

B.C. „VICTORIABANK” S.A.

FINANCIAL STATEMENTS

prepared in accordance with
INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the financial year ended 31 December 2018

(free translation)*

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

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Moore Stephens KSC
Vlaicu Pârcălab str., no. 63,
Sky Tower Building, 6th floor
Chişinău, MD 2012
Moldova

T +373 22 022 555

F +373 22 022 556

E info@moorestephens-ksc.md

INDEPENDENT AUDITOR'S REPORT

To: Shareholders of BC Victoriabank SA

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2018, and its financial performance and its cash flow for the year ended in accordance with International Financial Reporting Standards ("IFRS").

We audited financial statements of BC Victoriabank SA (the "Bank"), which comprise statement of financial position as at December 31, 2018 and statement of comprehensive income, statement of changes in equity, statement of cash flow for the year then ended and notes to the financial statements, which include significant accounting policies and other explanatory information.

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 section *Auditor's responsibilities for the audit of the financial statements* of this auditor's report. We are independent of the Bank, according to the ethical requirements relevant to the audit of the financial statements and we accomplished other ethical responsibilities, according to these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw attention to Note 29 Contingent Liabilities to the financial statements, which describes the uncertainty related to the outcome of the court case filed by the Bank against SEC v. Rex Venture Group, LLC d/b/a ZeekRewards.com and Paul Burks, Western District of North Carolina. Our opinion is not qualified in respect of this matter.

Independence

We are independent in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Our audit approach**Overview**

Materiality 21 million MDL

Audit Scope

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

Key audit matter

- Provision for impairment of loans and advances to customers
- Assessment of the prudential reserves
- Litigation with SEC v. Rex Venture Group
- Tax treatment of the transition to IFRS 9

Materiality

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

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including:

Materiality	21 million MDL
How we determined it	0.9% of net assets
Rationale for the materiality benchmark applied	We chose bank's net assets, considering the users interest in the financial statements.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements as at December 31, 2018. The matter mentioned below was 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 this matter.

Key audit matter

How our audit addressed the key audit matter

Provision for impairment of loans

As described in Notes 2.4 "Principal accounting policies" of the Financial Statements, provisions for loans have been recognized in accordance with IFRS 9 "Financial Instruments".

We considered this point significant due to the importance of credit balances in the Bank's Balance Sheet and the fact that IFRS 9 is a new and comprehensive standard applicable from 1 January 2018, that involves a high level of professional judgment and management estimation for the calculation of these provisions.

Significant aspects of the judgment included:

- Interpretation of requirements to determine depreciation in accordance with IFRS 9, which is reflected in the expected losses on the bank's loans.
- Identify exposures with significant credit quality deterioration and allocation to Stages.
- Assumptions used in built models for expected bank credit losses, such as counterparty financial statements, expected future cash flows, prospective macroeconomic factors, etc. Key parameters used to calculate expected bank loan losses.

In relation to the information on the adoption of IFRS 9 by the Bank, we have assessed the key methodologies developed for calculation of the provision for credit losses in accordance with IFRS 9 for consistency with the requirements of IFRS 9 and assessed the appropriation of the approach to classification and measurements of financial instruments under that Standard. We have obtained an understanding of and assessed for reasonableness the key judgments, assumptions and calculations made by Management for estimating the impact of the adoption of IFRS 9 on the provision for credit losses.

We assessed and tested (on a sample basis) the design, operability and effectiveness of the internal control over the quality of credits, stage assignment criteria, model of expected losses from loans, including governance model and calculation accuracy. At the same time, the transfer of data to / from fLite, the banking software dedicated to the related calculations, was tested in / from core banking.

Regarding the credit guarantees, we have reviewed and tested controls to ensure that collateral is properly registered, that collateral valuation is carried out periodically by qualified assessors and that the Bank applies appropriate rates of assistance to market values of guarantees regarding their duration and the recovery costs as well as guarantees are appropriately allocated to the relevant loan.

We re-performed discounted cash flows calculations, examined the expected future cash flows, including valuation of collateral.

We performed various types of analytical procedures over the adequacy of provision for loans.

We performed the evaluation of fairness and sufficiency disclosures of the financial statements.

Assessment of the prudential reserves

We focused on this matter due to the significance of loans balances in Bank's balance sheet and in particular the significance of judgements and estimates required for calculation of the related reserves.

These reserves are significant for determining of the bank risk and for estimating of the compliance with the normative capital rate. They are prepared monthly, based on NBM regulation, which supposes the classification of loans depending on the risk in the following categories:

- Category A: Standard, 2%
- Category B: Supervised, 5%
- Category C: Substandard, 30%
- Category D: Dubious, 60%
- Category E: Compromise, 100%

We assessed the key methodologies and related models for calculation of the reserve and its consistency with the requirements of National Bank of Moldova.

We assessed and tested (on a sample basis) the design and operating effectiveness of the internal control over the overdue and renegotiated loans, loans exposure in the capital, including identification of the these loans and the data transfer into the system of reserve assessment.

We tested (on a sample basis) loans, which had not been identified as necessary for the provision, and formed our own judgement as to whether that was appropriate. We then investigated any differences in our judgements with management to assess the appropriateness of management's judgements.

Key audit matter	How our audit addressed the key audit matter
<p>This classification is based on outstanding days, current financial situation of the counterparty assessed from the point of view of the capacity to honor its commitments, the contractual term's compliance, current trading value of the pledged object and its liquidity degree in the market, business environment of the counterparty, credit history on compliance by the counterparty of the obligations assumed by credit contracts, other factors that may affect the compliance by the counterparty of the contractual terms.</p>	<p>We reviewed the control reports, prepared by the National Bank referring to the classification of these credits. We evaluated the acknowledgement of the reserves based on these acts, considering the subsequent events and settled loans.</p> <p>We performed various types of analytical procedures over the adequacy of provision for loans.</p>
<p><i>Court Case with SEC v. Rex Venture Group, LLC d/b/a ZeekRewards.com and Paul Burks, Western District of North Carolina, Civil Action No. 3:12-cv-519</i></p> <p>We have considered this matter as significant considering the complexity of the court case and involved parties as well as the potential exposure on the overall Bank's operations.</p> <p>The court case is disclosed in note 29 of the financial statements.</p>	<p>We have reviewed the adequacy of the disclosure made in the financial statements regarding the status of the court case.</p> <p>We have reviewed the management estimates regarding the probabilities on the specific court case and we have performed the evaluation, based on our professional judgment, of the management's adequacy regarding estimates of the provision registered. Then we investigated the differences of professional judgment between us and management and we evaluated the appropriate professional judgment of management.</p> <p>We have enquired the lawyers of the Company regarding the events and possible outcomes on the court case and challenged them against the management estimates and the disclosures made in the financial statements.</p>
<p><i>Tax treatment of the transition to IFRS 9</i></p> <p>We focused on this area because the tax treatment applied for the deductibility of credit loss provisions recorded on the transition to IFRS 9 may be subject to significant judgments as the tax system of the R. Moldova is still at a stage of development and is subject to varying interpretations and to constant changes, which may be retrospective. The effect of this tax provision is disclosed in note 15.</p> <p>During the year as part of the IFRS 9 transition the bank has accounted as additional provisions through retained earnings amounting to MDL'000 265 000 as impact to changes of accounting policies.</p>	<p>We have enquired and reviewed taxable treatment of impact related IFRS 9 transition applicable from 1st January 2018. In addition, we have enquired and reviewed the management estimates and judgments regarding the treatment of that specific amount.</p> <p>Moreover, we have reviewed the position of R. Moldova Tax Authorities obtained by the Bank regarding this issue and assessed whether the management had the same approach when preparing Financial Statements and Corporate Income Declaration for year-end 31 December 2018.</p>

Management and Those Charged with Governance's responsibility

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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 ability of the Bank 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 financial reporting process of the Bank.

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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA's 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 internal control of the Society.
- 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 ability of the Society to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Society 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.
- Obtain sufficient appropriate audit evidence regarding the financial information.

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

From 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.

MOORE STEPHENS KSC S.R.L.

Chişinău, Moldova

12 April 2019

For signature, please refer to the original Romanian version.

B.C. VICTORIABANK S.A.


Statement of profit or loss and other comprehensive income

For the financial year ended 31 December

In MDL thousand

	Notes	2018	2017
Interest income calculated using the effective interest method		619,997	701,957
Interest expenses		(248,983)	(285,200)
Net interest income	19	371,014	416,756
Fee and commission income		337,402	310,179
Fee and commission expense		(145,537)	(127,990)
Net fee and commission income	20	191,865	182,189
Net financial income	21	104,882	117,893
Other operating income	22	8,342	6,780
Total operating income		676,103	723,618
Net impairment (losses)/ release on assets and conditional commitments	23	(216,028)	9,499
Personnel expenses	24	(210,992)	(207,337)
Depreciation and amortization	26	(34,448)	(34,011)
Other operating expenses	25	(152,107)	(184,732)
Total operating expenses		(613,576)	(416,581)
Profit before income tax		62,527	307,038
Income tax expense	15	(20,016)	(25,111)
Profit for the year		42,511	281,926
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Equity investments at fair value through other comprehensive income – net change in fair value		41,475	-
Gains from the sale of equity investments at fair value through other comprehensive income		70	-
		41,545	-
Items that are or may be reclassified subsequently to profit or loss			
Debt investments at fair value through other comprehensive income – net change in fair value		15	-
Impairment allowances		94	-
Available-for-sale financial assets – net change in fair value		-	39,178
		109	39,178
Total comprehensive income		84,164	321,105
Earnings per share, MDL	31	1.70	11.28

The financial statements were authorized for issue on 12 April 2019 by the Management of the Bank represented by:


Bogdan Pleșuvescu
Chief Executive Officer




Maria Iovu
Chief Accountant

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

B.C. VICTORIABANK S.A.

Statement of financial position

For the financial year ended 31 december

<i>In MDL thousand</i>	Notes	31 December 2018	31 December 2017
ASSETS			
Cash and cash equivalents with the National Bank of Moldova	3	5,132,310	3,409,914
Current accounts and placements with banks	4	2,568,585	2,152,838
Frozen Nostro account	4	90,819	228,670
Investment securities	5	2,708,491	4,420,263
Equity investment securities designated at fair value through other comprehensive income (2017: available-for-sale)	7	246,379	212,080
Loans to customers	6	2,945,972	3,438,708
Property and equipment	8	129,526	140,033
Intangible assets	9	59,578	58,268
Investment property		501	183
Current tax assets	11	10,156	6,715
Other assets	10	316,413	423,670
Total assets		14,208,731	14,491,342
LIABILITIES			
Deposits from banks	13	41,350	32,768
Deposits from customers	14	11,699,826	11,527,312
Other borrowings	12	34,036	135,163
Deferred tax liabilities	15	6,689	5,318
Other liabilities	16	142,078	324,499
Total liabilities		11,923,979	12,025,060
EQUITY			
Share capital	17	250,001	250,001
Share premium		10,250	10,250
Financial assets at fair value through other comprehensive income – net change in fair value (2017: available-for-sale financial assets)		237,560	195,976
Statutory reserves		25,000	25,000
Other reserves		685,741	1,041,195
Retained earnings		1,076,200	1,083,861
(Interim dividends)		-	(140,001)
Total equity		2,284,752	2,466,282
Total liabilities and equity		14,208,731	14,491,342

The financial statements were authorized for issue on 12 April 2019 by the Management of the Bank represented by:


Bogdan Plesuvescu
 Chief Executive Officer




Maria Iovu
 Chief Accountant

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

B.C. VICTORIABANK S.A.

Statement of changes in equity

For the financial year ended 31 December

In MDL thousand

Balance at 1st of January 2017

Statement of comprehensive income for the period

Profit for the period

Other comprehensive income

Fair value from available-for-sale financial assets

Total comprehensive income for the period

Contributions and distributions of the shareholders

Dividends distributed to shareholders

Appropriation of reserves

Total contributions and distributions of the shareholders

Balance at 31st of December 2017

Adjustment on initial application of IFRS 9

Restated balance at 1st January 2018

Statement of comprehensive income for the period

Profit for the period

Other comprehensive income

Financial assets at FVOCI – net change in fair value

Gains from the sale of equity investments at FVOCI

Total comprehensive income for the period

Contributions and distributions of the shareholders

Dividends distributed to shareholders

Appropriation of reserves

Total contributions and distributions of the shareholders

Balance at 31st of December 2018

Share Capital	Share premium	Fair value reserve	Statutory reserves	Other reserves	Retained earnings	Total
250,001	10,250	156,798	25,000	1,215,124	628,005	2,285,178
-	-	-	-	-	281,926	281,926
-	-	39,178	-	-	-	39,178
-	-	39,178	-	-	281,926	321,105
-	-	-	-	-	(140,001)	(140,001)
-	-	-	-	(173,930)	173,930	0
-	-	-	-	(173,930)	33,929	(140,001)
250,001	10,250	195,976	25,000	1,041,194	943,860	2,466,282
-	-	-	-	(2,157)	(263,588)	(265,745)
250,001	10,250	195,976	25,000	1,039,037	680,273	2,200,537
-	-	-	-	-	42,511	42,511
-	-	41,654	-	-	-	41,654
-	-	(70)	-	-	70	0
-	-	41,584	-	-	42,581	84,164
-	-	-	-	-	-	-
-	-	-	-	(353,297)	353,347	50
-	-	-	-	(353,297)	353,347	50
250,001	10,250	237,560	25,000	685,740	1,076,200	2,284,751

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

B.C. VICTORIABANK S.A.**Statement of cash flows***For the financial year ended 31 December**In MDL thousand*

	2018	2017
Cash flows from operating activities		
Interest receipts	615,240	711,771
Interest payments	(249,230)	(291,308)
Net fee and commission receipts	191,865	182,189
Net financial income and other operating income	120,419	132,065
Staff costs paid	(219,432)	(207,386)
Payments of general and administrative expenses	(152,107)	(181,941)
Income tax paid	(15,468)	(19,794)
Operating profit before working capital changes	291,287	325,596
(Increase) / decrease in operational assets:		
Cash and balances with the NBM	(1,036,128)	(2,030,961)
Current accounts and deposits with banks	124,847	(209,779)
Treasury bills	147,911	(176,835)
Loans, net	282,438	1,146,028
Other assets	(268,145)	(54,649)
(Increase) / decrease in operational liabilities:		
Due to banks	7,227	-
Due to customers	319,634	1,645,519
Other liabilities	(84,649)	198,176
Net cash from operating activities before income tax	(215,578)	843,095
Cash flows from investing activities		
Purchases of property and equipment	(12,113)	(14,325)
Purchases of intangible assets	(13,708)	(10,865)
Proceeds from disposal of property and equipment	507	28
Proceeds from sales of equity investments	1,683	-
Purchases of equity investments	(897)	(2,491)
Net cash used in investing activities	(24,528)	(27,653)
Cash flows from financing activities		
Repayment of loans and borrowing	(97,954)	(145,342)
Dividends paid	-	(140,001)
Net cash from financing activities	(97,954)	(285,343)
Net increase in cash and cash equivalents	(338,060)	530,099
Cash and cash equivalents at 1 January	5,829,648	5,306,788
Net difference of exchange rate changes	(98,701)	(7,239)
Cash and cash equivalents at 31 December	5,392,887	5,829,648

Explanatory notes to the financial statements

1. GENERAL INFORMATION

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

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

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

The Bank operates through its head office located in Chisinau, 34 branches and 59 agencies (as at 31 December 2018) and 34 branches and 58 agencies (as at 31 December 2017), located throughout the country.

