# BC MOLDOVA AGROINDBANK SA

# SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

# PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

(FREE TRANSLATION*)

*Translator's explanatory note: The translation of this document is provided as a free translation from Romanian which is the official and binding version.

**BC MOLDOVA AGROINDBANK SA**

**SEPARATE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

## CONTENTS

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# INDEPENDENT AUDITOR'S REPORT
## to the shareholders of BC Moldova Agroindbank S.A.

### Opinion
We have audited the separate financial statements of BC Moldova Agroindbank S.A. (the Bank), which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International 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 the Republic of Moldova, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Emphasis of matter
We draw attention to Note 39 to the financial statements, which describe the fact that management has prepared an analysis showing that no material uncertainty exists regarding the Banks's ability to continue operations due to the ongoing impact of COVID-19. Our opinion is not modified in respect of this matter.

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

| Key audit matter | Audit response |
|---|---|
| **1 Provision for impairment of loans and advances to customers** | |
| We focused on this matter due to the significance of loans and advances to customers and the significance of judgements and estimates required for calculation of the related impairment provision.<br><br>The provision represents management's best estimate of losses within the loans and advances to customers. | We assessed the key methodologies and related models for calculation of the provision for loans and advances to customers for consistency with the requirements of IFRS.<br><br>We assessed and tested (on a sample basis) the design and operating effectiveness of the controls over impairment data, the identification of overdue balances and the calculation of the provision. |

| Key audit matter | Audit response |
|---|---|
| Specific provisions are calculated on an individual basis for significant loans. For such provisions, judgement is required to determine when an impairment-event has occurred and then to estimate the expected future cash flows related to the loan.<br><br>For all other loans, collective provisions are calculated on a portfolio basis for loans of a similar nature. Such provisions are calculated using statistical models estimating the impact of current economic and credit conditions on loans portfolios. The design of and inputs to the models are subject to management judgement.<br><br>Refer to Note 9 of the accompanying financial statements. | We tested (on a sample basis) loans, which had not been identified by management as potentially impaired and formed our own judgement as to whether that was appropriate.<br><br>We tested (on a sample basis) loans for which the individual provision was calculated. We tested whether the impairment event had been identified in a timely manner, re-performed discounted cash flows calculations, examined the expected future cash flows used by management, challenged the assumptions and compared management estimates to external evidence where available.<br><br>We tested (on a sample basis) the basis and operation of collective provisioning models and the data and assumptions used. Our work included comparison of the principal assumptions made with our own knowledge of industry practice and actual experience, testing of the models though re-performance, and various analytical procedures. |

| Key audit matter | Audit response |
|---|---|
| **2 Valuation of financial instruments not quoted in an active market** | |
| A significant part of the Bank's investments in securities consists of instruments not quoted in an active market (Level 2 and Level 3 instruments). The fair value of these instruments is determined by valuation models that may use complex assumptions and rely on unobservable inputs (Level 3). The significance and subjectivity of these valuations make them a key audit matter.<br><br>Refer to Note 7 of the accompanying financial statements. | We assessed the design of models and the sources of significant assumptions used in determining fair value. For a sample of individually significant instruments, we inspected the models and assumptions used, and/or performed an independent valuation assessment using alternative valuation methods and assumptions, where available. We also assessed whether the Bank's disclosures in relation to the valuation of such financial instruments, including disclosures regarding significant Level 3 inputs used and sensitivity of the value to changes in these inputs, are compliant with applicable IFRS requirements. |

**Other Matters**
This report is made solely to the Bank's shareholders. Our audit work has been undertaken so that we might state to the Bank's shareholders those matters we are required to state to them in an auditor's 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, for our audit work, for this report, or for the opinion we have formed.

**Other information**
Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will 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 identified above when it becomes available and, in doing so, to 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.

**Responsibilities of Management and Those Charged with Governance for the Financial Statements**
Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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

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

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

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30 March 2020

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S.R.L. «BDO AUDIT & CONSULTING»
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SOCIETATEA CU RĂSPUNDERE LIMITATĂ

Eugeniu Raietchi
Licensed Auditor
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## SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

**FOR THE YEAR ENDED 31 DECEMBER 2019**
***(All amounts expressed in thousand MDL, if not stated otherwise)***

| | Note | 2019<br>MDL'000 | 2018<br>MDL'000 |
|---|---|---|---|
| Interest income | 22 | 1,374,282 | 1,286,223 |
| Interest expense | 22 | (371,842) | (371,464) |
| **Net interest income** | | **1,002,440** | **914,759** |
| Fee and commission income | 23 | 496,972 | 418,904 |
| Fee and commission expense | 23 | (205,380) | (158,996) |
| **Net fee and commission income** | | **291,592** | **259,908** |
| Foreign exchange gains, net | 24 | 272,407 | 238,432 |
| Other operating income | 25 | 22,241 | 23,724 |
| Personnel expenses | 26 | (441,263) | (405,178) |
| Amortization expenses | 11, 12 | (151,482) | (95,523) |
| Other operational expenses | 27 | (277,148) | (275,145) |
| **Pre-provision operating profit** | | **718,787** | **660,977** |
| Impairment and provision release/(charge), net | 6, 9, 13, 28 | 75,863 | (60,942) |
| **Operating profit before tax** | | **794,650** | **600,035** |
| Income tax expense | 17 | (90,979) | (68,571) |
| **Net profit for the year** | | **703,671** | **531,464** |

The accompanying notes are an integral part of these separate financial statements.

## SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

**FOR THE YEAR ENDED 31 DECEMBER 2019**
***(All amounts expressed in thousand MDL, if not stated otherwise)***

| | Notes | 2019 MDL'000 | 2018 MDL'000 |
|---|---|---|---|
| **Other comprehensive income** | | | |
| *Items that are or may be reclassified to profit or loss:* | | | |
| Changes in fair value of debt instruments classified as financial assets at fair value through other comprehensive income | 7 | 3,269 | (26,964) |
| Deferred tax related to debt instruments classified as financial assets at fair value through other comprehensive income | 17 | (392) | 3,236 |
| *Items that will never be reclassified to profit or loss:* | | | |
| Changes in fair value of equity instruments classified as financial assets at fair value through other comprehensive income | 7 | 32,930 | 9,798 |
| Reclassification to Retained earnings of the gain obtained from equity instruments | 7 | - | (258) |
| Deferred tax related to changes in fair value of equity instruments classified as financial assets at fair value through other comprehensive income | 17 | (9,516) | (572) |
| Deferred tax related to the revaluation of land and buildings | 17 | (1,615) | 1,520 |
| **Other comprehensive income for the year** | | **24,676** | **(13,240)** |
| **Total comprehensive income for the year** | | **728,347** | **518,224** |
| **Earnings per share (expressed in MDL per share)** | 19 | 678.15 | 512.19 |

The separate financial statements were authorised for issue on 30 March 2020 by the Executives of the Bank represented by:

President of the Management Board

Mr. Serghei Cebotari

Chief accountant

Mrs. Carolina Semeniuc

## BC MOLDOVA AGROINDBANK SA

## SEPARATE STATEMENT OF FINANCIAL POSITION

## FOR THE YEAR ENDED 31 DECEMBER 2019
***(All amounts expressed in thousand MDL, if not stated otherwise)***

| | Note | 2019 MDL'000 | 2018 MDL'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash on hand | 4 | 940,113 | 1,103,695 |
| Balances with National Bank of Moldova | 5 | 5,813,652 | 5,400,244 |
| Due from banks | 6 | 1,995,549 | 1,720,149 |
| Financial assets at fair value through other comprehensive income | 7 | 1,270,306 | 1,647,666 |
| Investments in subsidiaries | 8 | 139,669 | 139,669 |
| Loans and advances to customers | 9 | 13,399,074 | 11,579,625 |
| Financial assets at amortized cost | 10 | 755,024 | 895,379 |
| Property and equipment and right-of-use assets | 11 | 1,258,213 | 1,008,805 |
| Intangible assets | 12 | 63,174 | 58,403 |
| Other assets | 13 | 193,915 | 90,034 |
| **Total assets** | | **25,828,689** | **23,643,669** |
| **LIABILITIES** | | | |
| Due to banks | 14 | 23,971 | 5,045 |
| Borrowings | 15 | 666,153 | 568,884 |
| Due to customers | 16 | 20,316,357 | 18,670,177 |
| Contingent commitments provisions | 28 | 9,470 | 9,749 |
| Deferred tax liability | 17 | 43,403 | 32,229 |
| Current tax liability | 17 | 27,614 | 14,226 |
| Other liabilities | 18 | 348,205 | 457,174 |
| **Total liabilities** | | **21,435,173** | **19,757,484** |
| **EQUITY** | | | |
| Ordinary shares | 19 | 207,527 | 207,527 |
| Share premium | | 104,537 | 104,537 |
| Financial assets at fair value through other comprehensive income revaluation reserve | | 110,906 | 84,615 |
| Property and equipment revaluation reserve | | 194,003 | 196,290 |
| Retained earnings | | 3,776,543 | 3,293,216 |
| **Total equity** | | **4,393,516** | **3,886,185** |
| **Total equity and liabilities** | | **25,828,689** | **23,643,669** |

The separate financial statements were authorised for issue on 30 March 2020 by the Executives of the Bank represented by:

President of the Management Board | Chief accountant

Mr. Serghei Cebotari | Mrs. Carolina Semeniuc

BC "MOLDOVA AGROINDBANK" S.A. CHISINAU MAIB Moldova Agroindbank

The accompanying notes are an integral part of these separate financial statements.

## SEPARATE STATEMENT OF CHANGES IN EQUITY

**FOR THE YEAR ENDED 31 DECEMBER 2019**
***(All amounts expressed in thousand MDL, if not stated otherwise)***

| | Ordinary shares MDL'000 | Share premium MDL'000 | Available for sale assets revaluation reserve MDL'000 | Property and equipment revaluation reserve MDL'000 | Retained earnings MDL'000 | Total equity MDL'000 |
|---|---|---|---|---|---|---|
| **Balance as at 1 January 2019** | 207,527 | 104,537 | 84,615 | 196,290 | 3,293,216 | 3,886,185 |
| ***Total comprehensive income*** | | | | | | |
| Net profit for the year | - | - | - | - | 703,671 | 703,671 |
| Other comprehensive income | - | - | 26,291 | (1,615) | - | 24,676 |
| **Total comprehensive income for the year** | - | - | 26,291 | (1,615) | 703,671 | 728,347 |
| ***Transactions with shareholders*** | | | | | | |
| Dividends paid (Note 19) | - | - | - | - | (221,016) | (221,016) |
| Other transactions | - | - | - | (672) | 672 | - |
| **Balance as at 31 December 2019** | 207,527 | 104,537 | 110,906 | 194,003 | 3,776,543 | 4,393,516 |

As at 31 December 2019 the non-distributable reserves amounted to MDL'000 462,517 (2018: MDL'000 438,513) and include reserve from revaluation of financial assets at fair value through other comprehensive income, reserve from revaluation of property and equipment and legal reserves, which are non-distributable. Starting from 2012, according to the National Bank of Moldova requirements, an additional reserve was created by the Bank. This reserve is determined as the difference between the allowances for impairment of loans and conditional commitments in accordance with IFRS and the value computed, but non-accounted for of allowances for impairment of loans and conditional commitments in accordance with prudential regulations of the National Bank of Moldova (2019: MDL'000 267,764 and 2018: MDL'000 259,400). Legal reserves and reserve recorded in accordance with prudential regulations of the National Bank of Moldova are included in the retained earnings column.

## SEPARATE STATEMENT OF CHANGES IN EQUITY

**FOR THE YEAR ENDED 31 DECEMBER 2019**
***(All amounts expressed in thousand MDL, if not stated otherwise)***

| | Ordinary shares MDL'000 | Share premium MDL'000 | Available for sale assets revaluation reserve MDL'000 | Property and equipment revaluation reserve MDL'000 | Retained earnings MDL'000 | Total equity MDL'000 |
|---|---|---|---|---|---|---|
| **Balance as at 31 December 2017** | **207,527** | **104,537** | **99,375** | **208,411** | **3,028,648** | **3,648,498** |
| Transition to IFRS 9 | - | - | - | - | (59,781) | (59,781) |
| **Balance as at 1 January 2018, restated** | **207,527** | **104,537** | **99,375** | **208,411** | **2,968,867** | **3,588,717** |
| ***Total comprehensive income*** | | | | | | |
| Net profit for the year | - | - | - | - | 531,464 | 531,464 |
| Other comprehensive income | - | - | (14,760) | 1,520 | - | (13,240) |
| **Total comprehensive income for the year** | - | - | **(14,760)** | **1,520** | **531,464** | **518,224** |
| ***Transactions with shareholders*** | | | | | | |
| Dividends paid (Note 19) | - | - | - | - | (221,016) | (221,016) |
| Other transactions | - | - | - | (13,641) | 13,901 | 260 |
| **Balance as at 31 December 2018** | **207,527** | **104,537** | **84,615** | **196,290** | **3,293,216** | **3,886,185** |

The accompanying notes are an integral part of these separate financial statements.

## SEPARATE STATEMENT OF CASH FLOWS

**FOR THE YEAR ENDED 31 DECEMBER 2019**
***(All amounts expressed in thousand MDL, if not stated otherwise)***

| | Notes | 2019 MDL'000 | 2018 MDL'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest received | | 1,376,187 | 1,298,997 |
| Interest paid | | (371,017) | (376,645) |
| Commissions received | | 490,921 | 416,647 |
| Commissions paid | | (205,380) | (158,996) |
| Gains from trading in foreign currencies | 24 | 293,186 | 252,391 |
| Recoveries of loans previously written-off | 9, 13 | 94,466 | 15,965 |
| Other operating income | | 18,639 | 16,088 |
| General and administrative expenses paid | | (284,264) | (269,766) |
| Personnel expenses paid | | (441,324) | (405,384) |
| **Cash from operating activities before changes in operating assets and liabilities** | | 971,414 | 789,297 |
| *Net (increase) /decrease in operating assets:* | | | |
| Due from banks and National Bank of Moldova | | (240,255) | (177,703) |
| Financial assets at amortized cost | | 31,009 | 242,651 |
| Loans and advances to customers | | (1,800,914) | (1,951,422) |
| Other assets | | (92,447) | 116,389 |
| *Net increase / (decrease) in operating liabilities* | | | |
| Due to banks | | 349,549 | (42,345) |
| Due to customers | | 1,615,821 | 1,362,640 |
| Other liabilities | | (114,364) | 168,986 |
| **Net cash from operating activities before tax** | | **719,813** | **508,493** |
| Income tax paid | | (70,655) | (71,532) |
| **Net cash from operating activities** | | **649,158** | **436,961** |

## SEPARATE STATEMENT OF CASH FLOWS

## FOR THE YEAR ENDED 31 DECEMBER 2019
*(All amounts expressed in thousand MDL, if not stated otherwise)*

| | Notes | 2019 MDL'000 | 2018 MDL'000 |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Purchase of property and equipment and intangible assets | 11, 12 | (313,543) | (233,513) |
| Financial assets at fair value through other comprehensive income | | 413,559 | (241,706) |
| Investments in subsidiaries | | - | (6,578) |
| Proceeds from sale of investments in associates | | 714 | 312 |
| **Net cash used in investing activities** | | **100,730** | **(481,485)** |
| | | | |
| **Cash flows from financing activities** | | | |
| Repayment of borrowings | | (353,668) | (219,365) |
| Proceeds from borrowings | | 124,034 | 120,426 |
| Dividends paid | 19 | (313,051) | (132,329) |
| **Net cash used in financing activities** | | **(542,685)** | **(231,268)** |
| | | | |
| Effect of exchange rate fluctuations | | (84,421) | (16,668) |
| | | | |
| **Net flows of cash and cash equivalents** | 21 | **122,782** | **(292,460)** |
| | | | |
| **Cash and cash equivalents as at 1 January** | | **7,941,489** | **8,233,949** |
| | | | |
| **Cash and cash equivalents as at 31 December** | 21 | **8,064,271** | **7,941,489** |

The accompanying notes are an integral part of these separate financial statements.

