B.C. „VICTORIABANK” S.A.

FINANCIAL STATEMENTS

prepared in accordance with
INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the financial year ended 31 December 2019

(free translation*)

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

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Independent Auditors' Report

(free translation[1])

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

Opinion

1. We have audited the accompanying financial statements of Banca Comerciala "VICTORIABANK" S.A. ("the Bank"), which comprise the statement of financial position as at 31 December 2019, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

2. The financial statements as at and for the year ended 31 December 2019 are identified as follows:

• Total equity:	MDL 2,705,915 thousand
• Net profit for the year:	MDL 317,488 thousand

3. In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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Ref.20010Eng

IDNO:1002600046371

Key Audit Matters

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

Impairment of loans to customers

As at 31 December 2019, gross loans to customers: MDL 3,976,186 thousand, expected credit losses: MDL 311,184 thousand and impairment release in the statement of profit or loss: MDL 44,969 thousand (31 December 2018: gross loans to customers: MDL 3,525,493 thousand, expected credit losses: MDL 579,521 thousand, impairment release in the statement of profit or loss: MDL 62,417 thousand and IFRS 9 transition adjustments: MDL 221,525 thousand).

See Notes 3.2 (viii), 7, 25, and 36.1 to the financial statements.

The key audit matter

As described in the Notes to the financial statements, the expected credit losses ("ECLs") have been determined in accordance with the Bank's accounting policies based on the requirements of IFRS 9 *Financial Instruments* ("IFRS 9"). As required by IFRS 9, the Bank estimates the expected credit losses considering the stage allocation of the loan exposures.

In measuring the ECLs, the management is required to make judgements as to whether there is a significant increase in credit risk since initial recognition or any objective evidence of impairment (default), based on the assessment of the borrowers' debt service, their financial standing and expected future cash inflows. Pursuant to the standard, individual loans are allocated into one of three stages for the purposes of estimating the loss allowances.

Stage 1 and Stage 2 loans are performing loans, with Stage 2 loans representing loans where a significant increase in credit risk since origination has been observed. Stage 3 loans are non-performing, i.e. credit-impaired loans. For Stage 1 and Stage 2 loans, the expected credit losses are determined based on statistical models using the Bank's historical data and also macroeconomic forecasts taking into account similar credit risk characteristics.

Management's key assumptions and judgements in the calculation of the expected credit losses include the following:

How the matter was addressed in our audit

Our audit procedures in the area, performed where applicable, assisted by our own valuation, financial risk management and information technology ("IT") specialists, included, among others:

- Evaluating the appropriateness of the loan impairment-related accounting policies, credit risk modelling techniques and methodology, against the requirements of the relevant financial reporting standards, our business understanding and industry practice;
- Testing the design, implementation and effectiveness of the key controls in the Bank's expected credit loss estimation process. This included, but was not limited to, testing the controls over:
  - The completeness and accuracy of data input (mainly for loan exposure, collaterals and interest rates data);
  - Approval of granting and restructuring of customer loans;
  - System computation of debt service;
  - identification of loss events and default, and appropriateness of classification of exposures into performing and non-performing loans;
  - Testing of the IT control environment for data security and access;
- Evaluating the forward-looking information used in the ECL assessment by means of corroborating inquiries of the Management Board and credit risk management personnel, and through inspection of publicly available market information;
- For a sample of loan exposures, with focus on those with the greatest potential impact on the financial statements due to their magnitude and

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- Definition of default and of significant increase in credit risk (SICR); - The probability of default (PD), loss given default (LGD) and exposure at default (EAD); and In case of Stage 3 exposures, the expected credit losses are generally estimated by reference to the fair value of the related collateral. We considered impairment of loans and advances granted to customers to be a key audit matter due the magnitude of the related balances as well as due to the significant judgments employed and the complex accounting requirements of IFRS 9 in respect of the assumptions made to measure ECLs, including forward looking inputs, expected recoveries and risk modelling.	risk characteristics: - Critically assessing, by reference to the underlying documentation (loan files) and through discussion with the credit risk management personnel, the existence of any significant increase in credit risk since initial recognition or objective evidence of impairment; - For exposures with Stage 3 triggers identified, challenging key assumptions applied in the estimates of future cash flows used in the impairment calculation, such as discount rates, collateral values and recovery period, and performing independent recalculations. • For Stage 1 and Stage 2 exposures: - Assessing the reasonableness of the expected credit loss computation model to challenge significant assumptions and judgements relating to the probability of default and, where relevant, developing our own estimates regarding these parameters; - Evaluating the appropriateness and testing the mathematical accuracy of models applied; - Testing the completeness and accuracy of underlying data used in the Bank's process of calculating and validating of the key parameters, such as the probability of default, loss given default and exposure at default. • Assessing the accuracy and completeness of the ECL and credit risk management-related financial statement disclosures, including the estimation uncertainties, against the requirements of the relevant financial reporting standards.

Litigation with the Securities and Exchange Commission

As at 31 December 2019, provisions for litigations: MDL 136,029 thousand; net reversals related to provision in the statement of profit or loss: MDL 2,057 thousand (31 December 2018: provision for litigations of MDL 138,419 thousand, net expense related to provisions recognized in the statement of profit or loss: MDL 138,419 thousand).

See Notes 3.17 and 17 to the financial statements.

The key audit matter	How the matter was addressed in our audit
As described in Note 17 of the financial statements, the Bank is involved in a litigation as a result of application of freezing order, issued by the court from North Carolina (United States of America), on the amount of USD 13,174 thousand (of equivalent of MDL 226,716 thousand) from the Bank's correspondent account held at Bank of New York Mellon.	Our audit procedures in the area included, among others, the following: • Testing the Bank's provisioning process and assessing its compliance with the relevant requirements of the financial reporting framework, including in respect of the existence of the present obligation, probability of future payment and estimation of the amount of obligation; • Obtaining understanding of the status of court

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Whether a liability or a contingent liability is recognized or disclosed in the financial statements is inherently uncertain and is dependent on a number of significant assumptions and judgments. Key judgements and estimates in the process are related to the existence of a present obligation, the probability of future payment and estimation of the amount of obligation.

We considered the recognition and measurement of the litigation provision as per the requirements of IAS 37 *Provisions contingent liabilities and contingent assets* to be associated with increased risk of a material misstatement due to the magnitude of the amounts involved, coupled with the uncertainty surrounding the outcome of the court case and high degree of related estimation uncertainty and judgement required.

Accordingly, the area required our increased attention in the audit and as such was considered by us to be a key audit matter.

proceeding, assessing the probability of an unfavourable outcome of the litigation and challenging the assumptions used by the Bank in assessing the requirement to recognize the related provision and its measurement. As part of the procedure we:

- Inspected minutes of the Management Board meetings, case documents, attorney audit response letters and communications between the Bank, its lawyers and other parties to the litigation, and considered any developments up to the issue date of our report, and
- Made corroborating inquiries of the Management Board and the Bank's external lawyers;

- Evaluating the accuracy and completeness of the related disclosures against the requirements of the relevant accounting framework.

Other Information – Annual Report

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

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

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

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

   With respect to the Management's Report we read and report whether the Management's Report is prepared, in all material respects, in accordance with the requirements of Law no. 287/2017 on Accounting and Financial Reporting, article 23, paragraphs 2 – 8. Based solely on the work required to be undertaken in the course of the audit of the financial statements, in our opinion, in all material respects:

   a) The information given in the Management's Report for the financial year for which the financial statements are prepared is consistent with the financial statements;
   b) The Management's Report has been prepared in accordance with the requirements of Law no. 287/2017 on Accounting and Financial Reporting, article 23; paragraphs 2 – 8.

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

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Other Matter relating to comparative information

7. The financial statements of the Bank as at and for the year ended 31 December 2018 were audited by another auditor, who expressed an unqualified opinion on those financial statements on 12 April 2019.

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

8. Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRS and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
9. In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.
10. Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

11. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
12. As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:
    - Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
    - Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
    - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
    - Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
    - Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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13. 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.

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

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

Other matters

16. This independent auditors' report is made solely to the Bank's shareholders, as a body. Our audit work has been undertaken so that we might state to the Bank's shareholders, as a body, those matters we are required to state in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's shareholders, as a body, for our audit work, for this report, or for the opinion we have formed

The engagement partner on the audit resulting in this independent auditors' report is Nicoleta Rusu.

15 June 2020

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

Nicoleta Rusu

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

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

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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	2019	2018 Restated*
Interest income calculated using the effective interest method		593,652	619,997
Interest expenses		(206,696)	(248,983)
Net interest income	**21**	**386,956**	**371,014**
Fee and commission income		382,467	337,402
Fee and commission expense		(180,997)	(145,537)
Net fee and commission income	**22**	**201,470**	**191,865**
Net trading income	23	135,942	104,882
Other operating income	24	17,505	8,342
Total operating income		**741,873**	**676,103**
Net impairment (losses)/ release on financial instruments	25	52,799	59,771
Net impairment (losses)/ release on non-financial assets	26	8,733	(137,380)
Personnel expenses	27	(262,945)	(210,992)
Depreciation	29	(63,719)	(34,448)
Other operating expenses	28	(147,224)	(152,107)
Net (expenses) / reversals related to provisions	17	2,057	(138,419)
Total operating expenses		**(410,298)**	**(613,576)**
Profit before income tax		**331,575**	**62,527**
Income tax expense	30	(14,087)	(20,016)
Profit for the year		**317,488**	**42,511**
Other comprehensive income			
Items that will not be reclassified to profit or loss, net of tax			
Equity investments at fair value through other comprehensive income – net change in fair value		105,966	34,926
Tax related to items that will not be classified to profit or loss		(2,544)	6,619
		103,422	**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		254	109
		254	**109**
Total comprehensive income		**421,164**	**84,164**
Earnings per share, MDL	**33**	**12.70**	**1.70**

* See Note 2.5

The financial statements were authorized for issue on 12 June 2020 by the Management of the Bank represented by:

Bogdan Pleşuvescu
Chief Executive Officer

Diana Ilicciev
Chief Accountant

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

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Statement of financial position
For the financial year ended 31 december

In MDL thousand	Notes	31 December 2019	31 December 2018 Restated*
ASSETS			
Cash and balances with National Bank of Moldova	4	4,445,613	5,132,310
Current accounts and placements with banks	5	2,713,419	2,568,585
Frozen Nostro account	5	226,716	229,238
Investment securities – debt instruments	6	3,177,918	2,708,491
Equity investment securities designated as at fair value through other comprehensive income	8	3,258	246,379
Loans to customers	7	3,665,002	2,945,972
Property and equipment	9	148,972	129,526
Right-of-use assets	11	66,627	-
Intangible assets	10	64,796	59,578
Investment property		-	501
Current tax assets	13	-	10,156
Deferred tax assets	18	17,167	-
Other assets	12	250,230	316,413
Total assets		**14,779,718**	**14,347,149**
LIABILITIES			
Deposits from banks	15	52,074	41,350
Deposits from customers	16	11,436,371	11,699,826
Other borrowings	14	47,289	34,036
Provisions for other risks and loan commitments	17	140,629	147,627
Lease liabilities	11	65,095	-
Current tax liabilities	13	6,184	-
Deferred tax liabilities	18	-	6,689
Other liabilities	19	326,160	132,870
Total liabilities		**12,073,803**	**12,062,398**
EQUITY			
Share capital	20	250,001	250,001
Share premium		10,250	10,250
Fair value reserves	20	589	237,560
Statutory reserves		25,000	25,000
Other reserves	20	779,699	824,158
Retained earnings		1,640,376	937,782
Total equity		**2,705,915**	**2,284,751**
Total liabilities and equity		**14,779,718**	**14,347,149**

* See Note 2.5

The financial statements were authorized for issue on 12 June 2020 by the Management of the Bank represented by:

Bogdan Plesuvescu	**Diana Ilicciev**
Chief Executive Officer	**Chief Accountant**

BANCA COMERCIALA «VICTORIABANK» SOCIETATE PE ACTIUNI REPUBLICA MOLDOVA, mun. CHISINAU COMMERCIAL BANK «VICTORIABANK» JOINT-STOK COMPANY IDNO 1002600001338

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B.C. VICTORIABANK S.A.

