge. During this difficult period, the bank adopted a series of measures for economic agents support, including:

- cancellation of interest on arrears until 30 June 2020, cancellation of rescheduleing / deferral of payments;
- simplification of the credit restructuring process;
- facilitating access to remote banking services: entering into a relationship, connecting to the Business Internet Banking service and sending credit restructuring requests;
- preferential tariffs for current services;
- solutions for financing the current activity - special price offer with interest rate 8.76% and a single grant commission of 1%, with the possibility of full interest subsidy within the program launched by the Government.

COMMERCIAL ACTIVITY

Large Corporate activity

Consolidation and development of partnership with largest companies in the country, cooperation with successful enterprises and facilitation of international business development represented our priorities in 2020. In a complex and very volatile economic environment, with global macroeconomic turbulences, our clients were once again convinced of the advantages of cooperation with Mobiasbanca and OTP Group.

Large Corporate client's business line has contributed in a consistent manner to Bank's results, while the coverage platform of this respective clients' segment increased by about 10%, as well as its contribution as major profit center, which generated a 20% jump in the credit stock, compared to 2019. In spite of pandemic crisis, Bank continued the financing of business projects, supporting the growth and efficiency of our clients' businesses.

Loan portfolio registered a dynamic evolution, increasing by about 18% y-o-y, in the conditions of maintaining of high-level quality of bank's placements, confirming the prudency of lending activity. Bank implemented several projects having major importance in many key-sectors of national economy: telecommunications, agri-business and processing industry, public services, trade, etc.

OTP Group's support and involvement facilitated our clients' access to modern financing technologies and cash-management platforms. Grace to a team of professionals in customers relationship management, structuring of complex financing deals and general banking services, Mobiasbanca maintained its position of reference bank for corporate segment and first option for multinational companies in Moldova.

Retail customer service

The number of active customers served by the branch network reached the number of 163 954 active customers at the end of 2020, of which 156 117 individuals and 7,837 legal entities.

Consumer loans portfolio increased by 8%, reaching the amount of 1.604.783 KMDL, and mortgage loans had a sharp jump of 52% vs. 2019, summarizing 1,761,160 KMDL. The portfolio of loans granted to legal entities reached the value of 811.621 KMDL. The share of the Retail loan portfolio in the total loan portfolio of the bank is 54%.

The bank succeded to attract by 18.7% more deposits from individuals in 2020, and by 33.5% from legal entities. The share of the Retail Deposits portfolio in the total deposit portfolio of the bank is 55%.

In 2020, Mobiasbanca OTP - Group continued to modernize its branch network in all regions of the country, in order to create comfortable working conditions for employees and to adjust the corporate identity of sales units to the OTP Group standards, which stands out, externally and internally, by an European style.

In Causeni and Soroca cities, branches were relocated to new premises for added convenience and access for customers.

The first and oldest branch in Chișinău, branch no. 2 ICAM, was relocated on a main artery of the city and was renamed in branch no. 2 Ismail.

COMMERCIAL ACTIVITY

A new agency was opened In Ungheni, dedicated to individuals is offerring services on Saturdays for the convenience of customers, and is located in the Free Economic Zone. Also during 2020, branches no. 41 Ceadâr Lunga and no. 3 Ciocana were refurbished and extended, in order to increase the comfort and quality of service to individuals and legal entities.

As at 31.12.2020, the bank's network consisted of 52 bank branches, of which:
49 branches, 1 agency, 1 corporate branch and 1 branch dedicated for Private Banking.

At the same time, the year 2020 continued with optimizations of the ATM network. As a result, cash-in ATMs were installed, some existing were reallocated and installed in new locations to increase customer accessibility. At the end of the year, the physical network included 148 ATMs, of which 30 offer the cash-in facility.

An important contact point of the bank is the Mobiasbanca Mortgage Center, whose activity has grown as a result of the increased demand for specialized services from customers. The advisors team not only promotes the bank's mortgage offers, but also provides advice on mortgage transactions, provides mortgages and provides ancillary services, including property appraisal, support for completing the package of documents, notary verification, property insurance and registration at the cadastral office. An important objective of the Mortgage Center is to establish new partnerships with reliable real estate developers and real estate sales agents, in order to launch advantageous offers to the bank's clients.

Mobiasbanca continued to optimize processes related to key products and services, while initiating changes in sales processes for increasing the network employees' efficiency. In particular, the aim was to speed up the processing of credit applications and facilitation the access to banking services for the retail segment. During the year, Mobiasbanca wanted to strengthen its market leadership position by rapidly granting loans to individuals.

The new economic context, caused by the pandemic, has propelled the bank to innovation. Thus, a new concept of commercial animation was implemented - Bank @ Work, facilitating the promotion and sale of Mobiasbanca - OTP Group products and services, especially for clients within salary projects. This service involves the mobillity of the branches employees for promoting bank's offers and providing banking services to customers right at their place of work – on the premises of the companies with which the bank have concluded contracts for wages payemts.

Another innovation of the bank, unique on the market, was the launch of a new alternative sales channel through direct sales agents. The concept of Direct Sales Agent is simple and allows the identification of potential customers through traditional face-to-face promotion channels, distribution of promotional materials, events, calls and emails, then serves as a first point of contact between Mobiasbanca - OTP Group and customer.

The efficiency of this alternative channel has already been confirmed by animating inactive existing customers and attracting new customers simultaneously, sales agents achieving monthly production performance at 30% of the comparable volume of a branch.

COMMERCIAL ACTIVITY

At the beginning of the year, the South and Rascani Regional structures organized events dedicated to customers and prospects, within the local communities, for the presentation of the OTP Group on the Moldovan market, the new development strategy of the bank and the solutions offered by the bank.

In the context of the state of health emergency, established in March, the bank took several decisions regarding the limitation of customers' travel to branches and launched several facilities for the bank's customers - individuals:

– Cancellation of penalty interest on consumer loans, mortgages, credit cards and overdraft;

– Cancellation of the commission for loans restructuring / rescheduling;

– Discounts on several types of debit card fees;

– Cancellation of penalties in case of non-payment / termination of the contract for safe services.

For legal entities, the support measures consisted of:

– Reducing the penalty interest on existing credit agreements;

– Cancellation of the commission for postponing the credit payment / modification of the credit payment date;

- Cancellation of the commission for rescheduling (restructuring / extension);

Leasing activity

The Leasing activity within Mobiasbanca – OTP Group has started its evolution in 2014 and by now it registered a continuous fast growing trend.

Considering pandemic impact, as well as preventive policy during 2020, the trend of growing was affected. The bank recorded a growth for standard category of assets cts (cars, trucks, agro equipment, construction and logistic equipment) up to +10%, while the category of non-standard category of assets (medical, industrial and other equipment) decreased. However, the bank has a market share of over 70% in leasing equipment, ranking second in the business segment and third in total market results.

During the past year, several promotional campaigns were organized with the most advantageous offers and financing conditions on the automotive and agro segments.
At the same time, Mobiasbanca continued its activity on partnership programs and signed 4 more partnership contracts (brands: JCB Agro, JCB Construction, DEUTZ FAHR, Homag).

Mobiasbanca has increased the leasing portfolio during this year with 20%, and with 16% number of active contracts. Last year the Bank leased assets in total amount of 9.1 million EUR, of which 65% - vehicles, 35% - other assets.

For last 2 years Mobiasbanca is the first and only financial partner on market to provide leasing with grant component from DCFTA Eu4Business program and leasing with additional guarantee facility – InovvFin. Within DCFTA EU4 Business program were disbursed 2.5 million EUR for new vehicles and equipment that comply with European regulations. This special facility, allows Mobiasbanca to maintain the first position on equipment finance with best leasing conditions.

COMMERCIAL ACTIVITY

The 2020 was a good year for integration process within the OTP Group and opening a Leasing Center in a branch format to be closer to our clients, with a specialized sales team and support team. This step is a part of the Leasing Business plan for next 5 years. The main future opportunities to be valued in next years are implementation of a Leasing IT tool and Consumer Leasing Product launch.

Capital Markets Activity

Mobiasbanca carries out numerous activities on the international and local Moldavian capital markets with involvement in securities operations, operations of attraction and placement of funds on interbank market, as well as monetary operations of the National Bank of Moldova.

Mobiasbanca always was and remains an active participant of the Moldovan securities market. The bank invests its own resources in State Securities (SS), National Bank of Moldova Certificates (NBC), and offers intermediation services to its clients who can benefit from a full range of investment products.

In 2020, based on the availability of liquidity, the Bank's total investments in SS and NBC compared to 2019 increased by 12% (especially for NBC the increase was by 10%, and for SS –over 46%). As a result of management of the available liquid assets within the aforementioned operations, but taking into account the factors of decreases of interest rates of SS and the base rate set by NBM during the year, a 29% lower income was obtained compared to the level of the last year.

The average volume of SS portfolio maintained for the Bank's clients was 203 million MDL, representing an increase of about 43% compared to 2019.

In the reporting year, corporate securities sale-purchase operations on the Moldovan Stock Exchange were also performed for the clients of the Bank. The main object of the transactions were the shares issued by local banks, and their total volume exceeded 5 million MDL.

The Global Transaction Banking Department has performed various operations of placements and borrowing of resources in local and foreign currency for the purpose of more efficient management of the bank liquidity. The annual volume of overnight deposits placed at NBM had a significant increase (of almost 2.9 times) compared to the level of 2019. The turnover of monetary transactions with foreign currency (especially overnight deposit placements in USD) had a slight decrease of 11%.

Relationship with International Financial Institutions

Mobiasbanca - OTP Group remains a solid partner for International Financial Institutions in the Republic of Moldova, due to efficient cooperation and active promotion of international financial projects.

Despite the difficult situation in 2020 year, Mobiasbanca – OTP Group continued to participate in cooperation projects with IFIs, facilitating the customers' access to profitable and long-term banking products for overcoming the crisis by cooperating in projects with IFIs.

COMMERCIAL ACTIVITY

Therefore, as response measures to the COVID-19 pandemic in 2020, Mobiasbanca – OTP Group, being a Partner in the InnovFin Guarantee Fund for SMEs with financial support of European Union, has signed an Amendment, by which bank's customers has benefitted from specific COVID-19 support under InnovFin SME Guarantee Facility. Under this scheme the EIF provided enhanced terms and conditions for guarantees to incentivize Partner Banks to provide working capital financing to SMEs and Mid-Caps hit by the economic impact of the coronavirus pandemic.

Also, to overcome the crisis caused by COVID-19, Mobiasbanca provides its customers with a new credit line financed from the Council of Europe for Development (CEB) resources with the support of the Republic of Moldova Government, which will support SMEs in the Republic of Moldova with the necessary liquidity to carry out the activity to maintain and create sustainable jobs.

The bank continues to be focused on lending from EU4business EBRD Credit Line program; generating positive results, in particularly, assimilating the total credit limit of EUR 30 Mil., and in 2020 extending the loan amount with EUR 5 Mil., also, being the only financial institution in the country offering financial leasing with Grant component.

Likewise, Mobiasbanca – OTP Group continued actively to promote funding programs among Young Entrepreneurs, especially those developing business in rural area, facilitating their access to funding under special conditions with discounted price, which was possible thanks to the initiative of Ministry of Finance of Moldova and Management of External Assistance Programs Office (MEAPO). The bank has a fruitful collaboration with the MEAPO, IFAD Implementation Unit (dedicated to agro-industrial companies), EIB (Fruit Garden of Moldova), where the final beneficiaries financed from international funds benefited from various advantages as Discounted Interest rates, Tax and Duty exemptions and free technical assistance

Correspondent Banks

Mobiasbanca – OTP Group proves to be a strong and reliable partner in supporting international trade and commerce via its accounts held in 12 foreign banks and a wide network of correspondent connections through RMA (SWIFT keys). The establishment of new correspondent relations with two globally representative banks marked the year 2020: Credit Suisse (Schweiz) AG, Switzerland and Lloyds Bank Plc, United Kingdom, by opening correspondent accounts in Swiss francs (CHF) and pounds sterling (GBP) in these banks. At the same time, in order to facilitate intragroup payments, accounts were opened with OTP subsidiaries in Romania and Russia. The direct correspondent relationship with these banks, as well as the historically established relations with first-class foreign banks, favor international payments through the speed of transaction processing and the avoidance of high costs related to the receipts applied by intermediate correspondent banks. The complete and updated list of bank details can be accessed on the bank's website.

COMMERCIAL ACTIVITY

Clients have possibility to process payments in more than 120 currencies that enable them to trade across the world, having several advantages such as: protection against currency risk, lack of additional taxes to the standard ones, fast execution of payments and without limitations of minimum / maximum amounts. Mobiasbanca opts to maintain mutually beneficial and long-lasting relationships, while also committed to providing quality services, in line with the level of expectations and needs expressed by customers.

Given the backdrop of stricter regulations, each existing or potential correspondent bank is subject to an appropriate due diligence, in the area of anti-money laundering and terrorism financing in line with national and international requirements and best-practices, in order to ensure that Mobiasbanca is comfortable undertaking business with the bank concerned.

Cash Management

In 2020, Mobiasbanca has strengthened the commercial offer in digital solutions for treasury management of multinational companies, focusing on digital alternative services. The global solution International Account Management (IAM) has been consolidated with SWIFT SCORE option dedicated to International Corporations which are the direct users of SWIFT platform. SWIFT SCORE option is allowing efficient and automated management of treasury of the company without the necessity to configure to the local solution type Internet Payments. The Corporations subscribed to this service benefit form competitive advantage on liquidity management with less efforts and cost for integration procedure keeping the same level of security provided by SWIFT.

Further, in order to meet the digital requirements of bank's clients, the Mobiasbanca-OTP Group team has been enrolled within complex project for modernization of local solution for Internet și Mobile Payments. All over the year 2020, with the support of developers approved by OTP Group, the solution was adjusted to local market requirements and all necessary actions for official launching planned for beginning of next year 2021 have been realized in record time.

Trade Finance

For sure 2020, was a year of challenges and innovative solutions. The international trade activity of the clients was affected in the first half of the year by international restrictions related to global pandemic. This situation emphasized the importance of risk mitigation instruments for non-payment/non delivery. Despite the challenging year, the Trade Finance budget was realized in the proportion of 99% and the bank kept the Trade Finance market share for the number of outstanding international transactions around 30% .
Our Bank was named for the fifth consecutive year „The Most Active Issuing Bank in Moldova in 2019" by European Bank for Reconstruction and Development (EBRD). Being recognized among one of the most active issuing bank participant in Trade Facilitation Program (TFP).

Aimed by the accelerated trend of banking services digitalization in 2020, with businesses enforcing minimal physical interaction in the wake of COVID-19, Mobiasbanca introduced electronic bank guarantee within the frame of a Pilot Project being the only one bank on the market having this solution.

COMMERCIAL ACTIVITY

This digital signature feature allowed us to continue issuing bank guarantees without the need for our employees to be present in the office to sign them and for our clients excludes the need to come to the bank office to receive the bank guarantee. As Guarantees, especially Bid Bonds, are a time bound requirement this feature ensures a quicker issuance process. After launching it, in august 2020, more than half (54%) of issued domestic bank guarantees for Corporate clients were electronic and in 2021 the service will be available for small companies as well. We managed by using the digitalization of this process to reduce the time required to issue a bank guarantee and to implement the "Zero paper" concept for the public procurement bid bonds.

Monetary Market

Due to COVID -19 pandemics during 2020, FOREX market of Republic Moldova marked a high level of volatility. In this market conjuncture, Mobiasbanca – OTP Group had managed to keep FX trading volumes nearly at the same level as in 2019. Furthermore, it generated an income of 189.1 M MDL. It is a substantial growth of 37.8% in comparison with previous year.

NON-FINANCIAL STATEMENT

Mobiasbanca-OTP Group continues to act as a responsible player in the banking sector and makes every effort to carry out its activities in an ethical and exemplary manner, in order to build a better and sustainable future together with its clients.

The bank operates in a market where competition is growing and the digitization of services requires competitive business strategies, therefore paying particular attention to the needs of interested parties. The Bank operates in accordance with the guidelines of the OTP group and internationally recognized principles, as well as the local legal framework and the rules of the banking sector regulator, together with the Bank's Code of Conduct and Corporate Governance principles, to ensure the success and sustainable development of the organization.

Mobiasbanca-OTP Group reaffirms its commitment to supporting a sustainable environment, assuming the values to which it has adhered, being a reliable business and social partner, which ensures better eco-social and cultural conditions for all interested parties, contributing to improving life at both individual and community level.

Mobiasbanca-OTP Group's vision focuses on the main aspects of activity:

- to become the reference bank and the main provider of automated financial services and banking solutions for clients;
- to become a responsible provider of financial services by providing education and financial advice;
- to become the desirable employer through the continuous development of the bank's team.

Reliable business partner

Mobiasbanca-OTP Group operates in accordance with the business principles and business model of OTP Group, creates added value for interested parties, constantly investing in employees, the branch network and its technological infrastructure, in order to offer innovative services and competitive products on market.

The business model developed over the years has been built on the solid foundations of the majority shareholders with European origins, and since 2019 it is driven by the international experience and know-how of the OTP Group.

As a responsible service provider, Mobiasbanca-OTP Group ensures the maintenance of the bank's financial stability, prudent risk management and complete security, transparency in all bank actions, ethical provision of services and good business practices, continuous improvement of service quality, encouragement of responsible and sustainable consumption. Our commitment and openness to clients throughout the service delivery period has determined the extent of our long-term relationships with them, including after the actual sale, providing support and advice.

NON-FINANCIAL STATEMENT

In support of its business and corporate clients, Mobiasbanca offers a full range of international financing programs with attractive lending facilities and grant component, having established lasting relationships with the most important international financial institutions.

The bank also intervenes with an indirect contribution for the development of the business environment, by supporting the „Regional Economy" project, for three consecutive years, in the most important economic magazine „Logos Press", with the mission of discovering business opportunities and attracting investments to support regional development.

Corporate Social Responsibility

The bank's strategy in the field of Corporate Social Responsibility (CSR) includes three priority directions, harmonized with the practices of OTP Group, namely: responsible service provider, responsible employer and CSR.

The priority axes of CSR are:

- art and culture
- sports and healthy lifestyle
- financial education
- environmental protection

In 2020, a new direction in CSR policy took shape by launching the „OK" Foundation for Financial Education - a unique educational project in the country, established and sponsored by Mobiasbanca - OTP Group.

Thus, the bank invests in the financial culture to develop a responsible attitude towards the management of financial resources among the young generation and local communities. In the same context, at the beginning of the school year, the bank donated books for 1000 children from socially vulnerable families, as well as placement centers for children.

Special attention was paid to the health sector, in the context of the COVID-19 pandemic, by supporting doctors to save lives during the pandemic. Mobiasbanca - OTP Group joined the common efforts of the authorities in the information campaign on protection measures and donated two state-of-the-art video laryngoscopes and protective equipment to the Republican Clinical Hospital, intended to intubate patients at the highest safety standards for medical staff.

Promoting a healthy lifestyle and playing sports is one of the basic directions of the bank's CSR policy. Mobiasbanca - OTP Group is committed to supporting the development of the new generation of footballers by signing a long-term sponsorship agreement with the „ZIMBRU" Children's Football Academy, as the main partner.

The bank continues to be a faithful partner of culture and arts, by supporting institutions of national importance, such as the National Museum of Art of Moldova and the National Philharmonic "Serghei Lunchevici".

NON-FINANCIAL STATEMENT

The valorization of art was reflected by the support of exhibitions and cultural events, as well as the exhibition "Spring Colors" with the works of young students of the Lyceum of Visual Arts in Chisinau. For its contribution to the promotion of cultural heritage, the bank was awarded the „ARTMUSEUM" trophy during the European Heritage Days, 2020 edition.

Volunteering and social solidarity

By paying attention to how the principles of social responsibility are applied, the bank ensures that both partners and suppliers share the same values and respect for employees, society and environment. Mobiasbanca-OTP Group is committed to supporting actions aimed at limiting potential environmental and social risks, ensuring the sustainability of the business and the relationship with interested parties. Thus, it supports clients, partners and employees to permanently improve their social and environmental practices.

The support of the community in which the bank operates, materialized through a large-scale project within the public-private partnership for the renovation of the "Mihai Eminescu" Square, Mobiasbanca - OTP Group being the main partner of the Chisinau City Hall.

Charity and volunteering are defining components of the bank's team, which is involved in various social actions. The bank's cycling community participated for the fifth consecutive year in the Hospice Bike Tour, a charity event supported by Mobiasbanca - OTP Group, which supports the collection of funds for the palliative care of people and children with incurable diseases.

Another prominent project of 2020 was "I'm Santa Claus", implemented by the bank's volunteers, targeted 250 children from boarding schools and placement centers, who were surprised by the gifts and unexpected surprises of the holidays.

Responsible employer

Developing in a dynamic and challenging environment, Mobiasbanca - OTP Group implements responsible human resources policies, designed to support the development of a sustainable environment characterized by ethics, professionalism and responsibility:

- Investing in the development and continuous training of employees
- Fair pay and career advancement opportunities based on merit
- Retaining talent in the organization
- Equal rights, treating employees with respect and fairness, without discrimination
- Information and involvement in the bank's activities
- Health and safety in the workplace
- Work in quality conditions and endowment with modern equipment.