## 1 GENERAL INFORMATION

BC Moldova Agroindbank SA was incorporated in 1991 as a joint stock commercial bank. The Bank is licensed by the National Bank of Moldova to conduct all types of transactions in national and foreign currency on the territory of the Republic of Moldova and on international markets.

The activity is carried out both through the head office, as well as through 66 branches and 93 agencies, located throughout the Republic of Moldova (as at 31 December 2018: 66 branches and 127 agencies). The segmentation is presented in Note 38.

As at 31 December 2019, the Bank held 100% of the share capital of MAIB Leasing SA (as at 31 December 2018: 100%), a subsidiary, which offers leasing products and 99.00% of the share capital of Moldmediacard SRL (as at 31 December 2018: 99.00%), a private limited company which offers processing services for card transactions.

The Bank's shares are listed on the Moldovan Stock Exchange, having the symbol MD14AGIB1008.

The Bank's number of employees as at 31 December 2019 was 2,448 (31 December 2018: 2,427 employees).

The registered address of the Bank is 9/1 Constantin Tanase Street, Chisinau, Republic of Moldova.

*(All amounts expressed in thousand MDL, if not stated otherwise)*

## 1 GENERAL INFORMATION (CONTINUED)

As at 31 December 2019 and 31 December 2018, the Bank's shareholders structure was as follows:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| HEIM Partners Limited | 41.09% | 41.09% |
| Civil society of Bank shareholders and their affiliates* | 9.86% | 11.17% |
| UCCC "Moldcoop" and other entities acting in concert | 2.52% | 2.52% |
| Individuals holding ≥ 1%, directly or indirectly | 19.26% | 17.95% |
| Others** | 27.27% | 27.27% |
| Total | 100.00% | 100.00% |

*As at 31 December 2019 the Civil society of the Bank's shareholders and its affiliates included 11 members (2018: 13 members) of which 1 (2018: 1 member) was member of the executive management and the other 10 members were affiliated persons (2018: 12 members).

**None of the shareholders included in the "Others" category owns a share equal to or greater than 1% in the Bank's shareholder capital. Other Bank's shareholders comprise 2,998 (31 December 2018: 2,998 shareholders) of which 2,769 shareholders are individuals and 219 are legal entities (31 December 2018: 2,773 individuals and 225 legal entities).

In October 2018, HEIM Partners Limited, founded by the consortium of investors which comprise European Bank for Reconstruction and Development, Invalda INVL, one of the most important asset management groups in baltic states based in Vilnius (Lithuania) and investment funds Emerging Europe Growth Fund III, LP (USA,) EEGF III Netherlands, L.P. (USA) managed by Horizon Capital acquired 41.09% of the share capital of BC "Moldova-Agroindbank" S.A. as a result of the sale-purchase transaction performed on the regulated market.

The effective beneficiaries of HEIM Partners Limited are the following individuals, Lithuanian citizens: Mr Alvydas Banys, Ms Baniene Daiva, Mr Darius Sulnis, Ms Irena Ona Miseikiene, Ms Indre Miseikyte. According to the Decision of the Executive Committee of the National Bank of Moldova no. 145 dated 19.06.2018 "On prior approval for the acquisition of qualified holding in the share capital of BC "Moldova-Agroindbank" SA, HEIM Partners Limited, obtained the prior approval for acquiring this qualified holding in the amount of 41.09% of the share capital of the Bank.

## 2 SUMMARY OF SIGNIFICANT ACCUNTING POLICIES

### 2.1 Basis of preparation

These separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as endorsed by the International Accounting Standards Board (IASB), effective as at the Bank's annual reporting date, 31 December 2019. The separated financial statements of the Bank as at 31 December 2019 cannot be amended after their approval by the Bank's Board of Directors.

In addition to these separate IFRS financial statements, the Bank also prepared and issued on the same date its consolidated financial statements which included the accounts of its subsidiaries as well. The separate financial statements should be read together with issued consolidated financial statements.

The separate financial statements ("the financial statements") have been prepared considering the going concern assumption and items included in the financial statements 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 currency of the Bank, rounded to the nearest thousand.

These separate financial statements were prepared under the historical cost basis, except for:

- certain financial investments and debt instruments, which are measured at fair value;

and

- buildings and land that are measured at revalued amount.

*Significant accounting judgments and estimates*

The preparation of financial statements in accordance with IFRS implies the use of certain critical accounting estimates. It also implies that the management exercises its judgment in the process of applying the Bank's accounting policies, in terms of reported values for assets, liabilities, income and expenses. The estimates and associated judgments are based on past experience and other factors deemed to be relevant under the given circumstances, the result of which form the basis of judgments used in assessing the carrying value of assets and liabilities for which no other measurement sources are available. Actual results may differ from these estimated values.

The estimates and underlying assumptions are reviewed continuously. The review of the accounting estimates are recognized in the period in which they are revised, if the review affects only that period, or in the period when the estimate is reviewed and future periods, if the review affects both current and future periods.

Information about estimates used in the application of the accounting policies which have a significant impact on the separated financial statements, as well as the estimates involving a significant degree of uncertainty, are described in Note 3.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.2 Basis of preparation (continued)

*(a) Implementation of new or reviewed standards and interpretations*

The following standards and new interpretations became effective for the Bank from 1 January 2019:

- ***Impact of initial application of IFRS 16: Leases***

The standard is effective for annual periods that begin on or after 1 January 2019. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases. The new standard eliminated the classification of lease either as operating or as finance leases and introduced a single lessee accounting model. Lessees are required to recognize assets and liabilities of all leases with a term of more than 12 months, unless the underlying assets of low value and separately recognize in the profit and loss account depreciation of the asset arising from leases, respectively the interest related to the lease liabilities. Lessor accounting is substantially unchanged, so a lessor continues to classify leases as either operating leases or finance leases and account for those two types of leases differently.

The Bank has applied IFRS 16 using the modified retroactive method, the date of initial application being 1 January 2019. According to this method, was recognized the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application.

Until the application of IFRS 16, all leases held by the Bank were classified as operating leases. In applying IFRS 16, the Bank used a uniform recognition and measurement approach for leases, except for short-term and insignificant contracts. The Bank's policy regarding leases is presented in Note 2.25.

At the first application of IFRS 16, the Bank used the following practical solutions:

a) Applied a single discount rate to a portfolio of leases with reasonably similar characteristics;

b) Applied the exception for those lease contracts, which the lease term ends within 12 months of the date of initial application;

c) Excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application .

Applying IFRS 16 Leases, the Bank recognized in the financial statement the rights of use and the related obligations of 76 contracts with the term from one year to 10 years, as presented in the table below:

| | MDL'000 |
|---|---|
| Operating lease right-of-use assets | 113,591 |
| Operating lease liabilities | (113,591) |

The discount rates for lease payments range from 0.54% - 1.18% for foreign currency contracts and 4.25% - 6.72% for contracts in national currency.

The application of IFRS 16 had no impact on the Bank's retained earnings and capital.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.1 Basis of preparation (continued)

*(a) Implementation of new or reviewed standards and interpretations (continued)*

- ***Amendments to IFRS 9: Prepayment features with negative compensation (amendments)***

These amendments allow for the measurement at amortized cost of some loans and debt securities that can be prepaid at a value below the amortized cost, e.g. at a fair value or a value that includes a reasonable compensation for early termination of the contract, equal to the current value of the effect of the market interest rate increase in relation to the residual lifetime of the said instrument. These amendments did not have a significant impact on the financial statements of the Bank.

- ***Amendments to IAS 28: Long-term interests in associates and joint ventures (amendments)***

The amendments clarify that the reporting entities should apply IFRS 9 with respect to long-term borrowings, preferential shares and similar instruments included in a net investment based on the equity method prior to diminishing the book value by the loss of the entity resulting from the investment made, which exceeds the investor's interest in ordinary shares. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. These amendments did not have a significant impact on the financial statements of the Bank.

- ***IFRIC INTERPRETATION 23: Uncertainty over income tax treatments***

The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. These amendments did not have a significant impact on the financial statements of the Bank.

- ***Amendments to IAS 19: Plan amendment, curtailment or settlement (amendments)***

The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. These amendments have not yet been endorsed by the EU. The Bank does not expect that these amendments will have a significant impact on the Bank's financial statements.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.1 Basis of preparation (continued)

*(a) Implementation of new or reviewed standards and interpretations (continued)*

- ***Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017)***

The amendments scope of application impacted four standards: according to IFRS 3, the buyer should revalue its previous joint participation interest when gaining control of the business. On the other hand, IFRS 11 states clearly that the investor should not revalue its previous participation interest when gaining control of a joint participation, this is similar to the requirements applicable when a related entity becomes a joint venture and vice versa.

IAS 12 amendment explains that an entity recognizes the impact of income tax related to dividends when the entity has recognized the transactions or events that had generated the respective distributable profit in the statement of profit or loss or in other items of comprehensive income. Therefore, it is clear that this requirement applies in all circumstances since the payments related to financial instruments classified as shareholders' equity represent profit distributions, and not only in those circumstances where the fiscal outcome is a result of different tax rates applied on distributed, respectively undistributed profits.

The reviewed IAS 23 includes explicit guidelines according to which the borrowings obtained for financing a specific asset are excluded from the category of borrowing costs eligible for capitalization only until the approximate completion of the respective asset.

These amendments did not have a significant impact on the Bank's financial statements.

*(b) Standards issued but not yet effective*

- ***Amendments to IFRS 3: Business combinations (amendments)***

The amendments revise the definition of a business. A business must have the inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present (including for early stage companies that have not generated outputs). The presence of an organized workforce is a condition for the classification as a business, even if there are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset or a group of similar assets. These Amendments have not yet been endorsed by the EU. The Bank does not expect that these amendments will have a significant impact on the Bank's financial statements.

- ***Amendments to IAS 1 Presentation of financial statements and IAS 8 accounting policies, changes in accounting estimates and errors: definition of 'material' (amendments)***

The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The amendments clarify the definition of "material" and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. The amendments ensure that the definition of material is consistent across all IFRS Standards. Information

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.1 Basis of preparation (continued)

*(b) Standards issued but not yet effective (continued)*

is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. These Amendments have not yet been endorsed by the EU. The Bank does not expect that these amendments will have a significant impact on the Bank's financial statements.

- ***Amendments to Conceptual Framework in IFRS standards***

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. The reviewed conceptual framework for financial reporting includes a new chapter on measurement, guidance on reporting financial performance, improved definitions - particularly of a liability, - and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

- ***Amendments to IFRS 17 "Insurance Contracts"***

The IASB issued IFRS 17 "Insurance Contracts" in May 2017. The standard regulates the recognition, evaluation, presentation and disclosures related to insurance contracts. IFRS 17 will replace IFRS 4 "Insurance Contracts" as of January 1, 2021, and will be applicable to all insurance contracts (life, non-life, insurance, reinsurance), as well as certain types of collateral and financial instruments of discretionary participation. At the reporting date, this standard is not applicable to the Bank.

*(All amounts expressed in thousand MDL, if not stated otherwise)*

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.2 Foreign currency translation

Transactions in foreign currency are recorded into the functional currency at the exchange rate on the date of the transaction. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated into functional currency using the closing exchange rate.

The year-end and average exchange rates for 2019 and 2018 were:

| | | 2019 | | 2018 |
|---|---|---|---|---|
| | USD | Euro | USD | Euro |
| Average for the period | 17.5751 | 19.6741 | 17.5751 | 19.6741 |
| Year end | 17.2093 | 19.2605 | 17.2093 | 19.2605 |

Exchange differences arising on the settlement of transactions at exchange rates different from those at the date of the original transaction and unrealized foreign exchange differences arising on translation of unsettled foreign currency denominated monetary assets and liabilities are recognised in the "Foreign exchange gains, net" line of the statement of profit or loss.

### 2.3 Financial instruments

***Recognition of financial instruments***

*Initial measurement*

The Bank recognizes a financial asset or a financial liability on the statement of its financial position at the transaction date. The transaction date is the date when the Bank undertake to buy or to sell an asset.

Upon initial recognition, the Bank has to measure a financial asset or a financial liability at its fair value plus or minus, in the case of a financial asset or a financial liability, which is not measured at fair value through profit or loss, the transaction costs, which are directly attributable to the purchase or issuance of the financial asset or financial liability.

When the Bank uses the accounting at the settlement date for an asset that subsequently is measured at amortised cost, the asset shall be initially recognised at its fail value on the date of transaction.

Upon initial recognition, the Bank has to measure the receivables at the price of their transaction (according to the definition referred to in IFRS 15) when the receivable does not comprise a component of significant financing as per IFRS 15 (or when the entity applies a practical solution as per Paragraph 63 of IFRS 15).

Upon initial recognition, the Bank classifies the financial assets either at amortized cost or at fair value through other comprehensive income, or at fair value through profit or loss, and financial liabilities classify them either at amortized cost or at fair value through profit or loss.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.3 Financial instruments (continued)

***Classification of financial instruments***

The Bank shall classify the financial assets into the two categories stated below:
(a) the Bank Business Model for managing the financial assets; and
(b) characteristics of the financial asset contractual cash flow.

The **financial assets** can be measured **at amortised cost** if both conditions stated below are met:
(a) the financial asset is held within a Business Model, which main objective is to hold financial assets to collect contractual cash flows; and
(b) the financial asset contractual terms generate, at certain dates, cash flows, which are exclusively principal payments and interest payments related to the principal amount due.