Statement of changes in equity

For the financial year ended 31 December

In MDL thousand	Note	Share Capital	Share premium	Fair value reserve	Statutory reserves	Other reserves Restated*	Retained earnings Restated*	Total equity
Balance at 1st of January 2018		**250,001**	**10,250**	**195,976**	**25,000**	**1,039,037**	**680,273**	**2,200,537**
Statement of comprehensive income for the period								
Profit for the period		-	-	-	-	-	42,511	**42,511**
Other comprehensive income, net of income tax								
Transfer of gains on disposal of equity investments at fair value		-	-	41,654	-	-	-	**41,654**
Gains from the sale of equity investments at FVOCI		-	-	(70)	-	-	70	**-**
Total comprehensive income for the period		-	-	**41,584**	-	-	**42,581**	**84,164**
Contributions and distributions of the shareholders								
Dividends distributed to shareholders		-	-	-	-	-	-	**-**
Appropriation of reserves (restated*)		-	-	-	-	(214,878)	214,928	**50**
Total contributions and distributions of the shareholders (restated*)		**-**	**-**	**-**	**-**	**(214,878)**	**214,928**	**50**
Balance at 31st of December 2018 (restated*)		**250,001**	**10,250**	**237,560**	**25,000**	**824,159**	**937,782**	**2,284,751**
Statement of comprehensive income for the period								
Profit for the period		-	-	-	-	-	317,488	**317,488**
Other comprehensive income, net of income tax								
Financial assets at FVOCI – net change in fair value	**8**	-	-	103,676	-	-	-	**103,676**
Total comprehensive income for the period		-	-	**103,676**	-	-	**317,488**	**421,164**
Contributions and distributions of the shareholders								
Dividends distributed to shareholders		-	-	-	-	-	-	**-**
Transfer of gains on disposal of equity investments at fair value through other comprehensive income to retained earnings	**3.13**	-	-	(340,647)	-	-	340,647	**-**
Appropriation of reserves	**20b**	-	-	-	-	(44,460)	44,460	**-**
Total contributions and distributions of the shareholders		**-**	**-**	**(340,647)**	**-**	**(44,460)**	**385,107**	**-**
Balance at 31st of December 2019		**250,001**	**10,250**	**589**	**25,000**	**779,699**	**1,640,377**	**2,705,915**

* See Note 2.5

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

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Statement of cash flows

For the financial year ended 31 December

In MDL thousand	Notes	2019	2018 Restated*
Cash flows from operating activities			
Profit for the year		**317,488**	**42,511**
Adjustments for:			
Depreciation and amortization	**29**	63,719	34,447
Net impairment losses / (release) of financial assets	**25**	(52,799)	(59,771)
Net impairment losses/ (release) on non-financial assets	**26**	(8,733)	137,380
Net expenses / (reversals) related to provisions	**17**	(2,057)	138,419
Income tax expense	**30**	14,087	20,016
Interest income	**21**	(593,652)	(619,997)
Interest expense	**21**	206,696	248,983
Income/losses from the revaluation of foreign currency	**23**	11,315	7,448
Other adjustments		270	523
Net profit adjusted with non-monetary elements		**(43,666)**	**(50,041)**
Changes in operating assets and liabilities			
Change in current account with National Bank of Moldova	**4**	436,227	(1,027,338)
Change in placements with banks	**5**	(258,801)	(14,940)
Change in loans to customers	**7**	(692,561)	227,474
Change in other assets	**12**	129,348	(87,902)
Change in deposits from banks	**15**	12,014	7,227
Change in deposits from customers	**16**	(287,654)	320,952
Change in other liabilities	**19**	159,732	(102,169)
Change in provisions	**17**	(1,343)	-
		(503,038)	**(676,696)**
Interest received		606,747	607,896
Interest paid		(223,431)	(250,548)
Income tax paid		(24,192)	(15,468)
Net cash-flow from operating activities		**(187,580)**	**(384,857)**
Cash-flow used in investment activities			
Proceds from sale of equity investments	**8**	349,024	1,683
Acquisitions of investment securities measured at amortized cost		(1,623,220)	(1,985,066)
Proceeds from the disposal of investment securties measured at amortized cost		1,584,209	1,701,465
Acquisitions of investment securities measured at fair value through other comprehensive income		-	(981)
Acquisitions of property and equipment	**9**	(40,536)	(12,313)
Proceeds from disposal of property and equipment	**9**	1,035	-
Acquisitions of intangible assets	**10**	(18,520)	(13,708)
Net cash-flow (used in) investment activities		**251,992**	**(308,920)**
Cash-flow from financing activities			
Gross proceeds from loans from other financial institutions	**14**	28,891	-
Gross payments from loans from other financial institutions	**14**	(15,437)	(97,954)
Repayment of the principal portion of the lease liabilities		(30,822)	-
Net cash-flow from / (used in) financing activities		**(17,368)**	**(97,954)**
Net increase/decrease (-) in cash and cash equivalents		**47,043**	**(791,730)**
Cash and cash equivalents at January 1		**4,939,217**	**5,829,648**
The impact of exchange rate variations on cash and cash equivalents		30,399	(98,701)
Cash and cash equivalents at December 31	**4**	**5,016,659**	**4,939,217**

* See Note 2.5

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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 57 agencies (as at 31 December 2019) and 34 branches and 59 agencies (as at 31 December 2018), located throughout the country.

The Bank's number of active employees as at 31 December 2019 was of 1,143 (1,158 as at 31 December 2018).

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 2019:

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

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	Ţurcan Victor	MDA	1	10.45	Ţurcan Victor	MDA
3	Ţurcan Valentina	MDA	1	2.47	Ţurcan Valentina	MDA
4	"Notabil" SRL	MDA	1	2.36	Ţurcan Valentina	MDA
5	Artemenco Elena	MDA	1	4.94	Artemenco Elena	MDA
6	Proidisvet Galina	MDA	1	4.04	Proidisvet Galina	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.

1. GENERAL INFORMATION (CONTINUED)

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

On the 31st of December 2019, the composition of the Board of Administration of the Bank in exercise, selected at the ordinary General B.C."Victoriabank"S.A. Shareholders' Meeting as at the 24th of May 2019, is of 6 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
- Peter FRANKLIN, Member of the Board of Directors
- Igor SPOIALĂ, Member of the Board of Directors
- Mehmet Murat SABAZ, Member of the Board of Directors.

The Member of the Board of Directors appointed by the Extraordinary General Meeting of Shareholders of B.C. "Victoriabank" S.A. from 24th of May 2019, Mr. Maris Macinskis, will perform his function after confirmation by the NBM.

2. BASIS OF PREPARATION

2.1 Declaration of compliance

These financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS").These financial statements were authorized for issue by the Board of Directors of the Bank of 12 June 2020.

This is the first set of the Bank's annual financial statements in which IFRS 16 *Leases* has been applied. The related changes in significant accounting policies are described in Note 3 I.

2.2 Basis of measurement

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

2.3 Functional and presentation currency

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

2.4 Use of estimates and judgements

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

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

2.5 Reclassifications and restatements

In order to be consistent with the presentation as at 31 December 2019, the Bank reclassified several items of the statement of financial position, statement of profit or loss and other comprehensive income, statement of cash flow and statement of changes in equity as at and for the year ended 31 December 2018, as presented below.

Also, as described in Note 5 and Note 17, the Bank is the subject of litigation which resulted in the freezing of an amount in the Bank's correspondent account opened with the Bank of New York Mellon. On 31 December 2018, the Bank, considering the issues related to the unavailability and recoverability of the frozen amount, recorded expected credit loss allowances related to the amount frozen in the Nostro correspondent account, according to the provisions of IFRS 9 *Financial Instruments*. On 31 December 2019, the Bank reexamined the available information, facts and circumstances of the litigation and decided that the application of IAS 37 *Provisions contingent liabilities and contingent assets* will result in a more relevant presentation of the financial position and performance. Accordingly, the Bank decided to restate the financial statements as of 31 December 2018 as follows in below tables.

The restatement performed does not have any impact on the perviously reported amounts in financial statements for the financial year ended 31 December 2017.

2. BASIS OF PREPARATION (CONTINUED)

2.5 Reclassification and restatements (continued)

a. Statement of financial position

As at 31 December 2018	Previously Reported	Reclassifications	Restatements	Reclassified/ restated
Frozen Nostro account	90,819	-	138,419	229,238
Total assets	**14,208,731**	-	**138,419**	**14,347,149**
Provisions for other risks and loan commitments	-	9,209	138,419	147,627
Other liabilities	142,078	(9,209)	-	132,870
Total liabilities	**11,923,979**	-	**138,419**	**12,062,398**
Other reserves	685,741	-	138,419	824,158
Retained earnings	1,076,200	-	(138,419)	937,782
Total equity	**2,284,751**	-	**-**	**2,284,751**
Total liabilities and equity	**14,208,731**	-	**138,419**	**14,347,149**

b. Statement of profit or loss and other comprehensive income

For the year ended 31 December 2018	Previoysly reported	Reclassifications	Restatements	Reclassified/ restated
Net impairment (losses)/ release on assets and assets, conditional commitments	(216,028)	216,028	-	-
Net impairment (losses)/ release on financial instruments	-	(78,648)	138,419	59,771
Net impairment (losses)/ release on non-financial assets	-	(137,380)		(137,380)
Net (expenses)/ reversals related to provisions	-	-	(138,419)	(138,419)
Profit for the year	**42,511**	**-**	**-**	**42,511**

c. Statement of cash flow

In order to be consistent with the presentation method of the cash flow statement at 31 December 2019, the Bank reclassified the items from the cash flow statement as reported at 31 December 2018.

Additionally, the management of the Bank reassessed the components of cash and cash equivalents presented in the cash flow statement as at 31 December 2018 and Note 18 from the financial statements for the financial year ended 31 December 2018. The reassessment performed had an impact on the “cash and cash equivalent at 31 December” amount reported as of 31 December 2018. Please see below:

2. BASIS OF PREPARATION (CONTINUED)

2.5 Reclassification and restatements (continued)

c.1. impact on the Note 18 from the financial statements for the financial year ended 31 December 2018:

In MDL thousand	**Previously reported**	**Restatements**	**Restated**
Cash on hand and other values	1,042,253	-	1,042,253
Balances with the NBM	407,355	3,358	410,713
Current accounts with other banks	2,476,381	-	2,476,381
Certificates issued by the NBM	997,711	-	997,711
State Securities, less than 3 months maturity	469,187	(469,187)	-
State Securities, initial maturity less than 3 months	-	12,159	12,159
Cash and cash equivalents in the cash flow statement	**5,392,887**	**(453,670)**	**4,939,217**

c.2. impact on the statement of cash flow for the financial year ended 31 December 2018:

As at 31 December 2018	**Previously reported**	**Restatements**	**Restated**
Cash and cash equivalents at 31 December	5,392,887	(453,670)	4,939,217

d. Statement of changes in equity

As at 31 December 2018	**Previously reported**	**Restatements**	**Restated**
Other reserves	685,740	138,419	824,159
Retained earnings	1,076,200	(138,419)	937,782
Total equity	**2,284,751**	**-**	**2,284,751**

Please see Note 20 (b) on details related to “Other reserves”.

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3. SIGNIFICANT ACCOUNTING POLICIES

I. Implementation of new or reviewed standards and interpretations

The following new standards and interpretations entered into force from January 1, 2019.

Adoption of IFRS 16, Leases

Bank initially adopted IFRS 16 "Leases" from 1 January 2019.
On initial recognition, the Bank recorded an impact on the statement of financial position (see Note 11).

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.

In accordance with IFRS 16 and the Accounting Policies, the Bank applies the requirements of this standard for all leasing contracts, including leasing contracts for assets related to the right-of-use within a sublease agreement. At the beginning of the operation, the Bank as a lessee recognizes an asset related to the right-of-use and a debt arising from the lease.

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

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease. The Bank uses as discounted rate the average interest rate related to the balances of deposits placed on the Victoribank site for the previous month.

The subsequent measurement of the asset is performed according to the cost model in accordance with IAS 16.

The subsequent valuation of the lease liability takes place by: increasing the carrying amount with the calculated interest, reducing by making payments and re-evaluating the carrying amount as a result of changing the contract.

Other standards are also applicable from 1 January 2019, but they do not have a significant effect on these financial statements.

II. Accounting policies

3.1 Foreign currency transactions

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

Monetary assets and liabilities denominated in foreign currencies at the date of the statement of financial position are translated to the functional currency at the exchange rate valid at that date.
Gains and losses in foreign currency resulting from the revaluation of monetary assets and liabilities in foreign currency are reflected in profit or losses, excluding equity investments at FVOCI.

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

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

	2019		2018	
	USD	**EURO**	**USD**	**EURO**
Average for the period	17.5750	19.6741	16.8031	19.8442
The end of the year	17.2093	19.2605	17.1427	19.5212

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

II. Accounting policies

3.2 Financial assets and liabilities

The Bank adopted IFRS 9 “Financial Instruments” as of the transition date 1 January 2018.

(i) Recognition and initial evaluation

The Bank initially recognizes loans to customers, deposits on the date on which they originated. All other financial assets and liabilities are initially recognized on the trade date, which is the date on which 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.

(ii) Classification

On initial recognition financial assets are classified as measured at:

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

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

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

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

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

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

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

(iii) Business model assessment

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

- The stated policies and objectives for the portfolio and the 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

II. Accounting policies (continued)

3.2 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.

(iv) Derecognition

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) 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.

(v) Offsetting financial instruments

Financial assets and f inancial 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

II. Accounting policies (continued)

3.2 Financial assets and liabilities (continued)

(vi) Modifications of financial instruments

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

If the contractual terms are substantially altered due to commercial renegotiations, both at the client's request and at the Bank's initiative, the existing financial asset is derecognized and the modified financial asset is subsequently recognized, such modified financial asset being considered as a "new" asset. 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. During 2019 and 2018, the Bank did not have modification of financial assets that resulted in derecognition of the original instrument.

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

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method. The gain or loss from modification of financial assets was not significant for the years ended 31 December 2019 and 2018."

(vii) Fair value measurement

Fair value is the price that would be received from the sale of an asset or the price that would be paid to transfer a liability in a normal transaction between market participants at the measurement date, mainly, or, 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.

(viii) Impairment of financial assets

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

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

No impairment loss is recognized on equity investments.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

II. Accounting policies (continued)

3.2 Financial assets and liabilities (continued)

(viii) Impairment of financial assets (continued)

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

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

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

- significant financial difficulty of the issuer or borrower;
- a breach of contract, such as a default or past-due event;
- the lender, 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).

Presentation of allowance for ECL in the statement of financial position

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

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

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

II. Accounting policies (continued)

3.2 Financial assets and liabilities (continued)

(vii) Impairment of financial assets (continued)

Presentation of allowance for ECL in the statement of financial position (continued)

– 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.

Write-off

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

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

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

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

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

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

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

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

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

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

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

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

3.3 Interest income and expense

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

II. Accounting policies (continued)

3.4 Fee and commission income

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.