The Bank's number of active employees as at 31 December 2018 was of 1,158 (1,255 as at 31 December 2017).

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

The shareholders' structure and/ or groups of persons that act in concert and own significant share (i.e. greater than 1%) in the Bank's share capital and final beneficiaries as at 31 December 2018:

Direct owners				Final beneficiaries of significant share	
Name of the shareholders	Residence country	Number of the group *	Share, %	Name of final beneficiary	Residence country
1 VB INVESTMENT HOLDING B.V.	NED	0	72.19	indirect owners: Banca Transilvania (61.82%), European Bank for Reconstruction and Development (EBRD) (38.18%); effective beneficiary does not exist	Romania Great Britain
2 Țurcan Victor	MDA	1	10.45	Țurcan Victor	MDA
3 Artemenco Elena	MDA	1	4.94	Artemenco Elena	MDA
4 Proidisvet Galina	MDA	1	4.04	Proidisvet Galina	MDA
5 Țurcan Valentina	MDA	1	2.47	Țurcan Valentina	MDA
6 "Notabil" SRL	MDA	1	2.36	Țurcan Valentina	MDA
7 Rotari Natalia	MDA	1	0.45	Rotari Natalia	MDA
8 Postolache Francesca	MDA	1	0.34	Postolache Francesca	MDA

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

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

On the 31st of December 2018, the composition of the Board of Administration of the Bank in exercise, selected at the ordinary yearly General B.C. "Victoriabank" S.A. Shareholders' Meeting as at the 30th of March 2018, is of 7 members:

- Victor TURCAN, Chairman of the Board of Directors
- Thomas GRASSE, Vice-chairman of the Board of Directors
- Tiberiu MOISĂ, Member of the Board of Directors
- Patrahau Ionut-Octavian, Member of the Board of Directors
- Livia DUMITRESCU, Member of the Board of Directors
- Igor SPOIALĂ, Member of the Board of Directors
- Mehmet Murat SABAZ, Member of the Board of Directors.

Explanatory notes to the financial statements

2. SUMMARY OF MAIN ACCOUNTING POLICIES

2.1 Declarations of compliance

These financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS"). These financial statements were authorized for issue by the Board of Directors of the Bank of 12 April 2019.

This is the first set of the Bank's annual financial statements in which IFRS 9 Financial has been applied. Changes to significant accounting policies are described in Note 2.4 a.

2.2 Functional and presentation currency

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

2.3 Significant accounting judgments and estimates

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

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

Information about judgments made in applying accounting policies that have significant effect on the amounts recognized in the financial statements is included in the following notes.

A. Judgments

Applicable only for financial year 2018:

- Note 33.1: classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.
- Note 33.1: to determine the criteria if the credit risk of a financial asset increased significantly from initial recognition, determining the methodology for incorporating information prospective (forward-looking) to assess the expected loss of credit (ECL) and the selection and approval models used to assess the expected loss.

B. Assumptions and estimation uncertainties

Applicable only for financial year 2018:

- Note 33.1: impairment of financial instruments: determining input and incorporating information prospective model of ECL;
- Applicable only for financial years 2017 and 2018:
- Note 15: recognition Deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be used;
- Note 31 determining the fair value of instruments that are not traded in an active market;
- Note 29 recognition and measurement provisions for litigation: The key assumptions concerning the possibility and extent of resources outflow;
- Note 33 impairment of financial instruments: The key assumptions used in estimating future cash flows to be recovered.

Explanatory notes to the financial statements

2. SUMMARY OF MAIN ACCOUNTING POLICIES (CONTINUED)

2.4 The principal accounting policies

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

a. Changes in accounting policies

Bank initially adopted IFRS 9 (see A) and IFRS 15 (see B) from 1 January 2018. Other standards are also applicable from 1 January 1 2018, but they do not have a significant effect on these financial statements.

Due to the method of transition to IFRS 9, chose by Bank, comparative information in these financial statements have not been restated.

Adopting IFRS 15 had no impact on the period and the amount of income from fees and commissions on customer contracts and the related assets and liabilities recognized by the Bank. Consequently, the impact on comparative information is limited to additional disclosures required.

The effect of initial application of this standard is attributed mainly to the following:

- an increase impairment losses on financial assets (see Note 33);
- additional disclosures related to IFRS 9 (see Note 33);
- additional disclosures related to IFRS 15.

Except for changes below, the Bank consistently applied accounting policies as disclosed in Note 2.4 for all periods presented in these financial statements.

A. IFRS 9 Financial Instruments

IFRS 9 establishes requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard supersedes *IAS 39 Financial instruments: Recognition and Measurement*. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As a result of the adoption of IFRS 9, the Bank has adopted consequential amendments to *IAS 1 Presentation of Financial Statements*, which require separate presentation in the statement of profit or loss and OCI of interest revenue calculated using the effective interest method. Previously, the Bank disclosed this amount in the notes to the financial statements.

Additionally, the Bank has adopted consequential amendments to *IFRS 7 Financial Instruments: Disclosures* that are applied to disclosures about 2018, but have not been applied to the comparative information.

Key changes to the accounting policies of the Bank adopted IFRS 9 are summarized below. The full impact of adopting the standard is set out in Note 33.

Classification of Financial assets and liabilities

IFRS 9 contains three main categories of classification of financial assets: amortized cost, at fair value through other comprehensive income (FVOCI) at fair value through profit or loss (FVPTL).

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. Management determines the classification of its assets at initial recognition.

The business model for IFRS is based on managing the financial assets and its cash flow. IFRS 9 eliminates categories of IAS 39: held to maturity investments, loans and receivables and assets available for sale. IFRS 9 on derivatives not applicable to the Bank, as the Bank has no such instruments at 31 December 2018.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

For details on classification of assets and liabilities see Note 2.4 c.

Impairment of financial assets

IFRS 9 replaces the „incurred loss” model in IAS 39 with an „expected credit loss” model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. Under IFRS 9, credit losses are recognized earlier than in accordance with IAS 39. For an explanation on how to apply the requirements of IFRS 9 impairment, see Note 33.

Explanatory notes to the financial statements**2. SUMMARY OF MAIN ACCOUNTING POLICIES (CONTINUED)****2.4 The principal accounting policies****A. IFRS 9 Financial Instruments (continued)****Transition**

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods generally have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

The Bank used the exemption not to restate comparative periods but considering that the amendments made by IFRS 9 to IAS 1 introduced the requirement to present „interest income calculated using the effective interest rate” as a separate line item in the statement of profit or loss and OCI, the Bank has changed the description of the line item from „interest income” reported in 2017 to „interest income calculated using the effective interest method”.

- The following assessments have been made according to the facts and circumstances that existed at the date of initial application:
 - a) The determination of the business model within which a financial asset is held;
 - b) The designation of certain investments in equity instruments not held for trading as at FVOCI;
 - c) The Bank does not have financial assets at FVTPL, and did not apply related requirements.
- Where a security debt have low credit risk on the application of IFRS 9, the Bank considered that there was a significant increase in credit risk at initial recognition.

For more information on the changes and implications arising from the application of IFRS 9, see Note 33.

B. IFRS 15 Incomes from contracts with customers.

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaced *IAS 18 Revenue*, *IAS 11 Construction Contracts* and related interpretations

The Bank initially applied IFRS 15 on 1 January 2018 retrospectively in accordance with IAS 8 without any practical expedients. The timing or amount of the Bank's fee and commission income from contracts with customers was not impacted by the adoption of IFRS 15. The impact of IFRS 15 was limited to the new disclosure requirements.

b. The conversion of balances and transaction denominated in foreign currency

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

Non-monetary assets and liabilities that are measured in terms of historical cost in foreign currency are translated in the functional currency by using the exchange rate at the date of the transaction.

Gains and losses in foreign currency resulting from the revaluation of monetary assets and liabilities in foreign currency are reflected in profit or losses, excluding equity investments available for sale (before 1 January 2018) or equity investments at FVOCI (starting 1 January 2018).

Non-monetary items denominated in another currency which are carried at cost and are converted using the exchange rates at the date of the original transaction. Non-monetary currency items measured at fair value are converted using the exchange rates at the time of determining fair value.

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

	2018		2017	
	USD	EURO	USD	EURO
Average for the period	16.8031	19.8442	18.4902	20.8282
The end of the year	17.1427	19.5212	17.1002	20.4099

Explanatory notes to the financial statements

2. SUMMARY OF MAIN ACCOUNTING POLICIES (CONTINUED)

2.4 The principal accounting policies (continued)

c. Financial assets and liabilities

1. Recognition and initial evaluation

The Bank recognizes financial assets and liabilities initially on the trade date which time the Bank becomes a party to the contractual provisions of the instrument.

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

2. Classification

Financial assets - policies applicable starting 1 January 2018

On initial recognition financial assets are classified as measured at: amortized cost, fair value through other comprehensive income and fair value through profit or loss.

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

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

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

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

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

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

Business model assessment

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

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

The bank has no assets classified as FVTPL.

Explanatory notes to the financial statements

2. SUMMARY OF MAIN ACCOUNTING POLICIES (CONTINUED)

2.4 The principal accounting policies (continued)

c. Financial assets and liabilities (continued)

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

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

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

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

Based on analysis performed, the Bank concluded that the portfolio of loans and advances and of debt securities meet the criteria of SPPI.

Reclassification

Financial assets are not reclassified after initial recognition, except subsequent period after bank changes its business model for those assets.

Financial assets - policies apply until 1 January 2018

Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held to maturity and available for sale. Management determines the classification of assets at initial recognition.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term, or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term benefits. Derivatives are also categorized as held for trading unless they are designated as hedging instruments.

Gains and losses arising from changes in the fair value of derivatives that are managed in connection with designated financial assets or financial liabilities are included in net income from financial instruments designated at fair value. As at 31 December 2018, Bank does not own financial assets at fair value through profit or loss.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments, not listed on an active market, other than: (a) those that the entity intends to sell immediately or short-term, classified as held for trading, and those that the entity designates initial recognition at fair value through profit or loss; (b) those that the entity designates as available for sale at initial recognition; or (c) those for which the holder may not substantially recover all of his initial investments for reasons other than credit impairment.

Explanatory notes to the financial statements

2. SUMMARY OF MAIN ACCOUNTING POLICIES (CONTINUED)

2.4 The principal accounting policies (continued)

c. Financial assets and liabilities (continued)

(iii) Held to maturity financial assets

Investments held to maturity are non-derivative financial assets with fixed or determinable payments and a fixed maturity that the Bank's management has the positive intent and ability to hold to maturity. If the Bank sold a significant amount of financial assets held to maturity, then the entire category would be reclassified as "available for sale".

At 31 December 2017 the Bank classified the State Securities issued by the Ministry of Finance and the National Bank of Moldova as financial assets held to maturity.

(iv) Available for sale financial assets

All investments which were not classified as financial assets held for sale or held to maturity, or loans and receivables, shall be classified as financial assets available for sale.

Financial assets available for sale are initially recognized at fair value plus transactions costs. Subsequent to initial recognition available for sale securities are revalued at fair value, except the cases when the fair value cannot be reliably determined and are measured at cost minus any impairment losses.

The fair values are based on quoted prices or are estimated based on cash flow models and coefficients which reflect the specific circumstances of the issuer. Changes in fair value for financial instruments available for sale are recognized in other comprehensive income.

Financial liabilities

The Bank classifies its financial liabilities as other liabilities and these are measured at amortized cost.

3. Derecognition

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Bank derecognises a financial liability when its established contractual obligations are canceled or expire.

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

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

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

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

Explanatory notes to the financial statements

2. SUMMARY OF MAIN ACCOUNTING POLICIES (CONTINUED)

4. Offsetting financial instruments

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

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

5. Fair value evaluation

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

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

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

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

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

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

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

6. Impairment of financial assets

Policies applicable starting 1 January 2018

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

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

No impairment loss is recognized on equity investments.

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

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

In some circumstances, renegotiation or modification of contractual cash flows of financial assets result in derecognition of existing financial assets. In certain circumstances, the renegotiation of or change in the contractual cash flows related to a financial assets results in the derecognition of the existing financial assets. If the contractual terms are significantly altered due to commercial renegotiations, both at the client's request and at the Bank's initiative, the existing financial asset is derecognized and the altered financial asset is subsequently recognized, such altered financial asset being considered as a "new" asset.