NON-FINANCIAL STATEMENT

The Mobiasbanca - OTP Group's strategy in the field of human resources is oriented towards consolidating the status of reference employer on the local market, having as priorities the following strategic directions:

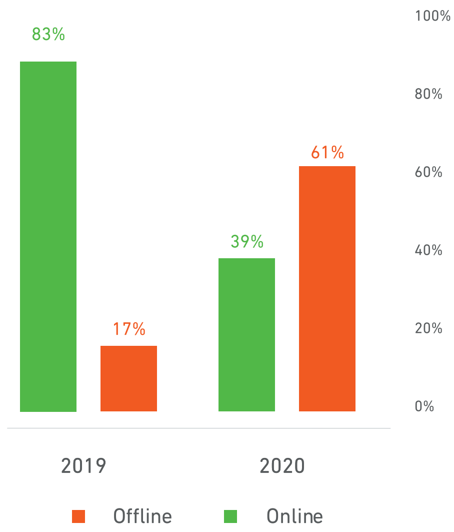
- Training and continuous development of bank employees through the implementation of new training programs, tools and modern means of professional and personal development;
- Supporting internal mobility and developing career programs;
- Development of organizational culture and continuous improvement of the working environment and conditions;

Despite the specific constraints that appeared in 2020, the Human Resources Department continued to implement various projects and actions on the mentioned strategic directions

Training and continuous development of employees

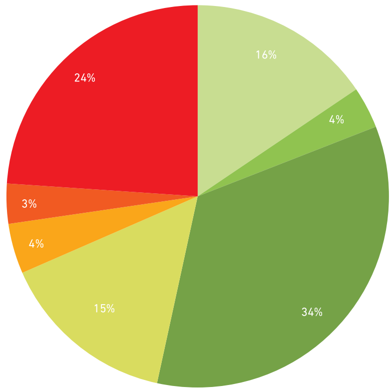
In this direction, the objective of increasing the number of training hours delivered in online format was established and achieved, using the internal distance learning application - Mobias e-Learning:

Distribution of Training hours



During the year a series of training programs were organized, a total of 20.384 hours of training were provided on average 24.5 training hours per employee, the main development directions being presented in the following graphic image:

Breakdown of Training Hours by Type of Training



- Language courses
- Induction (starting)
- Bussiness
- Compliance and Risk Management
- Managerial Culture
- Financial Education (Financial Fitness)
- Others

Supporting internal mobility and developing career programs

Mobiasbanca - OTP Group continues to support internal mobility by establishing a career development framework and organizing development programs, aimed at ensuring business continuity (providing qualified staff for key positions in the Front Office), such as:

- CLIPRI School - program dedicated to the training of future Individual Client Advisors
- CLIPRO School - specialized program on the training of future Corporate Client Advisors

Thus, during the year, 53 employees successfully completed a program that offers them the opportunity to advance in their careers.

NON-FINANCIAL STATEMENT

Development of organizational culture and continuous improvement of the working environment and conditions

In order to improve the organizational culture and diversify the work environment, during 2020 several HR projects and initiatives were implemented, such as:

- *Open Day* - a presentation exercise of the bank's subdivisions, on a monthly basis, in order to facilitate the understanding of the activities and the collaboration between the subdivisions;
- *Mobias Hobby Club* - online, monthly events on various non-banking topics of common interest to the bank's employees;
- *Dress Code Front Office* - providing Front Office employees with business-style clothing accompanied by corporate identity elements (scarf-tie, badge);
- *Psychological assistance* service offered to bank employees by a qualified specialist.

As a strategic business partner, the Human Resources Department works with the organization's subdivisions to implement the bank's objectives, motivate and retain employees, provide opportunities for career growth and professional development.

In 2020, as a responsible employer, the bank gave priority to employee health security during the pandemic, ensuring a safe and comfortable working environment, by providing all the necessary elements for protection measures. Frontline employees benefited from reduced working hours, taxi service to get to work, free testing and additional financial remuneration.

In terms of achieving a high level of employee involvement and promoting the bank's values to strengthen the organizational culture, in 2020 several internal projects and events were implemented: the 30th anniversary of the Bank's establishment, appreciation of employee loyalty and professionalism with a long career in banking, supporting employee's participation in volunteering and social projects.

Respect for human rights and the fight against corruption

The bank's corporate governance framework and Human Resources policy are built on the current legislative framework on the protection and observance of human rights and all interested parties - shareholders, investors, customers, business partners, employees and civil society.

Mobiasbanca - OTP Group is committed to high standards of ethical behaviour and has a zero tolerance approach to corruption, violation of these principles is not appropriate for good corporate governance. In order to comply with the legislation on the prevention of corruption and ethical principles in all areas of activity, the bank has implemented anti-corruption policies and the Code of Ethics. These basic internal regulatory documents are supported by our ongoing investments in technology and training. During 2020, trainings were organized through mandatory e-learning courses, which ended with tests successfully passed by the bank's employees.

Mobiasbanca - OTP Group S.A.

Financial Statements
31 December 2020

Prepared in accordance with
International Financial Reporting
Standards

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Building a better
working world

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Mobiasbanca - OTP Group SA

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Mobiasbanca - OTP Group SA (the Bank), which comprise the statement of financial position as at December 31, 2020, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

Basis for opinion

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

Key audit matters

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

English translation only for information purposes. The translation of the report should be read with the financial statements, as a whole. In all matters of interpretations of information, views or opinions, the original Romanian language version of our report takes precedence over this translation.

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

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

Key audit matter

Impairment of loans and advances to customers

The net carrying value of loans and advances to customers of 7,376,823 thousand MDL represents a significant part (51.45%) of the total assets of the Bank as at 31 December 2020.

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

The uncertainties in the environment in the context of COVID-19 crisis, including moratoria and governmental support measures, led to an increased complexity of the expected loss estimation in the form of post model adjustments/ overlays and of the judgment regarding staging criteria.

The potential effect of the above items is a high degree of estimation uncertainty, with a potential range of reasonable outcomes, significantly different than estimated impairment allowance. Notes 2.5.8 and 14 to the financial statements present more information on the estimation of impairment allowance for loans and advances to customers.

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

Building a better working world

How our audit addressed the key audit matter

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

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

We also assessed the macroeconomic scenarios and related weights and examined the approach used in determination of the Covid 19 post-model adjustments/ overlay.

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

For expected credit losses for loans assessed in stage 1 and stage 2 we tested key risk parameters' calculation by involving our credit risk specialists to reperform calculation based on the historical data, re-perform staging and re-calculate expected credit losses.

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

Key audit matter

Information Technology (IT) systems relevant for financial reporting

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

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

Building a better working world

Given the level of automation of the processes relevant for financial reporting and given the complexity of the IT environment of the Bank, a high proportion of the overall audit procedures was concentrated in this area. We therefore consider that this area represents a key audit matter.

How our audit addressed the key audit matter

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

Our audit included, among others, the following procedures:

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

Other information

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

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

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

Building a better working world

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

a) in the Annual Report we have not identified information, which is not consistent, in all material respects, with the information presented in the accompanying financial statements as at December 31, 2020;
b) the Annual Report identified above includes, in all material respects, the required information according to the provisions of the Law on accounting and financial reporting nr. 287 dated 15.12.2017 article 23;
c) based on our knowledge and understanding concerning the Bank and its environment gained during our audit of the financial statements as at December 31, 2020, we have not identified information included in the Annual Report that contains a material misstatement of fact.

On behalf of

Digitally signed by Gherman Galina
Date: 2021.03.16 15:28:23 EET
Reason: MoldSign Signature
Location: Moldova

ICS Ernst & Young SRL
51 Alexandru cel Bun street, Chisinau, Republic of Moldova
Registered in the Public register of audit entities with no. 1903059

Auditor's name: Galina Gherman
Registered in the Public register of certified auditors with no. 1606103

Chisinau, Republic of Moldova
16 March 2021

English translation only for information purposes. The translation of the report should be read with the financial statements, as a whole. In all matters of interpretations of information, views or opinions, the original Romanian language version of our report takes precedence over this translation.

Statement of Comprehensive Income for the year ended 31 December 2020

	Note	2020	2019
(in thousands MDL)			
Interest income	3	653,559	672,704
Interest expense	3	(205,832)	(191,262)
Net interest income		**447,727**	**481,442**
Fee and commission income	4	182,965	195,163
Fee and commission expense	4	(67,820)	(77,011)
Net fee and commission income		**115,145**	**118,152**
Net trading income	5	189,107	137,509
Credit loss expense on financial assets	6	(120,749)	(55,940)
Other operating income	7	1,287	5,022
Net operating income		**632,517**	**686,185**
Personnel expenses	8	(233,457)	(203,470)
Depreciation of property, equipment and right-of-use assets	17	(48,536)	(58,734)
Amortization of intangible assets	18	(11,463)	(9,017)
Other operating expenses	9	(174,888)	(134,656)
Profit before tax		**164,173**	**280,308**
Income tax expense	10	(20,637)	(33,471)
Profit for the year		**143,536**	**246,837**
Basic and diluted earnings per share (in MDL)	11	**14,35**	**24,70**

The accounting policies and Notes on pages 6 to 141 form part of, and should be read in conjunction with, these financial statements.

László Diósi
President of the Executive Committee – CEO
Mobiasbanca OTP Group S.A.

László Diósi Digitally signed by László Diósi Date: 2021.03.16 12:29:53 +02'00'

Dumitru Cucoş
Chief Financial Officer
Mobiasbanca OTP Group S.A.

Dumitru Cucos Digitally signed by Dumitru Cucos Date: 2021.03.16 12:07:03 +02'00'

REPUBLICA MOLDOVA mun. CHIŞINĂU Mobiasbanca-OTP Group S.A. mobiasbanca IDNO 1002600000...

16 March 2021

Statement of Financial Position as at 31 December 2020

	Note	31 December 2020	31 December 2019
(in thousands MDL)			
Assets			
Cash and balances with Central Bank	12	4,155,523	3,427,252
Due from banks	13	1,112,475	1,790,757
Derivative financial instruments		311	29
Financial assets at fair value through profit or loss	16	4,528	3,257
Loans and advances to customers	14	7,376,823	6,018,994
Debt instruments at amortized cost	15	1,342,824	685,146
Other assets	19	59,925	52,522
Property and equipment	17	239,061	192,581
Deferred tax assets	10	4,987	3,802
Intangible assets	18	42,482	24,413
Total assets		**14,338,939**	**12,198,753**
Liabilities			
Due to banks	20	2,565	715
Derivative financial instruments		1,769	75
Due to customers	21	11,767,700	9,410,606
Borrowed funds from IFIs	22	339,314	719,910
Other liabilities	23	155,697	135,159
Provisions	24	43,648	47,578
Total liabilities		**12,310,693**	**10,314,043**
Equity			
Issued capital	25	100,000	100,000
Treasury shares	25	(56)	(56)
Share premium		151,410	151,410
General reserve		10,674	10,674
Prudential reserve		155,701	139,498
Retained earnings		1,610,517	1,483,184
Total equity		**2,028,246**	**1,884,710**
Total liabilities and equity		**14,338,939**	**12,198,753**

The accounting policies and Notes on pages 6 to 141 form part of, and should be read in conjunction with, these financial statements.

László Diósi
President of the Executive Committee – CEO
Mobiasbanca OTP Group S.A.

László Diósi Digitally signed by László Diósi Date: 2021.03.16 12:30:20 +02'00'

Dumitru Cucoş
Chief Financial Officer
Mobiasbanca OTP Group S.A.

Dumitru Cucos Digitally signed by Dumitru Cucos Date: 2021.03.16 12:07:26 +02'00'

16 March 2021

Mobiasbanca-OTP Group S.A. REPUBLICA MOLDOVA mun. CHIŞINĂU mobiasbanca IDNO 1002600006089

Statement of Changes in Equity for the year ended 31 December 2020

(in thousands MDL)	Issued capital	Treasury shares	Share premium	General reserve	Prudential reserve	Retained earnings	Total
At 1 January 2018	**100,000**	**(56)**	**151,410**	**10,674**	**162,923**	**1,212,922**	**1,637,873**
Profit	-	-	-	-	-	295,665	**295,665**
Dividends	-	-	-	-	-	(133,925)	**(133,925)**
At 31 December 2018	**100,000**	**(56)**	**151,410**	**10,674**	**162,923**	**1,212,922**	**1,637,873**
Profit	-	-	-	-	-	246,837	**246,837**
Dividends	-	-	-	-	(23,425)	23,425	-
At 31 December 2019	**100,000**	**(56)**	**151,410**	**10,674**	**139,498**	**1,483,184**	**1,884,710**
Profit						143,536	**143,536**
Prudential reserves allocation					16,203	(16,203)	-
At 31 December 2020	**100,000**	**(56)**	**151,410**	**10,674**	**155,701**	**1,610,517**	**2,028,246**

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

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

The accompanying notes on pages 6 to 130 form an integral part of the financial statements.

Statement of Cash Flows for the year ended 31 December 2020

(in thousands MDL)	Note	2020	2019
Cash flows from operating activities			
Profit before tax		164,173	280,308
Adjustments for:			
Depreciation and amortization	17,18	59,999	67,751
Loss on disposal of property and equipment	8	(464)	2,570
Net impairment gain on financial assets	6	(120,749)	(55,939)
Foreign exchange loss/(gain)		(2,682)	(4,876)
Interest income		(653,559)	(672,704)
Interest expenses		205,832	191,262
Tax expense	9	(20,637)	(33,471)
Changes in:			
Mandatory reserves		(766,850)	(308,665)
Due from Banks		(3,999)	(300)
Loans and advances to customers		(1,241,933)	(779,921)
Other assets		2,082	(5,184)
Deposits from banks		2,137	(417)
Deposits from customers		2,357,511	1,130,831
Other liabilities		18,380	33,961
Cash received/(used) in operating activities before interest		**(759)**	**(154,794)**
Interest paid		(207,516)	(190,231)
Interest received		665,233	673,948
Income tax paid		(11,105)	(5,100)
Cash received in operating activities		**445,853**	**323,823**
Investing activities			
Purchase of property and equipment		(93,243)	(110,685)
Purchase of intangible assets		(29,532)	(2,318)
Proceeds from sale of property and equipment		(992)	(436)
Purchase of securities		(12,842,904)	(11,399,011)
Proceeds from securities		12,721,041	11,503,842
Cash received/(used) from investing activities		**(245,630)**	**(8,608)**
Financing activities			
Proceeds from loans from banks and IFI's		(375,580)	396,671
Repayment of loans from banks and IFI's		(1,068)	(587,087)
Lease liabilities			
Cash received/(used) from financing activities		**(376,648)**	**(190,416)**
Increase in cash and cash equivalents		**(176,425)**	**124,799**
Cash and cash equivalents at 1 January	29	**2,697,868**	**2,573,069**
Cash and cash equivalents at 31 December	29	**2,521,443**	**2,697,868**

The accounting policies and Notes on pages 6 to 130 form part of, and should be read in conjunction with, these financial statements.

Notes to the Financial Statements

1 Corporate information

Commercial Bank Mobiasbanca – OTP Group S.A. ("the Bank") was established in the Republic of Moldova in 1990. The Bank was registered by the National Bank of Moldova ("NBM") in July 1990 as a commercial bank and transformed into a joint stock commercial bank in 1996.

During June 2002 the Bank was reregistered as an open joint stock commercial bank and its shares became listed on the Moldova Stock Exchange.

The Bank's head office is located on Boulevard Stefan cel Mare si Sfant, 81A, Chisinau, Republic of Moldova.

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

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

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

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

As at 31 December 2020 the bank has 51 points of sale, out of which 49 universal points of sale, 1 VIP branch and 1 specialized (2019: 51 points of sale, out of which 49 universal points of sale, 1 VIP branch and 1 specialized).

Accounting policies

2.1 Basis of preparation

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

2.2 Statement of compliance

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

Notes to the Financial Statements

2 Accounting policies (continued)

2.3 Presentation of financial statements

The Bank presents its statement of financial position in order of liquidity based on the Bank's intention and perceived ability to recover/settle the majority of assets/liabilities of the corresponding financial statement line item. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non–current) is presented in Note 30.

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

2.4 Changes in accounting policies and disclosures

2.4.1 New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the bank as of 1 January 2020:

- **Conceptual Framework in IFRS standards**
  The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

- **IFRS 3: Business Combinations (Amendments)**
  The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. The amendments did not have impact of the financial position or performance of the Bank.

- **IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)**
  The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. The amendments did not have impact of the financial position or performance of the Bank.

- **Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)**

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provide temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Phase two (ED) focuses on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR The amendments did not have impact of the financial position or performance of the Bank.

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies

2.5.1 Foreign Currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

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

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

	31 December 2020	**31 December 2019**
(in Moldovan Lei per unit of foreign currency)		
US dollar	17.2146	17.2093
Russian Rouble	0.2312	0.2780
Euro	21.1266	19.2605

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.2 Recognition of interest income

(i) The effective interest rate method

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

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

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

(ii) Presentation of net interest income

With effect from 1 January 2018, paragraph 82(a) of IAS 1 requires interest revenue calculated using the effective interest rate (EIR) method to be presented separately on the face of the income statement. This implies that interest revenue calculated using the EIR method is to be differentiated and presented separately from interest revenue calculated using other methods.

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

The existent portfolio of debt instrument financial assets classified at FVPL is not significant amounting MDL 4,528 thousand as at 31 December 2020. The Bank has therefore concluded that including an additional line item entitled, "Other interest income" in order to show all interest income resulted from FVPL financial assets would not add additional value to its stakeholders and decided to keep one single line item entitled "Interest income" for showing interest income calculated using the EIR and on a contractual basis on its financial assets measured at FVPL. The Bank has also elected to present its interest expense in a manner consistent and symmetrical with interest income.

The Bank's accounting policies in respect of interest income/expense and the effective interest method are set out in Note 2.5.1.2.

(iii) Interest and similar income/expenses

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

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

When a financial asset becomes credit-impaired (as set out in Note 2.5.8 and is therefore regarded as 'Stage 3', the Bank calculates interest income by applying the EIR to the net amortised cost of the financial asset. If the financial asset cures (as outlined in Note 2.5.8) and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, then the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the balance sheet with an increase or reduction in interest income. The adjustment is subsequently amortized through Interest and similar income in the income statement. The Bank calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets.

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.3 Fees and commission income

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

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

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

2.5.4 Financial instruments – initial recognition

(i) Date of recognition

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

(ii) Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Notes 2.5.6.4 and 2.5.6.5. Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price.

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.4 Financial instruments – initial recognition (continued)

(iii) Measurement categories of financial assets and liabilities

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

- Amortized cost, as explained in Note 2.5.6.1
- FVPL, as explained in Note 26

The Bank classifies and measures its derivative and trading portfolio at FVPL. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies, as explained in Note 26.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortized cost or at FVPL when they are held for trading and derivative instruments or the fair value designation is applied, as described per Note 2.5.5.3.

2.5.5 Financial assets and liabilities

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

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

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

The details of these conditions are outlined below.

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.5 Financial assets and liabilities (continued)

(i) Business model assessment

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

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

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

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

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

(ii) The SPPI Test

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

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

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

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.5 Financial assets and liabilities (continued)

2.5.5.1 Due to customers due to banks and borrowed funds

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

2.5.5.2 Financial assets and financial liabilities at fair value through profit or loss

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

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.5 Financial assets and liabilities (continued)

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

2.5.5.3 Financial guarantees, letters of credit and undrawn loan commitments

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

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

Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the income statement, and – under IFRS 9 – an ECL provision as set out in Note 2.5.1.9.

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

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

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position. The nominal values of these instruments together with the corresponding ECLs are disclosed in Note 27.3.

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.6 Reclassification of financial assets and liabilities

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

2.5.7 Derecognition of financial assets and liabilities

2.5.7.1 Derecognition due to substantial modification of terms and conditions

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

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

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

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

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.7 Derecognition of financial assets and liabilities (continued)

2.5.7.2 Derecognition other than for substantial modification

(i) Financial assets

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

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

- The Bank has transferred its contractual rights to receive cash flows from the financial asset

  Or

- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement

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

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

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

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.7 Derecognition of financial assets and liabilities (continued)

2.5.7.2 Derecognition other than for substantial modification (continued)

A transfer only qualifies for derecognition if either:

- The Bank has transferred substantially all the risks and rewards of the asset

  Or

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

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

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

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

(ii) Financial liabilities

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

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.8 Impairment of financial assets

2.5.8.1 Financial assets carried at amortized cost

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

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

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

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

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

The adoption of IFRS 9 has fundamentally changed the Bank's loan loss impairment method by introducing forward-looking expected credit loss (ECL) approach. From 1 January 2018, the Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in referred to as "financial instruments".

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Bank's policies for determining if there has been a significant increase in credit risk are set out in Note 27.1.

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.8 Impairment of financial assets (continued)

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

PDs, both for LTECLs and for 12mECLs are calculated on a collective basis (the description of criteria determining the calculation of ECL on collective or individual basis are set out in Note 27), depending on the nature of the underlying portfolio of financial instruments.

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

The collective ECL calculation parameters take into account the current situation and the impact of the forward-looking information (considering the expectation related to the evolution of macro-economic indicators), as described in Note 27.1.

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

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

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

- Stage 1: when loans are first recognized, the Bank recognizes an allowance based on 12mECLs . Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from other stages.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered in "default" or credit-impaired. The bank records an allowance for the LTECLs
- POCI: This category would be used for financial assets that are credit-impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognized based on a credit-adjusted EIR. ECLs are only recognized or released to the extent that there is a subsequent change in the expected credit losses.

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

This is explained in Notes 27.1 and 24.

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.8 Impairment of financial assets (continued)

(ii) The calculation of ECLs

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

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

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

The key elements for ECL calculation are explained in Notes 27.1

The concept of PD is further explained in Note 27.1

The mechanics of the ECL method are summarized below:

Stage 1:

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

Stage 2:

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

Stage 3:

For loans considered credit-impaired (as defined in Note 27.1), the Bank recognizes the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.8 Impairment of financial assets (continued)

(iii) Credit Cards and other revolving Facility

The Bank's product offering includes a variety retail overdraft and credit cards facilities, in which the Bank has the right to cancel and/or reduce the facilities with a notification period as specified in lending agreement. The Bank does not limit its exposure to credit losses to the contractual notice period and calculates ECL over a period of the validity of the facility agreement under rules disclosed in Note 2.5.9(ii) above.

(iv) Forward looking information

In order to assess the FL coefficient, the Bank has determined the correlation between the dynamic of main macroeconomic indicators and evolution of internal probability of default (PD), subsequently estimating the PD for 2020-2022 time horizon.

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

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

The historical data for these indicators has been collected from official sources; the forecasted figures have been taken from IMF report, from data included in Medium-term budgetary framework of the country (2020-2022) and from internal budgetary estimations (exchange rate for EUR/USD).

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Detailed information about these inputs and sensitivity analysis are provided in Note 27.1.

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.8.2 Credit enhancements: collateral valuation and financial guarantees

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

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

2.5.8.3 Collateral repossessed

The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to Bank property according to legal local rules. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Bank's policy.

In its normal course of business, the Bank does not physically repossess properties or other assets in its portfolio, but realize different actions for selling these assets (auctions, publicity, onsite visits etc.). As a result of this practice, the real estate properties under legal repossession processes are not recorded on the balance sheet, but are reflected at the memorandum accounts.

2.5.8.4 Write-offs

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery and the asset is fully covered by provisions. Any subsequent recoveries are credited to credit loss expense. Details regarding write off policy are presented in Note 24.

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.8.5 Forborne and modified loans

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the front-office unit or Risk Management Division. Forborne may involve extending the payment arrangements and the agreement of new loan conditions.
It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. The forborne status defines the transaction's risk status which indicator should be examined at a transactional level. If a restructuring measure is applied, the transaction acquires Non-Performing Forborne or Performing Forborne status, except commercial renegotiation.