A **financial asset** has to be measured **at its fair value through other elements of comprehensive income** if both conditions stated below are met:
(a) the financial asset is held within a Business Model, which objective is attained both by collecting the contractual cash flows and by selling the financial assets; and
(b) the financial asset contractual terms generate, at certain dates, cash flows, which are exclusively principal payments and interest payments related to the principal amount due.

If financial assets do not observe the criteria according to which the contractual cash flows need to be Solely Payments of Principal and Interest, such assets are required to be measured at fair value.

A **financial asset** has to be measured **at a fair value through profit or loss**, except for the case when it is measured at amortised cost or at fair value through other comprehensive income. Nonetheless, the Bank can make an irrevocable choice on initial recognition for certain investments in equity instruments, which otherwise would be measured at fair value through profit or loss to present the subsequent changes in the fair value of other comprehensive income.

The Bank shall classify all **financial liabilities** as subsequently measured **at amortised cost**, except for:

(a) the **financial liabilities** measured **at fair value through profit or loss**. Such liabilities, including derivatives, which are liabilities, have to be subsequently measured at fair value.

(b) the financial liabilities that arise when a transfer of a financial asset does not meet the conditions to be derecognised or is carried using the continuing involvement approach.

*Reclassification*

Should the Bank change its Business Model for the management of its financial assets, then the Bank shall reclassify all the financial assets affected.

The Bank does not reclassify its financial liabilities.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.3 Financial instruments (continued)

***Classification of financial instruments (continued)***

Reclassification between "fair value through profit or loss" and "amortised cost" is needed for liability instruments should the Bank's Business Model objective for those financial assets change, so that the measurement of the previous model would no longer be applicable. Such changes of the Business Model shall be carried out following certain internal or external modifications, and shall be significant for the Bank activity and be shown/demonstrated to external users.

However, should a change be required, it shall be carried out prospectively as of the date of reclassification, without recalculating the gains or losses or the previously recognised interest income.

*Effective Interest Method*

Interest income and expenses related to financial investments are recognized in the income statement at amortized cost using the effective interest rate 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 a relevant period. The effective interest rate is the exact rate which adjusts the estimated future cash flows payable or receivable throughout the expected life of the financial instrument , except for:

(a) financial assets purchased or issued impaired due to the credit risk. For those financial assets, the entity has to apply the Effective Interest Rate adjusted depending on the credit for the financial asset amortised cost upon initial recognition.

(b) financial assets, which are not purchased or issued impaired due to the credit risk, but which subsequently have become impaired financial assets due to the credit risk. For those financial assets, the entity has to apply the Effective Interest Rate for financial asset amortised cost during the subsequent reporting periods.

*Changing the Contractual Cash Flows*

When contractual cash flows of a financial asset are renegotiated or modified, and their renegotiation or modification does not lead to asset derecognition, the Bank recalculates the financial asset gross carrying amount and recognise a gain or a loss due to the change in the profit or loss. The financial asset carrying amount must be recalculated as the present value of renegotiated or modified contractual cash flows, which are discounted at the financial asset original effective interest rate(or the adjusted Effective Interest Rate depending on the credit for financial assets purchased or issued impaired as a result of credit risk). Any incurred costs or commissions shall adjust the carrying amount of the modified financial asset and shall be amortised over the remaining term of the modified financial asset.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.3 Financial instruments (continued)

*Elimination*

The Bank shall reduce the financial asset direct gross carrying amount when there are no reasonable estimates in terms of financial asset recovery either in part or in full. An elimination represents an event of derecognition.

***Investments in associates***

An associate is an entity in which the Bank has significant influence and which is neither a subsidiary nor a joint venture. The investments in associates shall be recognised initially at fair value in the Bank separated financial statements, and subsequently shall be measured at fair value through other elements of comprehensive income. Based on the Bank's Business Model, as well as on the purpose the Bank makes investments in capital instruments, the Bank may take an irrevocable decision to classify the investments into the category "at fair value through other elements of comprehensive income".

***Investments in state securities and National Bank of Moldova certificates***

Depending on the Business Model, the investments in state securities are classified by the Bank into one of the following categories:

- at amortised cost;
- at fair value through profit or loss;
- at fair value through other elements of comprehensive income.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.3 Financial instruments (continued)

**Identification and measurement of impairment of financial assets**

At each reporting date, the Bank assesses the amount of the expected loss / provision relating to a financial instrument based on the credit risk evolution associated with that financial instrument.

The Bank recognises expected losses for the financial instruments, which it has not designated as being measured at fair value through profit or loss.

The Bank uses an impairment model based on the changes in the quality of the financial instruments since their initial recognition, as presented below:

(a) a financial instrument whose credit risk has not increased significantly since the initial recognition date is classified in "Stage 1". Their expected credit loss (ECL) is measured as an amount equal to the life-time ECL resulting from the potential events of non-payment during the upcoming 12 months or less if the financial instrument has a shorter maturity, the exposure at the reporting date and Loss Given Default (LGD);

(b) if there is a substantial increase in credit risk since initial recognition, the financial instrument is transferred to "Stage 2", but is still not considered to be impaired. The Bank recognises a provision for loss as a value equal to the expected life-time credit losses calculated at the estimated exposure in accordance with payment schedule applying the conditional probability of default (PD) for the corresponding maturity and the LGD, until the respective financial instruments are derecognised, classified into "Stage 1" or "Stage 3";

(c) if impairment signs are identified, the financial instrument is transferred to "Stage 3". The Bank recognises a provision for loss as a value equal to expected credit losses over the life of the instrument at each reporting period, taking into account a probability of default of 100% and the LGD, until the respective financial instruments are derecognised or are classified into "Stage 1" or "Stage 2".

The Bank considers the link between the PD developments and different economic/macroeconomic factors (GDP, EURIBOR, CHIBID, CHIBOR, inflation rate, unemployment rate, index of industrial production volume, etc.), having integrated valid correlations into the Impairment Methodology by determining and applying a PD adjustment factor for a 12-month period.

For the financial assets that are considered significant, the Bank applies individual treatment, regardless of the stage in which the asset was classified, calculating the ECL as the difference between the cash flows to be received discounted using the original EIR. In this case scenarios weighted for all probable cash flows shall be taken into account, namely: asset contractual flows, flows resulting from the sales of collateral and other credit improvements.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.3 Financial instruments (continued)

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

Individual assessment is mandatory for the Customers, which exposure exceeds MDL 10 million and which were classified into "Stage 3" at the time of valuation.

The method of portfolio segmentation and calculation of indicators used in the process of ECL estimation are described in Note 34.7.

The placements in state securities with the maturity term of up to 90 days are considered as "liquid" instruments – equivalent to cash; no provisions are created for such securities for the losses generated by their impairment.

The placements in state securities with the maturity term exceeding 90 days and state bonds are considered as risk-free securities.

To estimate losses related to the credit risk on exposures related to the placements in state securities issued by governments of other countries, the Bank uses the lowest rating provided by at least one of the agencies Standard & Poor's, Moody's and Fitch-IBCA of the origin country to determine the PD and LGD established in accordance with BASEL III provisions for uncovered sovereign exposures.

The Bank uses a simplified approach in measuring the provision for losses of an amount equal to the lifetime ECL for trade receivables or assets arising from transactions falling that are subject to IFRS 15.

*Impairment of financial assets at fair value through other comprehensive income*

At each reporting date, the Bank assesses if there is evidence of impairment of the financial assets or group of financial assets. In the case of investments in daughter companies, a significant or prolonged decline in the fair value of securities below their cost is considered to determine whether the assets are impaired.

If such evidence exists, the accumulated loss – calculated as the difference between the acquisition cost and the present fair value, less any impairment loss for that financial asset previously recognised in profit or loss is removed from equity and recognised in other comprehensive income. Impairment losses recognised in profit or loss and the statement of other comprehensive income on equity investments are derecognised through profit or loss and the statement of other comprehensive income. If, in a subsequent period, the fair value of the debt instrument classified as available for sale increases, and the increase can be objectively related to an event, which occurred after the impairment loss has been recognised in the profit or loss, the impairment loss is in the profit or loss and the statement of other comprehensive income.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.3 Financial instruments (continued)

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

**Write-offs**

The Bank directly reduces the gross carrying amount of a financial asset when there are no reasonable estimates of recovering the full or part of the financial asset. Eliminated assets with a value of more than MDL 1,000 are recorded in the memorandum accounts and are the subject of the pursuit until the full reimbursement or until the termination of their pursuit is decided.

**Renegotiated loans**

When possible, the Bank attempts to restructure loans rather than take over the collateral. This may involve expanding the payment schedule and renegotiating lending conditions. Management of the Bank continuously reviews the renegotiated loans to ensure that all requirements are met and subsequent payments will take place. Renegotiated loans are classified more rigidly and classified at least in "Stage 2" for a 6-month follow-up period. Upon the expiration of the tracking period, they can be classified more favourably, provided that the contractual obligations are respected and no other factors of deterioration have been identified.

**Offsetting financial assets and liabilities**

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legal right to offset the amounts recognized and there is intent to realize or offset them on a net basis or the realization of the asset and settlement of the liability simultaneous.

### 2.4 Investments in subsidiaries

Subsidiaries are the entities controlled by the Bank. In the separate financial statements of the Bank, investments in subsidiaries are recognised initially at cost (including transaction costs) in accordance with IAS 27. Subsequent to initial recognition, they are measured at cost minus any provision for impairment. Dividend income is recognized in the profit or loss statement.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.5 Property and equipment

All items of property and equipment are initially recognized at cost. The cost includes expenses directly attributable to the acquisition of the asset. When certain components of property and equipment have different useful lives, they are accounted as distinct elements (major components) of property and equipment.

Property and equipment are stated at cost minus accumulated depreciation and accumulated impairment losses, except for the categories "Buildings" and "Land" – which are stated at revalued amount.

Land and buildings are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When buildings and land are revalued, any accumulated depreciation at the revaluation date is proportionately restated with the modification of the gross carrying amount of the asset, so that the carrying amount of the asset after revaluation, would be equal to its revalued amount. The revaluation surplus included in other comprehensive income in respect of revalued assets is transferred to retained earnings when the asset is derecognized.

Repairs and maintenance are expensed and reported to operating expenses as incurred. The costs of tangible assets in progress are capitalized if the criteria for tangible asset recognition are met, notably: they generate future economic benefits. Tangible assets in progress are recognized as tangible assets at the moment of reception and deployment.

Where the carrying amount of an asset is greater than the estimated recoverable amount, it is written down to its recoverable amount. Gains and losses on disposals of property and equipment are determined by reference to their carrying amount and arc presented in other operating income.

The depreciation is calculated on a straight-line basis over the estimated useful life of the asset, as stated below. The leasehold improvements are depreciated over the lease term. Land and assets under construction are not depreciated.

| Property and equipment | Years |
|---|---|
| Buildings | 33-50 |
| Improvements of lease-hold assets | 4-15 |
| ATMs | 4 |
| Furniture and equipment | 4-8 |
| Computers | 4 |
| Vehicles | 7 |

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.6 Intangible assets

Intangible assets represent costs incurred for acquisition of computer software, licenses and other intangible assets and are amortized using the straight-line method over the best estimate of their useful lives, that is up to 20 years. The amortization expense on intangible assets is recognised in the statement of profit or loss.

Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred. Costs that are directly associated with the production of identifiable software products controlled by the Bank, and that will probably generate economic benefits exceeding costs, beyond one year, are recognized as intangible assets. Direct costs include the costs related to the services provided by the software developer and provider.

Intangible assets in progress are not amortized at the moment of deployment.

### 2.7 Due to banks

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

### 2.8 Borrowings

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

### 2.9 Due to customers

Due to customers are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost. Due to state customers are due to public authorities, which are current accounts of the Moldovan Ministry of Finance and deposit accounts of the Social Insurance Fund. These are stated at amortised cost, using the effective interest rate method.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.10 Cash and cash equivalents

For the statement of cash flows, cash and cash equivalents comprise cash on hand, current accounts and short-term placements at other banks, treasury bills and other short-term highly liquid investments, with original maturity of less than 90 days from the acquisition day. Cash on hand, current accounts and short-term placements are measured at amortized cost. Treasury bills and other highly liquid investments are measured at amortized cost.

### 2.11 Ordinary shares and share premium

Ordinary shares represent consideration from shareholders equal to nominal value of issued shares. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the nominal value of shares issued is recorded as share premium in equity.

### 2.12 Treasury shares

Own equity instruments of the Bank which are acquired by it (treasury shares) are deducted from equity and accounted for at weighted average cost. Consideration paid or received on the purchase, sale, issue or cancelation of the Bank's own equity instruments is recognized directly in equity. No gain or loss is recognised in statement of profit or loss on the purchase, sale, issue or cancelation of own equity instruments.

### 2.13 Impairment of non-financial assets

The Bank assesses at each reporting date whether there are indications of assets impairment. If any such indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. An impairment loss on assets is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.14 Financial guarantees contracts

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.

In the ordinary course of business, the Bank issues financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements (within 'Other liabilities') at fair value, being the premium received.

Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less, when appropriate, cumulative amortization recognised in the statement of profit or loss, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in the statement of profit or loss as "Impairment losses on loans and advances". The premium received is recognised in the statement of profit or loss as 'Fee and commission income' on a straight line basis over the life of the guarantee.

### 2.15 Contingencies

Contingent liabilities are not recognised in the financial statements but they are disclosed in notes, unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

### 2.16 Provisions

Provisions are recognized when the Bank has a present legal obligation as a result of past events, and it is probable that an outflow of economic resources may be required in the future to settle the obligation, such obligation being measured reliably.

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

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

### 2.17 Conditional commitments provisions

When determining the amount of provisions for financing commitments and guarantees, the Bank applies methods similar as for calculating balance sheet exposures. The Bank uses the BASEL standardized approach when determining the conversion factor (CCF) used and the assessment of expected part of the loan commitment that will be transposed into a balance sheet exposure.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.18 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognized in the statement of profit or loss. Once a financial asset or a group of financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss applied at the net carrying value of the asset. Commission directly attributable to the financial asset or liability upon origination are included in the measurement of the effective interest rate and are recognized as interest income or expenses throughout the financial instrument.

Fees for loan commitments that are likely to be granted, are deferred (together with direct costs) and are recognized as an adjustment to the effective interest rate on loans.

### 2.19 Fee and commission income and expense

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognized on completion of the underlying transaction. Other fee and commission income arising from the financial services provided by the Bank including investment management services, brokerage services, and account service fees are recognized as the related service is provided in the income statement. Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

### 2.20 Other operating income and general and administrative expenses

Other operating income as well as other general and administrative expenses are recognised on an accrual basis.