Explanatory notes to the financial statements

2. SUMMARY OF MAIN ACCOUNTING POLICIES (CONTINUED)

6. Impairment of financial assets (continued)

Under IFRS 9, a financial asset is credit-impaired when one or more events have occurred and have a significant impact on the expected future cash flows of the respective financial asset.

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

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

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

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

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

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

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

Explanatory notes to the financial statements

2. SUMMARY OF MAIN ACCOUNTING POLICIES (CONTINUED)

6. Impairment of financial assets (continued)

Presentation of impairment losses in the statement of financial position

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

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve.

Applicable policies before 1 January 2018

1. Assets measured at amortized cost

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss generating event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, sales to current liabilities ratio);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings, etc.

The estimated period between a losses occurring and its identification is determined by management for each identified portfolio. In general, the period considered is 90 days depending on type of loan portfolio.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an adjustment for impairment account, and the amount of the loss is recognized in the income statement. The calculation of the present value of the estimated future cash flows of a financial asset pledged as collateral, reflects the cash flows that may result from its sale, less repossession and related disposal costs, whether or not the foreclosure is probable or not.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (e.g. legal entities - large Corporate Loans, SME < 1% of total regulatory capital, (the limit of the branch) + Individual Enterprises/Farmers and individuals – mortgage, repair, ordinary loans with collateral and consumer loans without collateral) considering asset type and past-due status. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Explanatory notes to the financial statements

2. SUMMARY OF MAIN ACCOUNTING POLICIES (CONTINUED)

6. Impairment of financial assets (continued)

1. Assets measured at amortized cost (continue)

Future cash flows in a group of financial assets that are collectively assessed for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical losses experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the impairment allowance account. The amount of the reversal is recognized in the profit or loss account in impairment change for credit losses.

2. Assets measured at fair value

The Bank assess at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the profit or loss. Impairment losses recognized in the profit or loss on equity instruments are not reversed through the profit or loss. If, in a subsequent period, the fair value of instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the income statement.

3. Renegotiated loans

Where possible, the Bank restructures loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated the loan is considered overdue and held during a certain "quarantine" period. Should the period expire, the loan is no longer considered overdue and is attributed a current status. Management continuously 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.

4. Write-off policy

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset. This assessment is made after considering information such as the occurrence of significant changes in financial position of the borrower so that the borrower can no longer satisfy its obligations; or arrears have registered a longer period than the period of collection established; or proceeds from collateral will not be sufficient to repay the entire exposure.

Recoveries of amounts previously written off are included in "impairment losses on financial instruments" in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

Explanatory notes to the financial statements

2. SUMMARY OF MAIN ACCOUNTING POLICIES (CONTINUED)

6. Impairment of financial assets (continued)

d. Interest income and expense

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

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

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

e. Fee and commission incomes

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

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

f. Net trading income

Net trading income represents the difference between the gain and loss related to the trading assets and liabilities and includes realized and unrealized fair value changes and foreign exchange differences.

g. Sale and repurchase agreements („REPO”)

Securities sold subject to repurchase agreements (“repo”) are classified in the financial statements as held to maturity investments (treasury bills) and the counter party liability is included in due to banks or customers, as appropriate. Securities purchased under agreements to resell (“reverse repos”) are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and is accrued over the life of the agreements using the effective interest method.

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

H. Intangible assets

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

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

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

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

Explanatory notes to the financial statements

2. SUMMARY OF MAIN ACCOUNTING POLICIES (CONTINUED)

6. Impairment of financial assets (continued)

I. Property and equipment

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

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

Amortization is calculated using the straight-line method over the lifetime estimated for each item of the intangible assets category:

The useful lives estimated by category are:

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

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

The gain and loss from the sale of intangible assets shall be determined as the carrying amount and recognized in profit and loss when the assets are derecognized.

j. Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

k. Cash and cash equivalents

In the cash flow statement, cash and cash equivalents comprise balances with less than three months initial maturity of the assets from acquisition dates, including: cash, non-restricted balances with National Bank of Moldova, treasury bills, NBM certificates and amounts due from other banks. Cash is evaluated at amortized cost in the statement of financial position.

L. Loans and advances

Loans and advances include loans and advances measured at amortized cost. They are recognized at fair value plus direct transaction costs. They are subsequently carried at amortized cost evaluate catch the effective interest method.

The Bank does not hold loans and advances at FVTPL at 31 December 2018 and 2017. Policies apply until 1 January 2018 see Note 2 c. 2.

Explanatory notes to the financial statements

2. SUMMARY OF MAIN ACCOUNTING POLICIES (CONTINUED)

6. Impairment of financial assets (continued)

m. Investment securities

Investment securities includes:

- debt instruments measured at amortized cost. They are recognized at fair value plus direct transaction costs. They are subsequently carried at amortized cost evaluate catch the effective interest method.
- debt securities evaluated at FVOCI.
- equities designated at FVOCI.

The Bank does not hold investment securities at FVTPL at 31 December 2018 and 2017. Policies apply until 1 January 2018 see Note 2 c. 2.

n. Borrowings

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

o. Customers' deposits and current accounts

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

P. Provisions

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

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

q. Financial guarantee contracts and loan commitments

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

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

r. Employee Benefits

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

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

Explanatory notes to the financial statements

2. SUMMARY OF MAIN ACCOUNTING POLICIES (CONTINUED)

6. Impairment of financial assets (continued)

s. Income tax expenses

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

The corporate tax, as according to the applicable laws of the Republic of Moldova, is recognized as an expense when profits arise. The corporate tax rate for 2018 was 12% (2017 -12%).

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

t. Dividends

Dividends income is recognized in the result of the year to date is established the right to receive such dividends are likely to be collected. Dividends are reflected as a component of other operating income. Dividends payment is treated as a distribution of profit for the period they are declared and approved by the General Meeting of Shareholders.

u. Repossessed collaterals

At 31 December 2018 and 2017, repossessed collaterals includes executed guaranties related to non-performing loans. They are evaluated at the lower value between carrying amount and fair value minus sell cost.

v. Inventories

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

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

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

w. Investment property

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

Real estate investments are initially measured at their cost. The cost comprises the expenditure directly attributable to the acquisition of the investment property.

The investment property held to earn rental income are subsequently measured using the amortized cost method, investment property held for capital appreciation are measured using the fair value model. They are tested annually for depreciation.

The investment property is transferred from the category of real estate investments only if there is a change in use of that asset. For the transfer of an investment property measured at its fair value to tangible assets, the implicit cost of the asset for subsequent accounting purposes will be the fair value at the date of the change in use.

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

Gains or losses arising from the disposal of investment property (calculated as the difference between the net disposal proceeds and their balance sheet value) shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognized in profit or loss.

Explanatory notes to the financial statements

2. SUMMARY OF MAIN ACCOUNTING POLICIES (CONTINUED)

6. Impairment of financial assets (continued)

x. Leasing

Bank holds only operational leasing agreements. Operational leasing payments are recognized in profit or loss statement, using the straight-line method over period of leasing.

y. Contingent assets and liabilities

Contingent liabilities are not recognized in the financial statements, but they are disclosed in public information unless there is a "low" possibility of an outflow of resources.

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

z. Earnings per share

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

aa. Segment reporting

Bank operations are reported as one operating segment.

bb. New standards and interpretations issued, which are mandatory for annual periods beginning on or after January 1, 2018

More standards or amendments to standards are effective for periods beginning after January 1, 2018 and earlier application is permitted. However, the Bank did not adopt any such standard in these financial statements.

The standards that are not yet in force, it is estimated that IFRS 16 will have the greatest impact on the financial statements upon initial application.

IFRS 16 - Leasing (issued January 13, 2016 and effective for annual periods beginning on or after January 1, 2019).

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases provide that the Lease customer obtains the right to use an asset at lease commencement and, if lease payments are made during the term of the contract, he also obtains the finance. Therefore, IFRS 16 removes the classification of leases as either operating leases or finance leases as required by IAS 17 and instead introduces a single lessee accounting model. The lessee must recognize: (a) assets and liabilities for all leases, unless the lease term is shorter than 12 months or the underlying asset has a low value; and (b) interest expense on the lease liability separately from the depreciation charge for the right-of-use asset. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Bank estimates an increase in assets and liabilities as a result of initial application of IFRS 16 with an amount of approximatively MDL 74 million. The Bank does not estimate a significant impact on the Bank's profit. The Bank has not yet finalized the transition process to IFRS 16.

The following standards will have not a significant impact on the financial statements:

- IFRIC 23 „Uncertainty over income tax changes"
- Long-term interest rates in associated entities and joint ventures - Amendments to IAS 28;
- Improvements during 2015-2017 for annual IFRS- Amendments to IFRS 3, IFRS 11, IFRS 12 and IAS 23.
- IFRS 17 Insurance contracts.

Explanatory notes to the financial statements

2. SUMMARY OF MAIN ACCOUNTING POLICIES (CONTINUED)

6. Impairment of financial assets (continued)

cc. Reclassification

At 31 of December 2017 owned executed collaterals for nonperforming loans, which were considered as held for capital appreciation and were reported as Investment property. The Bank had also contracts for installment sale for some pledge objects and the bank reported them as a part of loan portfolio.

However, on the basis of economic facts and circumstances relating to the items above, the Bank decided to change the presentation of their financial statements and restated each financial statement item as presented below:

As at 31 December 2017	Initially reported	Adjustments	Adjusted
Investment property	199,720	(199,537)	183
Loans to customers	3,476,171	(37,463)	3,438,708
Other assets	186,670	237,000	423,670

Similarly, the Bank reclassified certain amounts presentation in the income statement as shown below:

As at 31 December 2017	Originally reported	Adjustments	Adjusted
Staff expenses	(194,611)	(12,726)	(207,337)
Impairment losses	6,631	2,868	9,499
Other operational expenses	(194,590)	9,858	(184,732)

These reclassifications have only presenting effect, without affecting net profit and other elements of comprehensive income from the profit or loss statement.

The presentation of modified financial situation and profit or loss statement had an impact on the cash flow statement for the comparative period:

As at 31 December 2017	Originally reported	Adjustments	Adjusted
Staff expenses	(194,660)	(12,726)	(207,386)
Payments of general and administrative expenses	(194,667)	12,726	181,941
Investment property	(658)	658	-
Cash and balances with the National Bank of Moldova	(71,312)	(1,959,649)	(2,030,961)
Current accounts and deposits with banks	18,891	(228,670)	(209,779)
Loans to customers	1,108,565	37,463	1,146,028
Other assets	(20,031)	(34,618)	(54,649)
Purchases of property and equipment	(10,824)	(3,501)	(14,325)

3. CASH AND BALANCES WITH THE NATIONAL BANK OF MOLDOVA

In MDL thousand

	31 December 2018	31 December 2017
Cash on hand and other values	1,042,253	754,957
Unrestricted balances with National Bank Of Moldova	407,355	-
Total	1,449,608	754,957
Restricted balances with National Bank of Moldova		
Minimum reserve requirement in MDL	2,963,944	1,959,649
Minimum reserve requirement in foreign currency	718,758	695,308
Total	3,682,702	2,654,957
Cash and cash equivalents with the National Bank of Moldova	5,132,310	3,409,914
Balances with National Bank Of Moldova, out of which:		
Gross value	4,094,698	2,654,957
Impairment allowances	(4,641)	-
Total	4,090,057	2,654,957

Explanatory notes to the financial statements

3. CASH AND BALANCES WITH THE NATIONAL BANK OF MOLDOVA (CONTINUED)

Current account and mandatory reserve

The National Bank of Moldova (NBM) requires commercial banks to maintain for liquidity purposes minimum reserves calculated at a certain rate of the average funds borrowed by banks. Funds denominated in Moldovan Lei (MDL) and in non-convertible currencies are reserved in MDL. Funds attracted in freely convertible currencies are reserved in US Dollars (USD) and/or EURO (EUR). The requirement reserves are calculated between the dates: 16 of previous month and 15 of the ongoing month.

As at 31 December 2018 the rate for calculation of the minimum mandatory reserve ratio in MDL and in non-convertible currencies was 42.5%, and the minimum mandatory reserve ratio in convertible currencies was 14% (31 December 2017: the rate for calculation of the minimum mandatory reserve ratio in MDL and in non-convertible currencies was 40%, for all currencies was 14%).

The Bank maintains its mandatory reserves in "Loro" account opened with the NBM in amount of 42.5% of funds attracted in Moldovan Lei and non-convertible currencies. The mandatory reserves in MDL has to be kept at an average limit between the dates of 16 of the previous month and 15 of the ongoing month, on an average level throughout the period of 30/31 days. The mandatory reserves held in the Nostro account at NBM are available for use in the Bank's day to day operations.

The 14% reserve on the attracted funds in USD and EUR is made by keeping the funds in the "Reserves requirement in foreign currency". The deadline for replenishing the reserves requirement is, at the latest, the 20th day of the current month.

As at 31 December 2018, the balance on Nostro account at the NBM was 3,366,725 MDL'000 (31 December 2017: 1,952,920 MDL'000). This balance included the reserves requirement on funds attracted in Moldovan Lei and in non-convertible currencies. The USD and EUR balance of reserves requirement was 14,372 USD'000 and 24,234 EUR'000 respectively (31 December 2017: 15,031 USD'000 and 21,469 EUR'000).

The interest rate offered by the NBM for the balances of reserve requirement accounts varied, during 2018, was 3.50% for reserves in MDL and between 0.29% and 0.47% for reserves in foreign currency (2017: 3.50% - 6.0% for reserves in MDL and 0.30% - 0.60% for reserves in foreign currency). As at 31 December 2018, the increased interest on reserves held in MDL was 8,399 MDL'000 and for convertible currencies: 116 MDL'000.