The exposure acquires Non-Performing Forborne status when the exposure is defaulted or impaired upon the restructuring. For the Non-enterprise segment: if at the time of the restructuring the exposure was past due over 60 days and for the Enterprise segment: if after the restructuring a material NPV loss (1%) can be expected from the exposure (compared to the original cash flow). It is determined in an individual decision whether a material NPV loss exists. A performing forborne status exposure becomes defaulted or impaired. A non-performing forborne status exposure once again acquires non-performing status after acquiring performing forborne status, if during the probation period it falls past due over 30 days or it is repeatedly restructured. The exposure acquires Performing Forborne status when the conditions of the non-performing forborne do not exist and the exposure fulfils the conditions after restructuring there was no delay of more than 30 days in the past year and in the past year no factors indicative of default exist and the institution does not find it probable, due to other reasons, that the obligor will not fulfil his loan obligations in full, in accordance with the valid repayment schedule stipulated in the restructuring contract, without realising the collateral.

The Non-Performing Forborne loans are classified in Stage 3 for at least 12 months. After that, it will have a minimum 24-month probation period during which any delay more than 30 days will lead to classification in S3. The Performing Forborne loans are classified in Stage 2 for a minimum 24-month probation period during wich the conditions of the Non-Performing Forborne do not exist.
In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

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

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

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

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.8.6 Cash and cash equivalents

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

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

2.5.8.7 Property, equipment and right-of-use assets

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

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

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

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

2.5.8.8 IFRS 16: Leases

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

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

➢ **Bank as a lessee**

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

Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term. The right-of-use assets are presented within Note 17 Property, equipment and right-of-use assets and are subject to impairment in line with the Bank's policy as described in Note 2.5.16 Impairment of non-financial assets.

Lease liabilities

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

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.
Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Bank is the lessor.

The Bank adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Bank elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 1 January 2019.
The Bank has lease contracts for various branches. Before the adoption of IFRS 16, the Bank classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease.

2.5.8.9 Intangible assets

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

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

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.8.10 Financial guarantees

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

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

2.5.8.11 Impairment of non-financial assets

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

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

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

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

2.5.8.12 Employee benefits

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

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

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.8.12 Employee benefits (continued)

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

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

2.5.8.13 Provisions

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

2.5.8.14 Taxes

(i) Current tax

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

(ii) Deferred tax

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

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.8.14 Taxes (continued)

- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

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

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

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

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

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

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

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

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.8.15 Own shares

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

2.5.8.16 Dividends on ordinary shares

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

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

2.5.8.17 Equity reserves

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

2.5.8.18 Earnings per share

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

Notes to the Financial Statements

2 Accounting policies (continued)

2.6 Standards issued but not yet effective and not early adopted

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**
  The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. The amendments will not have impact on the financial position or performance of the Bank.

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)**
  The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. However, in response to the covid-19 pandemic, the Board has deferred the effective date by one year, i.e. 1 January 2023, to provide companies with more time to implement any classification changes resulting from the amendments. The amendments 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 or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. These Amendments have not yet been endorsed by the EU. The amendments will not have impact on the financial position or performance of the Bank.

- **IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments)**
  The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:
  - **IFRS 3 Business Combinations (Amendments)** update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
  - **IAS 16 Property, Plant and Equipment (Amendments)** prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.
  - **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.

- **Annual Improvements 2018-2020** make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases

The amendments have not yet been endorsed by the EU. The amendments will not have impact on the financial position or performance of the Bank.

- **IFRS 16 Leases-Covid 19 Related Rent Concessions (Amendment)**
  The amendment applies, retrospectively, to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorized for issue at 28 May 2020. IASB amended the standard to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The amendment provides a practical expedient for the lessee to account for any change in lease payments resulting from the covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change was not a lease modification, only if all of the following conditions are met:
  - The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
  - Any reduction in lease payments affects only payments originally due on or before 30 June 2021.
  - There is no substantive change to other terms and conditions of the lease.

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

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

In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). In particular, the amendments provide for a practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, to require the effective interest rate to be adjusted, equivalent to a movement in a market rate of interest. Also, the amendments introduce reliefs from discontinuing hedge relationships including a temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. Furthermore, the amendments to IFRS 4 are designed to allow insurers who are still applying IAS 39 to obtain the same reliefs as those provided by the amendments made to IFRS 9. There are also amendments to IFRS 7 Financial Instruments: Disclosures to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 with earlier application permitted. While application is retrospective, an entity is not required to restate prior periods. The amendments will not have impact on the financial position or performance of the Bank.

2.7 Significant accounting judgements, estimates and assumptions

2.7.1 Going concern

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

2.7.2 Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Bank based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Bank. Such changes are reflected in the assumptions when they occur. Items with the most significant effect on the amounts recognised in the financial statements with substantial management judgement and/or estimates are disclosed for PD, LGD in Note 27.1.8.

Notes to the Financial Statements

2 Accounting policies (continued)

2.7 Significant accounting judgements, estimates and assumptions (continued)

2.7.3 Fair value of financial instruments

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

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs such as volatility for longer–dated derivatives and discount rates, prepayment rates and default rate assumptions for asset-backed securities. The valuation of financial instruments is described in more detail in Note 23.

Determination of fair value

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

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

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

Notes to the Financial Statements

2 Accounting policies (continued)

2.7 Significant accounting judgements, estimates and assumptions (continued)

2.7.4 Impairment losses on financial instruments

The measurement of impairment losses under IFRS across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. For more details refer to Note 14.

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

- The Bank's internal credit rating model;
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, and the effect on PDs, EADs and LGDs; Selection of forward-looking macroeconomic scenarios. For more details refer to Note 27.1.8.

Notes to the Financial Statements

2 Accounting policies (continued)

2.7 Significant accounting judgements, estimates and assumptions (continued)

2.7.5 Offsetting financial instruments

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

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

2.7.6 Provisions and other contingent liabilities

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

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

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

For further details on provisions and other contingencies see Note 24.

Notes to the Financial Statements

3 Net interest income

Interest and similar income calculated using the effective interest rate

(in thousands MDL)	2020	2019
Cash and balances with Central Bank	12,454	69,405
Due from banks	1,510	11,564
Debt instruments at amortized cost	42,552	59,973
Loans and advances to customers	597,043	531,762
	653,559	**672,704**

The interest income accrued on impaired (Stage 3) Loans and advances to customers during 2020 amounted to MDL'000 17,157 (2019: MDL'000 9,353).

Interest and similar expense calculated using the effective interest rate

(in thousands MDL)	2020	2019
Due to Central Bank	28	172
Due to customers	181,195	165,763
Borrowed funds from IFI's	17,634	18,428
Due to banks	5,511	5,779
Interest-related expenses on operating lease from customers	242	823
REPO with NBM	1,222	297
	205,832	**191,262**

Notes to the Financial Statements

4 Net fee and commission income

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

Fee and commission income

	Total	**31 December 2020**	
		Fee income earned from services that are provided over time:	**Fee income from providing financial services at a point in time:**
(in thousands MDL)			
Payment processing	53,153	-	53,153
Transactions with cards	44,790	-	44,790
Cash transactions	24,473	-	24,473
Current accounts administration	13,758	13,758	-
Changes in loans terms and conditions	10,521	-	10,521
Other	8,668	-	8,668
Financial guarantees, Letters of credits, Other undrawn commitments	7,625	-	7,625
Transfers through international payment systems	4,204		-
Remote banking	4,958	4,958-	4,958
SMS Banking services	3,019		3,019
Distribution of social payments	2,758		2,758
Cash receipts received	2,834		2,384
Cash transactions in foreign currency-interbank	1,050	-	1,050
Letters of credit	875	-	875
Broker fees	253	-	253
Commissions from services rendering on finance lease	27	-	27
	182,965	**17,962**	**165,003**

Notes to the Financial Statements

4 Net fee and commission income (continued)

	Total	31 December 2019	
(in thousands MDL)		Fee income earned from services that are provided over time:	Fee income from providing financial services at a point in time:
Payment processing	59,274	-	59,274
Transactions with cards	46,355	-	46,355
Cash transactions	28,715	-	28,715
Current accounts administration	12,374	12,374	-
Cash transactions in foreign currency-interbank	11,560	-	11,560
Changes in loans terms and conditions	7,594	-	7,594
Broker fees	6,453	-	6,453
Transfers through international payment systems	4,030	4,030	-
Remote banking	2,497	-	2,497
Cash transactions in foreign currency-interbank	1,868	-	1,868
Letters of credit	1,337	-	1,337
Commissions from services rendering on finance lease	656	-	656
Other	12,450	-	12,450
	195,163	**16,404**	**178,759**

Fee and commission expense

(in thousands MDL)	2020	2019
Transactions with cards	42,063	43,091
Commissions on interbank transfers	12,094	14,226
Cash transactions in foreign currency - interbank	4,056	9,138
Contributions to deposit guarantee fund (1)	7,209	8,270
Financial Risk Insurance		941
Leasing services		157
Other	2,398	1,188
	67,820	**77,011**

(1) In accordance with the Law No. 575-XV "On Guaranteeing of Deposits Placed in the Banks" of 26 December 2003 and it's modification LP227 from 01.11.18, MO441-447/30.11.18 art. 703 in force from 01.01.20, subsequent "Regulation on Methodology on Calculation and Payment of Contribution in Deposit Guarantee Fund of the Republic of Moldova" of 20 August 2004 and it's modification HFGDSB03/2 from 18.02.19, MO111-118/29.03.19 art.576 in force 01.01.20, the Bank has to transfer to the Deposit Guarantee Fund a contribution equal to 0.10% of total deposits outstanding at the end of each quarter (only for qualified deposits, as stipulated in the law). The Bank prepares the basis for the

calculation of contribution based on its database of client deposits and databases on non-guaranteed deposits, approved regularly by the Management of the Bank. The expenditure with "contribution to deposits guarantee fund is accrued monthly and the calculation is validated quarterly by auditors, i.e. 15th day of the next month from the reported quarter.

Notes to the Financial Statements

5 Net trading income

	2020	2019
(in thousands MDL)		
Foreign exchange result on transactions with:		
Corporate clients	43,590	109,505
Individuals	146,474	30,495
Banks	343	8,972
Result from revaluation	(1,300)	(11,463)
	189,107	**137,509**

6 Credit loss expense

The table below shows the ECL charges (Note 6) on financial instruments for 31 December 2020 recorded in the income statement under IFRS 9:

	Note	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)						
Due from banks	13	287	-	-	-	**287**
Loans and advances to customers	14	(27,980)	54,276	85,154	562	**112,012**
Debt instruments measured at amortized cost	15	8,209	-	-	-	**8,209**
Other assets	19	(1,815)	-	1,662	-	**(153)**
Financial guarantees, Letters of credits, Other undrawn commitments	24	230	258	-	-	**487**
Loan commitments	24	(2,507)	2,258	1	-	**(248)**
Letters of credit	24	(23)	177	-	-	**154**
Total impairment loss		**25,593**	**(1,445)**	**95,438**	**1,163**	**120,749**

Notes to the Financial Statements

6 Credit loss expense (continued)

The table below shows the impairment charges recorded in the income statement during 2019:

	Note	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)						
Due from banks	13	244	-	-	-	**244**
Loans and advances to customers	14	17,139	24,275	23,837	(10,949)	**54,302**
Debt instruments measured at amortized cost	15	(4,024)	-	-	-	**(4,024)**
Other assets	19	851	-	1,219	-	**2,070**
Financial guarantees	24	50	1,040	-	-	**1,090**
Loan commitments	24	1,138	1,158	26	-	**2,322**
Letters of credit	24	(64)	-	-	-	**(64)**
Total impairment loss		**15,334**	**26,473**	**25,082**	**(10,949)**	**55,940**

7 Other operating income

	2020	2019
(in thousands MDL)		
Payables write off	418	2,551
Penalties charged to the clients for late payment	134	189
Other operating income	735	2,282
Total other operating income	**1287**	**5,022**

Payables write off mainly represents the cancelation of payables related to corporate service fees following the revision of the above.

Notes to the Financial Statements

8 Personnel expenses

(in thousands MDL)	2020	2019
Wages and salaries	135,246	109,799
Bonuses	30,279	34,230
Social security costs	31,660	25,988
Accrual for employee benefits and related contribution	18,999	15,859
Meal tickets	7,970	7,325
Medical insurance contributions	7,425	6,666
Other payments	1,878	3,603
	233,457	**203,470**

The average number of staff employed by the Bank in 2020 was 803 (2019: 730).

9 Other operating expenses

(in thousands MDL)	2020	2019
Maintenance of intangibles	42,597	30,350
Consulting and auditing (1)	26,505	18,313
Repair and maintenance of fixed assets	19,103	17,366
Advertising and publishing	13,649	8,754
Telecommunication	9,308	11,335
Security costs	9,283	8,114
Rent and utilities	8,333	9,207
Contribution to resolution fund	7,705	
Insurance	7,612	5,243
OK Foundation contribution (3)	5,019	
Consumables and LVA	4,069	3,844
Guarantee fee from EIF	3,725	3,722
Information cost	3,673	3,695
Taxes and duties	3,624	3,343
Training	1,863	2,877
Result of disposal of fixed assets	(464)	2,570
Travel and transportation	1,340	1,834
Representation expenses	308	1,108
Charity	2,232	657
Other provision for operational risk (2)	0	(1,000)
Other	5,404	3,324
	174,888	**134,656**

Notes to the Financial Statements

9 Other operating expenses (continued)

(1) Consulting and audit costs are analyzed below:

	2020	2019
(in thousands MDL)		
Technical assistance	0	10,685
Audit and consulting	25,856	6,267
Legal fees	0,649	1,361
	26,505	**18,313**

Technical assistance provided by previous shareholder, mainly include cost of man days related to assistance in IT, corporate and other services.

(2) Other provision for operational risk reversed in 2019 as result of winning law suit.

(3) Contribution to Foundation for financial education "OK". Founded on December 5, 2019, under the patronage of Mobiasbanca - OTP Group S.A, is a non-governmental, non-profit and apolitical organization that aims to contribute to increasing the degree of financial education of the population.

10 Income tax expense

	2020	2019
(in thousands MDL)		
Current tax		
Current income tax	21,823	33,122
Deferred tax		
Relating to origination and reversal of temporary differences	(1,186)	349
Income tax expense	**20,637**	**33,471**

During 2020 the corporate income tax rate was 12% (2019: 12%).

Notes to the Financial Statements

10 Income tax expense (continued)

10.1 Reconciliation of the total tax charge

Reconciliation between the tax expense and the accounting profit multiplied by the tax rate enforced in the Republic of Moldova for the years ended 31 December 2020 and 2019 is, as follows:

	2020	2019
(in thousands MDL)		
Accounting profit before tax	164,173	280,308
At statutory income tax rate of 12% (2019: 12%)	19,701	33,637
Adjustment in respect of current income tax of prior years	-	217
Income not subject to tax	(3,254)	(2,878)
Non–deductible expenses	4,190	2,495
Income tax expense reported in the income statement	**20,637**	**33,471**

The effective income tax rate for 2020 is 12,5% (2019: 11%).

Effective 2020 Impairment losses on loans and advances to customers are deductible based on IFRS rules, resulting in release of related deferred tax liabilities.

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

Notes to the Financial Statements

10 Income tax expense (continued)

10.2 Deferred tax

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

31 December 2020	Deferred tax Assets	Deferred tax Liabilities	NET	Charge in Income statement
(in thousands MDL)				
Property and equipment		(1)	(1)	(1,027)
Other liabilities	(4,986)		(4,986)	(158)
	(4,986)	**(1)**	**(4,987)**	**(1,185)**

31 December 2019	Deferred tax Assets	Deferred tax Liabilities	NET	Charge in Income statement
(in thousands MDL)				
Loans and advances to customers	-	-	-	(3,885)
Property and equipment	-	1,026	1,026	(633)
Other liabilities	(4,828)	-	(4,828)	982
	(4,828)	**1,026**	**(3,802)**	**349**

Notes to the Financial Statements

11 Basic earnings per share

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

	2020	2019
(in thousands MDL)		
Net profit attributable to ordinary equity holders	143,536	246,837
Weighted average number of ordinary shares	9,994,394	9,994,394
Basic earnings per share (MDL/share)	14,35	24,70
Dividends per share (MDL/share)	-	-

No diluted earnings per share were calculated as there are no dilutive instruments as at the end of year.

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

12 Cash and balances with Central Bank

	31 December 2020	31 December 2019
(in thousands MDL)		
Cash on hand	639,081	474,635
Current account with Central bank	1,857,496	2,232,777
Mandatory reserve deposit held in foreign currency	1,658,946	719,840
	4,155,523	**3,427,252**

Current account and obligatory reserves

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

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

As of 31 December 2020 the rate for calculation of the mandatory reserve in local currency was 32% (31 December 2019: 42,5%) and in foreign currencies 30% (31 December 2019: 17%).

As of 31 December 2020 the Bank had to maintain as mandatory reserve in MDL an average of MDL'000 1,840,881 (2019: MDL'000 2,043,138), in USD of USD'000 27,076 (2019: USD'000 10,340) and in EUR of EUR'000 56,377 (2019: EUR'000 28,135). As of 31 December 2020 and 2019 the Bank is in line with the above mentioned limits.

Notes to the Financial Statements

13 Due from banks

	31 December 2020	31 December 2019
(in thousands MDL)		
Current accounts	331,113	1,194,969
Overnight deposits	518,161	364,837
Term deposits	266,290	233,496
Less: Allowances for impairment losses	(3,089)	(2,545)
	1,112,475	**1,790,757**

13.1 Impairment allowances for due from banks

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

	31 December 2020	31 December 2019
(in thousands MDL)		
Term deposits (1)	266,290	233,496
Less: Allowance for impairment losses (2)	(3,089)	(2,545)
	266,290	**230,951**

(1) Term deposits include short-term and long-term placements in SG, including accrued interest.

(2) ECL for term deposits is classified according to accounting policy as Stage 1 collective. By internal credit rating system term deposits are neither past due nor impaired.

An analysis of charges in the gross carrying amount in relation to due from banks is for the year ended 31 December 2020, as follows:

	Stage 1 collective
(in thousands MDL)	
Gross carrying amount as at 1 January 2020	**233,496**
New assets originated or purchased	10,566
Assets derecognized or repaid (excluding write offs)	
Changes to contractual cash flows due to modifications not resulting in de-recognition	
Amounts written off	
Foreign exchange adjustments	22,228
Gross carrying amount as at 31 December 2020	**266,290**

Notes to the Financial Statements

13 Due from banks (continued)

13.1 Impairment allowances for due from banks (continued)

An analysis of charges in the gross carrying amount in relation to due from banks is for the year ended 31 December 2019, as follows:

(in thousands MDL)	Stage 1 collective
Gross carrying amount as at 1 January 2019	**214,301**
New assets originated or purchased	22,342
Assets derecognized or repaid (excluding write offs)	(287)
Changes to contractual cash flows due to modifications not resulting in derecognition	-
Amounts written off	-
Foreign exchange adjustments	(2,860)
Gross carrying amount as at 31 December 2019	**233,496**

An analysis of charges in the corresponding ECL allowances in relation to due from banks is for the year ended 31 December 2020, as follows:

(in thousands MDL)	Stage 1 collective
ECL allowance as at 1 January 2020 under IFRS 9	**2,545**
New assets originated or purchased	302
Assets derecognized or repaid (excluding write offs)	
Net ECL Charge	**287**
Foreign exchange adjustments	242
ECL allowance as at 31 December 2020	**3,089**

An analysis of charges in the corresponding ECL allowances in relation to due from banks is for the year ended 31 December 2019, as follows:

(in thousands MDL)	Stage 1 collective
ECL allowance as at 1 January 2019 under IFRS 9	**2,336**
New assets originated or purchased	2403
Assets derecognized or repaid (excluding write offs)	-
Net ECL Charge	**209**
Foreign exchange adjustments	(31)
ECL allowance as at 31 December 2019	**2,336**

Notes to the Financial Statements

14 Loans and advances to customers

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

	31 December 2020	31 December 2019
(in thousands MDL)		
Loans and advances to customers, gross	7,683,213	6,255,355
Less: Allowance for impairment losses	(306,390)	(236,361)
	7,376,823	**6,018,994**

As of 31 December 2020 the outstanding of loans granted to related parties amounted at MDL'000 1,271 (2019: MDL'000 1,825) at an average interest rate of 7.98% per annum (2019: 6.86% per annum) (Note 28).

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

	31 December 2020	31 December 2019
(in thousands MDL)		
Corporate and SME	3,505,649	2,867,686
Consumer	1,604,783	1,482,566
Mortgage	1,761,160	1,156,703
PRO/VSB*[1]	811,621	748,400
	7,683,213	**6,255,355**
Less: Allowance for ECL/impairment losses	(306,390)	(236,361)
	7,376,823	**6,018,994**

[1] PRO/VSB – Professionals and Very Small Business

Notes to the Financial Statements

14 Loans and advances to customers (continued)

14.1 Impairment allowance for loans and advances to customers

14.1.1 Corporate and SME

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 27 the policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 27.