### 2.21 Pension costs and employees' benefits

Employee benefits include wages, salaries and social security contributions. The Bank makes contributions to the Republic of Moldova state funds for social insurance, medical insurance and unemployment benefits, that are calculated on the basis of salaries of all employees of the Bank. The Bank does not operate any other retirement plan and has no other obligation to provide further benefits to current or former employees. Benefits and the related contributions are recognized as expense as the services are rendered.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.22 Gains from foreign exchange operations

Gains from foreign exchange operations include net realized gains from trading assets and liabilities in foreign currencies and the foreign currency translation differences.

### 2.23 Related parties

A *related party* is a person or entity that is related to the entity that is preparing its financial statements.

(a) A person or a close member of that person's family is related to a reporting entity if that person:

- (i) has control or joint control over the reporting entity;
- (ii) has significant influence over the reporting entity; or
- (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:

- (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (iv) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- (v) The entity is controlled or jointly controlled by a person identified in (a).
- (vi) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

A *related party transaction* is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.24 Taxation

Income tax expense for the period comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in other comprehensive income. Current tax is the expected tax payable on the taxable profit for the year, using tax rates enacted or substantially enacted at the end of reporting period, and any adjustment to tax payable in respect of prior periods. The adjustments which influence the fiscal base of the current tax are: non-deductible expenses, non-taxable income, similar expense/ income items and other tax deductions.

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

The deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The tax rate used to calculate the current and deferred tax position at 31 December 2019 is 12% (2018: 12%).

### 2.25 Leasing

*Operating leases ( The Bank as a Lessor)*

At the commencement date, the Bank as a lessee recognizes a right-of-use asset and a lease liability.

At the initial measurement , the Bank measures the right-of-use asset at cost. The cost of the right-of-use shall comprise:

(a) the amount of the initial measurement of the lease liability;

(b) any lease payments made at or before the commencement date, less any lease incentives received;

(c) any initial direct costs incurred by the lessee; and

(d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

At the commencement date , the Bank as a lessee measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease if that rate can be readily determined. If this rate cannot be readily determined, the Bank as a lessee uses the lessee's incremental borrowing rate.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.25 Leasing (continued)

*Operating leases ( The Bank as a Lessor) (continued)*

At the initial measurement of the operating leases, the Bank will clarify lease contracts, as lessee in accordance with IFRS 16 Leases only those contracts, which meet the following conditions:

- contract value exceeds 100,000 lei (one hundred thousand lei);
- contract term of more than 1 year.

If the interest rate implicit is not set in the lease contract, the Bank will use as an incremental borrowing rate, the average rate on deposits attracted by the Bank from individuals after currencies and maturities.

The depreciation of the right of use asset is carried out linearly throughout the life of the lease.

The expenses related to the lease payments of the contracts that are not recognized and measured according to IFRS 16, will be classified in the profit or loss account as lease expenses.

*Operating leases (the Bank as a Lessor)*

A lease contract is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

If it is clear from the characteristics of the contract that the lease does not transfer substantially all the risks and benefits related to ownership of an underlying asset, then the lease is classified as operating.

The Bank as lessor recognizes the lease payments related to the operating leases as income on either a straight-line basis.

Leases where lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in profit or loss and other comprehensive income statement on a straight-line basis over the lease term. The assets that are received in operating lease are not recognised in the financial statement of the Bank.

### 2.26 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Bank's chief operating decisions maker. Segments whose revenue, result or assets are 10% or more of all segments are reported separately. The information on segments is presented in Note 38.

## 3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the financial statements in accordance with the International Financial Reporting Standards requires management to make estimates and assumptions in determining the amounts and balances reported in the financial statements and notes to the financial statements. Estimates and underlying assumptions are reviewed on an ongoing basis and are based on the management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

*Impairment losses on loans and advances*

The Bank regularly reviews its loan portfolios to assess impairment.

Management uses estimates based on historical loss experience for assets with the same credit risk characteristics and objective evidence of impairment similar to those in its portfolio which are adjusted with the expected impact of the evolution of the macroeconomic factors correlated with them.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Estimation of the impact of changes in the factors used for estimating allowances for impairment losses is presented in Note 34.7.

*Fair value of financial assets at fair value through other comprehensive income*

When the fair value of financial assets cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model.

The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required to determine fair values.

The estimates include considerations of such inputs as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial assets. If the fair value cannot be reliably determined the available for sale equity investments are held at cost.

*Financial assets at amortised cost*

Financial assets can be measured at amortised cost if both of the following conditions are met:

(a) the financial asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

## 3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (CONTINUED)

*Fair value of financial instruments hierarchy*

The Bank measures the fair value of financial instruments using one of these methods of hierarchy:

**Level 1:** Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entety can access at the measurement date.

**Level 2:** Inputs other than quoted prices included within level 1that are observable for substantially the full term of the asset or liability. Level 2 inputs include the following:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in markets that are not active.
- Inputs other than quoted prices that are observable for the asset or liability.

**Level 3:** Valuation techniques based on the input data which cannot be observed on the market for the active or liability. This category includes all instruments whose valuation method does not include observable and unobservable data and has a significant influence on the assessment instrument. This category includes instruments that are valued based on market quotes for similar instruments where unobservable adjustments or assumptions are required to reflect difference between the instruments.

The objective of valuation techniques is determining fair value, which reflects the price that would be obtained in a transaction in normal market conditions, the financial instrument at the date of the financial statements.

Valuation models that use a significant number of unobservable data require a higher proportion of estimates and judgments by management in determining fair value. Estimates and judgments by management is usually required to select the most appropriate valuation model, determining future cash flows of the instrument under valuation, determining the probability of default of the counterparty, and selecting prepayments and discount rates. The portion of this kind of instruments in the Bank's portfolio is insignificant.

Please see Note 31 for presentation of fair value of financial instruments and the sensitivity of these at the entries used.

## 4 CASH ON HAND

| | 31.12.2019 MDL'000 | 31.12.2018 MDL'000 |
|---|---|---|
| Cash, including: | 940,113 | 1,103,695 |
| *- commemorative and jubilee coins* | 94 | 108 |
| | **940,113** | **1,103,695** |

## 5 BALANCES WITH NATIONAL BANK OF MOLDOVA

| | 31.12.2019 MDL'000 | 31.12.2018 MDL'000 |
|---|---|---|
| Current account | 4,455,945 | 4,329,009 |
| Mandatory reserves | 1,357,707 | 1,071,235 |
| | **5,813,652** | **5,400,244** |

*Current account and mandatory reserves*

The Bank holds the mandatory reserves in accordance with the calculus base and the required reserve ratio established by the Council of Administration of NBM. For means attracted in MDL and in nonconvertible currencies the reserves are held in MDL; for means attracted in USD the reserves are held in USD; for funds attracted in EUR and other convertible currencies the reserves are held in EUR.

The balance reserved in USD and EUR on mandatory reserve accounts amounted to USD'000 23,502 and EUR'000 49,493 respectively (2018: USD'00018,706 and EUR'000 38,449). For the means attracted with a maturity of less than 2 years the required reserve rate is 42.5% (2018: 42.5%), and for funds attracted in freely convertible currency the reserve rate is 17% (2018: 14%). For the means attracted with a maturity of over 2 years it is nil (2018: 0%).

According to the decision of the Executive Committee of the NBM dated 11.12.2019, starting with 16 January and until 15 April, the reservation norm for the means attracted in MDL and FCY is to be gradually reduced, by 0.5 pp per month until 41%, and the reservation rate for the means attracted in FCY is to be increased by 1 pp per month, up to 20%.

The interest paid by NBM on the mandatory reserves during 2019 varied between 0% and 0.24% per annum (2018: 0.22%-0.25% per annum) for reserves in foreign currency and 2.76% – 2.85% per annum (2018: 3.89%-3.22% per annum) for reserves in MDL.

The required reserves have to be kept at an average limit at the 15th of each month. The limit should be established at the average level throughout the period of 30/31 days. During the reporting dates to NBM (15 of each month) these can be used in any volumes needed by the Bank.

## 6 DUE FROM BANKS

| | 31.12.2019 MDL'000 | 31.12.2018 MDL'000 |
|---|---|---|
| Current accounts | 1,928,015 | 1,608,294 |
| Placements | 67,770 | 111,874 |
| Less: allowance for impairment losses | (236) | (19) |
| | **1,995,549** | **1,720,149** |

Current accounts and deposit balances are in foreign currencies with foreign banks such as Raiffeisen Bank International AG (Austria), Bank of New York (USA), LBBV (Germany), Sberbank (Russia), etc. (2018: KBC (Belgium), Bank of New York (USA), Sberbank (Russia), Raiffeisen Bank International AG (Austria), etc.).

The Bank 's cash on current accounts with banks is not restricted.

The Bank's deposits constitute restricted deposits in amount of MDL'000 67,548, represent placements for clients and under membership agreements signed with Visa, MasterCard, American Express.

At 31 December 2018 the Bank had deposits at KBC (Belgium) in amount of MDL'000 51,459 and restricted deposits in amount of MDL'000 60,396.

The credit quality analysis of amounts due from banks is presented below:

| Rating | Rating agency | 31.12.2019 MDL'000 | 31.12.2018 MDL'000 |
|---|---|---|---|
| AA | Fitch | - | 257,584 |
| AA- / Aa3 | Standard&Poor's, Moody's | 687,165 | - |
| A+/ A1 | Standard&Poor's, Fitch, Moody's | 22,338 | 754,166 |
| A | Standard&Poor's, Fitch | - | 21,858 |
| A- | Fitch | 1,252,004 | 632,194 |
| BBB+ | Standard&Poor's | 22,537 | 20,744 |
| BBB | Standard&Poor's, Fitch | 3,099 | 8,581 |
| BBB- / Baa3 | Moody's | 4,997 | 3,236 |
| Rating BB and lower | Standard&Poor's, Moody's | 1,603 | 21,655 |
| No rating | - | 1,806 | 131 |
| **Total** | | **1,995,549** | **1,720,149** |

## 7 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | 31.12.2019 MDL'000 | 31.12.2018 MDL'000 |
|---|---|---|
| Equity instruments at fair value through other comprehensive income | 184,482 | 151,552 |
| Debt instruments at fair value through other comprehensive income | 1,085,824 | 1,496,114 |
| | **1,270,306** | **1,647,666** |

*Equity instruments at fair value through other comprehensive income:*

| | 2019 MDL'000 | 2018 MDL'000 |
|---|---|---|
| **Balance at 1 January** | **151,552** | **142,403** |
| *Disposals | - | (699) |
| Additions | - | 50 |
| Increase/ (decrease) in fair value | 32,930 | 9,798 |
| **Balance at 31 December** | **184,482** | **151,552** |

*During 2018 the Bank came out of the share capital of Garantinvest S.R.L. at the value determined as a result of the distribution of assets with the Company's final liquidation, namely MDL'000 699.

In 2018, the Bank subscribed a nominal ordinary voting share with the nominal value in amount of MDL'000 50, issued and placed at the foundation of the "Depozitarului Central Unic al Valorilor Mobiliare " S.A., which represents 0.2049% of the share capital of the entity.

## 7 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

*Equity instruments at fair value through other comprehensive income (continued)*

| | Field of activity | Ownership % 2019 | 2018 | 31.12.2019 MDL'000 | 31.12.2018 MDL'000 |
|---|---|---|---|---|---|
| Visa Inc. | Transaction processing | 0.001% | 0.001% | 97,336 | 68,595 |
| IM Glass Container Prim SA | Sugar processing | 16.89% | 16.89% | 56,395 | 51,696 |
| IM Glass Container Company SA | Glass manufacturing | 17.43% | 17.43% | 28,613 | 29,154 |
| IM Biroul de Credit SRL | Glass manufacturing | 6.70% | 6.70% | 1,019 | 1,019 |
| S.W.I.F.T. SCRL | Bureau of credit histories | 0.01% | 0.01% | 931 | 900 |
| Depozitarul Central Unic al Valorilor Mobiliare | Registration services, depositary, clearing | 0.20% | 0.20% | 50 | 50 |
| Depozitarul Național de Valori Mobiliare al Moldovei SA | Depositary services, clearing | 5.30% | 5.30% | 131 | 131 |
| Bursa de Valori din Moldova | Auctions and brokerage | 2.56% | 2.56% | 7 | 7 |
| IM Piele SA | Leather manufacturing | 12.80% | 12.80% | - | - |
| | | | | **184,482** | **151,552** |

All financial assets at fair value through other comprehensive income, except I.M."Glass Container Company" S.A., I.M. "Glass Container Prim" S.A., Visa Inc. și S.W.I.F.T. SCRL were stated at the historical cost as at 31 December 2018, because the fair value cannot be reliably determined, the lack of cost / efficiency in determining it and a small threshold of significance in their value, as well as the absence of any changes in the financial condition of the issuer.

## 7 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

The fair value of equity investment in Visa Inc. was determined based on the price quoted on the NYSE stock exchange, this technique being the Level 1 in the hierarchy.

The carrying value of equity investment in S.W.I.F.T. SCRL is the value confirmed by the General Meeting of Shareholders of S.W.I.F.T. SCRL based on the financial statement of the Company.

It is impossible to determine the fair value of the Bank's investment in the equity of Î.M. "Piele" SA based on cash flow or other financial data since this company ceased its activity. The Bank's management decided to maintain the amount of the impairment allowance at full cost of the investment, as accounted for as at 31 December 2012.

Fair value of investments in I.M. „Glass Container Company" S.A. and I.M. „Glass Container Prim" S.A was determined based on the valuation performed by an external assessor.

The fair value of the Bank's equity investment in Î.M. "Glass Container Company" S.A. and Î.M. „Glass Container Prim" S.A. were estimated using the discounted cash flows method. The estimates were made based on the companies' forecasted financial ratios for the following 4 years (2020 – 2023), an annual long-term growth rate of 5% based on the inflation rate forecasted by the National Bank of Moldova for the following periods and projected growth in cash flows based on the assumption that inflation will be the main factor that will lead to price changes and as a result increase in generated revenues; and a discount rate for the net cash flows determined by applying the weighted average cost of capital method (WACC).

Other Bank's investments, such as equity investments in IM Biroul de Credit SRL, Depozitarul National de Valori Mobiliare al Moldovei, Depozitarul Central Unic al Valorilor Mobiliare and Bursa de Valori a Moldovei SA were acquired by the Bank in order to ensure its participation on the local market, according to the regulatory requirements for stock exchange market and constitutes a lever for promoting and diversifying the Bank's products/services.

Refer to Note 31 for the fair value measurement disclosures.