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

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

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

3.5 Net trading income

Net trading income comprises gains less losses related to the trading assets and liabilities, and includes all fair value changes, interest, dividends and foreign exchange differences.

3.6 Income tax expenses

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

The corporate tax, as according to the applicable laws of the Republic of Moldova, is recognized as an expense when profits arise. The corporate tax rate for 2019 was 12% (2018 -12%).

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

II. Accounting policies (continued)

3.7 Sale and repurchase agreements („REPO")

Investment securities (debt instruments) sold subject to repurchase agreements ("repo") are classified in the financial statements as debt instruments (treasury bills) and the counter party liability is included in due to banks or customers, as appropriate. Investment 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.

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

3.8 Intangible assets

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

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

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

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

3.9 Property and equipment

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

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

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

The useful lives estimated by category are:

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

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

Any gain and loss from on disposal of an item of property and equipment is recognized within profit or loss.

3.10 Impairment of non-financial assets

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

An impairment loss is recognized 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

II. Accounting policies (continued)

3.11 Cash and cash equivalents

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

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

3.12 Loans and advances

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

The Bank does not hold loans and advances at FVTPL at 31 December 2019 and 2018.

3.13 Investment securities

Investment securities includes:

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

The Bank does not hold debt investment securities at FVTPL at 31 December 2019 and 2018.

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

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

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

3.14 Equity investment securities

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

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

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

3.15 Borrowings

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

3.16 Customers’ deposits and current accounts

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

II. Accounting policies (continued)

3.17 Provisions

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

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

3.18 Financial guarantee contracts and loan commitments

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

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

3.19 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.

3.20 Dividends

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

3.21 Repossessed collaterals

At 31 December 2019 and 2018, repossessed collaterals includes executed guaranties related to non-performing loans. They are evaluated at the amount lower of carrying amount and fair value minus sell cost.

3.22 Inventories

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

II. Accounting policies (continued)

3.23 Investment property

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

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

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

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

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

3.24 Contingent assets and liabilities

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

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

3.25 Earnings per share

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

3.26 Segment reporting

Bank operations are reported as one operating segment.

3.27 Current list of new IFRS Standards, Interpretations and amendments to published Standards (as at 1 January 2020) that are not yet effective, for disclosure in financial statements prepared in accordance with IFRS

The following new Standards, *amendments to Standards* and Interpretations are not yet mandatorily effective for annual periods beginning on or after 1 January 2019, and have not been applied in preparing these financial statements. The Bank plans to adopt these pronouncements when they become effective.

Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

(Effective for annual periods beginning on or after 1 January 2020)

The amendments clarify and align the definition of ‘material’ and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.

The Bank does not expect the Amendments to have a material impact on its financial statements when initially applied.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

II. Accounting policies (continued)

3.27 Current list of new IFRS Standards, Interpretations and amendments to published Standards (as at 1 January 2020) that are not yet effective, for disclosure in financial statements prepared in accordance with IFRS (continued)

Amendments to IFRS 10 and IAS 28 *Sale or contribution of assets between an investor and its associate or joint venture*

The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:

- a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while
- a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The Bank does not expect that the amendments, when initially applied, will have material impact on the financial statements as the Bank has no subsidiaries, associates or joint ventures.

IFRS 17 Insurance Contracts

(Effective for annual periods beginning on or after 1 January 2023; to be applied prospectively. Early application is permitted)

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

IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values, instead of historical cost.

The Bank expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Bank because the Bank does not operate in the insurance industry.

Amendments to IFRS 3 Business Combinations

(Effective for annual periods beginning on or after 1 January 2020)

The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business.

The Bank does not expect the Amendments to have a material impact on its financial statements when initially applied.

Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments and IFRS 7 Financial Instruments: Disclosures

(Effective for annual periods beginning on or after 1 January 2020)

The amendments are mandatory and apply to all hedging relationships directly affected by uncertainties related to the IBOR reform. The amendments provide temporary relief from applying specific hedge accounting requirements to the hedging relationships with the effect that IBOR reform should not generally cause hedge accounting to terminate.

The key reliefs provided by the amendments relate to:

- ‘Highly probable’ requirement.
- Risk components
- Prospective assessments
- Retrospective effectiveness test (for IAS 39)
- Recycling of the cash flow hedging reserve.

The amendments also require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

The Bank does not expect the amendments to have a material impact on its financial statements when initially applied.

4. CASH AND BALANCES WITH THE NATIONAL BANK OF MOLDOVA

In MDL thousand	**31 December 2019**	**31 December 2018**
Cash on hand and other values	1,199,378	1,042,253
Current account with National Bank of Moldova	6,382	410,713
Minimum reserve requirement in MDL	2,403,959	2,960,586
Minimum reserve requirement in foreign currency	835,895	718,758
Cash and balances with National Bank of Moldova	**4,445,613**	**5,132,310**
Balances with National Bank of Moldova, out of which:		
Gross value	3,249,727	4,094,698
Impairment allowances	(3,491)	(4,641)
Total	**3,246,236**	**4,090,057**

Current account and mandatory reserve

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

As at 31 December 2019 the reserving ratio from financial means attracted in MDL and NCC was 42.5%, and the reserving ratio from financial means attracted in FCC was 17.0% (31 December 2018: the reserving ratio from financial means attracted in MDL and NCC - 42.5%, attracted in FCC - 14.0%).

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

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

As at 31 December 2019, the balance of "Nostro" account at the NBM amounts to 2,406,542 MDL'000 (31 December 2018: 3,366,725 MDL'000), that included the amount of required reserves attracted in Moldovan lei and in non-convertible currencies. The balance of the required reserves' accounts in USD and EUR amount to 14,392 USD'000 and 30,585 EUR'000 respectively (31 December 2018: 14,372 USD'000 and 24,234 EUR'000).

During 2019, the interest rates for remuneration of required reserves, paid by the National Bank, varied between 2.50% and 4.50% for the reserves in MDL. In the first 4 months of the year, the interest rates applied for the reserves in foreign currency was 0.34% and 0.01% in the subsequent months (2018: 3.50% for reserves in MDL and 0.29% - 0.47% for reserves in foreign currency). As at 31 December 2019, the accrued interest on reserves held in MDL was 6,389 MDL'000 and for convertible currencies: 5 MDL'000.

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

In MDL thousand	**Notes**	**31 December 2019**	**31 December 2018**
Cash on hand and other values	4	1,199,378	1,042,253
Balances with the NBM	4	6,382	410,713
Current accounts with other banks and overnight placement	5	2,015,716	2,476,381
Term placements with banks with maturity up to 3 months	5	344,526	-
Certificates issued by the NBM	6	1,447,110	997,711
State Securities, initial maturity less than 3 months	6	3,549	12,159
Cash and cash equivalents in the cash flow statement		**5,016,659**	**4,939,217**

* 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.

5. CURRENT ACCOUNTS AND PLACEMENTS WITH BANKS

In MDL thousand	31 December 2019	31 December 2018
Current accounts with other banks and overnight placements, out of which:	**2,015,716**	**2,476,381**
Gross value	2,017,790	2,478,581
Expected credit loss allowances	(2,074)	(2,200)
Term deposits-guarantees in banks, out of which:	**94,611**	**92,203**
Gross value	94,644	92,218
Expected credit loss allowances	(33)	(15)
Term placements with banks with maturity below 3 months, out of which (Note 4):	**344,526**	**-**
Gross value	344,853	-
Expected credit loss allowances	(327)	-
Term placements with banks due after 3 months, out of which:	**258,566**	**-**
Gross value	258,941	-
Expected credit lossfi allowances	(374)	-
Total	**2,713,419**	**2,568,585**

As at 31 December 2019 placements in the banks includes „NOSTRO" accounts, that are included in the cash flow statement (Note 4), worth at 31 December 2019 consist of 2,015,716 MDL'000 (2018: 2,476,381 MDL'000).

The amount of 2,531,998 MDL'000 (2018: 2,380,858 MDL'000) are placed in the banks from OECD member countries, the amount of 181,421 MDL'000 (2018: 187,726 MDL'000) are placed in non-OECD member countries.

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

In MDL thousand

Placements with banks	31 December 2019	31 December 2018
Rating from A to AA+	2,438,429	2,378,309
Rating from BBB to BBB+	188,259	94,753
Rating BBB- and lower	86,731	95,523
Total	**2,713,419**	**2,568,585**

In MDL thousand	31 December 2019	31 December 2018 Restated*
Frozen Nostro account	**226,716**	**229,238**

*See Note 2.5

As at 31 December 2019 the amount of USD 13,174,015 equivalent of 226,716 MDL'000 is frozen on the Nostro correspondent account held with Bank of New York Mellon.

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

6. INVESTMENT SECURITIES

In MDL thousand	31 December 2019	31 December 2018
Investment securities measured at amortized cost – debt instruments	3,164,870	2,701,876
Investment securities measured at FVOCI – debt instruments	13,048	6,615
Total	**3,177,918**	**2,708,491**

Investment securities measured at amortized cost – debt instruments

In MDL thousand	31 December 2019	31 December 2018
Certificates issued by the National Bank of Moldova	1,447,110	997,711
State securities included in cash and cash equivalents (Note 4)	3,549	12,159
State securities with initial maturity greater than three months	1,499,920	1,652,899
State securities issued by Romanian Government	175,706	-
Bonds issued by international funding organizations	38,585	39,107
Total	**3,164,870**	**2,701,876**
Gross value	3,187,559	2,726,403
Expected credit loss allowances	(22,689)	(24,527)

Investment securities measured at FVOCI – debt instruments

In MDL thousand	31 December 2019	31 December 2018
State securities	12,862	6,600
Changes in the fair value	187	15
Total	**13,048**	**6,615**

As at 31 December 2019, in the caption investment securities, the Bank holds debt instruments measured at amortized cost as treasury bills issued by the Government of Republic of Moldova, certificates issued by the National Bank of Moldova, state securities issued by Romanian Government and bonds issued by international finance organizations. The amount invested in these debt instruments at 31 December 2019 consist of 3,164,870 MDL'000 (2018: 2,701,876 MDL'000).

As at 31 December 2019 the Bank holds a portfolio of debt instruments issued by the Government of Republic of Moldova classified as "Financial assets at fair value through other comprehensive income" amounting to 13,048 MDL'000 (2018: 6,615 MDL'000).

The state securities in the Bank's portfolio as at 31 December 2019 represent treasury bills issued by the Ministry of Finance of the Republic of Moldova in MDL with discount and redeemed at face value at maturity, with maturity between 91 and 364 days, the interest rate ranging between 4.50% and 7.05% (2018: 4.11% and 6.68%) and bonds issued by the Ministry of Finance of the Republic of Moldova in MDL nominal value or with a premium, for a period of 366-1827 days fixed rate or floating ranging between 5.70% and 8.35% (31 December 2018: 4.32% and 8.35%).

Certificates issued by the National Bank in the Bank's portfolio as at 31 December 2019 have an original maturity of 14 days at a rate of 5.50% (2018: 6.50%).

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

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

7. LOANS TO CUSTOMERS

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

	31 December 2019			31 December 2018		
In MDL thousand	Gross value	Expected credit loss allowances	Carrying Amount	Gross value	Expected credit loss allowances	Carrying Amount
Corporate customers	2,463,513	(287,271)	2,176,242	2,696,506	(571,813)	2,124,693
Mortgage loans	736,141	(5,335)	730,806	290,215	(1,162)	289,053
Consumer loans	776,532	(18,578)	757,954	538,772	(6,546)	532,225
Total	**3,976,186**	**(311,184)**	**3,665,002**	**3,525,493**	**(579,521)**	**2,945,972**

Analysis of loan portfolio by economic sector as at 31 December 2019 and 31 December 2018 is presented below:

Corporate customers

In MDL thousand	31 December 2019	31 December 2018
Production and trade	867,406	729,111
Real estate	149,845	177,789
Farming and food industry	569,919	591,206
Consumer loans	14,930	2,599
Transport and road construction	34,024	178,691
Energy sector	90	8,874
Government	31,412	27,042
Others	795,887	981,194
Total	**2,463,513**	**2,696,506**

Effect of expected credit loss allowances on loans to customers during the years 2019 and 2018 is presented in Note 36.1.

8. EQUITY INVESTMENT SECURITIES DESIGNATED AS AT FVOCI

The movement in the investment portfolio is presented below:

In MDL thousand	2019	2018
Balance as at 1 January	**246,379**	**212,080**
Changes in the fair value	105,966	34,958
Additions	-	1,024
Disposals	(349,087)	(1,683)
Balance as at 31 December	**3,258**	**246,379**

The movements recorded in the 2019 Bank's portfolio are due to the sale of the equity shares held in VISA Inc. and MasterCard Incorporated and the sale of the equity shares held in "Pro Vest Corp." S.R.L.

As at 31 December 2019, within its portfolio, the Bank holds equity investment securities designated as at FVOCI in local and foreign not listed companies.

During 2019, based on the prices recorded on the international stock exchanges was carried out the monthly revaluation of shares issued by VISA Inc. and MasterCard Incorporated held in the Bank's portfolio.

8. EQUITY INVESTMENT SECURITIES DESIGNATED AS AT FVOCI (CONTINUED)

As a result of the decrease of the share capital of Biroul de Credit SRL, the percentage of equity share held by the Bank in the capital of this company increased.