	31 December 2020				
	Stage 1 Collective	**Stage 2 Collective**	**Stage 3 Collective**	**Stage 3 Individual**	**Total**
Probability of Default rates	**1.9%**	**23.6%**	**100%**	**100%**	
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	3,172,582	159,829	-	-	**3,332,411**
Past due but not impaired	70,114	203	-	-	**70,317**
Non-performing	-	-	40,675	-	**40,675**
Individually impaired	-	-	-	62,246	**62,246**
Total	**3,242,696**	**160,032**	**40,675**	**62,246**	**3,505,649**

	31 December 2019				
	Stage 1 Collective	**Stage 2 Collective**	**Stage 3 Collective**	**Stage 3 Individual**	**Total**
Probability of Default rates	**2.1%**	**29.2%**	**100%**	**100%**	
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	2,449,465	247,664	-	-	**2,697,129**
Past due but not impaired	58,181	3,677	-	-	**61,858**
Non-performing	-	-	27,172	-	**27,172**
Individually impaired	-	-	-	81,527	**81,527**
Total	**2,507,646**	**251,341**	**27,172**	**81,527**	**2,867,686**

Notes to the Financial Statements

14 Loans and advances to customers (continued)

14.1 Impairment allowance for loans and advances to customers (continued)

14.1.1 14.1.1 Corporate and SME (continued)

An analysis of charges in the gross carrying amount in relation to Corporate and SME lending is for the year ended 31 December 2020, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
Gross carrying amount as at 1 January 2020	**2,507,645**	**251,341**	**27,173**	**81,527**	**2,867,686**
New assets originated or purchased	2,650,978				**2,650,978**
Assets derecognized or repaid (excluding write offs)	-1,833,479	-207,382	-13,000	-4,043	-2,057,904
Transfers to S1	42,549	-42,549	1	0	**0**
Transfers to S2	-148,319	142,068	6,251	0	**0**
Transfers to S3	-18,585	0	23,302	-4,717	**0**
Effect of modifications	-15,737	14,586	-5,508	0	-6,660
Movements of accrued interest	2,344	-597	561	-65	2,244
Amounts written off	0	0	0	-13,211	**-13,211**
Foreign exchange adjustments	55,300	2,566	1,896	2,755	**62,517**
Gross carrying amount as at 31 December 2020	**3,242,696**	**160,032**	**40,675**	**62,246**	**3,505,649**

An analysis of charges in the gross carrying amount in relation to Corporate and SME lending is for the year ended 31 December 2019, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
Gross carrying amount as at 1 January 2019	**2,473,669**	**194,289**	**19,727**	**86,199**	**2,773,884**
New assets originated or purchased	1,780,167	-	-	-	**1,780,167**
Assets derecognized or repaid (excluding write offs)	(1,439,579)	(149,647)	(16,895)	(50,308)	**(1,656,429)**
Transfers to S1	16,890	(15,064)	-	(1,826)	-
Transfers to S2	(234,530)	238,525	51	(4,046)	-
Transfers to S3	(73,700)	(6,229)	28,405	51,524	-
Effect of modifications	(6,637)	(9,455)	(3,961)	-	**(20,053)**
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	(8,635)	(1,078)	(154)	(16)	**(9,883)**
Gross carrying amount as at 31 December 2019	**2,5030,3107, 645**	**251,341**	**27,173**	**81,527**	**2,867,686**

Notes to the Financial Statements

14 Loans and advances to customers (continued)

14.1 Impairment allowance for loans and advances to customers (continued)

14.1.1 14.1.1 Corporate and SME (continued)

An analysis of charges in the corresponding ECL allowances in relation to Corporate and SME lending is for the year ended 31 December 2020, as follows:

(in thousands MDL)	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
ECL allowance as at 1 January 2020 under IFRS 9	**27,554**	**52,962**	**12,126**	**45,768**	**138,410**
New assets originated or purchased	55,786				**55,786**
Assets derecognized or repaid (excluding write offs)	-19,593	-43,769	-6,711	-2,158	**-72,231**
Transfers to S1	9,013	-9,013	0	0	**0**
Transfers to S2	-18,867	14,847	4,020	0	**0**
Transfers to S3	-7,945	0	10,970	-3,024	**0**
Impact on ECL of transfers	-11,532	18,593	-3,111		3,950
Changes to inputs used for ECL calculations	2,391	-9,410	589		-6,430
Amounts written off			0	-13,211	**-13,211**
Foreign exchange adjustments	1,044	146	847	1,012	**3,049**
Net ECL Charge	**10,296**	**-28,607**	**6,604**	**-17,382**	**-29,088**
ECL allowance as at 31 December 2020	**37,850**	**24,355**	**18,730**	**28,386**	**109,322**

An analysis of charges in the corresponding ECL allowances in relation to Corporate and SME lending is for the year ended 31 December 2019, as follows:

(in thousands MDL)	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
ECL allowance as at 1 January 2019 under IFRS 9	**27,160**	**40,898**	**8,766**	**52,948**	**129,772**
New assets originated or purchased	69,035	-	-	-	**69,035**
Assets derecognized or repaid (excluding write offs)	(15,797)	(31,474)	(7,503)	(24,232)	**(79,006)**
Transfers to S1	3,644	(3,182)	-	(462)	-
Transfers to S2	(36,031)	38,686	25	(2,680)	-
Transfers to S3	(16,837)	(1,316)	(1,968)	20,121	-
Impact on ECL of transfers	(3,506)	9,408	12,822	-	**18,724**
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	(114)	(58)	(16)	73	**(115)**
Net ECL Charge	394	12,064	3,360	(7,180)	**8,638**
ECL allowance as at 31 December 2019	**27,554**	**52,962**	**12,126**	**45,768**	**138,410**

Notes to the Financial Statements

14 Loans and advances to customers (continued)

14.1 Impairment allowance for loans and advances to customers (continued)

14.1.2 Consumer

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 27 the policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 27.

	31 December 2020				
	Stage 1 Collective	**Stage 2 Collective**	**Stage 3 Collective**	**Stage 3 Individual**	**Total**
Probability of Default rates	**2.8%**	**37.9%**	**100%**	**100%**	
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	1,428,030	41,108	-	-	**1,469,138**
Past due but not impaired	54,831	33,463	-	-	**88,294**
Non-performing	-	-	46,859	-	**46,859**
Individually impaired	-	-	-	492	**492**
Total	**1,482,861**	**74,571**	**46,859**	**492**	**1,604,783**

	31 December 2019				
	Stage 1 Collective	**Stage 2 Collective**	**Stage 3 Collective**	**Stage 3 Individual**	**Total**
Probability of Default rates	**1.8%**	**34.3%**	**100%**	**100%**	
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	1,368,306	15,259	-	-	**1,383,565**
Past due but not impaired	60,258	22,466	-	-	**82,724**
Non-performing	-	-	15,778	-	**15,778**
Individually impaired				499	**499**
Total	**1,428,564**	**37,725**	**15,778**	**499**	**1,482,566**

Notes to the Financial Statements

14 Loans and advances to customers (continued)

14.1 Impairment allowance for loans and advances to customers (continued)

14.1.2 Consumer (continued)

An analysis of charges in the gross carrying amount in relation to consumer lending is for the year ended 31 December 2020, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
Gross carrying amount as at 1 January 2020	**1,428,564**	**37,725**	**15,778**	**499**	**1,482,566**
New assets originated or purchased	928,095				**928,095**
Assets derecognized or repaid (excluding write offs)	-740,694	-22,181	31,088	-25	-731,811
Transfers to S1	5,131	-5,038	-93	0	**0**
Transfers to S2	-89,076	89,479	-404	0	**0**
Transfers to S3	-45,737	-4,189	49,926	0	**0**
Effects of modifications	-1,509	-20,277	-8,094	0	-29,880
Movements of accrued interest	-497	-11	632	17	141
Amounts written off	-1,786	-937	-42,002	0	**-44,725**
Foreign exchange adjustments	370	0	27	0	**397**
Gross carrying amount as at 31 December 2019	**1,482,861**	**74,571**	**46,859**	**492**	**1,604,783**

An analysis of charges in the gross carrying amount in relation to consumer lending is for the year ended 31 December 2019, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
Gross carrying amount as at 1 January 2019	**1,114,644**	**29,156**	**11,079**	**417**	**1,155,296**
New assets originated or purchased	978,634				**978,634**
Assets derecognized or repaid (excluding write offs)	(611,790)	(18,435)	21,315	(10)	**(608,920)**
Transfers to S1	4,396	(4,129)	(267)	-	-
Transfers to S2	(42,085)	42,223	(138)	-	-
Transfers to S3	(13,844)	(1,866)	15,618	92	-
Impact on ECL of transfers	(1,358)	(9,224)	(2,951)	-	**(13,533)**
Amounts written off	-	-	(28,878)	-	**(28,878)**
Foreign exchange adjustments	(33)	-	-	-	**(33)**
Gross carrying amount as at 31 December 2019	**1,428,564**	**37,725**	**15,778**	**499**	**1,482,566**

Notes to the Financial Statements

14 Loans and advances to customers (continued)

14.1 Impairment allowance for loans and advances to customers (continued)

14.1.2 Consumer (continued)

An analysis of charges in the corresponding ECL allowances in relation to consumer lending is for the year ended 31 December 2020, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
ECL allowance as at 1 January 2020 under IFRS 9	**21,317**	**8,553**	**12,257**	**241**	**42,368**
New assets originated or purchased	33,749				**33,749**
Assets derecognized or repaid (excluding write offs)	-7,737	-4,216	33,958	79	**22,084**
Transfers to S1	1,200	-1,144	-56	0	**0**
Transfers to S2	-7,844	8,090	-246	0	**0**
Transfers to S3	-11,821	-953	12,774	0	**0**
Impact on ECL of transfers	-4,864	7,518	16,603		19,257
Changes to inputs used for ECL calculations	3,719	1,144	977		5,841
Amounts written off	-1,786	-937	-42,002	0	**-44,725**
Foreign exchange adjustments	5	0	16	0	**21**
Net ECL Charge	4,621	9,501	22,024	79	**36,226**
ECL allowance as at 31 December 2020	**25,938**	**18,055**	**34,281**	**320**	**78,594**

An analysis of charges in the corresponding ECL allowances in relation to consumer lending is for the year ended 31 December 2019, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
ECL allowance as at 1 January 2019 under IFRS 9	**6,606**	**4,056**	**7,270**	**218**	**18,150**
New assets originated or purchased	20,821	-	-	-	**20,821**
Assets derecognized or repaid (excluding write offs)	548	(2,150)	24,699	(3)	**23,094**
Transfers to S1	693	(574)	(119)	-	-
Transfers to S2	(2,821)	2,883	(62)	-	-
Transfers to S3	(3,882)	(260)	4,116	26	-
Impact on ECL of transfers	(648)	4,598	5,230	-	**9,180**
Amounts written off	-	-	(28,878)	-	**(28,878)**
Foreign exchange adjustments	-	-	1	-	**1**
Net ECL Charge	**14,711**	**4,497**	**4,987**	**23**	**24,218**
ECL allowance as at 31 December 2019	**21,317**	**8,553**	**12,257**	**241**	**42,368**

Notes to the Financial Statements

14 Loans and advances to customers (continued)

14.1 Impairment allowance for loans and advances to customers (continued)

14.1.3 Mortgage

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 27 the policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 27.

	31 December 2020				
	Stage 1 Collective	**Stage 2 Collective**	**Stage 3 Collective**	**Stage 3 Individual**	**Total**
Probability of Default rates	**0.6%**	**52.9%**	**100%**	**100%**	
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	1,605,233	35,290	-	-	**1,640,523**
Past due but not impaired	50,621	32,983	-	-	**83,604**
Non-performing	-	-	31,274	-	**31,274**
Individually impaired	-	-	-	5,759	**5,759**
Total	**1,655,854**	**68,273**	**31,274**	**5,759**	**1,761,160**

	31 December 2019				
	Stage 1 Collective	**Stage 2 Collective**	**Stage 3 Collective**	**Stage 3 Individual**	**Total**
Probability of Default rates	**0.4%**	**43.0%**	**100%**	**100%**	
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	1,074,223	11,136	-	-	**1,085,359**
Past due but not impaired	36,153	26,597	-	-	**62,750**
Non-performing	-	-	2,493	-	**2,493**
Individually impaired	-	-	-	6,101	**6,101**
Total	**1,110,376**	**37,733**	**2,493**	**6,101**	**1,156,703**

Notes to the Financial Statements

14 Loans and advances to customers (continued)

14.1 Impairment allowance for loans and advances to customers (continued)

14.1.3 Mortgage

An analysis of charges in the gross carrying amount in relation to mortgage lending is for the year ended 31 December 2020, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
Gross carrying amount as at 1 January 2020	**1,110,377**	**37,732**	**2,493**	**6,101**	**1,156,703**
New assets originated or purchased	846,970				**846,970**
Assets derecognized or repaid (excluding write offs)	-234,783	-9,041	-848	-342	**-245,014**
Transfers to S1	8,003	-8,003	0	0	**0**
Transfers to S2	-58,960	60,217	-1,257	0	**0**
Transfers to S3	-24,981	-6,972	31,953	0	**0**
Effects of modifications	-2,061	-5,975	-1,538	0	-9,574
Movements of accrued interest	933	-112	528	-27	1,321
Amounts written off	0	0	-57	0	**-57**
Foreign exchange adjustments	10,357	426	0	0	**10,783**
Gross carrying amount as at 31 December 2020	**1,655,854**	**68,273**	**31,274**	**5,759**	**1,761,160**

An analysis of charges in the gross carrying amount in relation to mortgage lending is for the year ended 31 December 2019, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
Gross carrying amount as at 1 January 2019	**770,787**	**18,308**	**9,979**	**6,462**	**805,536**
New assets originated or purchased	551,843	-	-	-	**551,843**
Assets derecognized or repaid (excluding write offs)	(182,518)	(4,450)	(5,503)	(1,046)	**(193,517)**
Transfers to S1	5,124	(3,653)	(1328)	(143)	-
Transfers to S2	(31,270)	33,714	(2444)	-	-
Transfers to S3	(1,940)	(983)	2,095	828	-
Impact on ECL of transfers	(698)	(5,192)	(232)	-	**(6,121)**
Amounts written off	-	-	(74)	-	**(74)**
Foreign exchange adjustments	(951)	(12)	-	-	**(964)**
Gross carrying amount as at 31 December 2019	**1,110,377**	**37,732**	**2,493**	**6,101**	**1,156,703**

Notes to the Financial Statements

14 Loans and advances to customers (continued)

14.1 Impairment allowance for loans and advances to customers (continued)

14.1.3 Mortgage

An analysis of charges in the corresponding ECL allowances in relation to mortgage lending is for the year ended 31 December 2020, as follows:

(in thousands MDL)	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
ECL allowance as at 1 January 2020 under IFRS 9	**1,680**	**9,439**	**962**	**5,436**	**17,517**
New assets originated or purchased	7,067				**7,067**
Assets derecognized or repaid (excluding write offs)	-194	-2,693	-300	181	**-3,006**
Transfers to S1	2,000	-2,000	0	0	**0**
Transfers to S2	-1,580	2,064	-484	0	**0**
Transfers to S3	-3,339	-1,747	5,086	0	**0**
Impact on ECL of transfers	-3,103	11,964	6,829		15,691
Changes to inputs used for ECL calculations	1,117	-2,108	-552		-1,542
Amounts written off			-57	0	**-57**
Foreign exchange adjustments	16	20	0	0	**35**
Net ECL Charge	1,985	5,499	10,523	181	**18,188**
ECL allowance as at 31 December 2020	**3,665**	**14,938**	**11,485**	**5,617**	**35,705**

An analysis of charges in the corresponding ECL allowances in relation to mortgage lending is for the year ended 31 December 2019, as follows:

(in thousands MDL)	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
ECL allowance as at 1 January 2019 under IFRS 9	**1,168**	**2,890**	**4,087**	**5,157**	**13,302**
New assets originated or purchased	3,110				**3,110**
Assets derecognized or repaid (excluding write offs)	-277	-411	-2,220	-512	**-3,420**
Transfers to S1	1,168	-578	-544	-45	**0**
Transfers to S2	-1,423	2,427	-1004.35	0	**0**
Transfers to S3	-904	-156	225	836	**0**
Impact on ECL of transfers	-1,161	5,267	494	0	**4,600**
Amounts written off	-	-	-74	-	**-74**
Foreign exchange adjustments	-1	1	-	-	**-1**
Net ECL Charge	512	6,549	-3,125	279	**4,215**
ECL allowance as at 31 December 2019	**1,680**	**9,439**	**962**	**5,436**	**17,517**

Notes to the Financial Statements

14 Loans and advances to customers (continued)

14.1 Impairment allowance for loans and advances to customers (continued)

14.1.4 Professionals and Very Small Business

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 27 the policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 27.

	31 December 2020				
	Stage 1 Collective	**Stage 2 Collective**	**Stage 3 Collective**	**Stage 3 Individual**	**Total**
Probability of Default rates	**3.3%**	**38.2%**	**100%**	**100%**	
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	617,667	64,859	-	-	**682,526**
Past due but not impaired	32,338	19,132	-	-	**51,470**
Non-performing	-	-	65,187	-	**65,187**
Individually impaired	-	-	-	12,438	**12,438**
Total	**650,005**	**83,991**	**65,187**	**12,438**	**811,621**

	31 December 2019				
	Stage 1 Collective	**Stage 2 Collective**	**Stage 3 Collective**	**Stage 3 Individual**	**Total**
Probability of Default rates	**1.7%**	**38.4%**	**100%**	**100%**	
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	657,893	11,233	-	-	**669,126**
Past due but not impaired	31,537	17,829	-	-	**49,366**
Non-performing	-	-	10,074	-	**10,074**
Individually impaired	-	-	-	19,834	**19,834**
Total	**689,430**	**29,062**	**10,074**	**19,834**	**748,400**

Notes to the Financial Statements

14 Loans and advances to customers (continued)

14.1 Impairment allowance for loans and advances to customers (continued)

14.1.4 Professionals and Very Small Business (continued)

An analysis of charges in the gross carrying amount in relation to Professionals and Very Small Business lending is for the year ended 31 December 2020, as follows:

(in thousands MDL)	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
Gross carrying amount as at 1 January 2020	**689,429**	**29,063**	**10,074**	**19,834**	**748,400**
New assets originated or purchased	543,431				**543,431**
Assets derecognized or repaid (excluding write offs)	-444,731	-15,035	-4,274	-369	**-464,410**
Transfers to S1	4,816	-4,699	-117	0	**0**
Transfers to S2	-96,094	96,091	3	0	**0**
Transfers to S3	-56,672	-5,614	63,823	-1,537	**0**
Effects of modifications	-2,368	-16,897	-5,362	0	-24,627
Movement of accrued interest	707	-256	591	0	1,043
Amounts written off	0	0	0	-6,320	**-6,320**
Foreign exchange adjustments	11,487	1,338	450	830	**14,105**
Gross carrying amount as at 31 December 2020	**650,005**	**83,991**	**65,187**	**12,438**	**811,621**

An analysis of charges in the gross carrying amount in relation to Professionals and Very Small Business lending is for the year ended 31 December 2019, as follows:

(in thousands MDL)	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
Gross carrying amount as at 1 January 2019	**587,658**	**27,395**	**13,383**	**27,847**	**656,283**
New assets originated or purchased	427,563	-	-	-	**427,563**
Assets derecognized or repaid (excluding write offs)	(294,836)	(15,385)	(4,949)	(2,980)	**(318,150)**
Transfers to S1	15,014	(9,729)	(4,703)	(582)	-
Transfers to S2	(32,505)	33,677	(1,172)	-	-
Transfers to S3	(5,414)	(2,462)	7,876	-	-
Impact on ECL of transfers	(5,553)	(8,649)	126	-	**(14,076)**
Amounts written off	-	-	(491)	-	**(491)**
Foreign exchange adjustments	(2,498)	(102)	4	(133)	**(2,729)**
Gross carrying amount as at 31 December 2019	**689,429**	**24,745**	**10,074**	**24,152**	**748,400**

Notes to the Financial Statements

14 Loans and advances to customers (continued)

14.1 Impairment allowance for loans and advances to customers (continued)

14.1.4 Professionals and Very Small Business (continued)

An analysis of charges in the corresponding ECL allowances in relation to Professionals and Very Small Business lending is for the year ended 31 December 2020, as follows:

(in thousands MDL)	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
ECL allowance as at 1 January 2020 under IFRS 9	**6,626**	**7,237**	**5,594**	**18,610**	**38,067**
New assets originated or purchased	47,278				**47,278**
Assets derecognized or repaid (excluding write offs)	-2,295	-3,826	-1,820	246	**-7,695**
Transfers to S1	1,238	-1,176	-62	0	**0**
Transfers to S2	-11,573	11,570	3	0	**0**
Transfers to S3	-27,502	-1,396	29,897	-999	**0**
Impact on ECL of transfers	-1,267	6,493	5,155	0	**10,381**
Changes to inputs used for ECL calculations	6,427	(1,964)	5,486		9,949
Amounts written off	0	0	0	-6,320	**-6,320**
Foreign exchange adjustments	205	13	10	831	**1,059**
Net ECL Charge	6,085	11,678	33,183	-6,242	**44,703**
ECL allowance as at 31 December 2020	**12,710**	**18,915**	**38,777**	**12,368**	**82,770**

An analysis of charges in the corresponding ECL allowances in relation to Professionals and Very Small Business lending is for the year ended 31 December 2019, as follows:

(in thousands MDL)	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
ECL allowance as at 1 January 2019 under IFRS 9	**5,103**	**6,071**	**7,086**	**21,477**	**39,737**
New assets originated or purchased	8,052	-	-	-	**8,052**
Assets derecognized or repaid (excluding write offs)	(2,321)	(2,701)	(2,298)	(2,514)	**(9,834)**
Transfers to S1	4,415	(1,872)	(2,324)	(219)	-
Transfers to S2	(2,239)	2,826	(587)	-	-
Transfers to S3	(2,056)	(469)	2,525	-	-
Impact on ECL of transfers	(4,261)	3,388	1,681	-	**808**
Amounts written off	-	-	(491)	-	**(491)**
Foreign exchange adjustments	(67)	(6)	2	(134)	**(205)**
Net ECL Charge	**1,523**	**1,166**	**(1,492)**	**(2,867)**	**(1,670)**
ECL allowance as at 31 December 2019	**6,626**	**7,237**	**5,594**	**18,610**	**38,067**

Notes to the Financial Statements

15 Debt instruments measured at amortized cost

(in thousands MDL)	31 December 2020	31 December 2019
Debt instruments at amortized cost:		
Treasury bills issued by the Ministry of Finance	608,387	382,774
State bonds issued by the Ministry of Finance	12	99,630
NBM certificates	750,184	210,292
Total gross amount of exposure	**1,358,583**	**692,696**
Less: Allowance for ECL/impairment losses	(15,760)	(7,550)
	1,342,823	**685,146**

Securities issued by the Ministry of Finance

As of 31 December 2020 treasury bills issued by the Ministry of Finance represent fixed rate MDL **treasury bills** issued with discount with original maturity between 91 and 364 days yielding an average interest rate of **4.98%** per annum (31 December 2019: **6.19%**per annum).

State bonds issued by the Ministry of Finance bear a revisable interest rate linked to weighted average rate on 6 months treasury bills. The average interest rate as of 31 December 2020 was **5.51%** per annum for two-year period, **5.94%** for 3 years and **6.24%** for 5 years (31 December 2019: **6.34%** per annum for 2 years, **6.72%** per annum for 3 years and **7.05%** per annum for 5 years).

As of 31 December 2020 there are no REPO transactions with NBM. During the year there was only 1 transaction with interest rate **3.50%** per annum.

NBM certificates

As of 31 December 2020 NBM certificates represent fixed rate financial instruments issued with discount with original maturity of up to 14 days yielding an average interest rate of **2.65%** per annum (31 December 2019: **5.50%** per annum).