4. PLACEMENTS WITH BANKS

	31 December 2018	31 December 2017
<i>In MDL thousand</i>		
Current accounts with other banks, out of which:	2,476,381	2,073,555
Gross value	2,478,581	2,073,555
Impairment allowances	(2,200)	-
Term deposits-guarantees in banks, out of which:	92,203	79,283
Gross value	92,218	79,283
Impairment allowances	(15)	-
Total	2,568,585	2,152,838

As at 31 December 2018 placements in the banks includes „NOSTRO” accounts, that are included in the cash flow statement (Note 18), worth at 31 December 2018 consist of 2,476,381 MDL'000 (2017: 2,073,555 MDL'000).

The amount of 2,380,858 MDL'000 (2017: 2,040,017 MDL'000) are placed in the banks from OECD member countries, the amount of 187,726 MDL'000 (2017: 112,822 MDL'000) are placed in non-OECD member countries, and are placed in banks from Moldova, Russian Federation and Ukraine.

	31 December 2018	31 December 2017
<i>In MDL thousand</i>		
Nostro frozen account, out of which:	90,819	228,670
Gross value	229,238	228,670
Impairment allowances	(138,419)	-

As at 31 December 2018 the amount of USD 13 372 348.70 is blocked on the Nostro account held with Bank of New York Mellon (Note 29).

Explanatory notes to the financial statements

5. INVESTMENT SECURITIES

In MDL thousand

	31 December 2018	31 December 2017
Investment securities measured at amortized cost	2,701,876	-
Investment securities measured at FVOCI	6,615	-
Held-to-maturity investment securities	-	4,420,263
Total	2,708,491	4,420,263

Investment securities measured at amortized cost*In MDL thousand*

	31 December 2018
Certificates issued by the NBM	997,711
State securities included in cash and cash equivalents (Note 18)	469,187
State securities due after three months	1,195,871
Bonds issued by international funding organizations	39,107
Total	2,701,876
Gross value	2,726,403
Impairment allowances	(24,527)

Held-to-maturity investment securities*In MDL thousand*

	31 December 2017
Certificates issued by the NBM	2,895,950
State securities included in cash and cash equivalents (Note 18)	105,186
State securities due after three months	1,419,127
Total	4,420,263

Investment securities measured at FVOCI*In MDL thousand*

	31 December 2018	31 December 2017
State securities	6,600	-
Changes in the fair value	15	-
Total	6,615	-

As at 31 December 2018, in chapter securities, the Bank holds debt instruments measured at amortized cost (31 December 2017 they were held to maturity) as treasury bills, certificates issued by the National Bank and bonds issued by international funding organizations. The amount invested in these debt instruments at 31 December 2018 consist of 2,701,876 MDL'000 (2017: 4,420,263 MDL'000).

As at 31 December 2018 the Bank holds a portfolio of debt instruments classified as "Financial assets at fair value through other comprehensive income" amounting to 6,615 MDL'000.

The securities in the Bank's portfolio as at 31 December 2018 represents treasury bills issued by the Ministry of Finance of the Republic of Moldova in MDL with discount and redeemed at face value at maturity, with maturity between 91 and 364 days, the interest rate range between 4.11% and 6.68% (2017: 5.20% and 7.92%) and bonds issued by the Ministry of Finance of the Republic of Moldova MDL nominal value or premium, for a period of 365-1096 days fixed rate or floating ranging between 4.32% and 8.35% (31 December 2017: 5.7% and 13.00%).

Certificates issued by the National Bank the Bank's portfolio as 31 December 2018 have an original maturity of 14 days at a rate of 6.50% (2017: 6.50%). Bonds issued by international funding organizations are denominated in EUR, have a maturity of 3 years with a fixed interest rate of 1.50%.

Explanatory notes to the financial statements

6. LOANS TO CUSTOMERS

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

<i>In MDL thousand</i>	31 December 2018			31 December 2017		
	Gross value	Impairment allowances (IFRS-9)	Carrying Amount	Gross value	Impairment allowances (IAS-39)	Carrying Amount
Legal entities	2,696,506	(571,813)	2,124,693	3,185,058	(388,064)	2,796,995
Individuals	828,987	(7,708)	821,279	661,927	(20,213)	641,713
Total	3,525,493	(579,521)	2,945,972	3,846,985	(408,277)	3,438,708

Analysis of loan portfolio by economic sector as at 31 December 2018 and 31 December 2017 is presented below:

Legal entities

<i>In MDL thousand</i>	31 December 2018	31 December 2017
Production and trade	729,111	1,025,749
Real estate	177,789	167,005
Farming and food industry	591,206	670,279
Consumer loans	2,599	2,346
Transport and road construction	178,691	226,776
Energy sector	8,874	26,240
Government	27,042	19,302
Others	981,194	1,047,367
Total	2,696,506	3,185,065

Individuals

<i>In MDL thousand</i>	31 December 2018	31 December 2017
Consumer loans	538,772	449,919
Mortgage loans	290,215	212,008
Total	828,987	661,927

Effect of allowances for impairment losses on loans to customers during the years 2018 and 2017 is presented in Note 33.1.

7. EQUITY INVESTMENT SECURITIES DESIGNATED AS AT FVOCI (2017: AVAILABLE-FOR-SALE)

The movement in the investment portfolio is presented below:

<i>In MDL thousand</i>	2018	2017
Balance as at 1 January	212,080	170,411
Changes in the fair value	34,958	41,669
Additions	1,024	-
Disposals	(1,683)	-
Balance as at 31 December	246,379	212,080

As at 31 December 2018, within these investments, the Bank holds equity investment securities designated as at FVOCI (2017: available-for-sale) in local not listed companies and foreign listed companies.

Explanatory notes to the financial statements

7. EQUITY INVESTMENT SECURITIES DESIGNATED AS AT FVOCI (2017: AVAILABLE-FOR-SALE) (CONTINUED)

The difference from revaluation of equity securities available for sale during 2018 is mainly related due to the increase of fair value on investments in shares of VISA Inc. and MasterCard Incorporated.

The analysis of the equity investments as at 31 December 2018 and 31 December 2017 is the following:

<i>In MDL thousand</i>	Scope of business	Owned share 2018, %	31 December 2018	Owned share 2017, %	31 December 2017
Visa Inc	Payment processing	0.00	185,760	0.00	161,822
MasterCard Inc.	Payment processing	0.00	57,379	0.00	46,663
CA "ALLIANCE INSURANCE GROUP" S.A.	Insurance	0.00	-	5.22	1,123
IM Biroul de Credit SRL	Data processing	13.36	2,038	6.67	1,014
S.W.I.F.T SCRL	International transfer	0.01	604	0.01	420
Garant Invest SRL	Collaterals	0.00	0	9.92	440
Bursa de Valori	Stock exchange	7.69	439	7.69	439
Depozitarul Național de Valori Mobiliare al Moldovei SA	Securities	5.05	159	5.05	159
Tevas-Grup SRL	Catchment and burning of biogas	0.00	-	50.00	-
Total			246,379		212,080

B.C. VICTORIABANK S.A.

Explanatory notes to the financial statements

8. PROPERTY AND EQUIPMENT

<i>In MDL thousand</i>	Land and buildings	Furniture and equipment	Vehicles	Improvements of leased assets	FA under construction	Total
Cost						
Balance at 1 January 2017	117,558	160,167	19,614	15,544	16,270	329,153
Additions	-	23	-	-	15,320	15,343
Transfers	1,797	12,720	-	1,199	(15,716)	-
Classified as held for sale	(115)	(14,040)	(891)	(1,343)	(835)	(17,224)
Disposals	-	-	-	-	-	-
Balance at 31 December 2017	119,240	158,870	18,723	15,400	15,039	327,272
Balance at 1 January 2018	119,240	158,870	18,723	15,400	15,039	327,272
Additions	-	-	-	-	12,313	12,313
Transfers	5,073	12,652	1,607	140	(19,472)	-
Classified as held for sale	-	(61)	(156)	-	-	(217)
Disposals	(216)	(8,373)	(2,541)	(2,656)	(278)	(14,064)
Balance at 31 December 2018	124,097	163,088	17,633	12,884	7,602	325,304
Accumulated depreciation and impairment losses						
Balance at 1 January 2017	37,239	114,881	12,115	13,203	-	177,438
Depreciation for the year	3,901	18,691	1,811	1,312	-	25,715
Impairment losses	85	-	-	-	-	85
Disposals	(58)	(13,973)	(891)	(1,077)	-	(15,999)
Balance at 31 December 2017	41,167	119,599	13,035	13,438	-	187,239
Balance at 1 January 2018	41,167	119,599	13,035	13,438	-	187,239
Depreciation for the year	4,168	15,366	1,695	820	-	22,049
Disposals	(67)	(8,309)	(2,542)	(2,592)	-	(13,510)
Balance at 31 December 2018	45,268	126,656	12,188	11,666	-	195,778
Carrying amounts						
Balance at 1 January 2017	80,319	45,286	7,499	2,341	16,270	151,715
Balance at 31 December 2017	78,073	39,271	5,688	1,962	15,039	140,033
Balance at 31 December 2018	78,829	36,432	5,445	1,218	7,602	129,526

As at 31 December 2018, the costs of property and equipment fully amortised and still used by the Bank amounted to MDL'000 99,677 (31 December 2017: MDL'000 79,665). As at 31 December 2018 tangible assets were not pledged as collateral.

Explanatory notes to the financial statements

9. INTANGIBLE ASSETS

<i>In MDL thousand</i>	Software	Intangible assets in execution	Total
Cost			
Balance at 1 January 2017	88,178	5,841	94,019
Additions	-	10,880	10,880
Transfers	13,909	(13,909)	-
Classified as held for sale	-	-	-
Disposals	(871)	-	(871)
Balance at 31 December 2017	101,216	2,812	104,028
Balance at 1 January 2018	101,216	2,812	104,028
Additions	-	13,708	13,708
Transfers	6,320	(6,320)	-
Disposals	(574)	-	(574)
Balance at 31 December 2018	106,961	10,201	117,162
Accumulated depreciation			
Balance at 1 January 2017	38,321	-	38,321
Depreciation for the year	8,297	-	8,297
Disposals	(858)	-	(858)
Balance at 31 December 2017	45,760	-	45,760
Balance at 01 January 2018	45,760	-	45,760
Depreciation for the year	12,399	-	12,399
Disposals	(574)	-	(574)
Balance at 31 December 2018	57,584	-	57,584
Carrying amounts			
Balance at 1 January 2017	49,857	5,841	55,698
Balance at 31 December 2017	55,456	2,812	58,268
Balance at 31 December 2018	49,377	10,201	59,578

As at 31 December 2018, the cost of intangible assets fully amortized but still used by the Bank amounted to MDL'000 30,981 (31 December 2017: MDL'000 15,094). As at 31 December 2018 intangible assets have not been pledged as collateral.

10. OTHER ASSETS

Financial assets

<i>In MDL thousand</i>	31 December 2018	31 December 2017
Receivables from international payment systems	25,101	27,508
Receivables from Visa and Mastercard	78,965	22,046
Other financial assets	130,461	133,532
Impairment allowance for other financial assets	(59,814)	(48,081)
Total	174,712	135,005

Non-financial assets

<i>In MDL thousand</i>	31 December 2018	31 December 2017
Guaranteed repoused	332,110	437,728
Inventories	18,174	9,120
Advances to suppliers	8,728	10,703
Prepaid expenses	7,866	6,903
Impairment allowance for other non-financial assets	(225,177)	(175,789)
Total	141,701	288,665
Total other assets	316,413	423,670

Explanatory notes to the financial statements

10. OTHER ASSETS (CONTINUED)

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

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

The evolution of allowances for impairment of other financial assets during 2018 and 2017 financial years, is presented in Note 33.1.

Movement in allowance for impairment of other financial assets is presented below:

<i>In MDL thousand</i>	2018	2017
Balance as at 1 January	175,789	63,372
Movement of advances from credits to other assets	-	70,064
Write-offs regarding reclassifications	(85,372)	-
Impairment charges (Note 23)	137,378	42,353
Write-offs	(2,618)	-
Balance as at 31 December	225,177	175,789

11. CURRENT INCOME TAX ASSETS

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

<i>In MDL thousand</i>	31 December 2018	31 December 2017
Current income tax assets	22,176	6,715
Current income tax liability	(12,020)	-
Current income tax assets, net	10,156	6,715

12. OTHER BORROWINGS

<i>In MDL thousand</i>	31 December 2018	31 December 2017
Loans from the Ministry of Finance	34,036	135,163
Total	34,036	135,163

Loans from the Ministry of Finance

The loans from the Ministry of Finance of the Republic of Moldova are financed by the International Fund for Agricultural Development (IFAD), the International Development Association (IDA), Kreditanstalt für Wiederaufbau (KfW), as well as by Government of the Republic of Poland (Assistance Credit). The purpose is to finance certain investment projects and to supplement the current assets (IFAD projects – predominant in the agricultural sector, RISP projects – in the development of businesses in the rural sector, PAC (Competitiveness Enhancement Project) projects – for the purpose of producing goods for export, the Assistance Credit projects - in the field of agriculture, food processing and related infrastructure).

In 2018, the interest rate for the loans received varied between 5.44% - 6.88% for MDL, 2.26% - 3.5% for USD, 0.15% – 1.35% for EUR. The loans financed from the mentioned loans were granted for a period of up to 8 years for investment projects and up to 4 years for supplementing the current assets depending on the project.

On the 31st of December 2018, the Bank did not meet the financial indicators determined in the Loan Agreements signed with International Financial Organizations (IFO): loans expired in the total of credit portfolio, bad loans in the total of credit portfolio and shares paid in the total of share capital.

The failure to meet the above-mentioned indicators may lead to the request of early repayment of loans and interest on these loans based on a prior notice received from the Credit Line Directorate (CLD) (FIDA4 - MDL'000 510 and Assistance Credit granted by the Government of the Republic of Poland - MDL'000 8,282).

At the 31st of December 2018 and until the date of issuing of the Financial Statements, the Bank had not received any written notice from CLD on the early repayment of loans and does not consider that CLD shall request such an early repayment.