The analysis of the equity investments as at 31 December 2019 and 31 December 2018 is the following:

In MDL thousand	**Scope of business**	**Owned share 2019, %**	**31 December 2019**	**Owned share 2018, %**	**31 December 2018**
Visa Inc	Payment processing	-	-	0.00	185,760
MasterCard Inc.	Payment processing	-	-	0.00	57,379
Pro Vest Corp SRL	Leasing	-	-	9.90	0,6
Biroul de Credit SRL	Data processing	16.67	2,038	13.36	2,038
S.W.I.F.T SCRL	International transfer	0.01	623	0.01	604
Bursa de Valori	Stock exchange	7.69	439	7.69	439
Depozitarul Național de Valori Mobiliare al Moldovei SA *in the process of liquidation*	Securities	5.05	159	5.05	159
Total			**3,258**		**246,379**

* 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.

9. PROPERTY AND EQUIPMENT

In MDL thousand	Land and buildings	Furniture and equipment	Vehicles	Improvements of leased assets	Fixed assets under construction	Total
Cost						
Balance at 1 January 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)	**-**
Reclassified as held for sale*	-	(61)	(156)	-	-	**(217)**
Disposals (write-offs)	(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**
Balance at 1 January 2019	**124,097**	**163,088**	**17,633**	**12,884**	**7,602**	**325,304**
Additions	-	4,489	-	-	36,047	**40,536**
Transfers	1,711	27,624	7,643	372	(37,351)	**-**
Reclassified as held for sale*	(57)	-	-	-	-	**(57)**
Disposals (write-offs)	-	(10,554)	(3,397)	-	(394)	**(14,344)**
Balance at 31 December 2019	**125,751**	**184,647**	**21,880**	**13,256**	**5,904**	**351,439**
Accumulated depreciation and impairment losses						
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**
Balance at 1 January 2019	**45,268**	**126,656**	**12,188**	**11,666**	**-**	**195,778**
Depreciation for the year	4,229	14,036	1,804	488	-	**20,557**
Disposals	-	(10,472)	(3,397)	-	-	**(13,868)**
Balance at 31 December 2019	**49,496**	**130,221**	**10,595**	**12,154**	**-**	**202,467**
Carrying amounts						
Balance at 1 January 2018	**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**
Balance at 31 December 2019	**76,255**	**54,426**	**11,284**	**1,102**	**5,904**	**148,972**

*The property and equipment was reclassified as held for sale and subsequently sold.

As at 31 December 2019, the costs of property and equipment fully amortised and still used by the Bank amounted to MDL’000 108,026 (31 December 2018: MDL’000 99,677). As at 31 December 2019 tangible assets were not pledged as collateral.

10. INTANGIBLE ASSETS

In MDL thousand	Software	Intangible assets in execution	Total
Cost			
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**
Balance at 1 January 2019	**106,961**	**10,201**	**117,162**
Additions	992	17,527	18,520
Transfers	24,874	(24,874)	-
Disposals	-	(21)	(21)
Balance at 31 December 2019	**132,828**	**2,832**	**135,660**
Accumulated depreciation			
Balance at 1 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**
Balance at 01 January 2019	**57,584**	**-**	**57,584**
Depreciation for the year	13,280	-	13,280
Disposals	-	-	-
Balance at 31 December 2019	**70,864**	**-**	**70,864**
Carrying amounts			
Balance at 1 January 2018	**55,456**	**2,812**	**58,268**
Balance at 31 December 2018	**49,377**	**10,201**	**59,578**
Balance at 31 December 2019	**61,964**	**2,832**	**64,796**

As at 31 December 2019, the cost of intangible assets fully amortized but still used by the Bank amounted to MDL’000 12,702 (31 December 2018: MDL'000 30,981). As at 31 December 2019 intangible assets have not been pledged as collateral.

11. LEASES

The Bank leases a number of branchesand office premises. The leases typically run for a period of 1 - 7 years. Previously, the leases were classified as operating leases under IAS 17. As a result of application of IFRS 16, as at 1 January 2019 the assets increased with an amount MDL’000 74,489. The information about leases for which the Bank is a leasee is presented below.

I. Right-of-use assets

In MDL thousand	Buildings
Balance at 1 January 2019	**74,489**
Additions	32,001
Disposals	(16,567)
Balance at 31 December 2019	**89,923**
Accumulated depreciation	
Balance at 1 January 2019	-
Depreciation charge for the year	29,882
Disposals	(6,586)
Balance at 31 December 2019	**23,296**
Carrying amounts	
Balance at 1 January 2019 (transition)	**74,489**
Balance at 31 December 2019	**66,627**

* 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.

11. LEASES (CONTINUED)

Maturity analysis – Contractual undiscounted cash flows

Less than one year	36
Between one and three years	27,773
Between three and five years	29,954
More than five years	9,457
Total undiscounted lease liabilities at 31 December	**67,220**

II. Amounts recognized in profit or loss

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

In MDL thousand	
2018 – Operating leases under IAS 17	**2018**
Lease expense	35,452

III. Amounts recognized in statement of cash flow

In MDL thousand	**31 December 2019**
Lease liabilities	**65,095**
Total cash outflow for leases in 2019	30,822

12. OTHER ASSETS

Financial assets

In MDL thousand	**31 December 2019**	**31 December 2018**
Receivables from international payment systems	12,491	25,101
Receivables from Visa and Mastercard	51,827	78,965
Other financial assets	105,829	130,461
Expected credit loss allowance for other financial assets	(54,404)	(59,814)
Total	**115,743**	**174,712**

Non-financial assets

In MDL thousand	**31 December 2019**	**31 December 2018**
Repossessed collaterals	279,265	332,110
Inventories	18,682	18,174
Advances to suppliers	15,907	8,728
Prepaid expenses	10,030	7,866
Impairment allowance for other non-financial assets	(189,397)	(225,177)
Total	**134,487**	**141,701**
Total other assets	**250,230**	**316,413**

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

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

The evolution of allowances for expected credit losses of other financial assets during 2019 and 2018 financial years, is presented in Note 36.1.

12. OTHER ASSETS (CONTINUED)

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

In MDL thousand	2019	2018
Balance as at 1 January	**225,177**	**175,789**
Write-offs	-	(85,372)
Impairment charges / (release) (Note 26)	(8,730)	137,378
Write-offs due to sales	(27,050)	(2,618)
Balance as at 31 December	**189,397**	**225,177**

13. CURRENT INCOME TAX ASSETS AND LIABILITIES

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

In MDL thousand	31 December 2019	31 December 2018
Current income tax assets	33,725	22,176
Current income tax liability	(39,910)	(12,020)
Current income tax assets / (liabilities), net	**(6,184)**	**10,156**

14. OTHER BORROWINGS

In MDL thousand	31 December 2019	31 December 2018
Loans from the Ministry of Finance	18,373	34,036
Loans from international finance organizations	28,916	-
Total	**47,289**	**34,036**

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

In MDL thousand	2019	2018
Balance as at 1 January	34,036	135,163
Proceeds received	28,891	-
Payments	(15,437)	(97,954)
Liability-related:		
Interest expense (Note 21)	651	2,994
Interest paid	(789)	(3,900)
The effect of changes in foreign exchange rates	(63)	(2,267)
Balance as at 31 December	**47,289**	**34,036**

The loans received from the International Finance Organizations are financed by the European Bank for Reconstruction and Development (EBRD), the International Fund for Agricultural Development (IFAD), the International Association for Development (AID), Kreditanstalt für Wiederaufbau (KfW), and Government of the Polish Republic (Assistance Credit).
The purpose is to finance certain investment projects and to supplement the current means (EU4Business project - in improving the quality of products and modernizing services, IFAD projects - mainly in the agricultural field, RISP projects - in rural business development, the Assistance Credit project - in agriculture, food processing and infrastructure).

In 2019, the interest rate on loans received ranged varied between 3.50% - 7.42% for MDL, 2.49% - 4.16% for USD, 0.15 - 3.5% for EUR. The loans financed from the mentioned borrowings 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.

As of December 31, 2019, the Bank did not fully meet the eligibility criteria set out in the Loan Agreements, signed with the Ministry of Finance: loans expired in the total the loan portfolio and non-performing loans in the total loan portfolio. The Bank accepted an action program to overcome the shortcomings, within a period agreed with the Ministry of Finance and the Directorate of Credit Lines through the signed Memorandum. In the liquidity risk disclosures (Note 36.3) these amounts were presented in “less than 3 months” pocket.

15. DEPOSITS FROM BANKS

In MDL thousand	31 December 2019	31 December 2018
"Loro" accounts from banks	52,074	41,350
Total	**52,074**	**41,350**

16. DEPOSITS FROM CUSTOMERS

Deposits from customers can be analyzed as follows:

In MDL thousand

Legal entities	31 December 2019	31 December 2018
Current accounts	3,666,462	4,311,306
Term deposits	388,521	405,295
Total	**4,054,983**	**4,716,601**

In MDL thousand

Individuals	31 December 2019	31 December 2018
Current accounts	3,041,110	2,765,290
Term deposits	4,340,279	4,217,935
Total	**7,381,388**	**6,983,225**
Deposits from customers	**11,436,371**	**11,699,826**

The average interest rate on term deposits in MDL attracted from customers in 2019 was 4.1% (2018: 4.2%), during 2019 the average interest rate in the banking system was 4.6% (2018: 4.5%).

The average interest rate paid by the Bank for term deposits in foreign currency in 2019 was 0.9% (2018: 0.8%), the average interest rate in the banking system was 1.0% in 2019 (2018: 1.0%).

17. PROVISIONS FOR OTHER RISKS AND LOAN COMMITMENTS

In MDL thousand	31 December 2019	31 December 2018 Restated*
Provisions for loan commitments, financial guarantees	4,599	9,209
Provisions for litigations(i)	136,029	138,419
Total	**140,629**	**147,627**

*See Note 2.5

(i)It is relates to the decision of Charlotte District Court, North Carolina, USA, no. 3:12 cv 519 as at 12 February 2016. On 17 February 2016 in Nostro corresponding bank account held by the Bank at the Bank of New York Mellon, the amount of USD 13,174 thousand (equivalent of MDL 226,716 thousand as at 31 December 2019) that the court in the USA considered as being, eventually, funds of the company Rex Venture Group, LLC, was frozen. Considering this decision as being arbitrary, abusive, applied against the norms of international judicial practice, which obviously and without any reason caused major prejudices to the legal rights of the Bank, the Bank initiated the judicial procedure of appeal against the order and unblocking the frozen amount.

Currently, this matter is on appeal before the Fourth Circuit Court of Appeals. The external lawyers of the Bank estimate that the process will take approximately 4 to 6 months for a final decision of the Court of Appeals.

Based on our consultations with lawyers and our urderstanding of the risks associated with the case we have created a litigation provision of MDL 136,029 thousand.

Another law suite in which the Bank was involved during 2019 relates to the fact that 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 Bank of New York Mellon, this amount was transferred to a separate account, according to US practice. At the same time, Bank of New York Mellon submitted no document confirming the legality of debiting the account with that amount. Thus, between the Bank and Bank of New York Mellon was signed a settlement transaction on 17 January 2019 under which the Bank has been refunded 120,000 USD.

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

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

	2019	2018 Restated*
Balance at 1 January	**138,419**	**-**
Provisions made during the year	-	138,419
Provisions used during the year	(1,345)	-
Provisions reversed during the year	(2,057)	-
Foreign exchange losses	1,012	-
Balance at 31 December	**136,029**	**138,419**

*See Note 2.5

18. DEFFERED TAX BALANCES

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

In MDL thousand	31 December 2019	31 December 2018
Deferred income tax assets	19,939	1,228
Deferred income tax liabilities	(2,772)	(7,917)
Deferred tax assets / (liabilities), net	**17,167**	**(6,689)**

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

19. OTHER LIABILITIES

Financial liabilities

In MDL thousand	31 December 2019	31 December 2018
Creditors regarding documentary transactions	132,825	551
Amounts pending for customers instructions	77,195	39,672
Bank cards operations	15,061	4,887
Non-interest-bearing calculated expenses	13,143	13,812
Payments collected for transfer according to the destination	7,364	7,409
Suspense amounts	5,319	5,857
Settlements with the brokers	3,738	5,610
Settlements for the sales of other assets	3,288	2,650
Settlements related to intangible assets	1,997	2,353
Dividends payable	26	57
Accruals for untaken holidays	10,795	10,232
Accruals for other employee benefits	20,150	2,541
Other financial liabilities	29,301	30,487
Total	**320,202**	**126,118**

Creditors regarding documentary transactions include a letter of credit issued and in balances as of 31 December 2019.

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

Non-financial liabilities

In MDL thousand	31 December 2019	31 December 2018
Other settlements with the state budget	110	47
Other non-financial liabilities	5,848	6,705
Total	**5,958**	**6,752**
Total other liabilities	**326,160**	**132,870**

20. CAPITAL AND RESERVES

a. Share capital

During the year 2019, there were no changes to the Bank's share capital amounting to MDL 250,000,910 as at 31 December 2018 and 31 December 2019, 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 2019 the Bank has a total of 169 shareholders - individuals and legal entities (31 December 2018: 164 shareholders), among which:

	31 December 2019	31 December 2018
Shareholders with a share equal to or above 1%, among which:	**5 persons**	**6 persons**
Legal entities	1	2
Individuals	4	4
Other shareholders, of which:	**164 persons**	**158 persons**
Legal entities	9	7
Individuals	155	151

* 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.