Notes to the Financial Statements

15 Debt instruments measured at amortized cost (continued)

15.1 Impairment losses on financial investments subject to impairment

Debt instruments at amortized cost

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's year-end stage classification. The amounts presented below are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 27.1.2. By internal credit rating system debt instruments at amortized cost are neither past due nor impaired:

An analysis of changes in the gross carrying amount for the year ended 31 December 2020 is, as follows:

(in thousands MDL)	Stage 1 collective
Gross carrying amount as at 1 January 2020	**692,696**
New assets originated or purchased	12,615,920
Assets derecognized or repaid (excluding write offs)	(11,992,585)
Accrued interest	42,551
Gross carrying amount as at 31 December 2020	**1,358,584**

An analysis of changes in the gross carrying amount for the year ended 31 December 2019 is, as follows:

(in thousands MDL)	Stage 1 collective
Gross carrying amount as at 1 January 2019	**1,062,128**
New assets originated or purchased	11,342,129
Assets derecognized or repaid (excluding write offs)	(11,765,748)
Accrued interest	54,187
Gross carrying amount as at 31 December 2019	**692,696**

An analysis of changes in the corresponding ECLs for the year ended 31 December 2020 is, as follows:

(in thousands MDL)	Stage 1 collective
ECL allowance as at 1 January 2020	**7,550**
New assets originated or purchased	15,500
Assets derecognized or repaid (excluding write offs)	(7,290)
Net ECL Charge	**8,210**
ECL allowance as at 31 December 2020	**15,760**

An analysis of changes in the corresponding ECLs for the year ended 31 December 2019 is, as follows:

(in thousands MDL)	Stage 1 collective
ECL allowance as at 1 January 2019	**11,575**
New assets originated or purchased	14,197
Assets derecognized or repaid (excluding write offs)	(18,222)
Net ECL Charge	**(4,024)**
ECL allowance as at 31 December 2019	**7,550**

Notes to the Financial Statements

16 Financial assets measured at FVPL

Financial assets at fair value through profit or loss

(in thousands MDL)	31 December 2020	31 December 2019
Financial assets at fair value through profit or loss		
Treasury bills issued by the Ministry of Finance	3,497	2,226
Equity investments at FVPL	1,031	1,031
	4,528	**3,257**

Equity investments at fair value through profit or loss

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

All equity investments as of the end of 2020 and 2019 are classified at FVPL as presented below:

(in thousands MDL)	Field of activity	Ownership 2020, %	31 December 2020	31 December 2019
Credit Bureau S.R.L.	Research of credit information	6.7%	1,019	1,019
Bursa de Valori a Moldovei	Stock Exchange	2.56%	7	7
IM "Tirex Petrol" S.A.	Downstream	0.01%	4	4
Equity investments in commercial banks (Moldova) (less than 1 % ownership)	Banking		1	1
Carrying amount			**1,031**	**1,031**

All equity investments at FVPL as of 31 December 2020 and 2019 are unquoted and are recorded at fair value.

Notes to the Financial Statements

17 Property, equipment and right-of-use assets

	Land and buildings	Assets under construction	Vehicles	Computers and equipment	Others	Right-of-use Assets	Total
(in thousands MDL)							
Cost							
At 1 January 2019	**119,868**	**25,257**	**7,938**	**114,854**	**54,970**	-	**322,887**
Effect of adoption of IFRS 16 as at 1 January 2019	-	-	-	-	-	**64,141**	**64,141**
Additions	15,110	-	1,863	14,512	12,300	19,934	**62,450**
Disposals	(2,082)	(13,945)	(1,376)	(6,816)	-	(6,778)	**(35,153)**
Transfers	1,926	(4,931)	901	835	(4,156)	-	-
At 31 December 2019	**134,822**	**6,381**	**9,326**	**123,385**	**63,114**	**77,297**	**414,325**
Additions	7,258	66,865		2,237	1,265		**77,625**
Disposals	(804)		(3,385)	(1,075)	(6,042)		**(11,306)**
Changes from reassessment and modification	-	-	-	-	-	**7,256**	**7,256**
Transfers	5,406	(32,710)	9,915	18,905	(1,516)		-
At 31 December 2020	**146,682**	**40,536**	**15,856**	**143,452**	**56,821**	**84,553**	**487,900**
Depreciation and impairment			15,856				
At 1 January 2019	**46,036**	-	**6,553**	**86,652**	**41,199**		**180,440**
Disposals	5,550		733	20,940	4,571	17,449	**49,243**
Depreciation charge for the year	(1,826)		(1,376)	(6,799)	(3,951)	(1,899)	**(15,851)**
Impairment	7,912						**7,912**
Balance at 31 December 2019	**57,672**	-	**5,910**	**100,793**	**41,819**	**15,550**	**221,744**
Disposals	(710)		(3,345)	(1,075)	(4,423)	(11,888)	**(21,441)**
Depreciation charge for the year	5,368		1,304	13,424	8,462	18,828	**47,386**
Transfers				1,624	(1,624)		
Impairment	1,150						**1,150**
Balance at 31 December 2020	**63,480**	-	**3,869**	**114,766**	**44,234**	**22,490**	**248,839**
Carrying amount at 1 January 2019	**73,832**	**25,257**	**1,385**	**28,202**	**13,771**	-	**142,447**

at 31 December 2019	**77,150**	**6,381**	**3,416**	**22,592**	**21,295**	**61,747**	**192,581**
at 31 December 2020	**83,202**	**40,536**	**11,987**	**28,686**	**12,587**	**62,063**	**239,061**

Notes to the Financial Statements

17 Property and equipment

As of 31 December 2020 the cost of fully depreciated assets amounted at MDL'000 146,390 (31 December 2019: MDL'000 129,315).

During 2020 and 2019 the Bank carried capital construction works in the rented premises in line with the network development plan. As of 31 December 2020 the cost of such investments included in "Land and buildings" category amounts to MDL'000 6,128 (2019: MDL'000 13,143) and included in "Assets under construction" category of MDL'000 6,149 (2019: MDL'000 3,040). These investments are being amortized over the period lower of useful life or rent agreement term starting from date of opening of the point of sale.

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

Set out below are the carrying amounts of lease liabilities (included under 'Other liabilities' in Note 23) and the movements during the period:

	Note	2020
(in thousands MDL)		
As at 1 January 2020	17	**60,819**
Additions	17	43,535
Payments		(39,197)
Exch rate difference		2,975
As at 31 December 2020	23	**68,132**

The Bank had total cash outflows for leases of MDL'000 39,197. The initial application of IFRS 16 resulted in noncash additions to right-of-use assets and lease liabilities of MDL'000 64,141 million at 1 January 2019. Accretion of interest on lease liability amounted MDL'000 242 (31 December 2019: MDL'000 824). The expenses relating to low value items for the year 2020 amounted MDL'000 1,949 (31 December 2019: MDL'000 2,192) and represents mainly ATM rentals.

Notes to the Financial Statements

18 Intangible assets

(in thousands MDL)	Informational System development costs	Software	Licenses	Other	Total
Cost					
At 1 January 2019	**133,072**	**14,472**	**12,796**	**17,244**	**177,584**
Additions	784	5,856	2,979	271	**9,890**
Disposals	(3,374)	(2,729)	(1,359)		**(7,462)**
Balance at 31 December 2019	**130,482**	**17,599**	**14,416**	**17,515**	**180,012**
Additions	30,010	448	1,908	94	**32,460**
Disposals	(2,929)				**(2,929)**
Transfers	(2,723)	150	1,329	1,244	**-**
Balance at 31 December 2020	**154,840**	**18,197**	**17,653**	**18,853**	**209,543**
Amortization and impairment					
Balance at 1 January 2019	**113,281**	**10,862**	**5,785**	**16,543**	**146,471**
Disposals	-	(759)	(709)	-	**(1,468)**
Amortization charge for the year	3,902	2,472	2,224	419	**9,017**
Impairment	1,579				**1,579**
Balance at 31 December 2019	**118,762**	**12,575**	**7,300**	**16,962**	**155,599**
Disposals					**-**
Amortization charge for the year	2,346	4,220	3,387	1,509	**11,462**
Impairment					
Balance at 31 December 2020	**121,108**	**16,795**	**10,687**	**18,471**	**167,061**
Carrying amount					
at 1 January 2019	**19,791**	**3,610**	**7,011**	**700**	**31,112**
at 31 December 2019	**11,720**	**5,024**	**7,116**	**553**	**24,413**
at 31 December 2020	**33,732**	**1,402**	**6,966**	**382**	**42,482**

As of 31 December 2020 the cost of fully amortized intangible assets amounts at MDL'000 151,162 and mainly represents the cost of Cards Module and iBank (which represent MDL'000 97,630).

Notes to the Financial Statements

19 Other assets

(in thousands MDL)	31 December 2020	31 December 2019
Other Financial Assets		
Clearing and transit amounts (1)	4,727	3,652
Operations with payment cards (Master Card and VISA)	8,415	9,495
Commission fees receivable	7,000	5,216
Other receivables	6,284	7,054
Due from employees	450	1,119
Total Other Assets	**26,876**	**26,536**
Less allowance for ECL (2)	(7,442)	(6,324)
Total Other Assets Net	**19,434**	**20,212**
Other Assets		
Repossessed assets (3)	946	6,146
Income and other taxes receivable	29,763	19,889
Other prepayments	6,191	3,391
Prepaid insurance	3,758	3,876
Consumables and LVA	1,599	1,101
Prepaid rent fees		2
Total Other Financial Assets	**42,257**	**34,405**
Less allowance for impairment losses (4)	(946)	(2,095)
Total Other Financial Assets Net	**41,311**	**32,310**
Total Other and Other Financial Assets	**60,745**	**52,522**

(1) Clearing and transit amounts represent transactions through international payment systems as of 31 December 2020 amounting MDL’000 4,727 (as of 31 December 2019 MDL’000 3,652) and the remaining amount relates to operations with cards.

(2) Allowance for impairment losses relates to non-recoverable commission fees receivable amounting MDL’000 7,000 (as of 31 December 2019 MDL’000 5,204), and ECL Stage 1 under IFRS 9 for other assets measured at amortized cost MDL’000 0,429 (as of 31 December 2019 MDL’000 1,083).

Notes to the Financial Statements

19 Other assets (continued)

(3) Repossessed assets represent: one commercial space received as repayment for non-performing loans. As of 31 December 2020 amounting MDL'000 946 (as of 31 December 2019 MDL'000 946 and MDL '000 5,200).

(4) Impairment for repossessed assets amounting MDL'000 0,946 (as of 31 December 2019 MDL'000 2,095).

	31 December 2020		
	Stage 1 collective	**Stage 3 collective**	**Total**
(in thousands MDL)			
Internal rating grade			
Neither past due nor impaired	19,819	-	**19,819**
Past due but not impaired	-	-	-
Non-performing	-	-	-
Individually impaired	-	7,057	**7,057**
		-	-
Grand Total	**19,819**	**7,057**	**26,876**

	31 December 2019		
	Stage 1 collective	**Stage 3 collective**	**Total**
(in thousands MDL)			
Internal rating grade			
Neither past due nor impaired	20,483	-	**20,483**
Past due but not impaired	-	-	-
Non-performing	-	-	-
Individually impaired	-	6,053	**6,053**
		-	-
Grand Total	**20,483**	**6,053**	**26,536**

An analysis of changes in the gross carrying amount for the year ending 31 December 2020 is, as follows:

	Stage 1 collective	**Stage 3 collective**	**Total**
(in thousands MDL)			
Gross carrying amount as at 1 January 2020	20,483	6,053	**26,536**
New assets originated or purchased	5,336	1,866	**7,202**
Assets derecongnized or repaid (excluding write off)	(6,018)	(862)	**(6,880)**
Gross carrying amount as at 31 December 2020	**19,801**	**7,057**	**26,858**

Notes to the Financial Statements

19 Other assets (continued)

An analysis of changes in the gross carrying amount or the year ending 31 December 2019 is, as follows:

	Stage 1 collective	Stage 3 collective	Total
(in thousands MDL)			
Gross carrying amount as at 1 January 2019	**20,655**	**5,892**	**26,547**
New assets originated or purchased	12,804	548	**13,352**
Assets derecongnized or repaid (excluding write off)	(12,723)	(640)	**(13,363)**
Gross carrying amount as at 31 December 2019	**20,736**	**5,800**	**26,536**

An analysis of changes in the corresponding ECLs or the year ending 31 December 2020 is, as follows:

	Stage 1 collective	Stage 3 collective	Total
(in thousands MDL)			
ECL allowance as at 1 January 2020 under IFRS 9	**271**	**6,053**	**6,324**
New assets originated or purchased	200	1,843	2,043
Assets derecongnized or repaid (excluding write off)	(60)	(865)	(925)
Net ECL Charge	140	978	**1,118**
ECL allowance as at 31 December 2020	**411**	**7,031**	**7,442**

An analysis of changes in corresponding ECLs or the year ending 31 December 2019 is, as follows:

	Stage 1 collective	Stage 3 collective	Total
(in thousands MDL)			
ECL allowance as at 1 January 2019 under IFRS 9	**248**	**6,145**	**6,393**
New assets originated or purchased	168	548	**716**
Assets derecongnized or repaid (excluding write off)	(144)	(640)	**(784)**
Net ECL Charge	23	(92)	**(69)**
ECL allowance as at 31 December 2019	**271**	**6,053**	**6,324**

Notes to the Financial Statements

20 Due to banks

(in thousands MDL)	31 December 2020	31 December 2019
Current accounts	2,384	626
Term deposits	181	89
	2,565	**715**

21 Due to customers

(in thousands MDL)	31 December 2020	31 December 2019
Retail customers		
Current/savings accounts	3,675,349	2,707,192
Term deposits	2,757,498	2,708,891
	6,432,847	**5,416,083**
Corporate customers		
Current/savings accounts	4,893,357	3,681,265
Term deposits	441,497	313,258
	5,334,854	**3,994,523**
	11,767,700	**9,410,606**

Included in Due to customers were deposits of MDL'000 56,793 (2019: MDL'000 52,013) held as collateral for loans and guarantees.

Notes to the Financial Statements

22 Borrowed funds from IFI's

(in thousands MDL)	31 December 2020	31 December 2019
European Bank for Reconstruction and Development (EBRD)	(2,819)	378,400
"Filere du Vin" and "Fruit of garden" (UCIP - EIB)	220,589	232,361
International Development Association (IDA)	103,921	90,692
International Fund for Agricultural Development (FIDA)	17,623	19,027
Millennium Challenge Account Moldova (MCA)		130
European Investment Bank (EIB)		(700)
	339,314	**719,910**

The loans are secured with the right to collect receivables under sub-loans granted by the Bank. EBRD funds as of 31 December 2020 represent Contra-account Adjustment to the amortized cost of deferred commission.

Below are the descriptions of the main financing lines:

Notes to the Financial Statements

22. Borrowed funds from IFI's (continued)

(1.1) On 8 December 2016 the Bank signed the EU4BUSINESSEBRD Credit Line (DCFTA Programme) in amount of EUR 10.0 million. The maturity of the loan falls on December 2020. The purpose of facility is strengthening MSME capacity and meets the EU standards. By 31 December 2018 the Bank disbursed full amount. The loan was secured by financial guarantee issued by Societe Generale but by 25.07.2019 following the change of controlling shareholder and prospective integration of Mobiasbanca in OTP Group, Societe Generale has released its issued guarantee.

(1.2) On 15 December 2017 the Bank signed the EU4BUSINESSEBRD Credit Line (DCFTA Programme) in amount of EUR 20.0 million. The maturity of the loan falls on December 2020. The purpose of facility is strengthening MSME capacity and meets the EU standards. By 31 December 2019 the Bank disbursed full amount.. The loan was secured by financial guarantee issued by Societe Generale but by 25.07.2019 following the change of controlling shareholder and prospective integration of Mobiasbanca in OTP Group, Societe Generale has released its issued guarantee.

(1.3) On 28 May 2020 the Bank signed the MSME facility in amount of EUR 5.0 million. The purpose of facility is strengthening MSME capacity and to fund loans structured with a high degree of flexibility to provide loan profiles that match client and project needs.. By 31 December 2020 the Bank has not disbursed any amount from MSME facility. The loan is not secured by any financial guarantee having the "Stand Alone" status.

(1.4) On 29 July 2020 the Bank extended the loan limit under EU4BUSINESSEBRD Credit Line (DCFTA Programme) in amount of EUR 5.0 million. The purpose of facility is strengthening MSME capacity and meets the EU standards. By 31 December 2020 the Bank has not disbursed any amount from DCFTA facility. The loan is not secured by any financial guarantee having the "Stand Alone" status.

Loan from EIB

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

Loans from UCIP – EIB

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

Loans from IDA

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

Notes to the Financial Statements

22. Borrowed funds from IFI's (continued)

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

Loans from IFAD

On December 2014 the Bank signed a long-term Loan Agreement with the Ministry of Finance, which acts as a representative of the Republic of Moldova under the loan agreement signed with International Fund for Agricultural Development (IFAD). The facility was targeting to finance small and medium agricultural enterprises, as well as for young entrepreneurs, program which includes a grant-component. In 2018 the limit of grant component was fully assimilated by local banks. The facility (IFAD VI) is in the final stage and the Implementation Unit in 2019 has implemented the new facility IFAD VII.

23 Other liabilities

(in thousands MDL)	Note	31 December 2020	31 December 2019
Lease liability	17	68,196	60,819
Other liabilities on leasing		20,694	17,547
Amounts to be response ATM cards operations		12,882	13,114
Other accruals		17,018	11,524
Amount pending clarifications (1)		9,738	8,235
Accrued audit and consulting fees		8,690	4,170
IT maintenance (2)		6,869	3,687
Due to budget		1,927	2,194
Guarantees for safe deposits		1,568	1,997
Amounts to be response to transfers through international payment systems		800	1,793
Settlements on FCY swap transaction		696	768
Dividends payable		467	467
Due to international payment systems		173	245
Due to suppliers of property and equipment		300	181
Documentary transactions		323	155
Other liabilities (4)		5,347	8,262
		155,697	**135,159**

(1) Amount pending clarification represents transfers which are above a certain limit, under investigation. After the investigation the clients receive their transfers in case if they are not declined.

(2) Represents payables to previous shareholder in relation to maintenance of applications and is applicable to the year ending 31 December 2020.

Set out below are carrying amounts of lease liabilities and the amount of the lease liabilities expected to be settled within no more than twelve months after the reporting period and the amount of the lease liabilities expected to be settled within more than twelve months after the reporting period.

(in thousands MDL)	31 December 2020	31 December 2019
Lease liabilities Within one year	663	794
Lease liability over one year	67,533	60,025
	68,196	**60,819**

Notes to the Financial Statements

23Other liabilities (continued)

(4)- Other liabilities represents mainly payables through an intermediary account for broker services for clients.

24 Provisions

	31 December 2020	31 December 2019
(in thousands MDL)		
Provisions for bonuses to employees	14,916	22,406
Accrual for unused vacation	16,264	13,702
Obligations under financial guarantees	12,229	11,231
Provision for litigation	239	239
	43,648	**47,578**

24.1 Financial guarantees, letters of credit and other undrawn commitments

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

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

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

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

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

	31 December 2020	31 December 2019
(in thousands MDL)		
Commitments to grant loans	968,041	1,058,780
Financial guarantees	495,611	483,395
Letters of credit	14,589	17,289
	1,478,241	**1,559,464**

Notes to the Financial Statements

24 Provisions (continued)

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

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

24.1.1 Impairment losses on guarantees and other commitments

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

(i) Commitments to grant loans

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. Details of the Bank's internal grading system are explained in Note 27 and policies on whether ECLs are calculated on an individual or collective basis are set out in Note 27:

	31 December 2020				
(in thousands MDL)	Stage 1 Collective	Stage 2 Collective	Stage 3 Collective	Stage 3 Individual	Total
Internal rating grade					
Neither past due nor impaired	943,685	20,653	-	-	**964,338**
Past due but not impaired	2,861	492	-	-	**3,353**
Non-performing	-	-	350	-	**350**
Individually impaired	-	-	-	-	**-**
Total	**946,546**	**21,145**	**350**	-	**968,041**

	31 December 2019				
(in thousands MDL)	Stage 1 Collective	Stage 2 Collective	Stage 3 Collective	Stage 3 Individual	Total
Internal rating grade					
Neither past due nor impaired	1,039,823	15,279	-	-	**1,055,102**
Past due but not impaired	2,930	505	-	-	**3,435**
Non-performing	-	-	243	-	**243**
Individually impaired	-	-	-	-	**-**
Total	**1,042,753**	**15,784**	**243**	-	**1,058,780**

Notes to the Financial Statements

24 Provisions (continued)

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

24.1.1 Impairment losses on guarantees and other commitments (continued)

An analysis of charges in the gross carrying amount in relation to Commitments to grant loans is for the year ended 31 December 2020, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
Outstanding exposure as at 1 January 2020	**1,042,754**	**15,783**	**243**	**-**	**1,058,780**
New assets originated or purchased	699,287				**699,287**
Assets derecognized or repaid (excluding write offs)	-777,563	-12,239	-103		**-789,905**
Transfers to S1	2,479	-2,479	0		**0**
Transfers to S2	-25,859	25,859	0		**0**
Transfers to S3	-389	-480	869		**0**
Impact of modifications	2,614	-5,336	-659		**-3,380**
Amounts written off					**0**
Foreign exchange adjustments	3,223	35	0		**3,259**
Outstanding exposure as at 31 December 2020	**946,546**	**21,145**	**350**	**0**	**968,041**

An analysis of charges in the gross carrying amount in relation to Commitments to grant loans is for the year ended 31 December 2019, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
Outstanding exposure as at 1 January 2019	**898,679**	**7,560**	**180**	**-**	**906,419**
New assets originated or purchased	903,910	-	-	-	**903,910**
Assets derecognized or repaid (excluding write offs)	(734,237)	(6,147)	(57)	-	**(740,441)**
Transfers to S1	649	(645)	(4)	-	-
Transfers to S2	(25,839)	25,839	-	-	-
Transfers to S3	(304)	(22)	326	-	-
Impact of modifications	269	(10,771)	(202)	-	**(10,704)**
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	(373)	(31)	-	-	**(404)**
Outstanding exposure as at 31 December 2019	**1,042,754**	**15,783**	**243**	**-**	**1,058,780**