Debt instruments at fair value through other comprehensive income:

| | 2019<br>MDL'000 | 2018<br>MDL'000 |
|---|---:|---:|
| **Balance at 1 January** | **1,496,114** | **1,278,317** |
| Disposals | (1,346,618) | (1,272,815) |
| Additions | 931,286 | 1,505,020 |
| Increase/(decrease) in fair value | 5,042 | (14,408) |
| **Balance at 31 December** | **1,085,824** | **1,496,114** |

## 7 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

State securities were classified as fair value through other comprehensive income in order to have a reserve should the Bank require cash and sell them on the secondary market. The final maturity of these state securities is 19 April 2024.

Composition of debt instruments at fair value through other comprehensive income:

| | 31.12.2019 MDL'000 | 31.12.2018 MDL'000 |
|---|---|---|
| Treasury bills | 548,329 | 761,105 |
| Government bonds | 537,495 | 735,009 |
| | **1,085,824** | **1,496,114** |

As at 31 December 2019 the treasure bills issued by the Ministry of Finance of the Republic of Moldova had a maturity of 91 to 365 days, with an annual interest rate ranging between 4.50 % and 7.07% (2018: 4.24 % and 6.40% per annum). As at 31 December 2019 government bonds issued by the Ministry of Finance of the Republic of Moldova had a maturity of 730 to 1,826 days, with an annual interest rate ranging between 5.99 % and 6.90% (2018: 4.32 % and 8.35% per annum).

## 8 INVESTMENTS IN SUBSIDIARIES

| | Sector | Ownership 2019, % | 2019 MDL'000 | 2018 MDL'000 |
|---|---|---|---|---|
| MAIB Leasing SA | Finance lease | 100% | 163,452 | 163,452 |
| MoldMediaCard SRL | Processing of card payments | 99.00% | 11,522 | 11,522 |
| Minus: provision for impairment | | | (35,305) | (35,305) |
| | | | **139,669** | **139,669** |

## 8 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

The movement in the Bank's equity investment portfolio is presented below:

| | 2019 MDL'000 | 2018 MDL'000 |
|---|---|---|
| ***Investments in subsidiaries*** | | |
| Balance as at 1 January | 139,669 | 133,091 |
| Additions – by increasing the Bank's ownership% | - | 6,578 |
| **Balance as at 31 December** | **139,669** | **139,669** |

During 2018 the share held in the share capital of "MoldMediaCard" S.R.L. subsidiary increased to 99.0% by purchasing shares in the amount of 44.76% at the cost of MDL'000 6,578, in its capital.

The provision for investment in subsidiaries was maintained at the same level of MDL'000 35,305, as there were no significant changes in the activity of "MAIB - Leasing" S.A.

## 9 LOANS AND ADVANCES TO CUSTOMERS

| | 31.12.2019 MDL'000 | 31.12.2018 MDL'000 |
|---|---|---|
| Corporate clients | 7,673,744 | 6,965,111 |
| Retail entities | 1,974,100 | 1,919,016 |
| Individuals | 4,589,528 | 3,538,413 |
| **Total loans, gross** | **14,237,372** | **12,422,540** |
| Less: total allowances for impairment losses on loans, including: | (838,298) | (842,915) |
| - Allowances on loans – portfolio of corporate customers | (666,611) | (699,647) |
| - Allowances on loans – portfolio of retail entities | (61,000) | (60,745) |
| - Allowances on loans – portfolio of individuals | (110,687) | (82,523) |
| **Total loans, net** | **13,399,074** | **11,579,625** |

## 9 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The concentration of risk in economic sectors for customers' loan portfolio for 2019 and 2018 is presented below:

| **Corporate** | **Stage 1** | **Stage 2** | **Stage 3** | **31.12.2019 Total MDL'000** |
|---|---|---|---|---|
| Agriculture and food industry | 2,197,835 | 160,751 | 29,544 | 2,388,130 |
| *including:* | | | | |
| *agriculture* | *454,369* | *12,664* | - | *467,033* |
| *food industry* | *1,743,466* | *148,087* | *29,544* | *1,921,097* |
| *including wine production* | *775,097* | *29,747* | - | *804,844* |
| Non-food industry | 304,374 | 362,197 | 12,668 | 679,239 |
| Trade | 2,684,537 | 117,960 | 155,565 | 2,958,062 |
| Transport | 285,014 | 18,161 | - | 303,175 |
| Telecommunication | 343,543 | - | - | 343,543 |
| Construction and real estate | 337,416 | 34496 | 54,219 | 426,131 |
| Energy sector | - | - | 228,501 | 228,501 |
| Financial institutions and organizations | 42,085 | 181,996 | - | 224,081 |
| Other | 119,000 | 3,882 | - | 122,882 |
| **Total** | **6,313,804** | **879,443** | **480,497** | **7,673,744** |

| **Corporate** | **Stage 1** | **Stage 2** | **Stage 3** | **31.12.2018 Total MDL'000** |
|---|---|---|---|---|
| Agriculture and food industry | 1,435,368 | 577,340 | 29,587 | 2,042,295 |
| *including:* | | | | |
| *agriculture* | 244,991 | - | - | 244,991 |
| *food industry* | 1,190,377 | 577,340 | 29,587 | 1,797,304 |
| *including wine production* | 222,154 | 577,339 | - | 799,493 |
| Non-food industry | 223,543 | 309,757 | 157,862 | 691,162 |
| Trade | 2,367,255 | 165,907 | 155,903 | 2,689,065 |
| Transport | 140,896 | 149,045 | - | 289,941 |
| Telecommunication | 363,712 | - | - | 363,712 |
| Construction and real estate | 347,465 | - | 91,356 | 438,821 |
| Energy sector | - | - | 213,882 | 213,882 |
| Financial institutions and organizations | 227,077 | - | - | 227,077 |
| Other | 9,156 | - | - | 9,156 |
| **Total** | **5,114,472** | **1,202,049** | **648,590** | **6,965,111** |

## 9 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The concentration of risk in economic sectors for customers' loan portfolio for 2019 and 2018 is presented below (continued):

| **Retail entities** | **Stage 1** | **Stage 2** | **Stage 3** | **31.12.2019 Total MDL'000** |
|---|---|---|---|---|
| Agriculture and food industry | 456,247 | 345,861 | 44,534 | 846,642 |
| *including:* | | | | |
| *agriculture* | 440,984 | 326,998 | 31,887 | 799,869 |
| *food industry* | 15,263 | 18,863 | 12,647 | 46,773 |
| *including wine production* | 8,439 | 7,598 | - | 16,037 |
| Non-food industry | 57,445 | 30,122 | 268 | 87,835 |
| Trade | 540,773 | 317,863 | 11,344 | 869,980 |
| Transport | 10,994 | 20,442 | 4 | 31,440 |
| Telecommunication | 93 | 88 | 2 | 183 |
| Construction and real estate | 21,311 | 33,075 | 21 | 54,407 |
| Energy sector | - | 1,044 | - | 1,044 |
| Financial institutions and organizations | 21,196 | 701 | - | 21,897 |
| Other | 50,234 | 10,420 | 18 | 60,672 |
| **Total** | **1,158,293** | **759,616** | **56,191** | **1,974,100** |

| **Retail entities** | **Stage 1** | **Stage 2** | **Stage 3** | **31.12.2018 Total MDL'000** |
|---|---|---|---|---|
| Agriculture and food industry | 728,667 | 36,275 | 36,690 | 801,632 |
| *including:* | | | | |
| *agriculture* | 700,102 | 33,640 | 24,531 | 758,273 |
| *food industry* | 28,565 | 2,635 | 12,159 | 43,359 |
| *including wine production* | 16,303 | - | - | 16,303 |
| Non-food industry | 63,399 | 9,180 | 677 | 73,256 |
| Trade | 854,268 | 15,696 | 18,321 | 888,285 |
| Transport | 27,269 | 103 | 1 | 27,373 |
| Telecommunication | 726 | - | 1 | 727 |
| Construction and real estate | 48,245 | 4,273 | 125 | 52,643 |
| Energy sector | 1,458 | - | - | 1,458 |
| Financial institutions and organizations | 15,612 | 70 | 343 | 16,025 |
| Other | 57,294 | 163 | 160 | 57,617 |
| **Total** | **1,796,938** | **65,760** | **56,318** | **1,919,016** |

## 9 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The concentration of risk in economic sectors for customers' loan portfolio for 2019 and 2018 is presented below (continued):

| **Individuals** | **Stage 1** | **Stage 2** | **Stage 3** | **31.12.2019 Total MDL'000** |
|---|---|---|---|---|
| Mortgage | 2,276,720 | 251,617 | 21,542 | 2,549,879 |
| Consumer loans - secured | 302,169 | 46,191 | 10,826 | 359,186 |
| Consumer loans - unsecured | 1,289,258 | 143,371 | 31,755 | 1,464,384 |
| Credit cards | 203,278 | 8,870 | 3,931 | 216,079 |
| **Total** | **4,071,425** | **450,049** | **68,054** | **4,589,528** |

| **Individuals** | **Stage 1** | **Stage 2** | **Stage 3** | **31.12.2018 Total MDL'000** |
|---|---|---|---|---|
| Mortgage | 1,775,185 | 43,211 | 24,887 | 1,843,283 |
| Consumer loans - secured | 322,977 | 16,153 | 13,101 | 352,231 |
| Consumer loans - unsecured | 1,074,108 | 45,813 | 19,277 | 1,139,198 |
| Credit cards | 156,235 | 45,390 | 2,076 | 203,701 |
| **Total** | **3,328,505** | **150,567** | **59,341** | **3,538,413** |

## 9 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The table below presents the credit quality and maximum exposure to credit risk based on the internal credit rating system and classification at year end:

| | Stage 1 | Stage 2 | Stage 3 | 31.12.2019 Total MDL'000 |
|---|---|---|---|---|
| ***Corporate*** | | | | |
| **Performing** | | | | |
| Standard | 4,371,226 | 252,027 | - | 4,623,253 |
| Supervised | 1,942,578 | 522,020 | 8,251 | 2,472,849 |
| **Non-performing** | - | 105,396 | 472,246 | 577,642 |
| **Less: Allowances for impairment losses, of which:** | | | | |
| assessed collectively | (84,989) | (10,748) | (9,176) | (104,913) |
| assessed individually | (89,309) | (150,549) | (321,840) | (561,698) |
| **Total** | **6,139,506** | **718,146** | **149,481** | **7,007,133** |
| ***Retail entities*** | | | | |
| **Performing** | | | | |
| Standard | 1,098,342 | 597,119 | 510 | 1,695,971 |
| Supervised | 57,521 | 144,739 | - | 202,260 |
| **Non-performing** | 2,430 | 17,758 | 55,681 | 75,869 |
| **Less: Allowances for impairment losses, of which:** | | | | |
| assessed collectively | (10,980) | (12,787) | (16,512) | (40,279) |
| assessed individually | - | (5,425) | (15,296) | (20,721) |
| **Total** | **1,147,313** | **741,404** | **24,383** | **1,913,100** |
| ***Individuals*** | | | | |
| **Performing** | | | | |
| Standard | 3,781,298 | 316,324 | 1,332 | 4,098,954 |
| Supervised | 241,092 | 82,112 | 3,124 | 326,328 |
| **Non-performing** | 49,035 | 51,613 | 63,598 | 164,246 |
| **Less: Allowances for impairment losses, of which:** | | | | |
| assessed collectively | (35,221) | (27,894) | (47,572) | (110,687) |
| assessed individually | - | - | - | - |
| **Total** | **4,036,204** | **422,155** | **20,482** | **4,478,841** |

## 9 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The credit quality and maximum exposure to credit risk based on the internal credit rating system and classification at year end (continued):

| | Stage 1 | Stage 2 | Stage 3 | 31.12.2018 Total MDL'000 |
|---|---|---|---|---|
| ***Corporate*** | | | | |
| **Performing** | | | | |
| Standard | 3,554,378 | 385,015 | - | 3,939,393 |
| Supervised | 1,546,133 | 817,034 | - | 2,363,167 |
| **Non-performing** | 13,961 | - | 648,590 | 662,551 |
| **Less: Allowances for impairment losses, of which:** | | | | |
| assessed collectively | (61,387) | (6,173) | - | (67,560) |
| assessed individually | (52,081) | (219,277) | (360,729) | (632,087) |
| **Total** | **5,001,004** | **976,599** | **287,861** | **6,265,464** |
| ***Retail entities*** | | | | |
| **Performing** | | | | |
| Standard | 1,554,674 | 14,809 | - | 1,569,483 |
| Supervised | 241,072 | 41,114 | 675 | 282,861 |
| **Non-performing** | 1,192 | 9,837 | 55,643 | 66,672 |
| **Less: Allowances for impairment losses, of which:** | | | | |
| assessed collectively | (20,422) | (6,338) | (16,704) | (43,464) |
| assessed individually | - | (1,087) | (16,194) | (17,281) |
| **Total** | **1,776,516** | **58,335** | **23,420** | **1,858,271** |
| ***Individuals*** | | | | |
| **Performing** | | | | |
| Standard | 3,198,895 | 1,872 | - | 3,200,767 |
| Supervised | 102,209 | 104,503 | 1,896 | 208,608 |
| **Non-performing** | 27,401 | 44,192 | 57,445 | 129,038 |
| **Less: Allowances for impairment losses, of which:** | | | | |
| assessed collectively | (32,011) | (12,780) | (37,732) | (82,523) |
| assessed individually | - | - | - | - |
| **Total** | **3,296,494** | **137,787** | **21,609** | **3,455,890** |

## 9 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Ageing analysis of portfolio by days in arrears and stages during 2019:

| | Stage 1 | | | Stage 2 | | | Stage 3 | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | 0 - 30 days | > 30 days ≤ 90 days | > 90 days | 0 - 30 days | > 30 days ≤ 90 days | > 90 days | 0 - 30 days | > 30 days ≤ 90 days | > 90 days | |
| | MDL'000 | MDL'000 | MDL'000 | MDL'000 | MDL'000 | MDL'000 | MDL'000 | MDL'000 | MDL'000 | MDL'000 |
| Corporate | 6,313,804 | - | - | 879,443 | - | - | 1,783 | 8,251 | 470,463 | 7,673,744 |
| Retail entities | 1,158,293 | - | - | 734,971 | 24,645 | - | 1,736 | 453 | 54,002 | 1,974,100 |
| Individuals | 4,071,425 | - | - | 397,707 | 52,342 | - | 4,978 | 6,221 | 56,855 | 4,589,528 |
| **Total loans, gross** | **11,543,522** | - | - | **2,012,121** | **76,987** | - | **8,497** | **14,925** | **581,320** | **14,237,372** |
| Less: allowances for impairment losses on loans, including: | (220,499) | - | - | (189,172) | (18,231) | - | (5,129) | (10,766) | (394,501) | (838,298) |
| assessed collectively | (131,190) | - | - | (38,624) | (12,805) | - | (3,422) | (10,766) | (59,072) | (255,879) |
| assessed individually | (89,309) | - | - | (150,548) | (5,426) | - | (1,707) | - | (335,429) | (582,419) |
| **Total loans, net** | **11,323,023** | - | - | **1,822,949** | **58,756** | - | **3,368** | **4,159** | **186,819** | **13,399,074** |