20. CAPITAL AND RESERVES (CONTINUED)

	31 December 2019, %	31 December 2018, %
Shareholders with a share equal to or above 1%, among which:		
VB Investment Holding B.V.	72.19	72.19
Ţurcan Victor	10.76	10.45
Ţurcan Valentina	8.07	2.47
Artemenco Elena	4.95	4.95
Proidisvet Galina	1.58	4.04
Notabil S.R.L.	-	2.36
Other shareholders	2.45	3.54
TOTAL	**100**	**100**

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

b. Other reserves

The balance represents the general reserve for bank risks and relates to the difference between the assets impairment losses and provisions for conditional commitments, according to IFRS, and the amount calculated but unformed of allowances for losses on assets and conditional commitments, according to prudential regulations of the National Bank of Moldova. Starting with 2012, the Bank allocates from retained earnings to other reserves the difference mentioned above. As such, as at 31 December 2019, the Bank allocated to other reserves the amount of 44,460 MDL`000 . These reserves are non-distributable.

c. Statutory reserves

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

d. Fair value reserve

The fair value reserve comprises:

- the cumulative net change in the fair value of equity securities measured at FVOCI; and
- the cumulative net change in fair value of debt securities measured at FVOCI until the assets are derecognized or reclassified. This amount is increased by the amount of loss allowance (see Note 3.13).

21. NET INTEREST INCOME

In MDL thousand	2019	2018
Interest income calculated using the effective interest method		
Loans and advances to customers	284,939	262,619
Current accounts and placements held with NBM, other banks	110,667	98,623
Investment securities at amortised cost	197,567	258,731
Investment securities at FVOCI	479	24
Total interest income	**593,652**	**619,997**
Interest expense		
Deposits from customers	(197,075)	(239,523)
Current accounts with banks	(8,128)	(6,366)
Deposits from banks	(26)	(101)
Other borrowings	(651)	(2,994)
Interest expense on lease liabilities	(815)	-
Total interest expense	**(206,696)**	**(248,983)**
Net interest income	**386,956**	**371,014**

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21. NET INTEREST INCOME (CONTINUED)

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

In MDL thousand	**2019**	**2018**
Financial assets measured at amortized cost	593,150	619,973
Financial assets measured at FVOCI	479	24
Financial assets measured at fair value	23	-
Total	**593,652**	**619,997**
Financial liabilities measured at amortized cost	**(206,696)**	**(248,983)**

22. NET FEE AND COMMISSION INCOME

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

In MDL thousand	**2019**	**2018**
Fee and commissions income		
Bank cards operation	195,233	163,925
Transactions with customers	133,260	120,055
Clearing operations	23,021	22,156
Currency exchange operations	6,266	7,494
Commission for release of guarantees	2,400	1,866
Brokerage fees	526	2,705
Lending activity	695	24
Other commissions income	21,066	19,177
Total fee and commissions income	**382,467**	**337,402**
Fee and commissions expenses		
Commissions for debit card services	(139,566)	(104,499)
Payment transactions	(9,750	(9,876)
Commissions upon cash withdrawal and depositing	(31,540)	(31,162)
Other commissions related to borrowings	(142)	-
Total fee and commissions expenses	**(180,997)**	**(145,537)**
Net fee and commission income	**201,470**	**191,865**

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

23. NET TRADING INCOME

In MDL thousand	**2019**	**2018**
Net income from foreign exchange transactions	145,342	110,545
Losses from the revaluation of foreign currency	(11,314)	(7,448)
Dividends on equity investments measured at FVOCI	1,830	1,760
Other financial income	84	25
Total	**135,942**	**104,882**

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24. OTHER OPERATING INCOME

In MDL thousand	2019	2018
Income from rent of safe-boxes	1,812	5,717
Fines and penalties received	5,478	2,030
Other operating income	10,215	595
Total	**17,505**	**8,342**

Other operating income include derecognized liabilities to customers.

25. NET IMPAIRMENT (LOSSES) / RELEASE ON FINANCIAL INSTRUMENTS

Additional information on impairment of financial assets during the financial year 2019 and 2018 are presented in Note 36.1. (I. Amounts arising from ECL).

The following table provides reconciliation position "net impairment (lossess) / releases on financial assets" in statement of profit or loss:

In MDL thousand	2019	2018 Restated*
Cash and balances with the National Bank of Moldova	1,141	(1,625)
Current accounts and placements with banks	(651)	415
Debt securities at amortized cost	1,813	(172)
Debt securities at FVOCI	(82)	(94)
Loans to customers at amortized cost	44,969	62,417
Receivables to customers at amortized cost	6,308	(2,254)
Other financial assets	(5,354)	(6,453)
Loan commitments and financial guarantee contracts	4,654	7,538
Total	**52,799**	**59,771**

***** See Note 2.5

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

In MDL thousand	2019	2018
Property and equipment, inventories	3	(1)
Repossessed collaterals	8,730	(137,378)
Total	**8,733**	**(137,379)**

27. PERSONNEL EXPENSES

In MDL thousand	2019	2018
Salaries and bonuses	(178,125)	(149,963)
Social insurance and contributions	(32,089)	(34,763)
Medical contributions	(8,026)	(7,478)
Net expenses with accruals for untaken holidays and other accruals	(18,213)	9,315
Other staff expenses (other payments, meal vouchers)	(26,492)	(28,103)
Total	**(262,945)**	**(210,992)**

The average monthly number of employees active in the Bank during 2019 was 1,178 people (in 2018 was 1,212).

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28. OTHER OPERATING EXPENSES

In MDL thousand	2019	2018
Utilities and rent	(8,706)	(42,045)
Repairs and maintenance expenses	(13,543)	(12,547)
Contribution to the Bank Deposit Guarantee Fund	(13,883)	(12,815)
Security and protection	(7,928)	(11,263)
Advertising, marketing, entertainment and sponsorship expenses	(14,752)	(4,930)
Expenses for maintaining intangible assets	(24,181)	(18,716)
Mail, telecommunication and SMS traffic expenses	(7,653)	(6,810)
Stationery and supplies	(3,109)	(3,438)
Audit, advisory and consultancy	(7,280)	(7,500)
Training	(2,073)	(1,042)
Travel and transportation	(2,598)	(1,815)
Loss on disposal of property and equipment, intangible assets and other assets	(8,589)	(6,565)
Taxes and penalties	(1,122)	(1,189)
Other operating expenses	(31,805)	(21,432)
Total	**(147,223)**	**(152,107)**

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

29. DEPRECIATION

In MDL thousand	2019	2018
Property and equipment (Note 9)	(20,557)	(22,049)
Right-of-use assets (Note 11)	(29,882)	-
Intangible assets (Note 10)	(13,280)	(12,399)
Total	**(63,719)**	**(34,448)**

30. INCOME TAX EXPENSES

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

Income tax recognized in profit and loss account

In MDL thousand	31 December 2019	31 December 2018
Current tax		
Current tax expenses	(32,053)	(12,026)
Deferred tax		
Deferred tax (expenses) / income	17,966	(7,990)
Total income tax expenses recognized during the year	**(14,087)**	**(20,016)**

Income tax expenses reconciles to profit before tax as follows:

In MDL thousand		2019		2018
Profit before tax		**331,575**		**62,527**
Tax using the Bank's domestic tax rate	12.00%	(39,789)	12.00%	(7,503)
Tax effect of non-deductible expenses	(4.36%)	14,443	37.78%	(23,622)
Tax-exempt income	(3.40%)	11,259	(17.77%)	11,109
Income tax expense recognized in profit and loss account and in statement of other comprehensive income	**4.25%**	**(14,087)**	**32.01%**	**(20,016)**

30. INCOME TAX EXPENSES (CONTINUED)

Tax-exempt income represents interest income from state securities.

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

Income tax recognized in other comprehensive income

In MDL thousand	**31 December 2019**	**31 December 2018**
Current income tax		
Current tax	-	-
Deferred income tax		
Change in fair value of equity investments securities designated at FVOCI	5,890	6,619
Total income tax recognized in other comprehensive income	**5,890**	**6,619**

31. GUARANTEES AND OTHER FINANCIAL COMMITMENTS

The cumulated amounts of guarantees in balance and other off balance sheet elements as at 31 December 2019 and 2018:

In MDL thousand	**31 December 2019**	**31 December 2018**
Letters of credit	132,825	498
Issued guarantees	88,862	74,274
Commitments to issue guarantees	50,420	29,912
Loan commitments	355,021	359,841
Total	**627,128**	**464,525**

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

32. CONTINGENT LIABILITIES AND LITIGATION

As at 31 December 2019 and 2018, the Bank has the capacity of defendant in a number of law suits emerged from normal trading activities.

33. BASIC EARNINGS PER SHARE

	31 December 2019	**31 December 2018**
Profit for the year, *MDL thousand*	317,488	42,511
The number of ordinary shares	25,000,091	25,000,091
Basic earnings per share	**12.70**	**1.70**

The basic earnings per share is calculated by dividing the net profit for the year attributable to the holders of ordinary equity by the average weighted number of ordinary shares issued during the year. The calculation of the basic earnings per share as at 31 December 2019 and as at 31 December 2018 was based on the number of outstanding shares during the period, this number being unmodified – 25,000,091 – since 2011.

As at 31 December 2019 and 2018 there were no diluted equity instruments issued by the Bank.

34. FAIR VALUE OF THE FINANCIAL INSTRUMENTS

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

Level 1 in the fair value hierarchy

The fair value of financial assets and liabilities allocated to Level 1 in the fair value hierarchy is determined based on quoted prices in active markets for identical financial assets or liabilities. 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.

34. FAIR VALUE OF THE FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy analysis of financial instruments carried at fair value

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

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

At Level 2 in the fair value hierarchy, the Bank has classified the current accounts and placements with banks, debt instruments at amortised cost and debt instuments at FVOCI.

The 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: Frozen Nostro account, loans to customers and other assets financial.The fair value of the loans is the value of future cash flows updated at the market rate (published by the NBM) to determine their fair value.

At Level 3 in the fair value hierarchy, the bank has classified as financial liabilities: deposits from customers, other borrowings and other financial liabilities.

The fair value of non-interest sight deposits (current accounts) is their carrying amount and these liabilities were classified as level 2 in the fair value hierarchy.

The fair value of interest-bearing term deposits (Level 3) represents the present value of future cash flows at the market rate (published by the NBM) for liabilities with similar maturities.

34. FAIR VALUE OF THE FINANCIAL INSTRUMENTS (CONTINUED)

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

31 December 2018		**Carrying**			**Fair value hierarchy**	
In MDL thousand	**Notes**	**amount**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Financial assets						
Current accounts and placements with banks	**5**	2,568,585	2,568,585	-	2,568,585	-
Frozen Nostro account	**5**	229,238	229,238	-	-	229,238
Financial assets measured at amortized cost – debt instruments	**6**	2,701,876	2,710,251	-	2,710,251	-
Debt securities at fair value through other comprehensive income	**6**	6,615	6,615	-	6,615	-
Equity securities at fair value through other comprehensive	**8**	246,379	246,379	243,139	-	3,240
Loans to customers	**7**	2,945,972	3,556,438	-	-	3,556,437
Other financial assets	**12**	174,712	174,712	-	-	174,712
Total		**8,873,377**	**9,492,218**	**243,139**	**5,285,451**	**3,963,627**
Financial liabilities						
Deposits from banks	**15**	41,350	41,350	-	41,350	-
Deposits from clients	**16**	11,699,826	11,790,616	-	7,076,596	4,714,020
Other borrowings	**14**	34,036	34,036	-	-	34,036
Other financial liabilities	**19**	126,118	126,118	-	-	126,118
Total		**11,901,330**	**11,992,120**	**-**	**7,117,946**	**4,874,174**

As at 31 December 2018 at Level 1 in the fair value hierarchy, The Bank has classified equity instruments at fair value through other comprehensive income.

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 2 in the fair value hierarchy, the Bank has classified the current accounts and placements with banks, debt instruments at amortised cost and debt instuments at FVOCI

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

At Level 3 in the fair value hierarchy, the bank has classified as financial liabilities: deposits from customers, other borrowings and other financial liabilities.

The fair value of non-interest sight deposits (current accounts) is their carrying amount and these liabilities were classified as level 2 in the fair value hierarchy.

The fair value of interest-bearing term deposits (Level 3) represents the present value of future cash flows at the market rate (published by the NBM) for liabilities with similar maturities.

35. RELATED PARTIES

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

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

During 2019 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:

	2019				2018			
In MDL thousand	**Shareholders > 1 %**	**Key-management personnel**	**Other related parties**	**Total**	**Shareholders > 1 %**	**Key-management personnel**	**Other related parties**	**Total**
Balance								
Current accounts to banks	81,190	-	-	**81,190**	87,903	-	-	**87,903**
Loans	-	121	429,212	**429,332**	-	8,688	696,689	**705,377**
Deposits	24,162	6,829	62,232	**93,223**	26,434	25,875	111,285	**163,594**
Commitments								
Given loan commitments and financial guarantees	13,482	426	29	**13,937**	-	1,538	227	**1,765**
Income and expenses								
Interest income	294	345	2,159	**2,798**	188	1,132	9,214	**10,533**
Fee and commissions income	86	28	6,485	**6,599**	187	46	2,013	**2,245**
Interest expenses	(1,162)	(147)	(729)	**(2,039)**	(1,181)	(931)	(1,383)	**(3,495)**
Fee and commissions expenses	(204)	-	(23)	**(227)**	(48)	-	(735)	**(783)**

Remuneration of directors

The total amount of remuneration expenses for executive management was MDL’000 15,769 for the year 2019 (2018: MDL’000 19,362). The amount of expenses for the remuneration of the Board of Directors was MDL’000 5,281 for the year 2019 (2018: MDL’000 3,450).

36. 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 aligment 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 finacial risk.

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

36.1 Credit Risk

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

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

The highest exposure to credit risk of the Bank derives its loans 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.