Notes to the Financial Statements

24 Provisions (continued)

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

24.1.1 Impairment losses on guarantees and other commitments (continued)

An analysis of charges in the corresponding ECL allowances in relation to Commitments to grant loans is for the year ended 31 December 2020, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
ECL allowance as at 1 January 2020 under IFRS 9	**5,739**	**1,688**	**40**	-	**7,467**
New assets originated or purchased	5,433				**5,433**
Assets derecognized or repaid (excluding write offs)	-3,945	-1,285	17		**-5,213**
Transfers to S1	273	-273	0		**0**
Transfers to S2	-1,347	1,347	0		**0**
Transfers to S3	-13	-59	72		**0**
Impact on ECL of transfers	-237	376	-3		**136**
Foreign exchange adjustments	12	0	0		**12**
Net NCR Charge	**175**	**107**	**86**	**0**	**368**
ECL allowance as at 31 December 2020	**5,914**	**1,795**	**126**	**0**	**7,835**

An analysis of charges in the corresponding ECL allowances in relation to Commitments to grant loans is for the year ended 31 December 2019, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
ECL allowance as at 1 January 2019 under IFRS 9	**4,601**	**734**	**14**	-	**5,349**
New assets originated or purchased	6,031	-	-	-	**6,031**
Assets derecognized or repaid (excluding write offs)	(3,577)	(605)	(11)	-	**(4,193)**
Transfers to S1	46	(45)	(1)		-
Transfers to S2	(1,319)	1,319	-		-
Transfers to S3	(1)	(2)	3		-
Impact on ECL of transfers	(39)	288	34		**283**
Foreign exchange adjustments	(3)	(1)	1	-	**(3)**
Net NCR Charge	**1,138**	**954**	**26**	-	**2,118**
ECL allowance as at 31 December 2019	**5,739**	**1,688**	**40**	-	**7,467**

Notes to the Financial Statements

24 Provisions (continued)

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

24.1.1 Impairment losses on guarantees and other commitments (continued)

(ii) Guarantees issued

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. Details of the Bank's internal grading system are explained in Note 27 and policies on whether ECLs are calculated on an individual or collective basis are set out in Note 27:

	31 December 2020				
	Stage 1 Collective	**Stage 2 Collective**	**Stage 3 Collective**	**Stage 3 Individual**	**Total**
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	477,958	17,653	-	-	**495,611**
Past due but not impaired	-	-	-	-	-
Non-performing	-	-	-	-	-
Individually impaired	-	-	-	-	-
Total	**477,958**	**17,653**	**-**	**-**	**495,611**

	31 December 2019				
	Stage 1 Collective	**Stage 2 Collective**	**Stage 3 Collective**	**Stage 3 Individual**	**Total**
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	473,034	10,361	-	-	**483,395**
Past due but not impaired	-	-	-	-	-
Non-performing	-	-	-	-	-
Individually impaired	-	-	-	-	-
Total	**473,034**	**10,361**	**-**	**-**	**483,395**

Notes to the Financial Statements

24 Provisions (continued)

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

24.1.1 Impairment losses on guarantees and other commitments (continued)

An analysis of charges in the gross carrying amount in relation to guarantees issued is for the year ended 31 December 2020, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
Gross carrying amount as at 1 January 2020	**473,034**	**10,361**	-		**483,395**
New assets originated or purchased	80,427				**80,427**
Assets derecognized or repaid (excluding write offs)	(89,888)	(5,198)	-		**(95,086)**
Transfers to S1	5,163	(5,163)	-	-	-
Transfers to S2	(16,160)	16,160	-	-	-
Transfers to S3	-	-	-	-	-
Impact on ECL of transfers	-	-	-	-	-
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	24,521	1,493	-		**26,014**
Gross carrying amount as at 31 December 2020	**477,958**	**17,653**	-		**495,611**

An analysis of charges in the gross carrying amount in relation to guarantees issued is for the year ended 31 December 2019, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
Gross carrying amount as at 1 January 2019	465,572	441	-	-	**466,013**
New assets originated or purchased	93,230	-	-	-	**93,230**
Assets derecognized or repaid (excluding write offs)	(71,766)	(441)	-	-	**(72,207)**
Transfers to S1	-	-	-	-	-
Transfers to S2	(10,345)	10,345	-	-	-
Transfers to S3	-	-	-	-	-
Impact on ECL of transfers	-	-	-	-	-
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	(3,657)	16	-	-	**(3,641)**
Gross carrying amount as at 31 December 2019	**473,034**	**10,361**	-	-	**483,395**

Notes to the Financial Statements

24 Provisions (continued)

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

24.1.1 Impairment losses on guarantees and other commitments (continued)

An analysis of charges in the corresponding ECL allowances in relation to guarantees issued is for the year ended 31 December 2020, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
ECL allowance as at 1 January 2020 under IFRS 9	**2,572**	**1,086**	-		**3,658**
New assets originated or purchased	546				**546**
Assets derecognized or repaid (excluding write offs)	(332)	(545)	-		**(876)**
Transfers to S1	541	(541)	-		-
Transfers to S2	(153)	153	-		**(0)**
Transfers to S3	-	-	-		-
Impact on ECL of transfers	(506)	1,183			**676**
Foreign exchange adjustments	134	8	-		**142**
Net NCR Charge	230	258	-	-	**488**
ECL allowance as at 31 December 2020	**2,802**	**1,344**	-	-	**4,146**

An analysis of charges in the corresponding ECL allowances in relation to guarantees issued is for the year ended 31 December 2019, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
ECL allowance as at 1 January 2019 under IFRS 9	**2,523**	**46**	-	-	**2,569**
New assets originated or purchased	1,124	-	-	-	**1,124**
Assets derecognized or repaid (excluding write offs)	(379)	(46)	-	-	**(425)**
Transfers to S1	-	-	-	-	-
Transfers to S2	(675)	675	-	-	-
Transfers to S3	-	-	-	-	-
Impact on ECL of transfers	-	410	-	-	**410**
Foreign exchange adjustments	(21)	1	-	-	**(20)**
Net NCR Charge	49	1,040	-	-	**1,089**
ECL allowance as at 31 December 2019	**2,572**	**1,086**	-	-	**3,658**

Notes to the Financial Statements

24 Provisions (continued)

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

24.1.1 Impairment losses on guarantees and other commitments (continued)

(iii) Letters of credit

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. Details of the Bank's internal grading system are explained in Note 27 and policies on whether ECLs are calculated on an individual or collective basis are set out in Note 27:

	31 December 2020				
	Stage 1 Collective	**Stage 2 Collective**	**Stage 3 Collective**	**Stage 3 Individual**	**Total**
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	12,237	2,352	-	-	**14,589**
Past due but not impaired	-	-	-	-	-
Non-performing	-	-	-	-	-
Individually impaired	-	-	-	-	-
Total	**12,237**	**2,352**	-	-	**14,589**

	31 December 2019				
	Stage 1 Collective	**Stage 2 Collective**	**Stage 3 Collective**	**Stage 3 Individual**	**Total**
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	17,289	-	-	-	**17,289**
Past due but not impaired	-	-	-	-	-
Non-performing	-	-	-	-	-
Individually impaired	-	-	-	-	-
Total	**17,289**	-	-	-	**17,289**

Notes to the Financial Statements

24 Provisions (continued)

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

24.1.1 Impairment losses on guarantees and other commitments (continued)

An analysis of charges in the gross carrying amount in relation to letters of credit is for the year ended 31 December 2020, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
Gross carrying amount as at 1 January 2020	**17,289**	-	-	-	**17,289**
New assets originated or purchased	2,352	-	-		**2,352**
Assets derecognized or repaid (excluding write offs)	(5,607)	-	-		**(5,607)**
Transfers to S1	-	-	-	-	-
Transfers to S2	(2,352)	2,352	-	-	-
Transfers to S3	-	-	-	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-			-
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	555	-	-		**555**
Gross carrying amount as at 31 December 2020	**12,237**	**2,352**	-	-	**14,589**

An analysis of charges in the gross carrying amount in relation to letters of credit is for the year ended 31 December 2019, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
Gross carrying amount as at 1 January 2019	**28,993**				**28,993**
New assets originated or purchased	6,373	-	-	-	**6,373**
Assets derecognized or repaid (excluding write offs)	(18,079)	-	-	-	**(18,079)**
Transfers to S1	-	-	-	-	-
Transfers to S2	-	-	-	-	-
Transfers to S3	-	-	-	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-			-
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	2	-	-	-	2
Gross carrying amount as at 31 December 2019	17,289	-	-	-	17,289

Notes to the Financial Statements

24 Provisions (continued)

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

24.1.1 Impairment losses on guarantees and other commitments (continued)

An analysis of charges in the corresponding ECL allowances in relation to letters of credit is for the year ended 31 December 2020, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
ECL allowance as at 1 January 2020 under IFRS 9	94	-	-	-	**94**
New assets originated or purchased	177				**177**
Assets derecognized or repaid (excluding write offs)	(26)	-	-		**(26)**
Transfers to S1	-	-	-	-	**-**
Transfers to S2	(177)	177	-	-	**-**
Transfers to S3	-	-	-	-	**-**
Foreign exchange adjustments	3	0	0		**3**
Net NCR Charge	**(23)**	**177**	-	-	**154**
ECL allowance as at 31 December 2020	**71**	**177**	-	-	**248**

An analysis of charges in the corresponding ECL allowances in relation to letters of credit is for the year ended 31 December 2019, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
ECL allowance as at 1 January 2019 under IFRS 9	**158**				**158**
New assets originated or purchased	35	-	-	-	**35**
Assets derecognized or repaid (excluding write offs)	(99)	-	-	-	**(99)**
Transfers to S1	-	-	-	-	**-**
Transfers to S2	-	-	-	-	**-**
Transfers to S3	-	-	-	-	**-**
Foreign exchange adjustments	-	-	-	-	**-**
Net NCR Charge	**(64)**	-	-	-	**(64)**
ECL allowance as at 31 December 2019	**94**	-	-	-	**94**

Notes to the Financial Statements

24 Provisions (continued)

24.2 Other provisions and contingent liabilities

Contingent liabilities

As of 31 December 2020, and 2019 the Bank acts as plaintiff in a number of litigation cases.

Legal claims

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

The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year-end, the Bank had several unresolved legal claims, for which provisions have been made in these financial statements. The two most significant ones being in respect of a claim on disputed unauthorized withdrawal of means from a third party current account, disputed penalties due to tax authorities and another related to claims from a third party on removal of sequester from its' debtors account. The possible outflow which could result from such litigation, based on the current status of the legal proceeding, is estimated to be MDL'000 239 (2019: MDL'000 239) (Note 21) while the timing of the outflow is uncertain.

Notes to the Financial Statements

25 Issued capital

The list of major shareholders as of 31 December 2020 is presented below:

	2020		
	Shareholding	**Number of shares '000**	**Value**
(in thousands MDL)			
OTP BANK NYRT, Hungary	98.26%	9,826	98,258
Other legal entities (<10%)	0.10%	9	98
Other individuals (<10%)	1.58%	159	1,588
Treasury shares	0.06%	6	56
	100.00%	**10,000**	**100,000**
Less: Treasury shares			(56)
Issued capital			**99,944**

The list of major shareholders as of 31 December 2019 is presented below:

	2019		
	Shareholding	**Number of shares '000**	**Value**
(in thousands MDL)			
OTP BANK NYRT, Hungary	98.26%	9,826	98,258
Other legal entities (<10%)	0.10%	9	98
Other individuals (<10%)	1.58%	159	1,588
Treasury shares	0.06%	6	56
	100.00%	**10,000**	**100,000**
Less: Treasury shares			(56)
Issued capital			**99,944**

As of 31 December 2020 all shares are ordinary and have a nominal value of MDL 10 (31 December 2019: MDL 10). As of 31 December 2020 the total authorized share capital in amount of 10 million of ordinary shares was fully paid in.

26 Fair value of financial instruments

26.1 Fair value estimations

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

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

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

***Debt instruments at amortized cost*:** Fair value for financial investments classified as loans and receivable is based on prices obtained from new issue market and are included in the Level 2 fair value hierarchy. The National Bank Certificates and State Securities above 1year are generally highly liquid, but not actively traded in active markets, thus the Bank considered that the fair value of these instruments are presumed to be equal to the carrying amount.

***Deposits from banks and customers*:** For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the balance sheet date. The estimated fair value of fixed-maturity deposits is based on discounted cash flows using rates available in industry publications and other industry materials.

***Borrowings from IFI's*:** Loans from banks and companies are carried at cost which approximates their fair value because these instruments have short maturity terms or bear a floating interest rate to reflect the market changes. The estimated fair value of borrowings from IFI's represents the discounted amount of future cash flows expected to be paid. The discounted rate represents average interest rate of deposits with maturity up to 1 year which is published by National Bank of Moldova.

26.2 Determination of fair value and fair value hierarchy

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

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data. In arriving at fair value for the items in this hierarchy the Bank is using industry publications and other industry materials with relevant data on pricing. The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

26 Fair value of financial instruments (continued)

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

	Level 1	Level 2	Level 3	Total
(in thousands MDL)				
31 December 2020				
Financial assets				
Assets measured at fair value on a recurring basis				
Treasury bills issued by the Ministry of Finance	-	3,496	-	3,496
Equity investments at FVPL	-	-	1,031	1,031
Other financial assets not measured at Fair Value on a recurring basis				-
Placements with Central Bank	3,516,247	-		3,516,247
Due from banks	1,112,427	-		1,112,427
Debt instruments at amortized cost	-	1,342,223	-	1,342,223
Loans and advances to customers		-	7,710,196	7,710,196
	4,628,674	1,345,719	7,711,227	13,685,620
Financial liabilities				
Deposits from banks	-	-	2,565	2,565
Borrowings from IFI's	-	338,461		338,461
Deposits from customers	-	-	12,226,436	12,226,436
		338,461	**12,229,001**	**12,567,462**

	Level 1	Level 2	Level 3	Total
(in thousands MDL)				
31 December 2019				
Financial assets				
Assets measured at fair value on a recurring basis				
Treasury bills issued by the Ministry of Finance	-	2,214	-	**2,214**
Equity investments at FVPL	-	-	1,031	**1,031**
Other financial assets not measured at Fair Value on a recurring basis				
Placements with Central Bank	2,957,362	-		**2,957,362**
Due from banks	1,786,012	-		**1,786,012**
Debt instruments at amortized cost	-	686,662	-	**686,662**
Loans and advances to customers	--	-	6,024,317	6,024,317
	4,743,374	**688,876**	**6,025,348**	**11,457,598**
Financial liabilities				
Deposits from banks	-	-	715	**715**
Borrowings from IFI's	-	715,984		**715,984**
Deposits from customers	-	-	9,413,777	**9,413,777**
	-	**815,984**	**9,414,492**	**10,130,476**

Notes to the Financial Statements

26 Fair value of financial instruments (continued)

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

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

	2020		2019	
	Total carrying amount	**Fair value**	**Total carrying amount**	**Fair value**
(in thousands MDL)				
Financial assets				
Placements with Central Bank	3,516,247	3,516,247	2,952,617	2,952,617
Due from banks	1,112,427	1,112,427	1,790,757	1,790,757
Debt instruments at amortized cost	1,342,819	1,342,223	687,360	688,876
Loans and advances to customers	7,376,823	7,710,196	6,018,994	6,024,317
	13,348,317	**13,681,093**	**11,449,728**	**11,456,567**
Financial liabilities				
Due to banks	2,565	2,565	715	715
Borrowed funds from IFIs	339,314	338,461	719,910	715,984
Deposits from customers	11,767,700	12,226,436	9,410,606	9,413,777
	12,109,579	**12,567,462**	**10,131,231**	**10,130,476**

There were no reclassifications between financial assets and liabilities categories done in 2020 and 2019.

27 Risk management

27.1 Introduction and overview

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

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

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

Business environment and country risk

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

Risk management framework

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

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

27.1 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances customers and other banks and investment securities. Also, the Bank exposes itself to a credit risk in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees. The Bank Risk Division manages and controls credit risk having a complex matrix of individual competencies, monitoring the evolution of risk indicators per market segments and products, by setting limits on the share of portfolio per industry concentrations, and by monitoring exposures in relation to such limits.

Notes to the Financial Statements

27 Risk management (continued)

27.1 Credit risk (continued)

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

27.1.1 Impairment assessment

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

- The Bank's definition and assessment of default and cure (Note 27.1.2.1).
- An explanation of the Bank's internal grading system (Note 27.1.2.2)
- How the Bank defines, calculates and monitors the probability of default, exposure at default and loss given default) (Notes 27.1.2.3 and 27.1.2.4)
- When the Bank considers there has been a significant increase in credit risk of an exposure (Note 27.1.2.5)
- The Bank's policy of segmenting financial assets where ECL is assessed on a collective basis (Note: 17.1.2.6)
- The details of the ECL calculations for Stage 1, Stage 2 and Stage 3 assets (Note: 2.5.1.9.1(i))

For accounting purposes, the Bank uses an expected credit loss model for the recognition of losses on financial assets (Note 2.5.1.9 (ii)).

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

Notes to the Financial Statements

27 Risk management (continued)

27.1 Credit risk (continued)

27.1.2 Definition of default and cure

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

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

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

(39) In the case of the enterprise segment is defined as:

- The absolute threshold: 500 EUR (equivalent to the NBM exchange rate), or
- Relative threshold: the ratio of the client's total overdue debt exceeds 1% of the total amount of all on-balance sheet exposures.

As part of quality assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the events should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL or whether Stage 2 is appropriate. Such events include:

- Identifying a risk event that is likely to result in partial or total non-recovery of amounts due by the counterparty under the initial contract (irrespective of the sufficiency of the Guarantees or the existence of a Guarantor / Fiduciary), the cause being the significant deterioration of the debtor's financial situation; the exceeding of limits established for financial indicators mentioned below can be used as trigger for transferring into default, however the bank will not rely only on the value of those indicators and an individual analysis will be performed in order to assess the counterparty' financial situation and the necessity to transfer it in S3
- Recording credit delays (principal, interest, commissions) of at least 90 days (3 months). The occurrence of this incident will lead to the classification of the exposure to "Default", except for special circumstances that indicate that late payments result from causes unrelated to the debtor's situation
- The counterparty is the subject of legal proceedings in connection with the company's administrative difficulties (appointment of special administrator, seizure, winding-up by court order, summons to an international court, etc.) or an equivalent procedure under the law applicable in the debtor's country
- Identify a situation requiring a restructuring agreement for a forborne credit (any situation / event that results in credit restructuring) (except in cases of "commercial renegotiation": credits for performing (healthy) clients for which the bank for commercial reasons agrees to modify the conditions stipulated in the Initial Loan Agreement) generates the customer's inevitable reclassification in the default category)
- The occurrence of any situation that is defined in the credit agreement as a Non-Execution Event such as a covenant breach not waived by the Bank
- The loan is put for selling at a material credit related economic loss;

- Other triggers that can be considered as default event (based on expert assessment): information from public sources, breach of important covenants for other borrowing facilities not originated by the Bank, registered default in other banking/financial institution etc.

It is the Bank's policy to consider a financial instrument/exposure as "cured" and therefore re-classified out of Stage 3 when they no longer meet any of the above conditions, which means in particular that all late payments will be paid. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of cure, and whether this there has been a significant increase in credit risk compared to initial recognition. The healing period for "forborne" loans is 12 months after any grace periods granted after restructuring event.

The Bank is in continuous monitoring of any specific industry/BASEL/EBA/OTP Group requirements regarding classification of loans in risk categories to apply best market practice. EBA methodology, that is applicable starting from 2021, recommend using a probation period of up to 3 months after any "non-forborne" restructuring.

Notes to the Financial Statements

27 Risk management (continued)

27.1 Credit risk (continued)

27.1.3 The bank's internal rating and PD estimation process

The Bank's independent Credit Underwriting Department operates its internal rating models. The Bank runs separate models for its key portfolios in which its customers are rated. Following key portfolios are monitored:

<u>NON-RETAIL:</u>

Corporate and SME

This category includes loans granted to Corporate clients with turnover more that 100 million MDL and transnational companies and Small and Medium Enterprises with turnover between 20 and 100 million MDL, Banks and Sovereign, including State Securities portfolio.

For Corporate and SME the borrowers are assessed by specialize credit risk employees of the Bank. The credit risk assessment is based on a credit scoring model that takes into account various quantitative and qualitative factors regarding historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client: realized and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports or press releases and articles.
- Presence of legal cases, their status at assessment date
- Whether the loan is secured or unsecured
- Existence of indicator of forborne/non-forborne
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance: insolvency process,

<u>Classification of NON-RETAIL loans in risk stages</u>

Stage 1 – exposure of the counterparties that are not in S2 or S3, on regular basis have a maximum of days past due of 30 days. Under internal rating these exposures have the rating of:

- S1 Neither past due nor impaired – when the DPD is 0 days
- S1 Past due but not impaired – when the PDP is up to 30 days

Notes to the Financial Statements

27 Risk management (continued)

27.1 Credit risk (continued)

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

Stage 2 – exposures presenting signs of significant deterioration of credit risk since origination. Generally speaking this is determined by presence in Watch List. Other triggers considered by the Bank to show deterioration of credit risk for a counterparty to be moved from S1 to S2 are:

- Overdue payments of more than 30 days;
- Restructured loans under probation period (the ones migrated from S3 to S2);
- Other qualitative factors are taken into account such as deterioration of financial situation, breach of covenants etc.;

Under internal rating these exposures have the rating of S2 Past due but not impaired– when the DPD is more than 30 days but less than 90 days

Stage 3 – exposures that are in "default" as detailed in Note 27.1.2.1. Under internal rating these exposures have the rating of "impaired loans and securities".

RETAIL:

Consumer

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

Mortgage

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

Professionals and Very Small Business

Professionals and Very Small Business complies loans granted to less complex small business lending. These products are rated using similar risk indicators and for corporate and SME.

Classification of RETAIL loans in risk stages

Stage 1 – exposure of the counterparties that are not in S2 or S3, on regular basis have a maximum of days past due of 30 days. Under internal rating these exposures have the rating of:

- S1 Neither past due nor impaired – when the DPD is 0 days
- S1 Past due but not impaired – when the PDP is up to 30 days

Notes to the Financial Statements

27 Risk management (continued)

27.1 Credit risk (continued)

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

Stage 2 – exposures presenting signs of significant deterioration of credit risk since origination. Other triggers considered by the Bank to show deterioration of credit risk for a counterparty to be moved from S1 to S2 are:

- Overdue payments of more than 30 days;
- Restructured loans under probation period (the ones migrated from S3 to S2);
- Overdue payments of more than 30 days at least once in the last 12 months.