## 9 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Ageing analysis of portfolio by days in arrears and stages during 2018:

| | Stage 1 | | | Stage 2 | | | Stage 3 | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | 0 - 30 days | > 30 days ≤ 90 days | > 90 days | 0 - 30 days | > 30 days ≤ 90 days | > 90 days | 0 - 30 days | > 30 days ≤ 90 days | > 90 days | |
| | MDL'000 | MDL'000 | MDL'000 | MDL'000 | MDL'000 | MDL'000 | MDL'000 | MDL'000 | MDL'000 | MDL'000 |
| Corporate | 5,114,472 | - | - | 1,202,049 | - | - | 288,889 | - | 359,701 | 6,965,111 |
| Retail entities | 1,796,938 | - | - | 41,418 | 24,342 | - | 1,491 | 749 | 54,078 | 1,919,016 |
| Individuals | 3,328,505 | - | - | 104,517 | 46,050 | - | 8,371 | 7,974 | 42,996 | 3,538,413 |
| **Total loans, gross** | **10,239,915** | - | - | **1,347,984** | **70,392** | - | **298,751** | **8,723** | **456,775** | **12,422,540** |
| Less: allowances for impairment losses on loans, including: | (165,901) | - | - | (231,571) | (14,084) | - | (140,590) | (5,515) | (285,254) | (842,915) |
| assessed collectively | (113,820) | - | - | (11,207) | (14,084) | - | (5,653) | (5,515) | (43,268) | (193,547) |
| assessed individually | (52,081) | - | - | (220,364) | - | - | (134,937) | - | (241,986) | (649,368) |
| **Total loans, net** | **10,074,014** | - | - | **1,116,413** | **56,308** | - | **158,161** | **3,208** | **171,521** | **11,579,625** |

## 9 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The movements in the impairment allowance during 2018 and 2019 is presented below:

| | Corporate MDL'000 | Retail entities MDL'000 | Individuals MDL'000 | Total MDL'000 |
|---|---|---|---|---|
| **As at 1 January 2019** | **699,647** | **60,745** | **82,523** | **842,915** |
| Reclassification, as a result of changing the customer category | (6,860) | 6,860 | - | - |
| Impairment charge | (23,061) | (6,601) | 28,182 | (1,480) |
| Amounts written off as uncollectible | - | - | - | - |
| Foreign exchange differences | (3,115) | (4) | (18) | (3,137) |
| **As at 31 December 2019** | **666,611** | **61,000** | **110,687** | **838,298** |

| | Corporate MDL'000 | Retail entities MDL'000 | Individuals MDL'000 | Total MDL'000 |
|---|---|---|---|---|
| **As at 1 January 2018** | **920,503** | **115,392** | **71,751** | **1,107,646** |
| Impairment charge | 45,431 | 2,670 | 18,475 | 66,576 |
| Amounts written off as uncollectible | (251,011) | (56,689) | (7,663) | (315,363) |
| Foreign exchange differences | (15,276) | (628) | (40) | (15,944) |
| **As at 31 December 2018** | **699,647** | **60,745** | **82,523** | **842,915** |

The impairment expenses differ from the figure disclosed in the statement of profit or loss due to the recoveries of loans previously written off as uncollectible amounting to MDL'000 93,659 (2018: MDL'000 15,191). The amount of the recoveries was credited directly to the release of the impairment charge in the statement of profit or loss for the year.

## 9 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The analysis in changes of allowances for impairment losses on loans during 2019 – 2018 is presented below:

| *Corporate customers* | Stage 1 | Stage 2 | Stage 3 | 31.12.2019 Total MDL'000 |
|---|---|---|---|---|
| **As at 1 January 2019** | **113,468** | **225,450** | **360,729** | **699,647** |
| Increases due to initiation and purchase | 41,450 | 10,231 | - | 51,681 |
| Decreases due to derecognition | (20,697) | (481) | - | (21,178) |
| Variations due to changes in credit risk (net) | 40,478 | (73,490) | (27,412) | (60,424) |
| Amounts written off as uncollectible | - | - | - | - |
| Foreign exchange differences | (401) | (413) | (2,301) | (3,115) |
| **As at 31 December 2019** | **174,298** | **161,297** | **331,016** | **666,611** |

| *Retail entities* | Stage 1 | Stage 2 | Stage 3 | Total MDL'000 |
|---|---|---|---|---|
| **As at 1 January 2019** | **20,422** | **7,425** | **32,898** | **60,745** |
| Increases due to initiation and purchase | 13,680 | 1,438 | 195 | 15,313 |
| Decreases due to derecognition | (1,582) | (2,186) | (4,589) | (8,357) |
| Variations due to changes in credit risk (net) | (21,472) | 11,523 | 3,252 | (6,697) |
| Amounts written off as uncollectible | - | - | - | - |
| Foreign exchange differences | (68) | 12 | 52 | (4) |
| **As at 31 December 2019** | **10,980** | **18,212** | **31,808** | **61,000** |

| *Individuals* | Stage 1 | Stage 2 | Stage 3 | Total MDL'000 |
|---|---|---|---|---|
| **As at 1 January 2019** | **32,011** | **12,780** | **37,732** | **82,523** |
| Increases due to initiation and purchase | 17,710 | 974 | 481 | 19,165 |
| Decreases due to derecognition | (3,284) | (1,926) | (8,413) | (13,623) |
| Variations due to changes in credit risk (net) | (11,210) | 16,066 | 17,784 | 22,640 |
| Amounts written off as uncollectible | - | - | - | - |
| Foreign exchange differences | (6) | - | (12) | (18) |
| **As at 31 December 2019** | **35,221** | **27,894** | **47,572** | **110,687** |

## 9 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The analysis in changes of allowances for impairment losses on loans during 2019 – 2018 is presented below (continued):

| *Corporate customers* | Stage 1 | Stage 2 | Stage 3 | 31.12.2018 Total MDL'000 |
|---|---|---|---|---|
| **As at 1 January 2018** | **256,820** | **101,427** | **562,256** | **920,503** |
| Increases due to initiation and purchase | 37,666 | 4,252 | - | 41,918 |
| Decreases due to derecognition | (2,316) | (5,153) | (25) | (7,494) |
| Variations due to changes in credit risk (net) | (672) | 128,530 | 58,149 | 11,007 |
| Amounts written off as uncollectible | - | - | (250,011) | (250,011) |
| Foreign exchange differences | (3,030) | (3,606) | (8,640) | (15,276) |
| **As at 31 December 2018** | **113,468** | **225,450** | **360,729** | **699,647** |

| *Retail entities* | Stage 1 | Stage 2 | Stage 3 | Total MDL'000 |
|---|---|---|---|---|
| **As at 1 January 2018** | **21,887** | **6,165** | **87,340** | **115,392** |
| Increases due to initiation and purchase | 11,800 | 789 | - | 12,589 |
| Decreases due to derecognition | (1,654) | (1,087) | (4,366) | (7,107) |
| Variations due to changes in credit risk (net) | (11,316) | 1,694 | 6,810 | (2,812) |
| Amounts written off as uncollectible | - | - | (56,689) | (56,689) |
| Foreign exchange differences | (295) | (136) | (197) | (628) |
| **As at 31 December 2018** | **20,422** | **7,425** | **32,898** | **60,745** |

| *Individuals* | Stage 1 | Stage 2 | Stage 3 | Total MDL'000 |
|---|---|---|---|---|
| **As at 1 January 2018** | **21,949** | **12,458** | **37,344** | **71,751** |
| Increases due to initiation and purchase | 15,653 | 1,612 | 2,821 | 20,086 |
| Decreases due to derecognition | (2,774) | (2,004) | (9,447) | (14,225) |
| Variations due to changes in credit risk (net) | (2,814) | 715 | 14,713 | 12,614 |
| Amounts written off as uncollectible | - | - | (7,663) | (7,663) |
| Foreign exchange differences | (3) | (1) | (36) | (40) |
| **As at 31 December 2018** | **32,011** | **12,780** | **37,732** | **82,523** |

## 10 FINANCIAL ASSETS AT AMORTISED COST

The structure of debt instruments at amortised cost for 2019 and 2018 is presented in the table below:

| | 31.12.2019 MDL'000 | 31.12.2018 MDL'000 |
|---|---|---|
| Government bonds | 14,826 | 46,329 |
| Certificates issued by the NBM | 740,198 | 849,050 |
| | **755,024** | **895,379** |

As at 31 December 2019 the Bank had certificates issued by the National Bank of Moldova in the Bank portfolio with an annual interest rate of 5.5% (as at 31 December 2018: 6.5%).

## 11 PROPERTY AND EQUIPMENT AND RIGHT-OF-USE ASSETS

| | Revalued | | | | | Cost | |
|---|---|---|---|---|---|---|---|
| | Land and buildings MDL'000 | Furniture and equipment MDL'000 | Vehicles MDL'000 | Other assets MDL'000 | Right-of-use assets MDL'000 | Assets under construction MDL'000 | Total MDL'000 |
| **At 1 January 2019** | | | | | | | |
| Cost/revalued value | 639,980 | 596,227 | 42,040 | 31,138 | - | 325,939 | 1,635,324 |
| Accumulated depreciation and impairment | (185,772) | (398,324) | (21,070) | (21,353) | - | - | (626,519) |
| **Carrying amount** | **454,208** | **197,903** | **20,970** | **9,785** | **-** | **325,939** | **1,008,805** |
| | | | | | | | |
| **Year ended 31 December 2019** | | | | | | | |
| **Net carrying value at 1 January** | **454,208** | **197,903** | **20,970** | **9,785** | **-** | **325,939** | **1,008,805** |
| Impact of initial application of IFRS 16 at 1 January 2019 | - | - | - | - | 113,591 | - | 113,591 |
| Additions | - | - | - | - | 22,150 | 255,633 | 277,783 |
| Transfers | 7,457 | 70,847 | 1,904 | 5,673 | - | (85,881) | - |
| Disposals, net | (1,010) | (191) | (3,740) | (46) | (3,117) | (3,435) | (11,539) |
| Depreciation charge | (11,488) | (74,646) | (3,843) | (5,366) | (35,084) | - | (130,427) |
| **Carrying amount** | **449,167** | **193,913** | **15,291** | **10,046** | **97,540** | **492,256** | **1,258,213** |
| | | | | | | | |
| **At 31 December 2019** | | | | | | | |
| Cost/revalued value | 644,782 | 621,696 | 34,881 | 36,515 | 128,834 | 492,256 | 1,958,964 |
| Accumulated depreciation and impairment | (195,615) | (427,783) | (19,590) | (26,469) | (31,294) | - | (700,751) |
| | | | | | | | |
| **Net book value** | **449,167** | **193,913** | **15,291** | **10,046** | **97,540** | **492,256** | **1,258,213** |

## 11 PROPERTY AND EQUIPMENT AND RIGHT-OF-USE ASSETS (CONTINUED)

| | Revalued | | | | Cost | |
|---|---|---|---|---|---|---|
| | Land and buildings MDL'000 | Furniture and equipment MDL'000 | Vehicles MDL'000 | Other assets MDL'000 | Assets under construction MDL'000 | Total MDL'000 |
| **At 1 January 2018** | | | | | | |
| Cost/revalued value | 645,111 | 496,623 | 33,364 | 26,988 | 224,407 | 1,426,493 |
| Accumulated depreciation and impairment | (183,614) | (348,506) | (19,576) | (18,668) | - | (570,364) |
| **Carrying amount** | **461,497** | **148,117** | **13,788** | **8,320** | **224,407** | **856,129** |
| | | | | | | |
| **Year ended 31 December 2018** | | | | | | |
| **Net carrying value at 1 January** | **461,497** | **148,117** | **13,788** | **8,320** | **224,407** | **856,129** |
| Additions | - | - | - | - | 244,971 | 244,971 |
| Transfers | 15,818 | 106,731 | 13,753 | 4,150 | (140,452) | - |
| Disposals, net | (11,755) | (27) | (3,252) | - | (2,987) | (18,021) |
| Depreciation charge | (11,352) | (56,918) | (3,319) | (2,685) | - | (74,274) |
| **Carrying amount** | **454,208** | **197,903** | **20,970** | **9,785** | **325,939** | **1,008,805** |
| | | | | | | |
| **At 31 December 2018** | | | | | | |
| Cost/revalued value | 639,980 | 596,227 | 42,040 | 31,138 | 325,939 | 1,635,324 |
| Accumulated depreciation and impairment | (185,772) | (398,324) | (21,070) | (21,353) | - | (626,519) |
| | | | | | | |
| **Net book value** | **454,208** | **197,903** | **20,970** | **9,785** | **325,939** | **1,008,805** |

## 11 PROPERTY AND EQUIPMENT AND RIGHT-OF-USE ASSETS (CONTINUED)

In its activity, the Bank rents buildings and office spaces. Except for contracts with a low value and / or term of less than 1 year, these contracts are reflected as assets related to the right of use as a part of tangible assets. The only asset class on which the Bank has the right to use are buildings.

As at 31 December 2019, the cost of the Bank's fully depreciated but still used property and equipment amounted to MDL'000 302,866 (as at 31 December 2018: MDL'000 309,530). All depreciation calculated during 2019 and 2018 was recognized in the income statement.

Property and equipment are valued at cost less accumulated depreciation and impairment losses, with the exception of the category "Land and buildings", which in 2016 was revalued at fair value in accordance with IAS 16 provisions.

The evaluation was carried out by independent appraisers, who has a recognized professional qualification, experience and a positive reputation in the real estate market. Fair values have been estimated using appropriate valuation techniques and are based on observable market prices in an active market.

As at 31 December 2019 the book value of land and buildings would have been MDL'000 599,179 (31 December 2018: MDL'000 473,133) if these assets had been valued at cost less depreciation.

## 12 INTANGIBLE ASSETS

| | 2019<br>MDL'000 | 2018<br>MDL'000 |
|---|---|---|
| **Balance as at 1 January** | | |
| Cost | 137,709 | 117,058 |
| Accumulated amortization | (79,306) | (58,057) |
| **Net book value** | **58,403** | **59,001** |
| **Year ended 31 December** | | |
| **Net value as at 1 January** | **58,403** | **59,001** |
| Additions | 25,826 | 20,651 |
| Disposals | - | - |
| Amortisation charge | (21,055) | (21,249) |
| **Net book value** | 63,174 | 58,403 |
| **As at 31 December** | | |
| Cost | 129,490 | 137,709 |
| Accumulated amortization | (66,316) | (79,306) |
| **Net book value** | **63,174** | **58,403** |

All amortization calculated during 2019 and 2018 was recognized in the income statement.