Explanatory notes to the financial statements

13. DEPOSITS FROM BANKS

<i>In MDL thousand</i>	31 December 2018	31 December 2017
"Loro" accounts from banks	41,350	32,768
Total	41,350	32,768

14. DEPOSITS FROM CUSTOMERS

Deposits from customers can be analyzed as follows:

Legal entities

<i>In MDL thousand</i>	31 December 2018	31 December 2017
Current accounts	4,311,306	4,330,071
Term deposits	405,295	556,991
Total	4,716,601	4,887,062

Individuals

Current accounts	2,765,290	2,333,352
Term deposits	4,217,935	4,306,898
Total	6,983,225	6,640,250
Deposits from customers	11,699,826	11,527,312

15. INCOME TAX EXPENSES

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

Income tax recognized in profit and loss account

<i>In MDL thousand</i>	31 December 2018	31 December 2017
Current tax		
Current income tax expenses	(12,026)	(21,503)
Deferred tax		
Deferred income tax expenses	(7,990)	(3,608)
Total income tax expense recognized during the year	(20,016)	(25,111)

Explanatory notes to the financial statements

15. INCOME TAX EXPENSES (CONTINUED)

Income tax expenses reconciles to profit before tax as follows:

<i>In MDL thousand</i>	2018		2017	
Profit before tax	62,527		307,038	
Tax using the Bank's domestic tax rate	12.00%	(7,503)	12.00%	(36,845)
Tax effect of non-deductible expenses	37.78%	(23,622)	0.70%	(2,153)
Tax-exempt income	-17.77%	11,109	-4.52%	13,886
Income tax expense recognized in profit and loss account and in statement of other comprehensive income	32.01%	(20,016)	8.18%	(25,111)

Income tax recognized in other comprehensive income

<i>In MDL thousand</i>	31 December 2018	31 December 2017
Current income tax		
Current tax	-	-
Deferred income tax		
Change in fair value of equity through other comprehensive income	6,619	12,509
Total income tax recognized in other comprehensive income	6,619	12,509

Deferred tax balances

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

<i>In MDL thousand</i>	31 December 2018	31 December 2017
Deferred income tax assets	1,228	7,191
Deferred income tax liabilities	(7,917)	(12,509)
Deferred tax liabilities, net	(6,689)	(5,318)

<i>In MDL thousand</i>	31 December 2017	Recognize d in profit and loss	Recognized in other items of comprehens ive income	31 December 2018
Equity securities at fair value through other comprehensive income (2017: available for sale)	12,509	-	(6,619)	5,890
Property and equipment	(2,309)	4,335	-	2,026
Other assets	(8)	8	-	-
Accrual for unused vacation	(1,613)	385	-	(1,228)
Tax losses carried forward	(3,261)	3,261	-	-
Deferred tax liabilities / (assets)	5,318	7,990	(6,619)	6,689

Explanatory notes to the financial statements

16. OTHER LIABILITIES

Financial liabilities

In MDL thousand

	31 December 2018	31 December 2017
Bills advised and issued	-	142,869
Amounts in transit	39,672	36,495
Creditors regarding documentary transactions	551	52
Payments collected to transferred according to the destination	7,409	14,410
Expenses calculated	13,812	17,148
Settlements with the individuals and legal entities	2,980	2,622
Bank cards operations	4,887	8,967
Settlements with the brokers	5,610	2,393
Suspense amounts	5,857	1,175
Dividends payable	57	37,555
Other financial liabilities	32,510	23,799
Total	113,345	287,485

As at 31.12.2017, the financial liabilities comprise endorsed and issued trades in the amount of 142,869 MDL'000 - guarantee for the subsequent transaction for the acquisition of shares by Banca Transilvania.

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

Non-financial liabilities

In MDL thousand

	31 December 2018	31 December 2017
Provision for overdue vacation	12,773	21,097
Other settlements with the state budget	47	2,497
Other non-financial liabilities	15,913	13,420
Total	28,733	37,014
Total other liabilities	142,078	324,499

17. ORDINARY SHARES

During the year 2018, there were no changes to the Bank's share capital amounting to MDL 250,000,910 as at 31 December 2017 and 31 December 2018, consisting of 25,000,091 ordinary nominative shares of class I, code ISIN MD14VCTB1004, with a nominal value MDL 10, with voting right, the right to receive dividends, issued in non-material form.

As at 31 December 2018 the Bank has a total of 164 shareholders - individuals and legal entities (31 December 2017: 233 shareholders), among which:

	31 December 2018	31 December 2017
Shareholders with a share equal to or above 1%, among which:	6 persons	8 persons
Legal entities	2	3
individuals	4	5
Other shareholders, of which:	158 persons	225 persons
Legal entities	7	16
individuals	151	209

Explanatory notes to the financial statements

17. ORDINARY SHARES (CONTINUED)

	31 December 2018, %	31 December 2017, %
Shareholders with a share equal to or above 1%, among which:		
VB Investment Holding B.V.	72.19	27.56
INSIDOWN LTD	-	39.2
Turcan Victor	10.45	10.45
Artemenco Elena	4.94	4.94
Prodisvet Galina	4.04	4.04
Turcan Valentina	2.47	2.47
Notabil S.R.L.	2.36	2.36
Bondari Iurie	-	1.01
Other shareholders	3.55	7.97
TOTAL	100	100

18. CASH AND CASH EQUIVALENTS

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

<i>In MDL thousand</i>	Notes	31 December 2018	31 December 2017
Cash on hand and other values	3	1,042,253	754,957
Balances with the NBM (unrestricted amounts)	3	407,355	-
Current accounts with other banks	4	2,476,381	2,073,555
NBM certificates	5	997,711	2,895,950
State Securities, less than 3 months maturity	5	469,187	105,186
Total		5,392,887	5,829,648

19. NET INTEREST INCOME

<i>In MDL thousand</i>	2018	2017
Interest income		
Loans and advances to customers	262,619	342,071
Current accounts and placements held with NBM, other banks	98,623	107,673
Investment securities at amortized cost (2017: held to maturity)	258,731	252,213
Investment securities at FVOCI	24	-
Total interest income	619,997	701,957
Interest expense		
Deposits from customers	(239,523)	(275,626)
Current accounts with banks	(6,366)	(3,984)
Deposits from banks	(101)	(8)
Other borrowings	(2,994)	(5,581)
Total interest expense	(248,983)	(285,200)
Net interest income	371,014	416,756
Financial assets measured at amortized cost	619,973	701,957
Financial assets measured at FVOCI	24	-
Total	619,997	701,957
Financial liabilities measured at amortized cost	(248,983)	(285,200)

Interest income was calculated based on effective interest rate method.

Explanatory notes to the financial statements

20. NET FEE AND COMMISSION INCOME

<i>In MDL thousand</i>	2018	2017
Fee and commissions income		
Bank cards operation	163,925	140,295
Transaction with customers	120,055	118,248
Clearing operations	22,156	23,796
Currency exchange operations	7,494	8,075
Commission for release of guarantees	1,866	1,505
Brokerage fees	2,705	669
Commissions for services	24	38
Other commissions	19,177	17,553
Total fee and commissions income	337,402	310,179
Fee and commissions expenses		
Commissions for debit card services	(104,499)	(88,784)
Payment transactions	(9,876)	(9,429)
Commissions upon cash withdrawal and depositing	(31,162)	(29,777)
Total fee and commissions expenses	(145,537)	(127,990)
Net fee and commission income	191,865	182,189

21. NET FINANCIAL INCOME

<i>In MDL thousand</i>	2018	2017
Net income from foreign exchange transactions	103,097	116,368
Dividends on equity securities measured at FVOCI (2017: available-for-sale)	1,760	1,525
Other financial income	25	1
Total	104,882	117,893

22. OTHER OPERATING INCOME

<i>In MDL thousand</i>	2018	2017
Income from rent of safe-boxes	5,717	1,730
Other operating income	2,625	5,050
Total	8,342	6,780

Other operating income include fines and penalties received and income from rent of investment property.

Explanatory notes to the financial statements

23. NET IMPAIRMENT LOSSES ON ASSETS AND CONDITIONAL COMMITMENTS

Additional Information on impairment of financial assets during the financial year 2018 are presented in Note 33.1.

The following table provides reconciliation position "net impairment (expense) / income on assets and conditional commitments" in statement of profit or loss:

<i>In MDL thousand</i>	2018	2017
Cash and balances with the National Bank of Moldova	(1,625)	-
Current accounts and placements with banks	415	-
Frozen Nostro account	(138,419)	-
Debt securities at amortized cost	(172)	-
Debt securities at FVOCI	(94)	-
Loans to customers at amortized cost	62,417	55,577
Receivables to customers at amortized cost	(2,254)	(627)
Other financial assets	(6,453)	(3,702)
Property and equipment	(1)	(85)
Repossessed collaterals	(137,378)	(41,695)
Loan commitments and financial guarantee contracts	7,538	30,025
Total	(216,028)	9,499

24. PERSONNEL EXPENSES

<i>In MDL thousand</i>	2018	2017
Salaries and bonuses	(149,963)	(144,865)
Social insurance and contributions	(34,763)	(34,676)
Contribution to the health fund	(7,478)	(6,570)
Net expenses with provisions for overdue vacations	9,315	(8,500)
Other staff expenses (other payments, meal vouchers)	(28,103)	(12,726)
Total	(210,992)	(207,337)

The average monthly number of employees active in the Bank during 2018 was 1,212 people (in 2017 was 1,267).

Explanatory notes to the financial statements

25. OTHER OPERATING EXPENSES

In MDL thousand

	2018	2017
Utilities and rent	(42,045)	(48,207)
Repairs and maintenance expenses	(12,547)	(18,508)
Contribution to the Bank Deposit Guarantee Fund	(12,815)	(5,804)
Security and protection	(11,263)	(12,644)
Advertising, marketing, entertainment and sponsorship expenses	(4,930)	(6,545)
Expenses for maintaining intangible assets	(18,716)	(17,918)
Mail, telecommunication and SMS traffic expenses	(6,810)	(6,721)
Stationery and supplies	(3,438)	(3,438)
Audit, advisory and consultancy	(7,500)	(28,229)
Training	(1,042)	(979)
Travel and transportation	(1,815)	(706)
Loss on disposal of property and equipment, intangible assets and other assets	(6,565)	(19,874)
Taxes and penalties	(1,189)	(1,223)
Other operating expenses	(21,432)	(13,939)
Total	(152,107)	(184,732)

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

26. AMORTIZATION

In MDL thousand

	2018	2017
Property and equipment (Note 8)	(22,049)	(25,714)
Intangible assets (Note 9)	(12,399)	(8,297)
Total	(34,448)	(34,011)

27. GUARANTEES AND OTHER FINANCIAL COMMITMENTS

The cumulated amounts of guarantees in balance and other off balance sheet elements as at 31 December 2018 and 2017:

	31 December 2018	31 December 2017
<i>In MDL thousand</i>		
Letters of credit	498	-
Issued guarantees	74,274	66,501
Commitments to issue guarantees	29,912	25,385
Loan commitments	359,841	390,278
Total	464,525	482,164

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

Explanatory notes to the financial statements**28. OPERATIONAL LEASE COMMITMENTS**

The Bank rents under operational leases the locations for a number of representative offices and agencies. These contracts are usually from 1 year to 5 years, with an option to renew the contract after that period.

The minimum amounts that the Bank have to collect as a lessor in the operational lease agreements without cancellation clauses are the following:

<i>In MDL thousand</i>	2018	2017
Amounts to collect		
Less than 1 year	58	23
1 - 5 years	83	-
More than 5 years	-	-
Total	141	23

The minimum amounts that the Bank have to pay as a lessee in the operational lease agreements without cancellation clauses are the following:

<i>In MDL thousand</i>	2018	2017
Amounts to pay		
Less than 1 year	32,809	27,904
1 - 5 years	54,201	42,634
More than 5 years	1,533	5,351
Total	88,543	75,889

29. CONTINGENT LIABILITIES AND LITIGATION

As at 31 December 2018 and 2017, the Bank has the capacity of defendant in a number of law suits emerged from normal trading activities. Based on the decision of Charlotte District Court, North Carolina, USA, no. 3:12 cv 519 as at 12 February 2016, in Nostro bank account held by the Bank at the Bank of New York Mellon, on 17 February 2016, the amount of USD 13,174,015.48 that the court in the USA considered as being, eventually, funds of the company Rex Venture Group, LLC, was frozen. Considering this decision as being arbitrary, abusive, applied against the norms of international judicial practice, which obviously and without any reason caused major prejudices to the legal rights of the Bank, the Bank initiated the judicial procedure of appeal against the order and unblocking the account.

Therefore, on 26 February 2016, the legal service agreement no. 001/2016 had been concluded between the Bank, Vernon/David company (Moldova) and TroutmanSanders company (USA). On 19 April 2016, the writ of summons concerning the unblocking of the above-mentioned Nostro account had been registered by the lawyers TroutmanSanders company.

On 3 May 2017, the final court hearing took place. The claim filed by C.B. "Victoriabank" JSC. was admitted and there was canceled the order under which the money from the bank correspondent account was seized. The court decision was appealed by the Collector on 23 May 2017.

The Court of Appeal examined the appeal on 28 October 2017, and in accordance with US law it will rule on the case within 90 to a maximum of 120 days.

Currently the Bank is in the process of re-judgment at first instance civil case mentioned above, so development of the case in recent months remains unchanged, given that the preliminary examination of references and opinions expressed by the Parties, established on 05 December 2018 it was canceled for an indefinite period, due to the busy schedule of the judge.

The above-mentioned court decision was issued only for the blocking (freezing) of the amount and not for withdrawing the amounts from the account of the Bank, held in Bank of New York Mellon.

The Bank's management view, based on the lawyers' opinion, is that Victoriabank's legal position (in both facts and law) is fairly strong and the Bank is waiting for a positive decision. However, due to the general nature of the litigation, the final outcome of the matter and it's final financial impact on these financial statements cannot be estimated. Please see Note 4 for impairment allowance recorded on frozen account.