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

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

I. Amounts arising from expected credit losses (ECL)

Significant increase of the credit risk

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

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

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1 Credit Risk (continued)

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

Significant increase of the credit risk (continued)

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 trough the average credit losses weighted by the respective risk of default (measured through PD).

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

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

Classification of financial assets is done case-by-case. This means that a loan may be included in stage I and another loan held by the same client may be included in stage II, all depending on the outcome of the analysis between the risk elements existing at the initial recognition date and the situation at the reporting date. 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 National Bank of Moldova regulation in the "C" prudential category;
- The absence of significant cash flow operations for the last 45 days (at least 1000 MDL)
- There are 2 or more recorded financial indicators showing objective increase in credit risk;

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1 Credit Risk (continued)

I. Amounts arising from expected 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: 31.12.2019, the last restructuring : max. 31.12.2018, the second restructuring: max. 31.12.2016 and the 3rd : max. 31.12.2014);
- According to the NBM Regulation, the exposure in classified as "D" prudential category or lower;
- The sale-purchase contracts concluded with the debtor/ the pledge debtor of the pledged object connected to the exposures extinguished from the execution of this guarantee will be automatically classifies in Stage 3;
- In 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 an appraisement of elements of expected impairment loss, which means that PD ratios should consider not only the current realities of the economy, but the economic circumstances subsequent alternations.

To achieve this level of anticipation, the Bank has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. The forecast of these economic variables was performed over the next three years. After three years, to project the economic variables out for the full remaining lifetime of each instrument, a mean reversion approach has been used. The impact of these economic variables has been determined by performing statistical regression analysis.

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

	2020	2021	2022
GDP, %	10,1	8,5	9,5
Unemployment rate, %	2,6	2,6	2,5
Inflation, %	5,6	4,7	4,7
Exchange rate EUR/MDL	21.86	20.74	22.12

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

The weights of scenarios (optimistic: 10%, baseline: 80% and adverse: 10%) used in ECL calculation were the same as at 31 December 2019 and 31 December 2018.

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1 Credit Risk (continued)

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

Incorporating forward-looking information (continued)

The most important assumptions which affect expected credit losses are as follows:

For retail loans:

- Unemployment rate;
- Exchange rate.

For corporate loans:

- GDP;
- Unemployment rate.

The table below illustrates the impact of changing scenarios weights for optimistic and adverse scenario.

Weight of scenarios	100% adverse	100% baseline	100% optimistic
Change in ECL	43,737	(2,825)	(21,137)

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Bank's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

The determination of the expected loss of credit (ECL)

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

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

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

- In case of T-bills / NBM certificates, the EAD parameter will be determined according to the value of the amortized cost of the associated exposure as at the reporting date.
- In case of placements to other banks and NOSTRO accounts, the EAD parameter is calculated by summing the principal and receivables attached to reporting data.
- Issued guarantees by the Bank (off-balance sheet account 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 as the minimum of the liquidation value of the collateral and the market value with discount (Haircut statistic), based on the valuation report held by the Bank 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.

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

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.

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1 Credit Risk (continued)

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

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

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

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

Credit quality analysis depending on the class of financial assets

	31 December 2019			
In MDL thousand	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and Balances with National Bank of Moldova	4,449,104	-	-	4,449,104
Placements with banks	2,716,227	-	-	2,716,227
Frozen Nostro account	226,716	-	-	226,716
Investment securities measured at amortized cost	3,187,559	-	-	3,187,559
Investment securities measured at FVOCI	13,048	-	-	13,048
Loans to customers	2,629,621	648,815	697,750	3,976,186
Other financial assets	90,643	5,361	74,143	170,147
Expected credit loss allowance for financial assets	*(87,677)*	*(12,586)*	*(294,489)*	*(394,752)*
Carrying amount	**13,225,241**	**641,590**	**477,404**	**14,344,235**

	31 December 2018			
In MDL thousand	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and Balances with National Bank of Moldova	5,136,951	-	-	5,136,951
Placements with banks	2,570,800	-	-	2,570,800
Frozen Nostro account	229,238	-	-	229,238
Investment securities measured at amortized cost	2,726,403	-	-	2,726,403
Investment securities measured at FVOCI	6,615	-	-	6,615
Loans to customers	2,051,373	364,130	1,109,990	3,525,493
Other financial assets	135,875	33,246	65,405	234,526
Expected credit loss allowance for financial assets	*(116,225)*	*(9,794)*	*(544,793)*	*(670,812)*
Carrying amount	**12,741,030**	**387,582**	**630,602**	**13,759,214**

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

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1 Credit Risk (continued)

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

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

31 December 2019

In MDL thousand	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and Balances with National Bank of Moldova				
Current	4,449,104	-	-	4,449,104
Overdue ≤ 30 days	-	-	-	-
Overdue > 30 days ≤ 90 days	-	-	-	-
Overdue > 90 days	-	-	-	-
Loss allowance	(3,491)	-	-	(3,491)
Carrying amount	**4,445,613**	**-**	**-**	**4,445,613**
Placements with banks				
Current	2,716,227	-	-	2,716,227
Overdue ≤ 30 days	-	-	-	-
Overdue > 30 days ≤ 90 days	-	-	-	-
Overdue > 90 days	-	-	-	-
Loss allowance	(2,809)	-	-	(2,809)
Carrying amount	**2,713,419**	**-**	**-**	**2,713,419**
Frozen Nostro account				
Restricted	226,716	-	-	226,716
Overdue ≤ 30 days	-	-	-	-
Overdue > 30 days ≤ 90 days	-	-	-	-
Overdue > 90 days	-	-	-	-
Carrying amount	**226,716**	**-**	**-**	**226,716**
Investment securities measured at amortized cost				
Current	3,187,559	-	-	3,187,559
Overdue ≤ 30 days	-	-	-	-
Overdue > 30 days ≤ 90 days	-	-	-	-
Overdue > 90 days	-	-	-	-
Loss allowance	(22,689)	-	-	(22,689)
Carrying amount	**3,164,870**	**-**	**-**	**3,164,870**
Investment securities measured at FVOCI				
Current	13,048	-	-	13,048
Overdue ≤ 30 days	-	-	-	-
Overdue > 30 days ≤ 90 days	-	-	-	-
Overdue > 90 days	-	-	-	-
Loss allowance	(176)	-	-	(176)
Carrying amount	**12,873**	**-**	**-**	**12,873**

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

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1 Credit Risk (continued)

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

31 December 2019

In MDL thousand	Stage 1	Stage 2	Stage 3	Total
Loans to customers				
Current	2,525,786	592,060	82,676	3,200,523
Overdue ≤ 30 days	103,834	11,287	253	115,374
Overdue > 30 days ≤ 90 days	-	45,468	50,915	96,382
Overdue > 90 days	-	-	563,907	563,907
Loss allowance	(45,165)	(12,373)	(253,645)	(311,184)
Carrying amount	**2,584,455**	**636,442**	**444,105**	**3,665,002**
Other financial assets				
Current	88,315	2,316	-	90,630
Overdue ≤ 30 days	2,328	3,045	-	5,374
Overdue > 30 days ≤ 90 days	-	-	3,290	3,290
Overdue > 90 days	-	-	70,853	70,853
Loss allowance	(13,347)	(213)	(40,843)	(54,404)
Carrying amount	**77,295**	**5,148**	**33,300**	**115,743**

31 December 2018

In MDL thousand	Stage 1	Stage 2	Stage 3	Total
Cash and Balances with National Bank of Moldova				
Current	5,136,951	-	-	5,136,951
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**
Placements with banks				
Current	2,570,800	-	-	2,570,800
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**
Frozen Nostro account				
Restricted	229,238	-	-	229,238
Overdue ≤ 30 days	-	-	-	-
Overdue > 30 days ≤ 90 days	-	-	-	-
Overdue > 90 days	-	-	-	-
Carrying amount	**229,238**	**-**	**-**	**229,238**

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36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1 Credit Risk (continued)

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

31 December 2018

In MDL thousand	Stage 1	Stage 2	Stage 3	Total
Investment securities measured at amortized cost				
Current	2,726,403	-	-	2,726,403
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**
Investment securities measured at FVOCI				
Current	6,615	-	-	6,615
Overdue ≤ 30 days	-	-	-	-
Overdue > 30 days ≤ 90 days	-	-	-	-
Overdue > 90 days	-	-	-	-
Loss allowance	(94)	-	-	(94)
Carrying amount	**6,521**	**-**	**-**	**6,521**
Loans to customers				
Current	1,976,435	302,839	152,722	2,431,996
Overdue ≤ 30 days	72,821	43,452	67,388	183,661
Overdue > 30 days ≤ 90 days	2,116	17,840	93,531	113,487
Overdue > 90 days	-	-	796,348	796,348
Loss allowance	(70,923)	(8,622)	(499,976)	(579,521)
Carrying amount	**1,980,450**	**355,508**	**610,013**	**2,945,972**
Other financial assets				
Current	132,385	-	-	132,385
Overdue ≤ 30 days	3,490	32,134	-	35,624
Overdue > 30 days ≤ 90 days	-	1,112	-	1,112
Overdue > 90 days	-	-	65,405	65,405
Loss allowance	(13,825)	(1,172)	(44,816)	(59,814)
Carrying amount	**122,050**	**32,074**	**20,588**	**174,712**

The following table presents information about the classification of financial assets according to internal credit risk ratings:

31 December 2019

In MDL thousand	Stage 1	Stage 2	Stage 3	Total
Placements with banks				
Standard	2,439,584	-	-	2,439,584
Supervised	188,638	-	-	188,638
Substandard	84,885	-	-	84,885
Doubtful	3,121	-	-	3,121
Compromised (losses)	-	-	-	-
Loss allowance	(2,809)	-	-	(2,809)
Carrying amount	**2,713,419**	**-**	**-**	**2,713,419**

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36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1 Credit Risk (continued)

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

31 December 2019

In MDL thousand	Stage 1	Stage 2	Stage 3	Total
Frozen Nostro account				
Standard	226,716	-	-	226,716
Supervised	-	-	-	-
Substandard	-	-	-	-
Doubtful	-	-	-	-
Compromised (losses)	-	-	-	-
Carrying amount	**226,716**	-	**-**	**226,716**
Investment securities measured at amortized cost				
Standard	2,972,087	-	-	2,972,087
Supervised	215,472	-	-	215,472
Substandard	-	-	-	-
Doubtful	-	-	-	-
Compromised (losses)	-	-	-	-
Loss allowance	(22,689)	-	-	(22,689)
Carrying amount	**3,164,870**	**-**	**-**	**3,164,870**
Loans to customers				
Standard	2,316,909	71,545	-	2,388,454
Supervised	312,711	504,761	7,604	825,076
Substandard	-	72,509	1,629	74,138
Doubtful	-	-	23,926	23,926
Compromised (losses)	-	-	664,592	664,592
Loss allowance	(45,165)	(12,373)	(253,645)	(311,184)
Carrying amount	**2,584,455**	**636,442**	**444,105**	**3,665,002**
Other financial assets				
Standard	73,183	-	-	73,183
Supervised	6,084	5,361	-	11,445
Substandard	13	-	14,000	14,013
Doubtful	17	-	2,937	2,953
Compromised (losses)	11,345	-	57,207	68,552
Loss allowance	(13,347)	(213)	(40,843)	(54,404)
Carrying amount	**77,295**	**5,148**	**33,300**	**115,743**

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36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1 Credit Risk (continued)

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

31 December 2018

In MDL thousand	Stage 1	Stage 2	Stage 3	Total
Placements with banks				
Standard	2,378,700	-	-	2,378,700
Supervised	95,358	-	-	95,358
Substandard	92,998	-	-	92,998
Doubtful	3,744	-	-	3,744
Compromised (losses)	-	-	-	-
Loss allowance	(2,215)	-	-	(2,215)
Carrying amount	**2,568,585**	**-**	**-**	**2,568,585**
Frozen Nostro account				
Standard	229,238	-		229,238
Supervised	-	-	-	-
Substandard	-	-	-	-
Doubtful	-	-	-	-
Compromised (losses)	-	-		-
Carrying amount	**229,238**	-		**229,238**
Investment securities measured at amortized cost				
Standard	2,726,403	-	-	2,726,403
Supervised	-	-	-	-
Substandard	-	-	-	-
Doubtful	-	-	-	-
Compromised (losses)	-	-	-	-
Loss allowance	(24,527)	-	-	(24,527)
Carrying amount	**2,601,876**	**-**	**-**	**2,601,876**
Loans to customers				
Standard	1,598,611	58,403	429	1,657,443
Supervised	450,358	222,317	30,623	703,298
Substandard	2,404	83,016	29,180	114,600
Doubtful	-	394	145,887	146,281
Compromised (losses)	-	-	903,870	903,870
Loss allowance	(70,923)	(8,622)	(499,976)	(579,521)
Carrying amount	**1,980,450**	**355,508**	**610,013**	**2,945,972**
Other financial assets				
Standard	110,356	-	-	110,356
Supervised	25,519	33,246	-	58,765
Substandard	-	-	-	-
Doubtful	-	-	-	-
Compromised (losses)	-	-	65,405	65,405
Loss allowance	(13,825)	(1,172)	(44,816)	(59,814)
Carrying amount	**122,050**	**32,074**	**20,588**	**174,712**

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36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1 Credit Risk (continued)

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

The tables below show reconciliation from the opening to the closing balance of the loss allowance by class of financial assets and commitments.