## 12 INTANGIBLE ASSETS (CONTINUED)

Intangible assets are initially recognized at cost and subsequently are measured at cost less accumulated amortization and impairment losses, if any. Intangible assets are amortized on a straight-line basis throughout their useful lives.

As at 31 December 2019, the cost of intangible assets fully amortized in 85 units (2018: 84 units) reached MDL'000 22,241 (2018: MDL'000 32,863).

The intangible assets include the T24 automated banking system with the book value as at 31 December 2019 of MDL'000 32,345 (2018: MDL'000 35,168), which according to the contractual provisions will be used by the Bank until 30.09.2030. In 2015, the Bank launched the American Express Acceptance and Issuance Project. The book value of the license at 31 December 2019 amounted to MDL'000 2,694 (2018: MDL'000 5,184).

## 13 OTHER ASSETS

| | 31.12.2019 MDL'000 | 31.12.2018 MDL'000 |
|---|---|---|
| **Other non-financial assets** | | |
| Inventory and low value materials in stock | 12,018 | 12,062 |
| Prepayments | 120,758 | 50,322 |
| Non-current assets held for sale | 957 | 957 |
| **Other financial assets** | | |
| Receivables from other financial institutions | 39,919 | 39,265 |
| Other receivables | 78,825 | 28,510 |
| | 252,477 | 131,116 |
| Less allowance for impairment of other assets and related payments | (58,562) | (41,082) |
| | **193,915** | **90,034** |

Receivables from other financial institutions represent receivables arising from clearing operations related to Visa, Mastercard and American Express systems in amount of MDL'000 33,169 (2018: MDL'000 34,296), receivables due to international money transfer systems in amount of MDL'000 6,750 (2018: MDL'000 4,968). According to Moody's and Standard&Poor's rating agency Visa International system has the "Aa3" and "AA-" ratings, while MasterCard Incorporated: "A1" and "A+" ratings.

The movement in the impairment allowance for receivables and related payments for the year 2019 and 2018 is presented below:

| | 2019 MDL'000 | 2018 MDL'000 |
|---|---|---|
| **At 1 January** | **41,082** | **36,906** |
| Adjustments to transition to IFRS 9 | | (475) |
| Impairment charge | 20,082 | 7,397 |
| Write-offs | (2,602) | (2,746) |
| **At 31 December** | **58,562** | **41,082** |

The value of net impairment losses differs from the value presented in the consolidated statement of profit or loss and other comprehensive income in 2019 and 2018, the result of the recovery of amounts written-off previously as non-recoverable in amount of MDL'000 807 (2018: MDL'000 776). The recovery value of those was credited directly to the "Impairment and provision net expenses" line in the statement of profit or loss and other comprehensive income for the year.

## 14 DUE TO BANKS

| | Currency | Maturity | 31.12.2019 MDL'000 | 31.12.2018 MDL'000 |
|---|---|---|---|---|
| **Loans and current accounts from other banks** | | | | |
| Current accounts of other banks | USD | Non applicable | 2,051 | 2,658 |
| | MDL | Non applicable | 21,920 | 2,387 |
| | | | **23,971** | **5,045** |

## 15 BORROWINGS

| **Borrowings from International Financial Institutions:** | Currency | Maturity | 2019 MDL'000 | 2018 MDL'000 |
|---|---|---|---|---|
| Rural Investment and Services Project (RISP) | MDL/USD/ EUR | 01.04.2026 | 72,653 | 96,968 |
| International Fund for Agricultural Development (IFAD) | MDL/USD/ EUR | 16.03.2026 | 254,587 | 238,635 |
| Project for Competitiveness Improvement (PCI) | MDL/USD/ EUR | 01.04.2026 | 49,079 | 85,891 |
| Kreditanstalt fur Wiederaufbau | MDL/USD/ EUR | 15.07.2025 | 41,291 | 32,192 |
| Millennium Challenge | MDL/USD/ EUR | 25.02.2022 | 2,865 | 6,274 |
| Fillere du Vin | EUR | 02.06.2025 | 80,250 | 108,924 |
| European Bank for Reconstruction and Development | EUR | 26.09.2023 | 96,057 | - |
| European Bank for Reconstruction and Development | EUR | 26.05.2020 | 69,371 | - |
| | | | **666,153** | **568,884** |

For loans contracted under agreements between the Government of the Republic of Moldova and International Financial Institutions, repayment schedules are set for each individual project. The agreements have no financial covenants which require regular calculation and reporting.

## 16 DUE TO CUSTOMERS

| | 31.12.2019 MDL'000 | 31.12.2018 MDL'000 |
|---|---|---|
| **Legal entities** | | |
| Current accounts, including: | | |
| Corporate customers | 1,628,775 | 1,568,593 |
| Retail customers | 3,026,435 | 2,579,222 |
| | **4,655,210** | **4,147,815** |
| Term deposits, including: | | |
| Corporate customers | 285,131 | 342,742 |
| Retail customers | 586,482 | 783,104 |
| | **871,613** | **1,125,846** |
| | **5,526,823** | **5,273,661** |
| **Individuals** | | |
| Current accounts | 3,760,986 | 3,003,138 |
| Term deposits | 11,028,548 | 10,393,378 |
| | **14,789,534** | **13,396,516** |
| | **20,316,357** | **18,670,177** |

As at 31 December 2019 current accounts of legal entities and individuals include restricted deposits under guarantee agreements in the amount of MDL'000 63,346 (31 December 2018: MDL'000 84,314).

The Bank's term deposit portfolio includes certain deposits with no rights to withdraw deposits prior to maturity. Should such deposits be withdrawn prior to maturity, the interest rate is decreased to the rate applied for demand deposits and is recalculated for the whole term of the deposit.

## 17 TAXATION

| | 2019 MDL'000 | 2018 MDL'000 |
|---|---|---|
| Current income tax expense | 91,328 | 67,077 |
| Deferred income tax expense | (349) | 1,494 |
| **Income tax expense for the year** | **90,979** | **68,571** |

Current income tax is calculated on the taxable profit from the statutory financial statements. For tax purposes, the deductibility of certain expenses, for example entertainment costs, philanthropic, sponsorship and other expenses, expenses unconfirmed documentary are limited to a percentage of profit specified in the tax law.

The reconciliation of the income tax expense is presented in the table below:

| | 2019 MDL'000 | 2018 MDL'000 |
|---|---|---|
| Profit before tax | 794,650 | 600,035 |
| Tax calculated at applicable rate of 12% (2018:12%) | 95,358 | 72,004 |
| Tax effect of: | | |
| Non-taxable income | (9,664) | (12,083) |
| Non-deductible expenses | 5,329 | 8,818 |
| Philanthropic, sponsorship and other expenses | (44) | (168) |
| **Income tax expense for the year** | **90,979** | **68,571** |

## 17 TAXATION (CONTINUED)

Deferred tax assets and liabilities related to the statement of profit or loss and other comprehensive income include the following:

| 2019 | Balance at 1 January MDL'000 | Recognized in profit or loss MDL'000 | Recognized in other comprehensive income MDL'000 | Deferred tax assets MDL'000 | Deferred tax liabilities MDL'000 | Net balance at 31 December MDL'000 |
|---|---|---|---|---|---|---|
| Loans to customers, including: | 53 | (53) | - | - | - | - |
| *recognised at amortised cost* | *53* | *(53)* | - | - | - | - |
| Financial assets at fair value through other comprehensive income, including: | (5,215) | - | (9,908) | - | (15,123) | (15,123) |
| *the revaluation of equity investments* | *(5,564)* | - | *(9,516)* | - | *(15,080)* | *(15,080)* |
| *the revaluation of debt investments* | *349* | - | *(392)* | - | *(43)* | *(43)* |
| Property and equipment, including: | (27,067) | 402 | (1,615) | - | (28,280) | (28,280) |
| *revaluation reserve* | *(24,840)* | - | *(1,615)* | - | *(26,455)* | *(26,455)* |
| *depreciation* | *(2,227)* | *402* | - | - | *(1,825)* | *(1,825)* |
| **Total deferred tax assets (liabilities)** | **(32,229)** | **349** | **(11,523)** | **-** | **(43,403)** | **(43,403)** |

## 17 TAXATION (CONTINUED)

| 2018 | Balance at 1 January MDL'000 | Recognized in profit or loss MDL'000 | Recognized in other comprehensive income MDL'000 | Deferred tax assets MDL'000 | Deferred tax liabilities MDL'000 | Net balance at 31 December MDL'000 |
|---|---|---|---|---|---|---|
| Loans to customers, including: | 180 | (127) | - | 53 | - | 53 |
| *recognised at amortised cost* | *180* | *(127)* | - | *53* | - | *53* |
| Financial assets at fair value through other comprehensive income, including: | (7,879) | - | 2,664 | 349 | (5,564) | (5,215) |
| *the revaluation of equity investments* | *(4,992)* | - | *(572)* | - | *(5,564)* | *(5,564)* |
| *the revaluation of debt investments* | *(2,887)* | - | *3,236* | *349* | - | *349* |
| Property and equipment, including: | (27,187) | (1,400) | 1,520 | - | (27,067) | (27,067) |
| *revaluation reserve* | *(26,360)* | - | *1,520* | - | *(24,840)* | *(24,840)* |
| *depreciation* | *(827)* | *(1,400)* | - | - | *(2,227)* | *(2,227)* |
| Non-current assets held for sale | (33) | 33 | - | - | - | - |
| **Total deferred tax assets (liabilities)** | **(34,919)** | **(1,494)** | **4,184** | **402** | **(32,631)** | **(32,229)** |

## 18 OTHER LIABILITIES

| | 31.12.2019 MDL'000 | 31.12.2018 MDL'000 |
|---|---|---|
| **Other non-financial liabilities** | | |
| Other tax payables | 22,426 | 17,492 |
| | **22,426** | **17,492** |
| **Other financial liabilities** | | |
| Due to other financial institutions | 53,788 | 147,224 |
| Dividends payables | 79,465 | 171,500 |
| Lease liabilities | 96,997 | - |
| Due to suppliers | 2,137 | 3,180 |
| Settlements with E-Commerce | 11,719 | 11,972 |
| Settlements with the service Agent de Plata | 8,968 | 9,342 |
| * Other liabilities | 72,705 | 96,464 |
| | **325,779** | **439,682** |
| | **348,205** | **457,174** |

*Other liabilities include creditors of unidentified amounts MDL'000 5,560 (2018: MDL'000 6,992), payments received for transfer by destination MDL'000 5,049 (2018: MDL'000 19,326), transactions with securities MDL'000 28,096 (2018: MDL'000 26,306), reserved amounts for salary projects MDL'000 506 (2018: MDL'000 885) and other liabilities MDL'000 33,394 (2018: MDL'000 42,955).

Liabilities related to operating leases include the following:

| | 2019 MDL'000 |
|---|---|
| **Lease payments:** | |
| Short-term | 38,106 |
| Long-term | 62,552 |
| | **100,658** |
| **Less: Interest expense on lease liabilities:** | |
| Short-term | (1,497) |
| Long-term | (2,164) |
| | **(3,661)** |
| **Total liabilities recognized in the balance sheet:** | |
| Short-term | 36,609 |
| Long-term | 60,388 |
| | **96,997** |

## 18 OTHER LIABILITIES (CONTINUED)

During 2019, the Bank recorded depreciation of assets related to leasing contracts of MDL'000 35,084 (see Note 11), interest expenses on operating leasing contracts of MDL'000 1,860 (see Note 22) and expenses on short-term leasing contract and small value assets of MDL'000 8,141 (see Note 27).

The analysis of the maturity bands of non-discounted cash flows arising from leases recognized in the statement of financial position is presented in Note 34.5 "Liquidity risk".

## 19 SHARE CAPITAL AND EARNINGS PER SHARE

As at 31 December 2019 the share capital comprises 1,037,634 authorized ordinary shares, with a nominal value of MDL 200 per share (31 December 2018: 1,037,634).

During 2019 the Bank declared and distributed dividends from the net profit of the year ended 31 December 2018 in the amount of MDL'000 221,016 or MDL 213 per share, (2018: MDL'000 221,016 or MDL 213 per share).

| | Ordinary shares outstanding | Net Profit for the year MDL'000 | Earnings per share MDL | Diluted Earnings per share MDL |
|---|---|---|---|---|
| As 31 December 2018 | 1,037,634 | 531,464 | 512.19 | 512.19 |
| At 31 December 2019 | 1,037,634 | 703,671 | 678.15 | 678.15 |

## 20 OWN FUNDS

Starting from 30 July 2018, the parent Bank shall report the own funds ratio calculated in accordance with the requirements of CRD IV/CRR Basel III and the requirements of the National Bank of Moldova.

The requirements for the own funds ratio at 31 December 2019 represent min 17.00%, including capital buffer requirements. As at 31 December 2018 the minimum capital requirement was 16.25%

The Bank complies with the requirements of the established own funds.

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| | MDL'000 | MDL'000 |
| Common equity Tier 1 | 3,053,998 | 3,082,182 |
| Additional Tier 1 Capital | - | - |
| Tier 2 Capital | - | - |
| **Total own Funds:** | **3,053,998** | **3,082,182** |
| Risk exposure quantum | | |
| Credit risk | 13,637,673 | 11,606,212 |
| Operational risk | 2,250,179 | 2,118,948 |
| Market risk | - | 125,936 |
| Settlement/ delivery risk | - | - |
| **Total risk exposure quantum** | **15,887,852** | **13,851,096** |
| Common equity Tier 1 ratio | 19.22% | 22.25% |
| Tier 1 Capital ratio | 19.22% | 22.25% |
| Total own funds ratio | 19.22% | 22.25% |

## 21 CASH AND CASH EQUIVALENTS

For the cash flow statement, cash and cash equivalents comprise the following balances with original maturity of less than 90 days:

| | 31 December | | Change | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | MDL'000 | MDL'000 | MDL'000 | MDL'000 |
| Cash on hand | 940,113 | 1,103,695 | (163,582) | 490,643 |
| Current accounts with NBM | 4,455,945 | 4,329,009 | 126,936 | 943,408 |
| Current accounts and overnight deposits with banks | 1,928,015 | 1,659,735 | 268,280 | (1,077,560) |
| Certificates issued by NBM | 740,198 | 849,050 | (108,852) | (648,951) |
| | **8,064,271** | **7,941,489** | **122,782** | **(292,460)** |

## 22 NET INTEREST INCOME

| | 2019 | 2018 |
|---|---|---|
| | MDL'000 | MDL'000 |
| **Interest income** | | |
| Loans and advances to customers | 1,109,368 | 982,536 |
| Due from banks | 170,839 | 129,520 |
| Debt instruments at fair value through other comprehensive income | 78,743 | 90,294 |
| Debt instruments at amortised cost | 15,332 | 83,873 |
| | **1,374,282** | **1,286,223** |
| **Interest expense** | | |
| Due to customers (individuals) | (316,686) | (303,136) |
| Due to customers (companies) | (37,175) | (48,177) |
| Due to banks and borrowings | (16,121) | (20,151) |
| Operating lease | (1,860) | - |
| | **(371,842)** | **(371,464)** |
| **Net interest income** | **1,002,440** | **914,759** |

All interest income and interest expenses are calculated using the effective interest rate (EIR).