On 16 August 2016, the amount of 198,333.22 USD was blocked on the correspondent account in Bank of New York Mellon at the request of another Collector in connection with a similar case - tracking of the funds obtained as a result of the actions of PaymentWorld. As according to the information obtained from BNY, this amount was transferred to a separate account, according to US practice. At the same time, BNY submitted no document confirming the legality of debiting the account with that amount. Thus, between the Bank and BNY Mellon transaction date on 17 January 2019 under which the Bank has been refunded 120,000 USD.

Explanatory notes to the financial statements

30. BASIC EARNINGS PER SHARE

<i>In MDL thousand</i>	31 December 2018	31 December 2017
Profit for the year	42,510,654	281,926,216
The number of ordinary shares	25,000,091	25,000,091
Basic earnings per share	1.70	11.28

The basic earnings per share is calculated by dividing the net profit for the year attributable to the holders of ordinary equity by the average weighted number of ordinary shares issued during the year. The calculation of the basic earnings per share as at 31 December 2018 and as at 31 December 2017 was based on the number of outstanding shares during the period, this number being unmodified – 25,000,091 – since 2011. As at 31 December 2018 and 2017 there were no diluted equity instruments issued by the Bank.

31. FAIR VALUE OF THE FINANCIAL INSTRUMENTS

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

Level 1 in the fair value hierarchy

The fair value of financial assets and liabilities allocated to Level 1 in the fair value hierarchy is determined based on quoted prices in active markets for identical financial assets or liabilities. Quoted prices that are being applied must be readily and regularly available from an exchange or active index/market location and prices must represent actual and regularly occurring market transactions on an arm's length basis.

Level 2 in the fair value hierarchy

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

Level 3 in the fair value hierarchy

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

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

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

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Explanatory notes to the financial statements

31.

FAIR VALUE OF THE FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy analysis of financial instruments carried at fair value

The following table shows the fair value and fair value hierarchy for financial assets and liabilities as at 31 December 2018:

31 December 2018		Notes	Carrying amount	Fair value	Fair value hierarchy		
In MDL thousand					Level 1	Level 2	Level 3
Financial assets							
Current accounts and placements with banks							
4			2,568,585	2,568,585	-	-	2,568,585
5			2,701,876	2,701,876	-	-	2,701,876
5			6,615	6,615	-	-	6,615
Debt securities at fair value through other comprehensive income							
Equity securities at fair value through other comprehensive income (2017: available for sale)							
7			246,379	246,379	243,139	-	3,240
6			2,945,972	2,945,972	-	-	2,945,972
10			174,712	174,712	-	-	174,712
Total			8,644,139	8,644,139	243,139	-	8,401,000
Financial liabilities							
Deposits from banks							
13			41,350	41,350	-	-	41,350
14			11,699,826	11,699,826	-	-	11,699,826
12			34,036	34,036	-	-	34,036
16			113,345	113,345	-	-	113,345
Total			11,888,558	11,888,558	-	-	11,888,558

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

Explanatory notes to the financial statements

31. FAIR VALUE OF THE FINANCIAL INSTRUMENTS (CONTINUED)

The following table shows the fair value and fair value hierarchy for financial assets and liabilities as at 31 December 2017:

31 December 2017 <i>In MDL thousand</i>	Notes	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets						
Current accounts and placements with banks	4	2,152,838	2,152,838	-	-	2,152,838
Financial assets measured at amortized cost – debt instruments	5	4,420,263	4,420,263	-	-	4,420,263
Debt securities at fair value through other comprehensive income	5	-	-	-	-	-
Equity securities available for sale	7	212,080	212,080	208,485	-	3,595
Loans to customers	6	3,438,708	3,438,708	-	-	3,438,708
Other financial assets	10	135,005	135,005	-	-	135,005
Total		10,358,895	10,358,895	208,485	-	10,150,410
Financial liabilities						
Deposits from banks	13	32,768	32,768	-	-	32,768
Deposits from clients	14	11,527,312	11,527,312	-	-	11,527,312
Other borrowings	12	135,163	135,163	-	-	135,163
Other financial liabilities	16	287,485	287,485	-	-	287,485
Total		11,982,728	11,982,728	-	-	11,982,728

At Level 1 in the fair value hierarchy, The Bank has classified equity instruments at fair value through other comprehensive income (2017: classified as available for sale).

These are investments in shares of companies Visa Inc. MasterCard Incorporated, which are quoted in an active market for identical instruments.

The other equity securities of the Bank's portfolio don't an active market, their fair value was classified at level 3.

At Level 3 in the fair value hierarchy, the Bank has classified as financial assets: placements with banks, loans to customers, financial assets measured at amortized cost - debt instruments, debt instruments at fair value through other comprehensive income and other assets financial.

The estimated fair value of financial assets approximates their carrying amount.

At Level 3 in the fair value hierarchy, the bank has classified as financial liabilities: loans from Ministry of Finance, deposits from customers and banks and other financial liabilities.

The estimated fair value of financial liabilities approximates their carrying amount.

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Explanatory notes to the financial statements

32. RELATED PARTIES

The main shareholders of the Bank, holding individually more than 1% of the share capital, are disclosed in Note 17.

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

During 2018 banking transactions with related parties were conducted in the normal course of business. These include lending, deposit taking and making transactions in national and foreign currency. All these transactions were carried out under similar conditions, including the interest rates and terms on similar transactions with customers.

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

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

<i>In MDL thousand</i>	2018				2017			
	Shareholders > 1 %	Key- management personnel	Other related parties	Total	Shareholders > 1 %	Key- management personnel	Other related parties	Total
Balance								
Current accounts to banks	87,903	-	-	87,903	-	-	-	-
Loans	-	8,688	696,689	705,377	-	8,609	28,722	37,331
Deposits	26,434	25,875	111,285	163,594	82,416	31,669	165,327	279,413
Commitments								
Given loan commitments and financial guarantees	-	1,538	227	1,765	200	2,885	343	3,428
Income and expenses								
Interest income	188	1,132	9,214	10,533	3	1,111	1,768	2,881
Fee and commissions income	187	46	2,013	2,245	74	56	1,189	1,319
Interest expenses	(1,181)	(931)	(1,383)	(3,495)	(883)	(1,201)	(2,382)	(4,466)
Fee and commissions expenses	(48)	-	(735)	(783)	-	-	(858)	(858)

Remuneration of directors

The total amount of remuneration expenses for executive management constituted MDL'000 19,362 for the year 2018 (2017: MDL'000 12,250). The amount of expenses for the remuneration of the Bank Council was MDL'000 3,450 for the year 2018 (2017: MDL'000 1,184).

Explanatory notes to the financial statements

33. FINANCIAL RISK MANAGEMENT

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

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

Market risk includes currency risk and interest rate risk.

Risk management is an integral part of all business processes and decision making within the Bank.

The Bank's risk management policy are strategic set objectives of banking risk, management are determined structures that are responsible and set the framework for further development of regulations, procedures, instructions and other acts regulating banking risk management process.

Bank's objective with regard to risk management was integrating risk appetite in the bank's decision-making process by promoting proper alignment of the risks assumed, available capital and performance targets, considering both risk tolerance.

Bank continuously assess and monitor significant risks: credit risk and concentration risk, market risk (interest rate risk, currency risk), liquidity risk, capital risk and operational risk.

In the process of risk management, the Bank uses stress tests with systematic and idiosyncratic scenarios. Stress tests allow identifying vulnerabilities and adopting corrective action plans. Bank doesn't use derivatives to cover financial risk.

During 2018, bank has implemented risk strategy which sets limits and risk appetite for major risk that are managed by bank.

The Risk Committee is advising the Board of Administration on Bank's risk strategy and risk appetite.

33.1 Credit Risk

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

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

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

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

Risk Committee has assigned responsibility for credit risk management by the Management Committee, and Vice-President subordinate departments responsible for banking risks.

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

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

I. Increase values of estimated credit losses (ECL)

Significant increase of the credit risk

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

Explanatory notes to the financial statements

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

33.1 Credit Risk (continued)

I. Increase values of estimated credit losses (ECL) (continued)

Significant increase of the credit risk (continued)

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

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

The bank defines three stages:

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

Estimated loan losses for 12 months = ECL 12M = The portion of lifetime expected credit losses that represent the expected credit losses that result from default events of a financial instrument that are possible within the 12 months after the reporting date.
- **Stage II** includes financial assets for which there was a significant increase in credit risk at the time of the analysis compared to the original recognition date (except for assets that have a low credit risk exemption) and which are not reported as impaired (or impairment evidence is not identified). For these assets, an impairment adjustment will be determined using the below method presented "Lifetime ECL".

Estimated lifetime loss = Lifetime ECL = resulting from all possible default events over the expected life of a financial instrument, further reflected through the average credit losses weighted by the respective risk of default (measured through PD).
- **Stage III (default)** includes financial assets for which impairment evidence have been identified at the reporting date. For these assets, a "Lifetime ECL" depreciation adjustment will be determined, with the assigned PD of 100%.

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

Classification of financial assets is done case-by-case. This means that a loan may be included in stage I and another loan held by the same client may be included in stage II, all depending on the outcome of the analysis between the risk elements existing at the initial recognition date and the situation at the reporting date. However, for stage III, the bank applies the contamination principle, which means that all financial assets of the same customer will be included in this stage if impairment evidence is found for at least one of their assets.

Determining the significant increase in credit risk for other financial assets

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

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

- Delays to the planned payments which exceed 30 days but are less than 90 days;
- The analyzed loan has suffered a prorogation/restructuration in the last 12 months and the financial asset was not derecognized;
- The Loan was classified according to NBM provisions in the "C" prudential category;
- The absence of significant cash flow operations for the last 45 days (at least 1000 MDL)
- There are 2 or more recorded financial indicators showing objective impairment evidence:

Explanatory notes to the financial statements

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

33.1 Credit Risk (continued)

I. Increase values of estimated credit losses (ECL) (continued)

Determining the significant increase in credit risk for other financial assets (continued)

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

- Has 91 or more days past due, being applied the process of contamination of all the exposures of a client if at least one of them becomes default;
- The Bank has started the recovery procedure by enforced execution;
- Has, at the moment when analyzed, more than 3 payment schedule restructurings, the last being realized maximum one year before the analyze is dated, the following 2 being realized in successive time intervals not longer than 2 years. (Example: The present date: 31.12.2017, the last restructuring : max. 31.12.2016, the second restructuring: max. 31.12.2014 and the 3rd : max. 31.12.2012);
- According to the NBM Regulation, there are classified as "D" prudential category or lower;
- The sale-purchase contracts concluded with the debtor/ the pledge debtor of the pledged object connected to the exposures extinguished from the execution of this guarantee will be automatically classifies in Stage 3;
- In case the measures such the guarantee execution are not applied – it is impossible that the debtor honors his credit obligations to the Bank; The rating related to the issuer/ counterparty is established in rating categories associated to the default;
- There was submitted a request for starting the bankruptcy procedure against the debtor or applying other similar methods.

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

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

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

Incorporating forward-looking information

IFRS 9 requires to be done and appraisal elements expected impairment loss. Which means that PDs should consider not only the current realities of the economy, but the economic circumstances Subsequent alternations.

To achieve this level of anticipation were applied econometric estimates of regression on macroeconomic indicators (GDP, personal expenditures on consumption, gross average wage in the economy, unemployment rate, inflation, the price index of real estate rate NBM base rate EUR and USD exchange rate discount securities) and determined the correlation between them and PD fluctuations.

The determination of the expected loss of credit (ECL)

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

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

Explanatory notes to the financial statements

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

33.1 Credit Risk (continued)

I. Increase values of estimated credit losses (ECL) (continued)

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

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

- In case of T-bills / NBM securities, the EAD parameter will be determined according to the value of the amortized cost of the associated exposure as at the reporting date.
- In case of placements to other banks and NOSTRO accounts, the EAD parameter is calculated by summing the principal and receivables attached to reporting data.
- Issued bank Guarantees (acc. 6701) – EAD parameter is calculated based on obligation values, at the calculation date, adjusted with CCF parameters, with a value of 100%.

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

With a view to estimate the recovery value of the collateral, it will be determined the liquidation value of the collateral based on the valuation report held by the Bank or the professional judgment of the responsible departments (Workout Division, Collateral Evaluation Division).

In case of undetermined liquidation value of some objects, it will be applied a discount (Haircut statistic) to the market value to obtain an estimated liquidation value according to the collateral type

If collateral is formed as future one or inferior rank, it is taken in calculation of LGD with "0" liquidation value.

In case of securities, the placements to other banks are calculated based on the Moody's researches, on the recovery rates for a representative number of issuers by making an average of the 4 hypotheses proposed for analyzing the recovery rate.