Under internal rating these exposures have the rating of S2 Past due but not impaired– when the DPD is more than 30 days but less than 90 days

Stage 3 – exposures that are in "default" as detailed in Note 27.1.2.1. Under internal rating these exposures have the rating of "impaired loans and securities". Specifically, the following indicators of default are monitored:

- Overdue payments of more than 90 days
- Restructured loans
- The hard recovery procedures started,
- Death of the debtor
- Fraud events identified

Notes to the Financial Statements

27 Risk management (continued)

27.1 Credit risk (continued)

27.1.4 Exposure at default

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

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

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

PD models are based on a two-step approach:

- Construction of the marginal curve of the TTC PD for each homogenous group;

  Calculation are based on the number of defaults on a quarterly basis from period starting with 01/01/2012. The survival rate is ignored, meaning that any default incurred during the observation period was considered as default in the calculation of PD, even at the reporting date the client's performance improved and any default that was recovered during the observation period was also considered in the calculation of PD.

- Adjusting the TTC PD curve taking into consideration the current situation and the impact of the forward-looking information.

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

27.1.5 Loss given default

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

27.1.6 Significant increase in credit risk

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

The Bank applies quantitative and qualitative methods for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne. In certain cases, the Bank may also consider that events explained in Note 27.1.2.2 are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

As a response to the pandemic crises and as a result of identification of heavily affected sectors (mainly HORECA, tourism and recreation services providers) declared as significant increased credit risk, the enterprise clients were transfer in Stage 2. The exceptions of those where the client's payment ability (DS) and going concern is fully ensured for the next 12 months from its own operating CF or other reserves (bank loans, owner's fund, other relief measures) – based on the Financial Statements of the first 9-10 months 2020, and considering cash flow projections based on these fact figures

Notes to the Financial Statements

27 Risk management (continued)

27.1 Credit risk (continued)

27.1.7 Grouping financial assets measured on a collective basis

As explained in Note 27.1.2 and 2.5.1.9.1 (i) dependent on the factors below the Bank calculates ECLs either on a collective or an individual basis.

Impairment assessment on individual basis

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

Impairment assessment on collective basis
The bank had classified loan portfolio in 6 homogeneous groups:

Corporate and SME

This category includes loans granted to Corporate clients with turnover more that 100 million MDL and transnational companies and Small and Medium Enterprises with turnover between 20 and 100 million MDL, Banks and Sovereign, including State Securities portfolio.

Consumer

Consumer lending comprise personal loans, credit cards and overdrafts and less complex small business lending.

Mortgage

Mortgage loans includes loans granted to individuals for financing a mortgage.

Professionals and Very Small Business

Complies loans granted to less complex small business lending.

Asset classes where the Bank calculates ECL on a collective basis include:

- Performing assets (Stage 1 and 2) from all segments;
- S3 assets from unsecured portfolios;
- S3 assets from secured portfolio (usually forborne loans or not significant exposures).

27.1.8 Analysis of collectively impaired assets

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

In order to assess the Forward looking coefficient, the Bank has determined the correlation between the dynamic of main macroeconomic indicators and evolution of PD and LGD, subsequently estimating the values for 2020-2023 time horizon, by applying the linear regression on forecasted figures for macro-indicators, for 3 different scenarios: base, optimistic and pessimistic (stress). Final values applied for FL are calculated based on a weighted average. PD has been calculated according to existing internal process. The assessment was done by homogenous group and by stage. Only strong correlations (above 0.5 or below -0.5) are considered relevant.

The main scenario inputs are included in the table bellow:

	Assigned Weight	2020	2021	2022	2023
Gross Domestic Product (GDP), y-o-y growth (real prices)					
optimistic	5%	-7.2%	4.9%	3.9%	3.9%
Base	60%	-7.2%	3.8%	3.7%	4.0%
pessimistic	35%	-7.2%	1.3%	1.3%	1.5%
EUR/MDL exchange rate (e-o-y data)					
optimistic	5%	20.98	21.48	22.32	23.03
Base	60%	20.98	21.84	22.69	23.41
pessimistic	35%	20.98	22.20	23.06	23.80
Inflation (e-o-y data)					
optimistic	5%	1.7%	6.0%	7.9%	6.5%
Base	60%	1.7%	3.6%	5.4%	5.0%
pessimistic	35%	1.7%	1.3%	2.9%	3.5%
Unemployment rate (e-o-y data)					
optimistic	5%	7.7%	5.0%	4.3%	3.8%
Base	60%	7.7%	6.5%	5.4%	4.3%
pessimistic	35%	7.7%	6.9%	6.0%	5.0%

(ii) Sensitivity Analysis of inputs to the ECL

The Bank elaborated four scenarios for sensitivity analysis, two are based on increasing/decreasing of PD by 5 basis points while LGD remains the same, and the last two are based on increasing/decreasing of LGD by 10 basis points while PD remains the same.

(in thousands MDL)	Total Provision 2020 Real Booked	Change in basis points of PD	Total Provision Simulation	Increase/Decrease in Total Stock of Provision, MDL	Increase/Decrease in Total Stock of Provision, %
Retail	199,205	+ 5%	289,411	90,206	45%
		- 5%	179,229	(19,976)	-10%
Non-Retail	119,415	+ 5%	190,507	71,093	60%
		- 5%	95,753	(23,662)	-20%
	318,619				

Notes to the Financial Statements

27 Risk management (continued)

27.1 Credit risk (continued)

27.1.8 Analysis of collectively impaired assets (continued)

(in thousands MDL)	Total Provision 2020 Real Booked	Change in basis points of PD	Total Provision Simulation	Increase/Decrease in Total Stock of Provision, MDL	Increase/Decrease in Total Stock of Provision, %
Retail	199,205	+ 10%	219,792	20,587	10%
		- 10%	158,879	(40,325)	-20%
Non-Retail	119,415	+ 10%	115,266	(4,149)	-3%
		- 10%	84,587	(34,827)	-29%
	318,619				

Under the regular stress testing exercises, the Bank assessed the sensitivity of its loss experience to changes in its key risk parameters as of 31 December 2019. Two adverse scenarios, stress and worst, characterized by a progressive deterioration of the macroeconomic context both at a national and international level were used to assess the impact, amongst other elements, on the default rate and recovery rate pertaining to credit portfolio.

The Bank elaborated four scenarios for sensitivity analysis, two are based on increasing/decreasing of PD by 5 basis points while LGD remains the same, and the last two are based on increasing/decreasing of LGD by 10 basis points while PD remains the same.

Change in PD by 5%:

(in thousands MDL)	Total Provision 2019 Real Booked	Change in basis points of PD	Total Provision Simulation	Increase/Decrease in Total Stock of Provision, MDL	Increase/Decrease in Total Stock of Provision, %
Retail	99,361	+ 5%	173,119	73,759	74%
		- 5%	83,297	(16,064)	-16%
Non-Retail	148,231	+ 5%	199,529	51,298	35%
		- 5%	116,003	(32,229)	-22%
	247,592				

Notes to the Financial Statements

27 Risk management (continued)

27.1 Credit risk (continued)

27.1.8 Analysis of collectively impaired assets (continued)

Change in LGD by 10%:

(in thousands MDL)	Total Provision 2019 Real Booked	Change in basis points of PD	Total Provision Simulation	Increase/Decrease in Total Stock of Provision, MDL	Increase/Decrease in Total Stock of Provision, %
Retail	99,361	+ 10%	96,918	(2,443)	-2%
		-10%	76,054	(23,307)	-23%
Non-Retail	148,231	+ 10%	139,749	(8,482)	-6%
		- 10%	105,183	(43,049)	-29%
	247,592				

27.1.9 Overview of modified and forborne loans

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

	as at 31 December 2020		as at 31 December 2019	
	Gross carrying amount	**Corresponding ECL**	**Gross carrying amount**	**Corresponding ECL**
Facilities that have cured since modification and are now measured using 12mECLs (Stage 1)	-	-	4,084	39
Facilities that reverted to (Stage 2/3) LTECLs having once cured	190	114	-	-

Notes to the Financial Statements

27 Risk management (continued)

27.1 Credit risk (continued)

Carrying amount by class of financial assets that had the forborne status as of 31 December 2020 and 2019 is analyzed below:

Forborne Loans	31 December 2020	31 December 2019
(in thousands MDL)		
Loans and advances to customers		
Performing		
Corporate and SME	17,177	1,805
Consumer	7,581	64
Mortgage	979	619
PRO/VSB	24,211	6,355
	49,948	**8,843**
NON-Performing		
Corporate and SME	22,020	15,765
Consumer	9,164	341
Mortgage	4,823	812
PRO/VSB	42,139	6,124
	78,146	**23,042**

27.1.10 Covid-19 Client aid programs and Credit policy adjustments

On March 17, 2020, the Government of Moldova declared a state of emergency throughout the Republic of Moldova in connection with the epidemiological situation due to COVID-19 infection, and in March economic decisions were taken to respond to the economic effects of COVID-19. The NBM provides banks with the necessary tools to support the operational continuity of the banking system and adopted measures to mitigate the impact of the general coronavirus epidemic on the banking sector, the population and the business environment.

As a result, NBM adopted the following measures:

1. Approved a decision allowing licensed banks to defer or change the due dates of payments and / or the amounts of payments due by June 30, 2020 to loans to economic operators. The modification of the mentioned terms will not have the effect of automatically classifying the respective credits in a tougher category than the one existing at the date of adoption of this decision. Related to this NBM decision the bank performed the modification of terms for the 181 clients with an exposure of MDL'000 697,015.
2. It approved a decision allowing the licensed banks to flexibly manage the payment obligations of individuals in difficulty of paying for the contracted loans, in conditions of urgency. Changing the payment deadlines and / or the amounts of payments on these appropriations by 31 July 2020

will not have the effect of classifying them in a tougher category than the one existing at the date of adoption of this Decision. The decision does not concern new appropriations granted during that period. Related to this NBM decision the bank performed the modification of terms for the 2,246 clients with an exposure of MDL'000 288,940.

Measures adopted by Bank as a response to COVID-19 crises:

- For enterprise clients there was adopted a payment moratoria for instalments due till 31 of May, and with the possibility to request modification of terms for this instalments till 30 of June 2020. This measure was adopted in accordance with NBM decision;

- For private individual clients there was adopted a payment moratoria for instalments due till 31 of May, and with the possibility to request modification of terms for this instalments till 30 of June 2020. This measure was adopted in accordance with NBM decision;

- The calculation of the overdue penalties were cancelled till 31 of December 2020, for the period starting with declared a state of emergency throughout the Republic of Moldova in connection with the epidemiological situation due to COVID-19 infection;

- Related to Credit Policy in order to reduce the risk appetite in pandemic period, Bank adopted new temporary restrictions mainly related to heavily impact economic sectors, refinancing activities, FX lending for enterprise clients. For private individuals the temporary restrictions where mainly related to heavily impact economic sectors/professions, employment type, income elements and residential status.

27.1.11 Analysis of risk concentration

The major concentrations of credit risk arise by location and type of customer in relation to the Bank investments, loans and advances and guarantees issued. The Bank has no significant exposure to any individual customer or counterparty. The Bank's lending activities are conducted in the Republic of Moldova. The ability of borrowers to repay their debt is dependent on a number of factors including the overall financial wealth of the borrower and the Moldovan economy. The loan portfolio comprises loans to approximately 2,822 legal entities (2019: 2,725) and 75,657 individuals (2019: 74,262).

The maximum credit exposure to any client or counterparty as of 31 December 2020was at MDL'000 202,413 (2019: MDL'000 182,866).

As at 31 December 2020 ten major net exposures have a total outstanding balance of MDL'000 1,086,927 (31 December 2019: MDL'000 974,774)

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk for the components of the balance sheet. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

Notes to the Financial Statements

27 Risk management (continued)

27.1 Credit risk (continued)

27.1.10 Analysis of risk concentration (continued)

(in thousands MDL)	Note	31 December 2020	31 December 2019
Placements with Central Bank	12	3,516,442	2,952,617
Due from banks	13	1,112,475	1,790,757
Debt instruments at amortized cost	15	1,342,824	685,146
Loans and advances to customers	14	7,683,213	6,255,355
Other assets		59,925	52,522
Total		**13,714,879**	**11,736,397**
Commitments	27.3	1,478,242	1,559,464
Total credit risk exposure		**15,193,121**	**13,295,861**

Industry analysis

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

An analysis of concentrations of credit risk as of 31 December 2020, shown below:

(in thousands MDL)	Loans and advances to customers	Due from banks	Debt instruments at amortized cost	Financial assets at FV through PL
Concentration by sector				
Sovereign			1,342,824	
Central Bank		3,516,442		
Commercial banks		1,112,475		
Individuals	4,177,564			
Corporate customers	3,505,649			1,031
Off balance sheet items:				
Individuals	108,007			
Corporate customers	1,370,234			
	9,161,454	**4,628,917**	**1,342,824**	**1,031**
Concentration by location				
Moldova	7,035,400	3,513,353	1,342,824	1,031
CIS*[2]	1,718	4,560		
EU	200,298	1,084,293		
USA		15,795		
Other	139,408	10,914		
	7,376,824	**4,628,915**	**1,342,824**	**1,031**

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

Notes to the Financial Statements

27 Risk management (continued)

27.1 Credit risk (continued)

27.1.10 Analysis of risk concentration (continued)

An analysis of concentrations of credit risk as of 31 December 2019, shown below:

(in thousands MDL)	Loans and advances to customers	Due from banks	Debt instruments at amortized cost	Financial assets at FV through PL
Concentration by sector				
Sovereign	-	-	685,146	-
Central Bank	-	2,952,617	-	-
Commercial banks	-	1,790,757	-	1
Individuals	2,615,830	-	-	-
Corporate customers	3,403,164	-	-	1,030
Off balance sheet items:				
Individuals	98,712	-	-	-
Corporate customers	1,449,532	-	-	-
	7,567,238	**4,743,374**	**685,146**	**1,031**
Concentration by location				
Moldova	6,011,909	2,950,072	685,146	1,031
CIS	2,026	19,463	-	-
EU	251	1,669,295	-	-
USA	0	8,242	-	-
Other	4,808	96,302	-	-
	6,018,994	**4,743,374**	**685,146**	**1,031**

Ageing analysis of loans by class of financial assets as of 31 December 2020 and 2019 is presented below:

	Stage 1		Stage 2				Stage 3					Total
	Not past due	**Less than 30 days**	**Not past due**	**Less than 30 days**	**31 to 60 days**	**61 to 90 days**	**Not past due**	**Less than 30 days**	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	
(in thousands MDL)												
Loans and advances to customers												
31-Dec-19												
Corporate and SME	3,172,583	70,114	159,829	203	0	0	9,477	11,675	1,404	727	79,637	**3,505,649**
Consumer	1,428,030	54,831	41,108	16,461	11,502	5,499	11,743	3,320	1,485	2,512	28,292	**1,604,783**
Mortgage	1,605,234	50,621	35,290	18,194	11,012	3,777	12,384	1,730	2,682	860	19,376	**1,761,160**
PRO/VSB	617,667	32,338	64,859	13,534	2,703	2,895	33,181	5,179	7,319	3,891	28,055	**811,621**
	6,823,514	**207,904**	**301,086**	**48,392**	**25,217**	**12,171**	**66,785**	**21,904**	**12,890**	**7,990**	**155,360**	**7,683,213**
31-Dec-19												
Corporate and SME	2,449,465	58,181	247,664	3,677	0	0	15,248	8,486	32,088	14,584	38,293	**2,867,686**
Consumer	1,368,305	60,258	15,259	10,982	8,452	3,031	2,244	631	121	814	12,469	**1,482,566**
Mortgage	1,074,223	36,153	11,136	14,550	7,998	4,048	2,524	102	4	531	5,434	**1,156,703**
PRO/VSB	657,892	31,537	11,233	13,264	3,563	1,002	3,862	1,397	196	1,111	23,343	**748,400**
	5,549,885	**186,129**	**285,292**	**42,473**	**20,013**	**8,081**	**23,878**	**10,616**	**32,409**	**17,040**	**79,539**	**6,255,355**

Notes to the Financial Statements

27 Risk management (continued)

27.1 Credit risk (continued)

27.1.10 Analysis of risk concentration (continued)

An analysis of loans and advances to customers by customer type and industry as of 31 December 2020 and 2019 is presented below:

(in thousands MDL)	31 December 2020	31 December 2019
Loans to individuals		
Consumer loans	1,508,457	1,382,046
Mortgage loans	1,763,401	1,156,654
	3,271,858	**2,538,700**
Less allowance for impairment losses Consumer Loans	(72,109)	**(36,253)**
Less allowance for impairment losses Mortgage Loans	(35,710)	(17,517)
Net loans to individuals	**3,164,039**	**2,484,930**
Loans to corporate customers		
Industry and commerce	3,009,034	2,606,153
Agriculture and food industry	628,834	526,341
Fuel and energy	11,149	9,198
Construction and development	462,363	282,601
Overdrafts	11,720	10,381
Micro-enterprises	155,902	148,123
Other	132,353	133,858
	4,411,355	**3,716,655**
Less allowance for impairment losses		
Industry and commerce	(124,803)	(130,542)
Agriculture and food industry	(30,363)	(29,752)
Fuel and energy	(163)	(712)
Construction and development	(10,592)	(6,449)
Overdrafts	(4,194)	(4,020)
Micro-enterprises	(24,594)	(7,712)
Other	(3,862)	(3,402)
Net loans to corporate customers	**4,212,784**	**3,534,064**
Total net loans and advances to customers	**7,376,823**	**6,018,994**

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

Notes to the Financial Statements

27.1.11 Collateral and other enhancements

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

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

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use. The Bank uses 3 ways of trading goods in its possession:

- by publishing advertisements in the media
- by auction, namely by contracting services for the organization of auctions
- through real estate companies

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, stock of materials and equipment as well as corporate guarantees and cash deposits. The fair value of collateral placed against individually impaired loans as of 31 December 2020 is estimated at MDL'000 33,934 (31 December 2019: MDL'000 37,907). The fair value of collateral placed against past due but not impaired loans as of 31 December 2020 is estimated at MDL'000 194,824 (31 December 2019: MDL'000 237,835).

Collateral generally is held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held as of 31 December 2020 and 2019.

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

Notes to the Financial Statements

27 Risk management (continued)

27.1 Credit risk (continued)

27.1.12 Collateral and other enhancements (continued)

(in thousands MDL)	Maximum exposure to credit risk	Cash	Securities	3rd party guarantees	Property	Other	Surplus of collateral	Total collateral	Net exposure	Associated ECLs
31 December 2020										
Corporate and SME	3,396,327	60,753	39,578	933,460	2,069,590	2,217,259	(2,244,888)	5,320,640		109,322
Consumer	1,526,189	19,846	-	1,183	146,358	14,271	(92,528)	181,658	1,344,531	78,594
Mortgage	1,725,456	18,582	-	150,175	2,246,485	5,430	(705,952)	2,420,672		35,704
PRO/VSB	728,851	4,274	-	66,250	759,597	456,913	(594,147)	1,287,034		82,770
Commitments to grant loans	960,205	-	1	15,994	224,984	339,531	(580,421)	580,510	379,695	7,836
Financial guarantees	491,465	26,311	-	16,004	119,245	66,915	(228,475)	228,475	262,990	4,146
Letters of credit	14,341	-	-	1,882	14,281	18,258	(34,421)	34,421		248
Total	**8,842,834**	**129,766**	**39,579**	**1,184,948**	**5,580,540**	**3,118,577**	**-4,480,831**	**10,053,410**	**1,987,216**	**318,620**
31 December 2019										
Corporate and SME	2,729,277	51,810	39,448	539,758	2,048,291	2,148,583	(2,021,051)	4,827,890		138410
Consumer	1,440,199	7,408	-	-	106,295	9,417	(51,990)	123,120	1,317,079.00	42,367
Mortgage	1,139,186	17,465	-	63,564	1,584,808	2,287	(497,648)	1,668,124		17,517
PRO/VSB	710,333	5,685	-	53,923	758,923	399,111	(540,125)	1,217,642		38,067
Commitments to grant loans	1,051,312	1,523	-	4,131	101,823	233,264	(338,322)	340,741	710,571.00	7,467
Financial guarantees	479,737	25,289	-	25,402	110,376	75,689	(234,260)	236,756	242,981.00	3,658
Letters of credit	17,195	-	-	1,490	9,533	7,712	(18,735)	18,735		94
Total	**7,567,239**	**109,180**	**39,448**	**688,268**	**4,720,049**	**2,876,063**	**(3,702,131)**	**8,433,008**	**2,270,631**	**247,580**

Notes to the Financial Statements

27 Risk management (continued)

27.1 Credit risk (continued)

27.1.11 Collateral and other enhancements (continued)

The below tables provide an analysis of the current fair values of collateral held and credit enhancements for stage 3 assets

(in thousands MDL)	Maximum exposure to credit risk	Cash	Securities	3rd party guarantees	Property	Other	Surplus of collateral	Total collateral	Net exposure	Associated ECLs
31 December 2020										
Corporate and SME	55,804	-	-	14,505	84,203	47,319	(90,332)	146,027		47,116
Consumer	12,750	2,958	-	-	11,056	834	(11,694)	14,848		34,601
Mortgage	19,930	-	-	1,426	54,658	-	(36,135)	56,084		17,102
PRO/VSB	26,481	46	-	4,316	63,023	45,097	(86,499)	112,482		51,144
Commitments to grant loans	224	-	-	-	1	-	(1)	1	223	126
Financial guarantees	-	-	-	-	-	-	-	-	-	-
Letters of credit	-	-	-	-	-	-	-	-	-	-
Total	**115,189**	**3,004**	-	**20,247**	**212,941**	**93,250**	**(224,661)**	**329,442**	**223**	**150,089**
31 December 2019										
Corporate and SME	50,806	-	-	25,935	94,021	466,528	(122,088)	586,484		57,894
Consumer	3,779	-	-	-	2,085	449	(1,376)	2,534	1,245	12,498
Mortgage	2,196	-	-	-	16,863	-	(14,367)	16,863		6,398
PRO/VSB	5,704	-	-	-	31,935	11,466	(36,139)	43,401		24,204
Commitments to grant loans	203	-	-	-	-	-	-	-	203	40
Financial guarantees	-	-	-	-	-	-	-	-	-	-
Letters of credit	-	-	-	-	-	-	-	-	-	-
Total	**62,688**	-	-	**25,935**	**144,904**	**478,443**	**(173,970)**	**649,282**	**1,448**	**101,034**

Notes to the Financial Statements

27 Risk management (continued)

27.2 Liquidity risk and funding management

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

Management of liquidity risk

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

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

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

The table below summarizes the maturity profile of the Bank's financial liabilities at 31 December 2020 and 2019 based on contractual undiscounted repayment obligations.