In MDL thousand	**31 December 2019**	**31 December 2018**
Cash and Balances with National Bank of Moldova		
Balance at 1 January	4,641	3,008
Net remeasurement of loss allowance	(1,141)	1,625
Foreign exchange and other movements	(9)	8
Balance at 31 December	**3,491**	**4,641**
Placements with banks		
Balance at 1 January	2,215	2,759
Net remeasurement of loss allowance	(22)	(412)
New financial assets originated or purchased	1,693	-
Financial assets that have beeen derecognised	(1,020)	(3)
Foreign exchange and other movements	(58)	(129)
Balance at 31 December	**2,809**	**2,215**
Investment securities measured at amortized cost		
Balance at 1 January	24,527	24,355
Net remeasurement of loss allowance	(7,472)	23,867
New financial assets originated or purchased	64,752	31,142
Financial assets that have been derecognised	(59,094)	(54,837)
Foreign exchange and other movements	(24)	-
Balance at 31 December	**22,689**	**24,527**
Investment securities measured at FVOCI		
Balance at 1 January	94	-
Net remeasurement of loss allowance	(13)	-
New financial assets originated or purchased	234	94
Financial assets that have beeen derecognised	(138)	
Foreign exchange and other movements	-	-
Balance at 31 December	**176**	**94**

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36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1 Credit Risk (continued)

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

	31 December 2019				31 December 2018			
In MDL thousand	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost								
Balance at 1 January	70,923	8,622	499,976	579,521	55,133	22,532	552,136	629,802
Transfer to Stage 1	1,077	(656)	(421)	-	5,591	-	-	5,591
Transfer to Stage 2	(6,416)	6,456	(40)	-	-	(5,403)	-	(5,403)
Transfer to Stage 3	(66)	(272)	338	-	-	-	(188)	(188)
Net remeasurement of loss allowance	(48,172)	(1,515)	1,920	(47,767)	4,625	(7,931)	(14,133)	(17,439)
New financial assets originated or purchased	33,628	-	-	33,628	14,748	470	13,368	28,586
Financial assets that have been derecognized	(6,203)	(351)	(5,340)	(11,894)	(9,238)	(544)	(15,840)	(25,622)
Write-offs	-	-	(238,831)	(238,831)	(18)	(23)	(30,635)	(30,676)
Foreign exchange and other movements	394	89	(3,957)	(3,473)	87	(486)	(4,732)	(5,131)
Balance at 31 December	**45,165**	**12,373**	**253,645**	**311,184**	**70,923**	**8,622**	**499,976**	**579,521**

RETAIL	31 December 2019				31 December 2018			
In MDL thousand	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost – retail								
Balance at 1 January	1,845	378	5,485	7,708	1,240	986	8,145	10,371
Transfer to Stage 1	469	(49)	(421)	-	4,753	-	-	4,753
Transfer to Stage 2	(50)	89	(40)	-	-	(2,605)	-	(2,605)
Transfer to Stage 3	(35)	(239)	274	-	-	-	(2,088)	(2,088)
Net remeasurement of loss allowance	773	751	15,449	16,973	(4,338)	2,110	3,854	1,627
New financial assets originated or purchased	2,792	-	-	2,792	451	(16)	0	436
Financial assets that have been derecognized	(434)	(109)	(1,285)	(1,828)	(244)	(46)	(139)	(428)
Write-offs	-	-	(1,732)	(1,732)	(18)	(23)	(4,287)	(4,328)
Foreign exchange and other movements	3	(4)	-	(1)	-	(29)	-	(29)
Balance at 31 December	**5,364**	**818**	**17,731**	**23,913**	**1,845**	**378**	**5,485**	**7,708**

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36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1 Credit Risk (continued)

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

CORPORATE CUSTOMERS				31 December 2019				31 December 2018
In MDL thousand	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost – corporate customers								
Balance at 1 January	69,085	8,237	494,491	571,813	53,893	21,546	543,991	619,431
Transfer to Stage 1	607	(607)	-	-	839	(2,798)	-	(1,960)
Transfer to Stage 2	(6,367)	6,367	-	-	-	-	1,900	1,900
Transfer to Stage 3	(31)	(33)	64	-	-	-	-	-
Net remeasurement of loss allowance	(48,945)	(2,266)	(13,529)	(64,740)	8,963	(10,041)	(17,987)	(19,066)
New financial assets originated or purchased	30,837	-	-	30,837	14,296	486	13,368	28,151
Financial assets that have been derecognized	(5,769)	(242)	(4,055)	(10,066)	(8,994)	(498)	(15,701)	(25,193)
Write-offs	-	-	(237,099)	(237,099)	-	-	(26,347)	(26,347)
Foreign exchange and other movements	383	100	(3,957)	(3,473)	87	(458)	(4,732)	(5,102)
Balance at 31 December	**39,802**	**11,555**	**235,914**	**287,271**	**69,085**	**8,237**	**494,491**	**571,813**

				31 December 2019				31 December 2018
In MDL thousand	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Other financial assets - receivables to customers at amortized cost								
Balance at 1 January	13	1,172	44,816	46,001	15	347	44,366	44,728
Transfer to Stage 1	(2)	-	-	(2)	-	-	-	-
Transfer to Stage 2	-	-	(25)	(25)	-	(1,041)	1,041	-
Transfer to Stage 3	-	-	26	26	-	-	-	-
Net remeasurement of loss allowance	-	(935)	(3,066)	(4,000)	(1)	694	618	1,311
New financial assets originated or purchased	-	-	-	-	0	1,172	-	1,173
Financial assets that have been derecognized	-	-	(2,308)	(2,308)	(2)	-	(228)	(230)
Write-offs	-	-	-	-	-	-	-	-
Foreign exchange and other movements	-	-	(253)	(253)	-	-	(981)	(981)
Balance at 31 December	**11**	**213**	**39,216**	**39,440**	**13**	**1,172**	**44,816**	**46,001**

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1 Credit Risk (continued)

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

In MDL thousand	31 December 2019	31 December 2018
Other financial assets		
Balance at 1 January	13,813	7,429
Net remeasurement of loss allowance	5,828	6,229
New financial assets originated or purchased	2,287	234
Financial assets that have been derecognized	(2,761)	(9)
Writte-offs	(1,351)	-
Foreign exchange and other movements	(2,852)	(70)
Balance at 31 December	**14,963**	**13,813**

In MDL thousand	31 December 2019	31 December 2018
Loan commitments and financial guarantee contracts		
Balance at 1 January	9,209	16,774
Net remeasurement of loss allowance	(13,272)	(39,084)
New financial assets originated or purchased	11,910	31,547
Financial assets that have been derecognized	(3,292)	-
Foreign exchange and other movements	45	(28)
Balance at 31 December	**4,599**	**9,209**

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1 Credit Risk (continued)

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

The following table presents a reconciliation between:

- amounts shown in the above tables reconciling opening and closing balances of loss allowance per class of financial instruments; and
- the “impairment losses on financial instruments” line item in the statement of profit or loss and other comprehensive income.

2019

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

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36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1 Credit Risk (continued)

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

	2018								
In MDL thousand	**Cash and Balances with National Bank of Moldova**	**Placements with banks**	**Investment securities at amortized cost**	**Investment securities measured at FVOCI**	**Loans to customers at amortized cost**	**Receivables to customers at amortized cost**	**Other financial assets**	**Loan commitments and financial guarantee contracts**	**Total 2018**
Net remeasurement of loss allowance	1,625	(415)	(30,971)	-	(43,060)	1,081	6,220	(39,084)	(104,604)
New financial assets originated or purchased	-	-	31,142	94	28,586	1,173	234	31,547	92,776
Total	**1,625**	**(415)**	**172**	**94**	**(14,474)**	**2,254**	**6,453**	**(7,538)**	**(11,828)**
Recoveries of amounts previously written off	-	-	-	-	(47,943)	-	-	-	(47,943)
Total	**1,625**	**(415)**	**172**	**94**	**(62,417)**	**2,254**	**6,453**	**(7,538)**	**(59,771)**

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36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1 Credit Risk (continued)

II. Collateral held

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

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

Retail customers

An analysis of the fair value of the collateral as at reporting date per types of loans granted to retail customers is presented below:

In MDL thousand	31 December 2019	31 December 2018
Property	1,520,898	1,236,592
Security interests in movable property	1,862	3,462
Collateral deposits	798	7,667
Total	**1,523,558**	**1,247,721**

Mortgage lending

The following tables stratify credit exposures from mortgage loans to retail customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan to the fair value of the collateral as at reporting date. The fair value of the collateral for mortgages is adjusted with state guarantees for loans ”First House” (i.e. 50%). The fair value of the collateral for residential mortgage loans is based on the fair value at origination updated based on changes in house price indices.

In MDL thousand

LTV ratio	**Note**	31 December 2019	31 December 2018
Less than 50%		127,436	118,151
51-70%		109,349	89,994
71-90%		104,843	29,755
91-100%		8,937	872
More than 100%		385,575	51,443
Total	**7**	**736,141**	**290,215**

Corporate customers

In MDL thousand	**Note**	**31 December 2019**		**31 December 2018**	
		Gross value	**Collateral amount**	**Gross value**	**Collateral amount**
Stages 1 and 2		1,795,019	6,342,675	1,601,200	4,894,338
Stages 3		668,494	1,919,579	1,095,306	2,294,702
Total	**7**	**2,463,513**	**8,262,254**	**2,696,506**	**7,189,040**

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36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1 Credit Risk (continued)

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 2019 and at 31 December 2018 is shown below:

Concentration of credit risk by geographic location

31 December 2019

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

31 December 2018

In MDL thousand	**Moldova**	**OECD countries**	**Non-OECD countries**	**Total**
Placements with banks	39	2,380,858	187,688	**2,568,585**
Frozen Nostro account	-	229,238	-	**229,238**
Investment securities – debt instruments	2,669,384	-	39,107	**2,708,491**
Equity investment securities designated as at FVOCI	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**	**2,853,839**	**226,795**	**8,873,377**

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.1 Credit Risk (continued)

III. Concentration of credit risk (continued)

Concentration of credit risk by sector

31 December 2019

In MDL thousand	**Financial institutions**	**Government/ Public Administration**	**Farming and food industry**	**Production and trade**	**Real estate**	**Transport and road construction**	**Energy sector**	**Consumer loans**	**Others**	**Total**
Placements with banks	2,713,419	-	-	-	-	-	-	-	-	2,713,419
Frozen Nostro account	226,716	-	-	-	-	-	-	-		226,716
Investment securities – debt instuments	38,585	3,139,333	-	-	-	-	-	-	-	3,177,918
Equity investment securities designated as at FVOCI	2,636	-	-	-	-	-	-	-	622	3,258
Loans to customers:										
Retail	-	-	-	-	730,806	-	-	757,954	-	1,488,760
Corporate	-	29,591	421,750	827,573	129,377	33,796	86	14,399	719,670	2,176,242
Other financial assets	-	-	-	-	-	-	-	-	115,743	115,743
Total	**2,981,356**	**3,168,924**	**421,750**	**827,573**	**860,183**	**33,796**	**86**	**772,353**	**836,035**	**9,902,056**

31 December 2018

In MDL thousand	**Financial institutions**	**Government/ Public Administration**	**Farming and food industry**	**Production and trade**	**Real estate**	**Transport and road construction**	**Energy sector**	**Consumer loans**	**Others**	**Total**
Placements with banks	2,568,585	-	-	-	-	-	-	-	-	2,568,585
Frozen Nostro account	229,238	-	-	-	-	-	-	-	-	229,238
Investment securities – debt instuments	39,107	2,669,384	-	-	-	-	-	-	-	2,708,491
Equity investment securities designated as at FVOCI	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	**3,082,704**	**2,692,557**	**453,090**	**677,096**	**418,696**	**169,014**	**8,098**	**534,798**	**837,322**	**8,873,377**

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.2 Market risk

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

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

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

36.2.1 Currency risk

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

The tables below shows the Bank's exposure to currency risk at 31st of December 2019 and 31st of December 2018. The Bank's financial assets and liabilities are stated at carrying amounts, categorized by currency.

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.2 Market risk (continued)

36.2.1 Currency risk (continued)

31 December 2019

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

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

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.2 Market risk (continued)

36.2.1 Currency risk (continued)

31 December 2018

In MDL thousand	Notes	MDL	EUR	USD	Other currencies	Total
Financial assets						
Cash and Balances with National Bank of Moldova	**4**	4,106,237	659,600	343,694	22,779	5,132,310
Placements with banks	**5**	-	1,779,417	739,441	49,727	2,568,585
Frozen Nostro account	**5**	-	-	229,238	-	229,238
Investment securities measured at amortized cost	**6**	2,662,768	39,107	-	-	2,701,876
Investment securities measured at FVOCI	**6**	6,615	-	-	-	6,615
Equity investment securities designated as at FVOCI	**8**	245,775	604	-	-	246,379
Loans to customers	**7**	1,941,348	772,126	232,498	-	2,945,972
Other financial assets	**12**	130,835	34,209	7,910	1,759	174,713
Total financial assets		**9,093,579**	**3,285,063**	**1,552,781**	**74,265**	**14,005,687**
Financial liabilities						
Deposits from banks	**15**	1,118	9,707	30,526	-	41,350
Deposits from customers	**16**	6,888,984	3,240,428	1,503,101	67,314	11,699,826
Other Borrowings	**14**	16,357	15,912	1,767	-	34,036
Other financial liabilities	**19**	86,378	19,091	19,192	1,457	126,118
Total financial liabilities		**6,992,837**	**3,285,137**	**1,554,586**	**68,771**	**11,901,330**
Net currency position		**2,100,741**	**(75)**	**(1,805)**	**5,494**	**2,104,358**

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

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.2 Market risk (continued)

36.2.1 Currency risk (continued)

The table below presents the Profit or Loss sensitivity in the event of potential changes of the exchange rates applicable at 31st of December 2019 and 31st of December 2018 in relation to the functional currency of the Bank, considering that all the other variables would be unchanged remain constant:

In MDL thousand	**Impact on Profit or Loss 2019**	**2018**
EUR increase by up to 10%	(1,450)	(334)
EUR decrease by up to 10%	1,450	334
USD increase by up to 10%	5,704	(14,015)
USD decrease by up to 10%	(5,704)	14,015

36.2.2 Interest rate risk from the banking book

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

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

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

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

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

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

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

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

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

In MDL thousand	**31 December 2019**	**31 December 2018**
Own funds	1,652,361	1,482,871
Potential decline in economic value +/- 200bp		
Absolute value	26,938	24,904
Impact on own funds	1.63%	1.68%

The tables below shows the Bank's exposure to interest rate risk as at 31 December 2019 and 31 December 2018. The table includes financial assets and liabilities of the Bank at their carrying amounts, classified based on the earliest date between repricing and maturity dates.