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

The impact of the transition to IFRS 9 on 1 January 2018 is set out below:

<i>În mii lei</i>	31 December 2017 (IAS-39)	Impact IFRS 9	1 January 2018
Cash and Balances with National Bank of Moldova	-	3,008	3,008
Placements with banks	-	2,500	2,500
Investment securities measured at amortized cost (2017: held-to-maturity)	-	24,355	24,355
Loans to customers at amortized cost	408,277	221,525	579,521
Receivables to customers at amortized cost	40,652	4,076	46,002
Loan commitments and financial guarantee contracts	6,494	10,281	19,489
Total	455,423	265,745	674,875

The following table sets out information about the credit quality of financial assets measured at amortised cost, FVOCI debt investments (2018) and available-for-sale debt assets (2017). Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

Explanatory notes to the financial statements

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

33.1 Credit Risk (continued)

I. Increase values of estimated credit losses (ECL) (continued)

Credit quality analysis depending on the class of financial assets

<i>In MDL thousand</i>	31 December 2018				31 December 2017
	Stage 1	Stage 2	Stage 3	Total	Total
Cash and Balances with National Bank of Moldova	5,136,951	-	-	5,136,951	3,409,914
Placements with banks	2,570,800	-	-	2,570,800	2,152,838
Nostro account frozen	-	-	229,238	229,238	228,670
Investment securities measured at amortized cost (2017: held-to-maturity)	2,726,379	-	-	2,726,379	4,420,263
Investment securities measured at FVOCI	6,639	-	-	6,639	-
Equity investment securities designated as at FVOCI (2017: available-for-sale)	246,379	-	-	246,379	212,080
Loans to customers	2,051,373	364,130	1,109,990	3,525,493	3,846,985
Other financial assets	135,875	33,246	65,405	234,526	183,086
Loss allowance for financial assets	(116,132)	(9,794)	(683,212)	(809,138)	(456,358)
Carrying amount	12,758,265	387,582	721,421	13,867,268	13,997,479

Explanatory notes to the financial statements

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

33.1 Credit Risk (continued)

I. Increase values of estimated credit losses (ECL) (continued)

The table below presents information on overdue status for financial assets:

	31 December 2018				31 December 2017
	Stage 1	Stage 2	Stage 3	Total	Total
Cash and Balances with National Bank of Moldova					
Current	5,136,951	-	-	5,136,951	3,409,914
Overdue ≤ 30 days	-	-	-	-	-
Overdue > 30 days ≤ 90 days	-	-	-	-	-
Overdue > 90 days	-	-	-	-	-
Loss allowance	(4,641)	-	-	(4,641)	-
Carrying amount	5,132,310	-	-	5,132,310	3,409,914
Placements with banks					
Current	2,570,800	-	-	2,570,800	2,152,838
Overdue ≤ 30 days	-	-	-	-	-
Overdue > 30 days ≤ 90 days	-	-	-	-	-
Overdue > 90 days	-	-	-	-	-
Loss allowance	(2,215)	-	-	(2,215)	-
Carrying amount	2,568,585	-	-	2,568,585	2,152,838
Investment securities measured at amortized cost (2017: held-to-maturity)					
Current	2,726,403	-	-	2,726,403	4,420,263
Overdue ≤ 30 days	-	-	-	-	-
Overdue > 30 days ≤ 90 days	-	-	-	-	-
Overdue > 90 days	-	-	-	-	-
Loss allowance	(24,527)	-	-	(24,527)	-
Carrying amount	2,701,876	-	-	2,701,876	4,420,263
Loans to customers					
Current	1,976,435	302,839	152,722	2,431,996	2,660,743
Overdue ≤ 30 days	72,821	43,452	67,388	183,661	117,473
Overdue > 30 days ≤ 90 days	2,116	17,840	93,531	113,487	70,522
Overdue > 90 days	-	-	796,348	796,348	998,247
Loss allowance	(70,923)	(8,622)	(499,976)	(579,521)	(408,277)
Carrying amount	1,980,450	355,508	610,013	2,945,972	3,438,708
Other financial assets					
Current	132,385	-	-	132,385	83,095
Overdue ≤ 30 days	3,490	32,134	-	35,624	11,549
Overdue > 30 days ≤ 90 days	-	1,112	-	1,112	34,694
Overdue > 90 days	-	-	65,405	65,405	53,748
Loss allowance	(13,825)	(1,172)	(44,816)	(59,814)	(48,081)
Carrying amount	122,050	32,074	20,588	174,712	135,005

Explanatory notes to the financial statements

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

33.1 Credit Risk (continued)

I. Increase values of estimated credit losses (ECL) (continued)

The following tables show the effect of change in provisions for groups of financial assets and commitments. Comparative amounts for 2017 are based on IAS 39.

<i>In MDL thousand</i>	31 December 2018	31 December 2017
Cash and Balances with National Bank of Moldova		
Balance at 1 January	3,008	-
Net remeasurement of loss allowance	1,625	-
New financial assets originated or purchased	-	-
Foreign exchange and other movements	8	-
Balance at 31 December	4,641	-
Placements with banks		
Balance at 1 January	2,759	-
Net remeasurement of loss allowance	(415)	-
New financial assets originated or purchased	-	-
Foreign exchange and other movements	(129)	-
Balance at 31 December	2,215	-
Nostro account frozen		
Balance at 1 January	-	-
Net remeasurement of loss allowance	138,419	-
New financial assets originated or purchased	-	-
Foreign exchange and other movements	-	-
Balance at 31 December	138,419	-
Investment securities measured at amortized cost (2017: held-to-maturity)		
Balance at 1 January	24,355	-
Net remeasurement of loss allowance	(30,971)	-
New financial assets originated or purchased	31,142	-
Foreign exchange and other movements	-	-
Balance at 31 December	24,527	-
Investment securities measured at FVOCI		
Balance at 1 January	-	-
Net remeasurement of loss allowance	-	-
New financial assets originated or purchased	94	-
Foreign exchange and other movements	-	-
Balance at 31 December	94	-

Explanatory notes to the financial statements

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

33.1 Credit Risk (continued)

I. Increase values of estimated credit losses (ECL) (continued)

<i>In MDL thousand</i>	31 December 2018			31 December 2017		
	Stage 1	Stage 2	Stage 3	Total	Individual	Collective
Loans to customers at amortized cost						
Balance at 1 January	55,133	22,532	552,136	629,802	378,584	79,851
Transfer to Stage 1	5,591	(5,403)	-	188	-	-
Transfer to Stage 2	-	-	(188)	(188)	-	-
Transfer to Stage 3	-	-	-	-	-	-
Net remeasurement of loss allowance	4,625	(7,931)	(14,133)	(17,439)	17,950	(17,950)
New financial assets originated or purchased	14,748	470	13,368	28,586	265,895	271,633
Financial assets that have been derecognized	(9,238)	(544)	(15,840)	(25,622)	(322,056)	(247,999)
Write-offs	(18)	(23)	(30,635)	(30,676)	-	(1,729)
Foreign exchange and other movements	87	(486)	(4,732)	(5,131)	(13,893)	(2,009)
Balance at 31 December	70,930	8,615	499,976	579,521	326,480	81,797

RETAIL

<i>In MDL thousand</i>	31 December 2018			31 December 2017		
	Stage 1	Stage 2	Stage 3	Total	Individual	Collective
Loans to customers at amortized cost - retail						
Balance at 1 January	1,240	986	8,145	10,371	7,095	3,593
Transfer to Stage 1	4,753	(2,605)	-	2,148	-	-
Transfer to Stage 2	-	-	(2,088)	(2,088)	-	-
Transfer to Stage 3	-	-	-	-	-	-
Net remeasurement of loss allowance	(4,338)	2,110	3,854	1,627	118	(118)
New financial assets originated or purchased	451	(16)	0	436	4,181	77,782
Financial assets that have been derecognized	(244)	(46)	(139)	(428)	(9,566)	(61,095)
Write-offs	(18)	(23)	(4,287)	(4,328)	-	(1,729)
Foreign exchange and other movements	-	(29)	-	(29)	(47)	-
Balance at 31 December	1,845	378	5,485	7,708	1,780	18,433

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Explanatory notes to the financial statements

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

33.1 Credit Risk (continued)

I. Increase values of estimated credit losses (ECL) (continued)

CORPORATE CUSTOMERS

In MDL thousand

Loans to customers at amortized cost – corporate customers

	31 December 2018			31 December 2017		
	Stage 1	Stage 2	Stage 3	Total	Individual	Collective
Balance at 1 January	53,893	21,546	543,991	619,431	371,489	76,258
Transfer to Stage 1	839	(2,798)	-	(1,960)	-	-
Transfer to Stage 2	-	-	1,900	1,900	-	-
Transfer to Stage 3	-	-	-	-	-	-
Net remeasurement of loss allowance	8,963	(10,041)	(17,987)	(19,066)	17,832	(17,832)
New financial assets originated or purchased	14,296	486	13,368	28,151	261,714	193,851
Financial assets that have been derecognized	(8,994)	(498)	(15,701)	(25,193)	(312,490)	(186,904)
Write-offs	-	-	(26,347)	(26,347)	-	0
Foreign exchange and other movements	87	(458)	(4,732)	(5,102)	(13,845)	(2,009)
Balance at 31 December	69,085	8,237	494,491	571,813	324,700	63,364
						388,064

In MDL thousand

Other financial assets - receivables to customers at amortized cost

	31 December 2018			31 December 2017		
	Stage 1	Stage 2	Stage 3	Total	Individual	Collective
Balance at 1 January	15	347	44,366	44,728	38,414	2,052
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	(1,041)	1,041	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
Net premeasurement of loss allowance	(1)	694	618	1,311	(0)	0
New financial assets originated or purchased	0	1,172	-	1,173	1,529	680
Financial assets that have been derecognized	(2)	-	(228)	(230)	(824)	(759)
Write-offs	-	-	-	-	-	-
Foreign exchange and other movements	-	-	(981)	(981)	(394)	(47)
Balance at 31 December	13	1,172	44,816	46,001	38,726	1,926
						40,652

Explanatory notes to the financial statements

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

33.1 Credit Risk (continued)

I. Increase values of estimated credit losses (ECL) (continued)

<i>In MDL thousand</i>	31 December 2018	31 December 2017
Other financial assets		
Balance at 1 January	7,429	4,014
Net remeasurement of loss allowance	6,229	3,438
New financial assets originated or purchased	234	-
Financial assets that have been derecognized	(9)	-
Foreign exchange and other movements	(70)	(23)
Balance at 31 December	13,813	7,429

<i>In MDL thousand</i>	31 December 2018	31 December 2017
Loan commitments and financial guarantee contracts		
Balance at 1 January	16,774	6,558
Net remeasurement of loss allowance	(39,084)	(64)
New financial assets originated or purchased	31,547	-
Foreign exchange and other movements	(28)	-
Balance at 31 December	9,209	6,494

Explanatory notes to the financial statements

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

33.1 Credit Risk (continued)

I. Increase values of estimated credit losses (ECL) (continued)

The following table presents a reconciliation of net adjustments of depreciation expenses for financial assets and provisions for conditional commitments at 31 of December 2018:

	Cash and Balances with National Bank of Moldova	Placements with banks	Nostro account frozen	Investment securities at amortized cost	Investment securities measured at FVOCI	Loans to customers at amortized cost	Advances to customers at amortized cost	Other financial assets and financial guarantee contracts	Loan commitments and financial guarantee contracts	Total 2018
<i>In MDL thousand</i>										
Net remeasurement of loss allowance	1,625	(415)	138,419	(30,971)	-	(43,060)	1,081	6,220	(39,084)	33,815
New financial assets originated or purchased	-	-	-	31,142	94	28,586	1,173	234	31,547	92,775
Total	1,625	(415)	138,419	172	94	(14,474)	2,254	6,453	(7,538)	126,590
Recoveries of amounts previously written off	-	-	-	-	-	(47,943)	-	-	-	(47,943)
Total	1,625	(415)	138,419	172	94	(62,417)	2,254	6,453	(7,538)	78,648

Explanatory notes to the financial statements

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

33.1 Credit Risk (continued)

II. Collateral held

Bank holds collateral for loans to customers in the form of mortgage rights on property, stocks of materials and equipment and cash deposits.

On initial recognition of loans, the fair value of collateral is based on a normally technical evaluation used for corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets.

LGD coefficient is represent in the relative form of exposure by recoverable credit amount and guarantees (RA), for each period in the life of the asset lending. LGD stage does not vary depending on the classification of the asset crediting.

To estimate the recoverable amount of collateral will determine the liquidation value of the collateral object in the evaluation reports held by the Bank. If for some items missing liquidation values, it will be applied to the market value, a discount factor (Haircut statistically) to obtain an estimated liquidation value.

The following table presents the main types of collateral held by the Bank for loans to customers at 31 December 2018 and at 31 December 2017:

Type of collateral	31 December 2018, %	31 December 2017, %
Residential property	60.15	62.44
Property and equipment	24.68	24.80
Deposits	1.35	3.94
None	13.82	8.82
Total	100.00	100.00

III. Concentration of credit risk

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

An analysis of concentrations of credit risk by sector and by geographic location from financial assets at 31 December 2018 and at 31 December 2017 is shown below:

Concentration of credit risk by geographic location

31 December 2018

<i>In MDL thousand</i>	Moldova	OECD countries	Non-OECD countries	Total
Current accounts and placements with banks	39	2,380,858	187,687	2,568,585
Investment securities	2,669,384	-	39,107	2,708,491
Equity investment securities designated as at FVOCI (2017: available-for-sale)	2,636	243,743	-	246,379
Loans to customers	2,945,972	-	-	2,945,972
Other financial assets	174,712	-	-	174,712
Total	5,792,743	2,624,602	226,795	8,644,139

31 December 2017

<i>In MDL thousand</i>	Moldova	OECD countries	Non-OECD countries	Total
Current accounts and placements with banks	911	2,040,017	111,911	2,152,838
Investment securities	4,420,263	-	-	4,420,263
Equity investment securities designated as at FVOCI (2017: available-for-sale)	3,175	208,905	-	212,080
Loans to customers	3,438,708	-	-	3,438,708
Other financial assets	135,005	-	-	135,005
Total	7,998,063	2,248,922	111,911	10,358,895

Explanatory notes to the financial statements

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

33.1 Credit Risk (continued)

III. Concentration of credit risk (continued)

Concentration of credit risk by sector

31 December 2018

<i>In MDL thousand</i>	Financial institutions	Government/ Public Administration	Farming and food industry	Production and trade	Real estate	Transport and road construction	Energy sector	Consumer loans	Others	Total
Current accounts and placements with banks	2,568,585	-	-	-	-	-	-	-	-	2,568,585
Investment securities	39,107	2,669,384	-	-	-	-	-	-	-	2,708,491
Equity investment securities designated as at FVOCI (2017: available-for-sale)	245,774	-	-	-	-	-	-	-	605	246,379
Loans to customers:										
Retail	-	-	-	-	289,053	-	-	532,225	-	821,279
Corporate	-	23,173	453,090	677,096	129,643	169,014	8,098	2,573	662,005	2,124,693
Other financial assets	-	-	-	-	-	-	-	-	174,712	174,712
Total	2,853,467	2,692,557	453,090	677,096	418,697	169,014	8,098	534,798	837,322	8,644,139

31 December 2017

<i>In MDL thousand</i>	Financial institutions	Government/ Public Administration	Farming and food industry	Production and trade	Real estate	Transport and road construction	Energy sector	Consumer loans	Others	Total
Current accounts and placements with banks	2,152,838	-	-	-	-	-	-	-	-	2,152,838
Investment securities	4,420,263	-	-	-	-	-	-	-	-	4,420,263
Equity investment securities designated as at FVOCI (2017: available-for-sale)	211,660	-	-	-	-	-	-	-	421	212,080
Loans to customers:										
Retail	-	-	-	-	205,042	-	-	436,672	-	641,714
Corporate	-	19,302	534,106	951,602	137,504	219,614	25,446	2,275	907,145	2,796,994
Other financial assets	-	-	-	-	-	-	-	-	135,005	135,005
Total	6,784,762	19,302	534,106	951,602	342,546	219,614	25,446	438,947	1,042,570	10,358,895

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

Explanatory notes to the financial statements

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

33.2 Market risk

33.2.1 Currency risk

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

For each type of market risk simulation exercises are conducted periodically (monthly stress testing). Exposure to market risk is monitored and reported monthly to the ALCO (Asset Liabilities Committee) and the Risk Committee of the Bank.