(in thousands MDL)	**Total**	**Less 1 month**	**Between 1 month and 1 year**	**Between 1 and 5 years**	**More than 5 years**
As at 31 December 2020					
Due to banks and to customers	11,908,596	1,031,551	4,851,150	4,099,281	1,926,613
Debt issued and other borrowings	339,332	26,866	180,100	130,684	1,682
Financial guarantees, Letters of credits, Other undrawn commitments	1,478,241		56,980	1,183,282	237,978
Total financial liabilities	**13,726,169**	**1,058,417**	**5,088,230**	**5,413,247**	**2,166,273**
As at 31 December 2019					
Due to banks and to customers	**9,429,857**	809,252	4,150,886	3,011,220	1,458,499
Financial guarantees, Letters of credits, Other undrawn commitments	1,559,646		43,612	1,317,174	198,678
Debt issued and other borrowings	**719,951**	72,561	499,900	145,142	2,348
Total financial liabilities	**11,709,454**	**881,813**	**4,694,398**	**4,473,536**	**1,659,525**

Notes to the Financial Statements

27 Risk management (continued)

27.3 Market risk

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

As of the end of 2020 did hold a small trading portfolio of State Securities (3.6 million MDL). This portfolio was constituted considering the regulatory requirements imposed by NBM. In Q3 2018, NBM updated its Regulation related to placement, trading and redemption of state securities, within which new requirements for primary dealers (the Bank has the license of primary dealer) have been established, including the minimum obligation for daily listing/quotation of State Securities. The obligation of daily listing provides 2 conditions to be respected:

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

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

27.3.1 Interest rate risk

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

The sensitivity on net interest income of the Bank is analysed separately for variable rates (as effect of interest rate changes for variable rate assets and liabilities) and fixed rates (by revaluing fixed rate financial assets for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve). According to financial market evolution, the Bank estimates a fluctuation of +/- 10 basis points for its assets and liabilities, and determines the impact of this fluctuation on the net interest income.

Additional to that the Bank calculates 2 non-parallel stressed interest rate shocks (NIRUP – non-parallel interest rate up and NIRDW – non-parallel interest rate down) that represent two scenarios of directional risk, with a global increase/decrease of interest rates.

For the NIRUP /NIRDW the calibration has been defined as follow:

- in all currencies the level proposed is a multiplier applied to the 100bp shocks computation.
- the multiplier is defined as 50% of the maximum of the stressed shocks for NIRUP and for NIRDW observed on any of the currencies of OTP Group.
- For each of the currencies on which a limit is defined for Mobiasbanca: MDL, EUR and USD the level proposed is a multiplier applied to the 100bp shocks computation. The multiplier is defined as the maximum of the stressed shocks for NIRUP and for NIRDW observed on each of these framed currencies.

The new limits were approved on ALCO June 2020. The limits are based on current structure of assets.

Notes to the Financial Statements

27 Risk management (continued)

27.3 Market risk (continued)

27.3.1 Interest rate risk (continued)

A coefficient of 0.2% is applied from total assets, for parallel shocks (+/- 10 bps) threshold and 1.2% for stress tests threshold (NIRUP/NIRDW). The limits is 1.25*Threshold.

	Change in basis points	Threshold set for profit or loss	Limit set for profit or loss	Sensitivity of profit or loss			Sensitivity of equity	31 December 2020
(in thousands MDL)				6 months to 1 year	1 to 5 years	> 5 years		Total
MDL	+10	16,087	20,109	-416	-891	4,656	8,193	3,349
EUR	+10	8,138	10,173	36	604	5,157	-	5,797
USD		2,215	2,769	98	437	1,585		2,120
Other	+10	320	400	1	-315	26	-	-287
Total		26,761	33,451	-281	-165	11,424	-	10,978
		-	-					
MDL	-10	-16,087	-20,109	417	893	-4,686	-8,247	-3,376
EUR	-10	-8,138	-10,173	-36	-607	-5,229	-	-5,872
USD		-2,215	-2,769	-98	-439	-1,605		-2,141
Other	-10	-320	-400	-1	316	-26	-	288
Total		-26,761	-33,451	281	163	-11,546	-	-11,101

	Change in basis points	Threshold set for profit or loss	Limit set for profit or loss	Sensitivity of profit or loss			Sensitivity of equity	31 December 2019
(in thousands MDL)				6 months to 1 year	1 to 5 years	> 5 years		Total
MDL	+10	1,156	193	(302)	380	4,687	7,524	**4,765**
EUR	+10	1,926	1,733	315	632	4,064	-	**5,011**
Other	+10	-	-	77	95	908	-	**1,080**
Total		**3,852**	**2,696**	**90**	**1,107**	**9,659**	-	**10,856**
MDL	-10	(8,475)	(9,438)	303	(384)	(4,724)	(7,572)	**(4,805)**
EUR	-10	(3,852)	(4,045)	(316)	(635)	(4,119)	-	**(5,070)**
Other	-10	-	-	(77)	(96)	(-920)	-	**(1,093)**
Total		**(11,749)**	**(12,712)**	**(90)**	**(1,115)**	**(9,763)**	-	**(10,968)**

Notes to the Financial Statements

27 Risk management (continued)

27.3 Market risk (continued)

27.3.1 Interest rate risk (continued)

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

	Carrying amount	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing
(in thousands MDL)						
As at 31 December 2020						
Assets						
Cash and Balances with Central Bank	**4,155,522**	1,247,051	758,388	991,922	519,080	639,081
Due from Banks	**1,112,475**	505,347	95,862	511,265	0	0
Financial assets at fair value through profit and loss	**4,528**	3,497	0	0	0	1,031
Loans and advances to customers	**7,376,823**	1,856,892	1,814,465	2,875,267	830,199	0
Debt instruments at amortized cost	**1,342,824**	1,135,058	207,761	5	0	0
	13,992,172	**4,747,846**	**2,876,476**	**4,378,459**	**1,349,278**	**640,112**
Liabilities						
Due to Banks	**2,565**	2,565	0	0	0	0
Due to Customers	**11,767,700**	4,766,515	2,243,570	3,052,099	1,705,516	0
Debt issued and other borrowed funds	**339,314**	128,586	202,197	8,531	0	0
	12,109,579	**4,897,667**	**2,445,767**	**3,060,629**	**1,705,516**	**0**
Total interest sensitivity gap	**1,882,593**	**(149,820)**	**430,709**	**1,317,830**	**(356,238)**	**640,112**
Derivative used for risk management	**0**	0	0	0	0	0
Total interest sensitivity gap after risk management	**1,882,593**	**(149,820)**	**430,709**	**1,317,830**	**(356,238)**	**640,112**

Notes to the Financial Statements

27 Risk management (continued)

27.3 Market risk (continued)

27.3.1 Interest rate risk (continued)

	Carrying amount	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing
(in thousands MDL)						
As at 31 December 2019						
Assets						
Cash and Balances with Central Bank	**3,427,252**	676,203	1,027,462	858,792	390,160	474,635
Due from Banks	**1,790,757**	1,339,854	71,195	379,708	-	-
Financial assets at fair value through profit and loss	**3,257**	2,226	-	-	-	1,031
Loans and advances to customers	**6,018,994**	1,589,646	1,429,564	2,561,502	438,282	-
Debt instruments at amortized cost	**685,146**	469,773	215,361	12	-	-
	11,925,406	**4,077,702**	**2,743,582**	**3,800,014**	**828,442**	**475,666**
Liabilities						
Due to Banks	**715**	715	-	-	-	-
Due to Customers	**9,410,606**	2,210,804	3,136,365	2,757,373	1,306,064	-
Debt issued and other borrowed funds	**719,910**	505,986	208,140	5,784	-	-
	10,131,231	**2,717,505**	**3,344,505**	**2,763,157**	**1,306,064**	-
Total interest sensitivity gap	**1,794,175**	**1,360,196**	**(600,923)**	**1,036,858**	**(477,623)**	**475,666**
Derivative used for risk management	-	-	-	-	-	-
Total interest sensitivity gap after risk management	**1,794,175**	**1,360,196**	**(600,923)**	**1,036,858**	**(477,623)**	**475,666**

Notes to the Financial Statements

27 Risk management (continued)

27.3 Market risk (continued)

27.3.2 Interest rate risk (continued)

Overall level of NPV sensitivity is in line with the thresholds and limits on all terms.

As of the end of 2020, the Bank has an overshoot of USD sensitivity. The main issue comes from short term USD NPV sensitivity. Sight and savings accounts in USD are deemed to be considered as fixed rate in the model, though are variable or rate free based on contractual terms, by which management believes that the interest rate risk is remote, due to the ability of the Bank to adjust the variable rate when needed.

Overshoot of USD sensitivity is to be analyzed for next ALCO and corresponding measures will be approved if necessary.

The results of non-parallel stressed interest rate shocks (NIRUP and NIRDW) at 31 December 2020 can be analyzed as follows:

(in thousands MDL)	MDL	EUR	USD	Other	Total
NIRUP	217,179	109,864	29,908	4,325	361,276
Threshold	96,524	48,828	13,292	-	160,567
Limit	120,655	61,035	16,615	-	200,709
NIRDW	(217,179)	(109,864)	(29,908)	(4,325)	(361,276)
Threshold	(96,524)	(48,828)	(13,292)	-	(160,567)
Limit	(120,655)	(61,035)	(16,615)	-	(200,709)

The results of non-parallel stressed interest rate shocks (NIRUP and NIRDW) at 31 December 2019 can be analyzed as follows:

(in thousands MDL)	MDL	EUR	Other	Total
NIRUP	155,931	24,233	5,054	**185,218**
Threshold	46,803	6,163	-	**(204,932)**
Limit	15,601	4,237	-	**(302.390)**
NIRDW	(121,133)	(18,944)	(4,851)	**(144,928)**
Threshold	(168,915)	(15,408)	-	**(268,684)**
Limit	(179,893)	(16,564)	-	**(301,812)**

Notes to the Financial Statements

27 Risk management (continued)

27.3 Market risk (continued)

27.3.3 Currency risk

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

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

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

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

	FCY gap	Possible rate increase	Income / (loss) effect	Effect in equity	Possible rate decrease	Income / (loss) effect	Effect in equity
(in thousand MDL)							
31 December 2020							
EUR	2,971	10%	297	261	-10%	(297)	(261)
US Dollars	48,691	10%	4,869	4,285	-10%	(4,869)	(4,285)
31 December 2019							
EUR	13,579	+10%	1,358	1,195	-10%	(1,358)	(1,195)
US Dollars	17,121	+10%	1,712	1,507	-10%	(1,712)	(1,507)

Notes to the Financial Statements

27 Risk management (continued)

27.3 Market risk (continued)

27.3.3 Currency risk (continued)

The amounts of assets and liabilities held in MDL and in foreign currencies at 31 December 2020 can be analyzed as follows:

31 December 2020	Euro	US dollar	MDL	Other	Total
(in thousand MDL)					
Assets					
Cash and balances with Central Bank	1,362,963	497,924	2,153,948	140,688	**4,155,523**
Due from banks	550,169	535,342	-	26,963	**1,112,474**
Derivative financial instruments	-	-	311	-	**311**
Debt instruments at amortized cost	-	-	4,528	-	**4,528**
Financial assets at FVPL	2,100,904	450,345	4,825,575	-	**7,376,824**
Loans and advances to customers, net	-	-	1,342,824	-	**1,342,824**
Other assets	4,722	1,700	52,973	532	**59,927**
Property and equipment	2,030	-	237,031	-	**239,061**
Deferred tax assets	-	-	4,987	-	**4,987**
Intangible assets	-	-	42,482	-	**42,482**
Total assets	**4,020,788**	**1,485,311**	**8,664,659**	**168,183**	**14,338,941**
Liabilities					
Derivative financial instruments	-	-	1,769	-	**1,769**
Due to banks	181	-	2,384	-	**2,565**
Due to customers	3,816,175	1,475,759	6,449,629	26,137	**11,767,700**
Borrowed funds from IFI's	191,313	-	148,001	-	**339,314**
Other liabilities	103,397	3,649	48,638	13	**155,697**
Provisions	6,144	939	36,551	14	**43,648**
Total liabilities	4,117,210	1,480,347	6,686,972	26,164	**12,310,693**
OFF BS liabilities: EUR/RUB, USD/RUB, USD/RON swaps	2,213	-	-	143,883	**146,096**
Net position 31 December 2020	**(98,635)**	**4,964**	**1,977,687**	**(1,864)**	**1,882,152**

Notes to the Financial Statements

27 Risk management (continued)

27.3 Market risk (continued)

27.3.3 Currency risk (continued)

The amounts of assets and liabilities held in MDL and in foreign currencies at 31 December 2019 can be analyzed as follows:

31 December 2019	Euro	US dollar	MDL	Other	Total
(in thousand MDL)					
Assets					
Cash and balances with Central Bank	655,986	202,242	2,485,312	83,712	**3,427,252**
Due from banks	1,353,646	375,564	-	61,547	**1,790,757**
Derivative financial instruments	-	-	29		**29**
Debt instruments at amortized cost	-	-	685,146	-	**685,146**
Financial assets at FVPL	-	-	3,257	-	**3,257**
Loans and advances to customers, net	1,692,816	430,965	3,895,213	-	**6,018,994**
Other assets	7,199	1,172	43,764	387	**52,522**
Property and equipment	-	-	192,581	-	**192,581**
Deferred tax assets	-	-	3,802	-	**3,802**
Intangible assets	-	-	24,413	-	**24,413**
Total assets	**3,709,647**	**1,009,943**	**7,333,517**	**145,646**	**12,198,753**
Liabilities					
Derivative financial instruments	-	-	75	-	**75**
Due to banks	89	-	626	-	**715**
Due to customers	3,067,557	1,066,955	5,257,943	18,151	**9,410,606**
Borrowed funds from IFI's	583,509	-	136,401	-	**719,910**
Other liabilities	77,832	4,622	52,679	26	**135,159**
Provisions	3,677	3,698	40,197	6	**47,578**
Total liabilities	**3,732,664**	**1,075,275**	**5,487,921**	**18,183**	**10,314,043**
OFF BSŞ EUR/RUB, USD/RUB, USD/RON swaps	5,778	-	-	118,980	**124,758**
Net position 31 December 2019	**(28,795)**	**(65,332)**	**1,845,596**	**8,483**	**1,759,952**

Notes to the Financial Statements

27 Risk management (continued)

27.4 Operational risks

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

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

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

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

Notes to the Financial Statements

Capital management

The Bank's objectives when managing capital are to safeguard the Bank's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In the context of the NBM strategy of Basel III implementation in the Republic of Moldova in terms of European legislative framework (CDR IV/ CRR package), in May 2018, the National Bank of Moldova approved the Regulation on bank's own funds and capital requirements.

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

	31 December 2020
(in thousands MDL)	
Total Capital	**1,683,247**
Tier1 Capital	**1,683,248**
Tier 1 Base Capital	1,683,248
Equity instruments eligible for Tier 1 Base Capital	**251,354**
Paid capital instruments	99,944
Of which: Capital instruments subscribed by public authorities in emergency situations	99,944
Share premium	**151,410**
Retained Earnings	**1,466,982**
Retained Earnings from previous years	1,466,982
Current year results	-
Profit or loss attributable to owners of the parent's equity	143,536
(-) Part of the interim or end-of-year financial results that are not eligible	(145,536)
Other reserves	**166,375**
Adjustments to core Tier 1 own funds due to prudential reserves	(152,415)
(-) The positive difference between asset write-downs and contingent liabilities and the amount of write-downs for impairment losses and provisions for losses	(152,415)
(-) Goodwill	(44,060)
(-) Goodwill accounted for as intangible assets	(44,060)
(-) Deferred tax assets that are based on future profitability and do not arise from temporary differences from which associated deferred tax liabilities are deducted	(4,987)
Tier 2 Capital	**(1)**
(-) Equity investments Tier 2 into entities from financial sector where the Bank does not have a significant share of investment	(1)
Capital adequacy ratio	**21,39%**

Notes to the Financial Statements

28 Capital management (continued)

In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. No changes were made in the objectives, policies and processes from the previous years.

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

	31 December 2019
(in thousands MDL)	
Total Capital	**1,476,051**
Tier1 Capital	**1,476,052**
Tier 1 Base Capital	1,476,052
Equity instruments eligible for Tier 1 Base Capital	**251,354**
Paid capital instruments	99,944
Of which: Capital instruments subscribed by public authorities in emergency situations	99,944
Share premium	**151,410**
Retained Earnings	**1,236,347**
Retained Earnings from previous years	1,236,347
Current year results	-
Profit or loss attributable to owners of the parent's equity	255,344
(-) Part of the interim or end-of-year financial results that are not eligible	(255,344)
Other reserves	**150,171**
Adjustments to core Tier 1 own funds due to prudential reserves	(132,091)
(-) The positive difference between asset write-downs and contingent liabilities and the amount of write-downs for impairment losses and provisions for losses	(132,091)
(-) Goodwill	(26,267)
(-) Goodwill accounted for as intangible assets	(26,267)
(-) Deferred tax assets that are based on future profitability and do not arise from temporary differences from which associated deferred tax liabilities are deducted	(3,462)
Tier 2 Capital	**(1)**
(-) Equity investments Tier 2 into entities from financial sector where the Bank does not have a significant share of investment	(1)
Capital adequacy ratio	**20.17%**

Notes to the Financial Statements

Cash and cash equivalents

(in thousands MDL)	Note	31 December 2020	31 December 2019
Cash and balances with Central Bank	12	655,696	694,274
Due from banks	13	1,115,546	1,793,302
Debt instruments at amortized cost	15	750,184	210,292
		2,521,426	**2,697,868**

The placement with the Central Bank which represent mandatory reserves requirements are not available to finance the Bank's day–to–day operations and, therefore, are not part of cash and cash equivalents. This includes the balance of current accounts with Central bank disclosed in Note 11 amounting MDL'000 1,857,496 reduced by the level of mandatory reserves held in MDL (MDL'000 1,840,881). Financial investments – loans and receivables are NBM certificates and represents short-term, investments that are up to two weeks, which are subject to an insignificant risk of changes in value.

Maturity analysis of assets and liabilities

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

31 December 2020	Within 12 months	After 12 months	**Total**
(in thousand MDL)			
Assets			
Cash and balances with Central Bank	2,383,315	1,772,014	**4,155,329**
Due from banks	1,112,669	-	**1,112,669**
Debt instruments at amortized cost	1,342,819	5	**1,342,824**
Financial assets at fair value through profit or loss	3,496	1,031	**4,528**
Loans and advances to customers, net	2,232,998	5,143,825	**7,376,823**
Other assets	60,557	-	**60,557**
Property and equipment	60,399	178,662	**239,061**
Deferred tax assets	4,987	-	**4,987**
Intangible assets	18,684	23,798	**42,482**
Total assets	**7,219,924**	**7,119,335**	**14,339,260**
Liabilities			
Due to Central Bank	-	-	-
Due to banks	2,565	-	2,565
Due to customers	5,788,495	5,979,205	11,767,700
Borrowed funds from IFI's	206,961	132,353	339,314
Other liabilities	43,648	-	43,648
Provisions	157,466	-	157,466
Total liabilities	**6,199,135**	**6,111,558**	**12,310,693**
Net	**1,020,789**	**1,007,777**	**2,028,567**

Notes to the Financial Statements

30 Maturity analysis of assets and liabilities (continued)

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

31 December 2019	Within 12 months	After 12 months	**Total**
(in thousand MDL)			
Assets			
Cash and balances with Central Bank	1,707,896	1,719,356	**3,427,252**
Due from banks	1,790,747	-	**1,790,757**
Debt instruments at amortized cost	685,134	12	**685,146**
Financial assets at fair value through profit or loss	2,226	1,031	**3,257**
Loans and advances to customers, net	1,779,885	4,239,109	**6,018,994**
Other assets	52,551	-	**52,551**
Property and equipment	50,507	142,074	**192,581**
Deferred tax assets	3,802	-	**3,802**
Intangible assets	19,711	4,702	**24,413**
Total assets	**6,092,459**	**6,106,284**	**12,198,753**
Liabilities			
Due to Central Bank	-	-	-
Due to banks	715	-	**715**
Due to customers	4,942,654	4,467,953	**9,410,606**
Borrowed funds from IFI's	572,439	147,471	**719,910**
Other liabilities	135,234	-	**135,234**
Provisions	47,578	-	**47,578**
Total liabilities	**5,698,620**	**4,615,424**	**10,314,043**
Net	**393,839**	**1,490,860**	**1,884,710**

Notes to the Financial Statements

Related party transactions

The list of related parties, with whom the Bank entered into transactions during 2020 were as follows:

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

During 2020 a number of banking transactions were entered into with related parties in the normal course of business. The results of the transactions are presented in the table below:

	Total 2020	OTP BANK NYRT	Key management	Other
(in thousands MDL)				
Balance sheet items as of 31 December 2020				
Due from banks	**6,144**	5,915	-	229
Loans and advances to customers, net	**1,272**		752	520
Other assets (Note 17)	**1,663**	1,660	2	1
Due to clients	**13,532**		6,627	6,905
Other liabilities	**2,346**	2,341	3	2
Result from transactions during 2020				
Interest and similar income	**105**		68	37
Interest and similar expense	**1,965**	1,814	63	88
Compensation of key management personnel::	**17,739**		17,739	
Salaries - base salaries and wages	**14,106**		14,106	
Salaries - bonuses and premiums	**3,633**		3,633	
Other non-interest expenses	**554**	91	463	(147)
Off balance sheet items				
Counter guarantees	**146,436**	146,011	341	84

Notes to the Financial Statements

31 Related party transactions (continued)

The list of related parties, with whom the Bank entered into transactions during 2019 were as follows:

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

During 2020 a number of banking transactions were entered into with related parties in the normal course of business. The results of the transactions are presented in the table below:

	Total 2019	OTP BANK NYRT	Key management	Other
(in thousands MDL)				
Balance sheet items as of 31 December 2019				
Due from banks	**96,303**	96,303	-	-
Loans and advances to customers, net	**1,825**	-	1,427	398
Other assets (Note 17)	**773**	772	-	1
Due to clients	**7,627**	-	1,597	6,030
Other liabilities	**732**	730	2	-
Result from transactions during 2019				
Interest and similar income	**164**	-	129	35
Interest and similar expense	**1,183**	929	163	91
Compensation of key management personnel::	**21,036**	-	21,036	-
Salaries - base salaries and wages	**11,980**		11,980	
Salaries - bonuses and premiums	**9,056**		9,056	
Other non-interest expenses	**85**	73	12	-
Off balance sheet items				
Counter guarantees	**221,199**	220,890	188	121

Notes to the Financial Statements

Post reporting date events

No subsequent event was identified after the reporting date.

Mobiasbanca – OTP Group