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36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.2 Market risk (continued)

36.2.2 Interest rate risk from the banking book (continued)

31 December 2019

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

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36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.2 Market risk (continued)

36.2.2 Interest rate risk from the banking book (continued)

31 December 2018

In MDL thousand	Notes	Carrying amount	Less than 6 months	6 months – 1 year	1 – 5 years	More than 5 years	Non-interest bearing
Financial assets							
Cash and Balances with National Bank of Moldova	**4**	5,132,310	3,212,408	-	-	-	1,919,902
Placements with banks	**5**	2,568,585	2,568,585	-	-	-	-
Frozen Nostro account	**5**	229,238	-	-	-	-	229,238
Investment securities measured at amortized cost	**6**	2,701,876	1,930,346	411,926	359,579	-	25
Investment securities measured at FVOCI	**6**	6,615	1,740	3,085	1,790	-	-
Loans to customers	**7**	2,945,972	2,865,340	18,896	59,059	2,677	-
Other financial assets	**12**	174,712	-	75	1,482	-	173,155
Total financial assets		**13,759,308**	**10,578,419**	**433,982**	**421,910**	**2,677**	**2,322,320**
Financial liabilities							
Deposits from banks	**15**	41,350	41,350	-	-	-	-
Deposits from customers	**16**	11,699,826	11,650,000	231	-	-	49,594
Other Borrowings	**14**	34,036	34,036	-	-	-	-
Other financial liabilities	**19**	126,118	-	-	-	-	126,118
Total financial liabilities		**11,901,330**	**11,725,386**	**231**	**-**	**-**	**175,712**
Net position			**(1,146,967)**	**433,751**	**421,910**	**2,677**	**2,146,608**
Net position aggregated			**(1,146,967)**	**(713,216)**	**(291,306)**	**(288,629)**	**1,857,979**

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36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.3 Liquidity risk

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

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

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

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

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

The operational liquidity management is also performed intraday, so as to ensure all the settlements/payments assumed by the Bank, on 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.

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

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

Crisis simulation scenarios have been elaborated by considering various intensity levels, various probabilities and different periods of occurrence. Their purpose is to identify / assess potential losses, the potential impact of events or the factors that may generate a liquidity crisis. 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, 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 2019 and 31 December 2018. Payments that are subject to contracts in breached are immediately treated as payable on demand.

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.3 Liquidity risk (continued)

31 December 2019

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

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36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.3 Liquidity risk (continued)

31 December 2018

In MDL thousand	**Notes**	**Carrying amount**	**1-3 months**	**3 months - 1 year**	**1 – 5 years**	**More than 5 years**	**No maturity**
Financial assets							
Cash and Balances with National Bank of Moldova	**4**	5,132,310	5,132,310	-	-	-	-
Placements with banks	**5**	2,568,585	2,476,514	-	-	92,071	-
Frozen Nostro account	**5**	229,238	-	-	229,238	-	-
Investment securities measured at amortized cost	**6**	2,701,876	1,418,659	870,630	412,587	-	-
Investment securities measured at FVOCI	**6**	6,615	1,740	3,085	1,790	-	-
Equity investment securities designated as at FVOCI	**8**	246,379	-	-	-	-	246,379
Loans to customers	**7**	2,945,972	475,585	574,328	1,625,686	270,372	-
Other financial assets	**12**	174,712	153,694	12,639	8,379	-	-
Total financial assets		**14,005,687**	**9,658,502**	**1,460,682**	**2,277,680**	**362,443**	**246,379**
Financial liabilities							
Deposits from banks	**15**	41,350	41,350	-	-	-	-
Deposits from customers	**16**	11,699,826	8,112,161	2,305,386	1,278,096	4,184	-
Other Borrowings	**14**	34,036	14,542	5,071	14,222	201	-
Other financial liabilities	**19**	126,118	123,577	2,541	-	-	-
Total financial liabilities		**11,901,330**	**8,291,630**	**2,312,998**	**1,292,318**	**4,385**	**-**
Net balance sheet position		**2,104,357**	**1,366,872**	**(852,316)**	**985,362**	**358,058**	**246,379**
Loan commitments and financial guarantee contracts	**31**	434,115	**434,115**	-	-	-	-
Total off-balance sheet		**434,115**	**434,115**	**-**	**-**	**-**	**-**
Total net on- and off-balance sheet position		**2,538,472**	**1,800,987**	**(852,316)**	**985,362**	**358,058**	**246,379**

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.3 Liquidity risk (continued)

The tables below set our the remaining contractual maturities of the Bank's financial liabilities as at 31 December 2019 and 31 December 2018:

31 December 2019

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

31 December 2018

In MDL thousand	Note	Carrying amount	Gross value (outflow)	Less than 3 months	3 months- 1 year	1 - 5 years	More than 5 years
Financial liabilities							
Deposits from banks	**15**	41,350	(41,350)	(41,350)	-	-	-
Deposits from customers	**16**	11,699,826	(11,920,811)	(8,132,237)	(2,364,489)	(1,419,694)	(4,391)
Other Borrowings	**14**	34,036	(35,429)	(14,563)	(5,645)	(14,990)	(231)
Other financial liabilities	**19**	126,118	(126,118)	(123,577)	(2,541)	-	-
Loan commitments and financial guarantee contracts	**31**	-	(434,115)	(434,115)	-	-	-
Total financial liabilities		**11,901,330**	**(12,557,823)**	**(8,745,842)**	**(2,372,675)**	**(1,434,684)**	**(4,622)**

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

36.4 Capital management

Capital management – compliance with capital requirements

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

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

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

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

Minimum capital requirements and capital buffers came into force on 30 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, the 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 year 2019 the average was 32.42% (for the period 31.07.2018 - 31.12.2018 the average was 30.86%). The regulation approved by the National Bank of Moldova on own funds of banks and capital requirements entered in force strating with 30 July 2018.

The Board of Administrators decides on steps to follow 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.

36.5 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.

37. SUBSEQUENT EVENTS

Late in 2019 news first emerged from China about the COVID-19 (Coronavirus).

The situation at year end, was that a limited number of cases of an unknown virus had been reported to the World Health Organization. In the first few months of 2020 the virus had spread rapidly globally and its negative impact has gained momentum.

On 11 March 2020 the World Health organization declared the coronavirus outbreak a pandemic, and the Moldovan Parliament declared a state of emergency on 17 March 2020 on the entire territory of Republic of Moldova from 17 March to 15 May 2020. On 15 May 2020, the Extraordinary National Commission for Public Health declared a state of emergency in public health throughout the Republic of Moldova from 16 May 2020 to 30 June 2020.

Responding to the potentially serious threat the COVID-19 presents to public health, the Moldovan authorities have taken measures to contain the outbreak, including the establishment of special entry and exit regime, special traffic regime within the country, introduction of quarantine and othe mandatory sanitary-anti-epidemiological measures, establishing a special working regime for all entities, prohibiting conduct of meetings, public demonstrations and other mass actions, if needed, ordering the rationalization of the consumption of food and other essential products, etc. Starting with 10 March 2020, the Ministry of Education, Culture and Research issued orders suspending the educational process in public and private institutions, kindergarten, primary, secondary, technical, higher, extracurricular and special education throughout the country. Some companies ordered their employees to stay home and temporarily reduced of temporarily suspended the commercial operations.

The wider economic impacts of these events may include:

- Disruption of business operations and economic activity in Moldova, with a cascading impact on both upstream and downstream supply chains;
- Disruption to businesses in certain sectors, both within Moldova and in markets with high dependence on a foreign supply chain as well as export-oriented businesses with high reliance on foreign markets. The affected sectors include trade and transportation, travel and tourism, entertainment, manufacturing, construction, retail, insurance, education and the financial sector;
- Decrease in demand for non-essential goods and services;
- An increase in economic uncertainty, reflected in more volatile asset prices and currency exchange rates.

The authorities of the Republic of Moldova in order to counter the negative effects of the outbreak of COVID-19 on the economy implemented a subvention mechanism for the legal entities and non-commercial organization which were effective. The subventions should cover the technical unemployment allowances or allowances for employee stationing.

The National Bank of Moldova announced a series of decisions to prevent the possible negative impact of COVID-19:

- For clients claiming payment difficulty (financial or non-financial) due to COVID-19 event, the commercial banks were allowed i) for loans to individuals to defer instalments due until 31 May 2020 after June 2020 and ii) for loans to businesses to defer instalments due until 30 June 2020 after July 2020. Such concessions will not have the effect of automatic re-classification of these loans into a worse category than the existing one.

- To decrease the base rate applied to the main short-term monetary policy operations by 1.25 percentage points, up to 3,25 percent annually. At the same time, the interest rates on overnight loans and deposits decreased up to 6,25 percent and, respectively, to 0,25 percent annually. The required reserve ratio in Moldovan lei and non-convertible currencies decrease by 2,5 percentage points, up to 38.5 percent, while the required reserves ratio in freely convertible currencies increased by 1,0 percentage points. Subsequently the decision was amended and the required reserves ratio in Moldovan lei and non-convertible currency for the application period of 16 April 2020 – 15 May 2020 was set at the level of 34.0 percent of the calculation base.

- To the commercial banks were recommended to refrain from distributing dividends to shareholders and other forms of capital distribution, at least until 30 September 2020.

Management of the Bank considers this outbreak to be a non-adjusting post balance sheet event.

In March and April 2020, the Bank's management implemented a series of measures related to:

- Business continuity (e.g. suspended the activity of a number of branches and agencies, relocated some key employees to back-up locations, implemented work from home program, etc.);

- Financial risk management (e.g. a restructuring program for clients, legal entities and individuals affected by COVID-19, some lending restrictions, stress scenarios on the Bank's liquidity and capitalization, stress scenarios of the Bank's budget for 2020, etc.)

- General management (e.g. daily monitoring of some operational and risk indicators, review of the interest rates in the context of decrease by the National Bank of the base rate, etc.).

While this is still an evolving situation at the time of issuing these financial statements, to date there has been no discernible impact on the Bank's financial situation, however the future effects cannot be predicted. Management will continue to monitor the potential impact and will take all steps possible to mitigate any effects.

37. SUBSEQUENT EVENTS (CONTINUED)

The capital adequacy ratio of the Bank as of 31 March 2020, based on unaudited figures, was 33.33% (31 December 2019: 34.43%) the system average being 24.95% (31 December 2018: 25.25%) and the minimum requirement for the Bank is 14.5% (including systemic risk buffer).

As of 31 March 2020 the liquidity position of the Bank is strong, current liquidity ratio being 65% (31 December 2019: 64.77%), the system average 50.31% (31 December 2019: 50.65%) the requirement being above 20%.

The long term liquidity ratio as at 31 March 2020 was 0.71 (31 December 2019: 0.65), the system average 0.73 (31 December 2019: 0.72) and the requirement being maximum 1.

As at 31 December 2019, approximatively 87% of the total liabilities of the Bank are covered by liquid assets, cash and balances with National Bank of Moldova, current accounts and placements with banks, debt instruments (certificates issued by National Bank of Moldova, treasury bills of Moldova, Romania, and bonds issued by international funding organizations).

Based on the information available to the public on the date these financial statements were approved for publication, management of the Bank considered a number of severe but plausible scenarios in terms of potential development of the outbreak and the expected impact on the Bank and on the economic environment in which the Bank operates, inclusive measures already taken by the National Bank of Moldova and the Moldovan Government.

The scenarios considered generally the asset quality, evolution of the loan and deposit portfolios and of the interest rates, investment plans etc.

Considering the stress test performed by the Bank, overall, the negative effects of the COVID-19 implications could be absorbed by the own funds of the Bank as the capital adequacy ratio will continue to remain over the minimum requirement for the Bank of 14.5%. The Bank also performed a simulation considering an accelerated liquidity outflow, according to which the liquidity indicators are compliant with the requirements of the National Bank.

As the situation still changes permanently, management considers it impracticable to provide a quantitative estimate of the potential impact of this outbreak on the Bank. The impact will be incorporated into the Bank’s impairments and expected credit loss allowances in 2020.

At the date of approval of these financial statements, management cannot preclude the possibility that extended lock down periods, an escalation in the severity of such measures, or a consequential adverse impact of such measures on the economic environment the Bank operates in will have an adverse effect on the Bank, and its financial position and operating results, in the medium and longer term. We continue to monitor the situations closely and will respond to mitigate the impact of such events and circumstances as they occur.

At the date of approval of these financial statements, the management assessed that the Bank operates as a going concern, continuing to provide all services to the Bank's customers and partners.