Foreign currency exposure is limited by NBM and the Bank has set internal limits (falling within NBM) for the sum of ratios of open foreign exchange positions aiming to identify early risk of increasing rates. The tables below shows the Bank's exposure to currency risk at 31st of December 2018 and 31st of December 2017. The Bank's financial assets and liabilities are stated at carrying amounts, categorized by currency.

B.C. VICTORIABANK S.A.

Explanatory notes to the financial statements

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

33.2 Market risk (continued)

33.2.1 Currency risk (continued)

31 December 2018

In MDL thousand

Financial assets

Cash and Balances with National Bank of Moldova

Placements with banks

Investment securities measured at amortized cost (2017: Held-to-maturity)

Investment securities designated as at FVOCI

Equity investment securities designated as at FVOCI (2017: available-for-sale)

Loans to customers

Other financial assets

Total financial assets

Financial liabilities

Deposits from banks

Deposits from customers

Other Borrowings

Other financial liabilities

Total financial liabilities

Net currency position

Notes	MDL	EUR	USD	Other currencies	Total
3	4,106,237	659,600	343,694	22,779	5,132,310
4	-	1,779,417	739,441	49,727	2,568,585
5	2,662,768	39,107	-	-	2,701,876
5	6,615	-	-	-	6,615
7	245,775	604	-	-	246,379
6	1,941,348	772,126	232,498	-	2,945,972
10	130,835	34,209	7,910	1,759	174,712
	9,093,579	3,285,063	1,323,543	74,264	13,776,449
13	1,118	9,707	30,526	-	41,350
14	6,888,984	3,240,428	1,503,101	67,314	11,699,826
12	16,357	15,912	1,767	-	34,036
16	73,605	19,091	19,192	1,457	113,345
	6,980,064	3,285,137	1,554,586	68,771	11,888,558
	2,113,515	(75)	(231,043)	5,493	1,887,891

B.C. VICTORIABANK S.A.

Explanatory notes to the financial statements

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

33.2 Market risk (continued)

33.2.1 Currency risk (continued)

31 December 2017

In MDL thousand

Financial assets

Cash and Balances with National Bank of Moldova

Placements with banks

Investment securities held-to-maturity

Investment securities designated as at FVOCI

Equity investment securities available-for-sale

Loans to customers

Other financial assets

Total financial assets

Financial liabilities

Deposits from banks

Deposits from customers

Other Borrowings

Other financial liabilities

Total financial liabilities

Net currency position

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

Notes	MDL	EUR	USD	Other currencies	Total
3	2,497,661	581,951	304,444	25,858	3,409,914
4	-	1,390,535	751,638	10,665	2,152,838
5	4,420,263	-	-	-	4,420,263
7	211,660	420	-	-	212,080
6	1,899,146	1,179,553	360,009	-	3,438,708
10	74,311.96	32,071	24,914	3,708	135,005
	9,103,044	3,184,530	1,441,005	40,231	13,768,809
13	-	6,125	26,642	-	32,768
14	6,921,693	3,011,027	1,565,172	29,420	11,527,312
12	42,473	44,887	47,804	-	135,163
16	111,561	156,048	19,617	259	287,485
	7,075,727	3,218,087	1,659,235	29,679	11,982,728
	2,027,317	(33,558)	(218,230)	10,551	1,786,081

Explanatory notes to the financial statements

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

33.2 Market risk (continued)

33.2.2 Interest rate risk

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

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

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

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

Assets and Liabilities Committee (ALCO) is the body that monitors compliance with these limits. Managing interest rate risk on interest rate gap limits is supplemented by monitoring the sensitivity analysis of financial assets and liabilities in various standard scenarios of interest rates.

The tables below shows the Bank's exposure to interest rate risk as at 31 December 2018 and 31 December 2017. The table includes financial assets and liabilities of the Bank at their carrying amounts, classified based on the earliest date between repricing and maturity dates.

B.C. VICTORIABANK S.A.

Explanatory notes to the financial statements

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

33.2 Market risk (continued)

33.2.2 Interest rate risk (continued)

31 December 2018

In MDL thousand

Financial assets

Cash and Balances with National Bank of Moldova

Placements with banks

Investment securities measured at amortized cost

(2017: Held-to-maturity)

Loans to customers

Other financial assets

Total financial assets

Financial liabilities

Deposits from banks

Deposits from customers

Other Borrowings

Other financial liabilities

Total financial liabilities

Net position

Net position aggregated

Notes	Carrying amount	Less than 6 months	6 months – 1 year	1 – 5 years	More than 5 years	Non-interest bearing
3	5,132,310	3,212,408	-	-	-	1,919,902
4	2,568,585	1,648,691	-	-	-	919,894
5	2,701,876	1,930,346	411,926	359,579	-	24
6	2,945,972	2,865,340	18,896	59,059	2,676	-
10	174,712	-	75	1,482	-	173,155
	13,523,454	9,656,785	430,898	420,121	2,676	3,012,975
13	41,350	7,485	-	-	-	33,866
14	11,699,826	8,085,324	231	-	-	3,614,270
12	34,036	34,036	-	-	-	-
16	113,345	-	-	-	-	113,345
	11,888,558	8,126,845	231	-	-	3,761,481
Net position		1,529,940	430,666	420,121	2,676	(748,507)
Net position aggregated		1,529,940	1,960,607	2,380,727	2,383,403	1,634,896

33.2.2 Interest rate risk (continued)

In MDL thousand

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

Explanatory notes to the financial statements

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

33.3 Liquidity risk

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

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

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

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

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

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

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

Crisis simulation scenarios have been elaborated by considering various intensity levels, various probabilities and different periods of occurrence. Their purpose is to identify / assess potential losses, the potential impact of events or the factors that may generate a liquidity crisis. Additionally, they offer information regarding the impact of liquidity risk determinants on the Bank's capacity to provide liquidity to its customers and to maintain adequate liquidity levels.

The tables below present an analysis of maturities of assets and liabilities, liabilities and contingent liabilities of the Bank into relevant maturity groups based on the remaining period at balance sheet date to the contractual maturity date, as of 31 December 2018 and 31 December 2017. Payments that are subject to contracts in breached are immediately treated as payable on demand.

Explanatory notes to the financial statements

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

33.3 Liquidity risk (continued)

31 December 2018

*In MDL thousand***Financial assets**

Cash and Balances with National Bank of Moldova

Placements with banks

Investment securities measured at amortized cost (2017: Held-to-maturity)

Investment securities measured at FVOCI

Equity investment securities designated as at FVOCI (2017: available-for-sale)

Loans to customers

Other financial assets

Total financial assets**Financial liabilities**

Deposits from banks

Deposits from customers

Other Borrowings

Other financial liabilities

Total financial liabilities**Net balance sheet position**

Loan commitments and financial guarantee contracts

Total off-balance sheet**Total net on- and off-balance sheet position**

Notes	Carrying amount	1-3 months	3 months - 1 year	1 – 5 years	More than 5 years	No maturity
3	5,132,310	5,132,310	-	-	-	-
4	2,568,585	2,476,514	-	-	92,071	-
5	2,701,876	1,418,659	870,630	412,587	-	-
5	6,615	1,740	3,085	1,790	-	-
7	246,379	-	-	-	-	246,379
6	2,945,972	475,585	574,328	1,625,686	270,372	-
10	174,712	153,694	12,639	8,379	-	-
	13,776,449	9,658,502	1,460,682	2,048,442	362,443	246,379
13	41,350	41,350	-	-	-	-
14	11,699,826	8,112,161	2,305,386	1,278,096	4,184	-
12	34,036	14,542	5,071	14,222	201	-
16	113,345	113,345	-	-	-	-
	11,888,558	8,281,399	2,310,456	1,292,317	4,385	-
29	1,887,891	1,377,103	(849,774)	756,125	358,058	246,379
	434,115	390,605	16,924	26,587	-	-
	434,115	390,605	16,924	26,587	-	-
	1,453,776	986,499	(866,698)	729,538	358,058	246,379

Explanatory notes to the financial statements

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

33.3 Liquidity risk (continued)

31 December 2017

*In MDL thousand***Financial assets**

Cash and Balances with National Bank of Moldova

Placements with banks

Investment securities measured at amortized cost (2017: Held-to-maturity)

Investment securities measured at FVOCI

Equity investment securities designated as at FVOCI (2017: available-for-sale)

Loans to customers

Other financial assets

Total financial assets**Financial liabilities**

Deposits from banks

Deposits from customers

Other Borrowings

Other financial liabilities

Total financial liabilities**Net balance sheet position**

Loan commitments and financial guarantee contracts

Total off-balance sheet**Total net on- and off-balance sheet position**

Notes	Carrying amount	1-3 months	3 months - 1 year	1 – 5 years	More than 5 years	No maturity
3	3,409,914	3,409,914	-	-	-	-
4	2,152,838	2,073,593	-	-	79,245	-
5	4,420,263	3,429,154	902,364	88,745	-	-
7	212,080	-	-	-	-	-
6	3,438,708	842,245	687,852	1,672,214	236,397	-
10	135,005	98,002	21,812	15,190	-	-
	13,768,809	9,852,909	1,612,028	1,776,150	315,642	212,080
13	32,768	32,768	-	-	-	-
14	11,527,312	7,913,467	2,332,370	1,276,205	5,270	-
12	135,163	9,685	52,619	63,116	9,743	-
16	287,485	287,485	-	-	-	-
	11,982,728	8,243,405	2,384,989	1,339,320	15,013	-
	1,786,081	1,609,504	(772,961)	436,830	300,629	212,080
29	456,780	420,252	18,193	18,334	-	-
	456,780	420,252	18,193	18,334	-	-
	1,329,302	1,189,252	(791,155)	418,496	300,629	212,080

Explanatory notes to the financial statements

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

33.3 Liquidity risk (continued)

The tables below present cash flows owed by the Bank related to financial liabilities analyzed based on the period remaining until the contractual maturity as at 31 December 2018 and 31 December 2017:

31 December 2018

<i>In MDL thousand</i>	Notes	Carrying amount	Gross value (outflow)	Less than 3 months	3 - 6 months	6 months - 1 year	1 - 5 years	More than 5 years
Financial liabilities								
Deposits from banks	13	41,350	(41,350)	(41,350)	-	-	-	-
Deposits from customers	14	11,699,826	(11,920,811)	(8,132,237)	(801,404)	(1,563,085)	(1,419,694)	(4,391)
Other Borrowings	12	34,036	(35,429)	(14,563)	(2,771)	(2,874)	(14,990)	(231)
Other financial liabilities	16	113,345	(113,345)	(113,345)	-	-	-	-
Total financial liabilities		11,888,558	(12,110,936)	(8,301,496)	(804,175)	(1,565,959)	(1,434,684)	(4,622)

31 December 2017

<i>In MDL thousand</i>	Note	Carrying amount	Gross value (outflow)	Less than 3 months	3 - 6 months	6 months - 1 year	1 - 5 years	More than 5 years
Financial liabilities								
Deposits from banks	13	32,768	(32,768)	(32,768)	-	-	-	-
Deposits from customers	14	11,527,312	(11,754,446)	(7,966,190)	(928,131)	(1,462,909)	(1,390,037)	(7,180)
Other Borrowings	12	135,163	(141,619)	(6,968)	(26,883)	(30,437)	(67,296)	(10,035)
Other financial liabilities	16	287,485	(287,485)	(287,485)	-	-	-	-
Total financial liabilities		11,982,728	(12,216,318)	(8,293,410)	(955,014)	(1,493,346)	(1,457,332)	(17,215)

Explanatory notes to the financial statements

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

33.4 Capital management

Capital management – compliance with capital requirements

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

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

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

- a capital preservation buffer of 2.5% of the total value of the risk-weighted exposures
- a systemic risk buffer of 1% of the total value of the risk-weighted exposures;
- other companies enhanced systemic level in buffer of 0.5% of the total weighted exposure

Minimum capital requirements and capital buffers came into force on 31 July 2018.

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

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

The Bank has complied with the provisions outlined above, the indicator of capital adequacy risks exceeding the minimum limits imposed by legislation: for the period 31.07.2018-31.12.2018 the average was 30.86% (December 31, 2017: 34.41% normative was 16% according to Basel I).

The Board of Directors makes decisions on the way forward in the process of capital adequacy, sets the main projects in this field to be carried out and the main objectives to be met in order to control how much better correlation of risks to which the Bank is exposed and equity required to meet their developing sound risk management systems.

33.5 Operational risk

Operational risk is the risk of recording some losses caused by inadequate or non-functional internal processes, improper human behavior, non-operational systems or external events. For the purpose of identifying, evaluating, monitoring and mitigating operational risk, the Bank shall ensure:

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

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

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

34. SUBSEQUENT EVENTS

There were no significant subsequent events.