## 23 NET FEE AND COMMISSION INCOME

| | 2019 MDL'000 | 2018 MDL'000 |
|---|---|---|
| **Fee and commission income** | | |
| Cash transactions | 108,158 | 97,404 |
| Processing of clients' payments | 67,188 | 61,030 |
| Transactions with debit cards | 185,796 | 141,144 |
| Other services rendered to clients | 45,223 | 35,082 |
| Servicing of client accounts | 36,296 | 33,822 |
| Money transfer services | 18,000 | 17,202 |
| Guarantees and letters of credit | 6,052 | 6,702 |
| Salaries transferred to debit cards | 16,761 | 13,558 |
| Direct debit service | 7,718 | 6,822 |
| Cash delivery service | 5,780 | 6,138 |
| | **496,972** | **418,904** |
| **Fee and commission expense** | | |
| Services of the processing center | (112,765) | (86,111) |
| Debit card services | (61,705) | (45,044) |
| Cash transactions | (11,811) | (12,142) |
| Cash withdrawal related to debit cards | (3,463) | (3,288) |
| Commissions charged by correspondent banks | (6,050) | (2,461) |
| Other | (9,586) | (9,950) |
| | **(205,380)** | **(158,996)** |
| **Net fee and commission income** | **291,592** | **259,908** |

## 24 FOREIGN EXCHANGE GAINS, NET

| | 2019 MDL'000 | 2018 MDL'000 |
|---|---|---|
| Gains from trading in foreign currencies | 293,186 | 252,391 |
| Foreign exchange translation losses | (20,779) | (13,959) |
| **Net result** | **272,407** | **238,432** |

## 25 OTHER OPERATING INCOME

| | 2019 MDL'000 | 2018 MDL'000 |
|---|---|---|
| Penalties received | 16,080 | 12,032 |
| Income from unpaid and expired dividend liabilities | 1,336 | 806 |
| Gains from disposal of other assets | 1,061 | 1,492 |
| Income from rent | 1,133 | 1,217 |
| Gain on disposal of property and equipment | 674 | 2,065 |
| Dividend income | 714 | 312 |
| Other income | 1,243 | 5,800 |
| | **22,241** | **23,724** |

## 26 PERSONNEL EXPENSES

| | 2019 MDL'000 | 2018 MDL'000 |
|---|---|---|
| Salaries and bonuses | 313,752 | 293,260 |
| Social insurance and contributions | 61,780 | 65,635 |
| Medical insurance | 15,459 | 14,364 |
| Meal Tickets | 20,120 | 5,138 |
| Other personnel expenses | 30,152 | 26,781 |
| | **441,263** | **405,178** |

The Bank makes contributions to the State social insurance system of the Republic of Moldova calculated as a percentage of gross salary and other compensations. These contributions are charged to the statement of profit or loss in the period in which the related salary is earned by the employee.

## 27 OTHER OPERATIONAL EXPENSES

| | 2019 MDL'000 | 2018 MDL'000 |
|---|---|---|
| Rent expenses | 8,141 | 41,581 |
| Repairs and maintenance expenses | 37,402 | 33,131 |
| Advertising and sponsorship expenses | 31,009 | 35,133 |
| Contributions to Deposit Guarantee Fund | 23,972 | 22,226 |
| Maintenance of intangible assets expenses | 16,342 | 13,839 |
| Utilities expenses | 12,657 | 14,124 |
| Professional services expenses | 16,934 | 11,845 |
| Security expenses | 11,436 | 10,796 |
| Post and telecommunication expenses | 9,082 | 8,511 |
| Stationery and supplies expenses | 11,017 | 11,626 |
| Transportation expenses | 8,110 | 7,870 |
| Expenses for the remuneration of the Bank's Council | 11,880 | 17,375 |
| Dealing and informational services expenses | 4,098 | 3,508 |
| Business promotion expenses | 6,516 | 7,735 |
| Inventory expenses | 7,370 | 6,005 |
| Insurance expenses | 4,744 | 3,041 |
| Business trips expenditures | 2,799 | 3,215 |
| Training expenses | 2,428 | 2,926 |
| Debts collecting services | 1,370 | 1,400 |
| Expenses for the disposal of other assets | 1,241 | 1,681 |
| Customers compensation costs* | 26,985 | - |
| Other expenses** | 21,615 | 17,577 |
| | **277,148** | **275,145** |

*In 2019, there was a case of breaking the safes located in one of the Bank's branches. Despite the fact that the Bank does not bear contractual liability for the integrity of the assets held by the customers in the safes, in order to meet customers' needs, the Bank Board decided, as an exception, to compensate each affected customer in the amount of money declared to be kept in the safe, but not more than MDL 500,000.

At the moment of issuing these financial statements, the Bank does not have information on the results of ongoing investigations carried out by law enforcement authorities.

**Other expenses comprise taxes paid for real estate, penalties paid, expenses related to cash transactions and certain marketing expenses.

## 28 GUARANTEES AND OTHER FINANCIAL COMMITMENTS

The aggregate amount of outstanding guarantees, commitments and other off-balance sheet items as at 31 December 2019 and 31 December 2018 is:

| | 2019<br>MDL'000 | 2018<br>MDL'000 |
|---|---|---|
| Letters of credit | 16,220 | 976 |
| Guarantees | 390,229 | 248,474 |
| Financing commitments and other | 1,488,111 | 964,366 |
| | **1,894,560** | **1,213,816** |

## 28 GUARANTEES AND OTHER FINANCIAL COMMITMENTS (CONTINUED)

In the normal course of business, 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. In the event of a claim on the Bank as a result of a customer's default on a guarantee these instruments also present a degree of credit risk to the Bank. The Bank considers that provision in amount of MDL'000 9,470 is required in relation to this risk at 31 December 2019 (2018: MDL'000 9,749).

Financing commitments do not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being disbursed. The table below shows the expected maturity of the Bank's guarantees and other financial commitments as at 31 December 2019 and 31 December 2018:

| **2019** | **Less than 1 month MDL'000** | **1 to 3 months MDL'000** | **3 months to 1 year MDL'000** | **1 to 5 years MDL'000** | **Over 5 years MDL'000** | **Total MDL'000** |
|---|---|---|---|---|---|---|
| Letters of credit | 15,257 | - | - | 963 | - | 16,220 |
| Guarantees | 296,495 | 20,714 | 31,303 | 41,717 | | 390,229 |
| Financing commitments and other | 41,677 | 77,752 | 502,123 | 866,557 | 2 | 1,488,111 |
| **Total** | **353,429** | **98,466** | **533,426** | **909,237** | **2** | **1,894,560** |

| **2018** | **Less than 1 month MDL'000** | **1 to 3 months MDL'000** | **3 months to 1 year MDL'000** | **1 to 5 years MDL'000** | **Over 5 years MDL'000** | **Total MDL'000** |
|---|---|---|---|---|---|---|
| Letters of credit | - | 976 | - | - | - | 976 |
| Guarantees | 164,364 | 21,764 | 39,115 | 23,231 | - | 248,474 |
| Financing commitments and other | 42,283 | 176,197 | 285,144 | 460,741 | 1 | 964,366 |
| **Total** | **206,647** | **198,937** | **324,259** | **483,972** | **1** | **1,213,816** |

## 28 GUARANTEES AND OTHER FINANCIAL COMMITMENTS (CONTINUED)

The movement in provisions for estimated losses from impairment of financing commitments and guarantees recorded in the statement of profit or loss during 2019 and 2018 are presented below:

| | Corporate | Retail entities | Individuals | Total |
|---|---|---|---|---|
| | MDL'000 | MDL'000 | MDL'000 | MDL'000 |
| **As at 1 January 2019** | 7,382 | 2,228 | 139 | 9,749 |
| Impairment charge on financing commitments | (1,690) | 541 | 38 | (1,111) |
| Impairment charge on guarantees | 733 | 157 | 5 | 895 |
| Foreign exchange differences | (52) | (11) | - | (63) |
| **As at 31 December 2019** | 6,373 | 2,915 | 182 | 9,470 |

| | Corporate | Retail entities | Individuals | Total |
|---|---|---|---|---|
| | MDL'000 | MDL'000 | MDL'000 | MDL'000 |
| **As at 1 January 2018** | 5,081 | 1,753 | 118 | 6,952 |
| Impairment charge on financing commitments | 2,783 | 549 | - | 3,332 |
| Impairment charge on guarantees | (349) | (54) | 21 | (382) |
| Foreign exchange differences | (133) | (20) | - | (153) |
| **As at 31 December 2018** | 7,382 | 2,228 | 139 | 9,749 |

## 29 CAPITAL COMMITMENTS

As at 31 December 2019 and 31 December 2018 the Bank did not have any commitment.

## 30 CONTINGENCIES

At 31 December 2019 and 31 December 2018 Bank acts as the defendant in several lawsuits arising in the ordinary corporate activity. According to Management and the Legal Department of the Bank, the loss probability is small and accordingly no provision has been made in these financial statements.

## 31 FAIR VALUE OF FINANCIAL INSTRUMENTS AND FAIR VALUE HIERARCHY

Fair value measurements are analysed by the fair value level in the fair value hierarchy as described in Note 3. Management makes judgments in categorizing the financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against their impact on fair value of the valued instruments.

**Recurring or non-recurring measurement of assets and liabilities at fair value**

For assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition the Bank uses evaluation techniques and inputs used to develop those measurements.

For recurring fair value measurement using significant unobservable inputs (Level 3), the effect of measurements are presented in profit or loss or other comprehensive income for the period.

## 31 FAIR VALUE OF FINANCIAL INSTRUMENTS AND FAIR VALUE HIERARCHY (CONTINUED)

The level in the fair value hierarchy into which the recurring fair value measurements are categorized are as follows:

| | | | | 2019 | | | | 2018 |
|---|---|---|---|---|---|---|---|---|
| | | | | Fair Value MDL'000 | | | | Fair Value MDL'000 |
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| **Financial assets** | | | | | | | | |
| Equity instruments at fair value through other comprehensive income | 97,336 | - | 87,146 | 184,482 | 68,595 | - | 82,957 | 151,552 |
| Debt instruments at fair value through other comprehensive income | - | 1,085,824 | - | 1,085,824 | | 1,496,114 | | 1,496,114 |
| **Non-financial assets** | | | | | | | | |
| Land and buildings | - | - | 449,167 | 449,167 | - | - | 454,208 | 454,208 |
| **Total assets recurring fair value measurements** | **97,336** | **1,085,824** | **536,313** | **1,719,473** | **68,595** | **1,496,114** | **537,165** | **2,101,874** |

*(All amounts expressed in thousand MDL, if not stated otherwise)*

## 31 FAIR VALUE OF FINANCIAL INSTRUMENTS AND FAIR VALUE HIERARCHY (CONTINUED)

The valuation technique, inputs used in the fair value measurement for level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows as at 31 December 2019 and 31 December 2018:

| | Fair value | Valuation technique | Inputs used | Range of inputs (weighted average) | Reasonable change | Sensitivity of fair value |
|---|---|---|---|---|---|---|
| **31 December 2019** | | | | | | |
| Equity instruments at fair value through other comprehensive income | 87,146 | Discounted cash flows | Weighted average cost of capital | 12.61%-15.96% (13.74%) | +10% | (25,551) |
| | | | | | -10% | 35,287 |
| | 97,336 | Market value | Market price for the financial asset | | ±5% | ±4,867 |
| Land and buildings | 449,167 | Market value | Market prices for comparable properties (MDL/sq.m.) | Lands – 29-4,137 (2,319) Buildings – 98-36,935 (14,186) | ±10% | ±44,917 |
| **31 December 2018** | | | | | | |
| Equity instruments at fair value through other comprehensive income | 82,957 | Discounted cash flows | Weighted average cost of capital | 8.65%-13.01% (10.22%) | +10% | (34,399) |
| | | | | | -10% | 64,540 |
| | 68,595 | Market value | Market price for the financial asset | | ±5% | ±3,430 |
| Land and buildings | 454,208 | Market value | Market prices for comparable properties (MDL/sq.m.) | Lands – 29-4,137 (2,319) Buildings – 98-36,935 (14,186) | ±10% | ±45,421 |

## 31 FAIR VALUE OF FINANCIAL INSTRUMENTS AND FAIR VALUE HIERARCHY (CONTINUED)

The above tables discloses sensitivity to valuation inputs for financial assets, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly. For this purpose, significance was judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in other comprehensive income, total equity.

The sensitivity of fair value measurement disclosed in the above table shows the direction that an increase or decrease in the respective input variables would have on the valuation result. For investments available for sale, increases in the WACC multiple would lead to a decrease in estimated value.

Level 3 valuations are reviewed on an annual basis by corporate investments department who report to the Management Board. The Bank involves an external value who hold a recognised and relevant professional qualification and who have recent experience in the valuation of assets in a similar category. The corporate investments department considers the appropriateness of the valuation model inputs, as well as the valuation result using various valuation methods and techniques generally recognised as standard within the financial services industry.

## 31 FAIR VALUE OF FINANCIAL INSTRUMENTS AND FAIR VALUE HIERARCHY (CONTINUED)

The following table summarizes the carrying amounts and fair values of those financial assets and liabilities not valued at fair value in the Bank's statement of financial position:

| | 2019 | | | | | 2018 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Carrying Value MDL'000 | Level 1 | Level 2 | Level 3 | Fair Value MDL'000 Total | Carrying Value MDL'000 | Level 1 | Level 2 | Level 3 | Fair Value MDL'000 Total |
| **Financial assets** | | | | | | | | | | |
| Accounts in NBM | 5,813,652 | - | 5,813,652 | - | 5,813,652 | 5,400,244 | - | 5,400,244 | - | 5,400,244 |
| Demand deposits and bank accounts | 1,995,549 | - | 1,995,549 | - | 1,995,549 | 1,720,149 | - | 1,720,149 | - | 1,720,149 |
| Loans to: | 13,399,074 | - | - | 13,543,202 | 13,543,202 | 11,579,625 | - | - | 12,109,429 | 12,109,429 |
| Corporate | 7,007,133 | - | - | 7,273,439 | 7,273,439 | 6,265,464 | - | - | 6,459,499 | 6,459,499 |
| Retail entities | 1,913,100 | - | - | 1,993,591 | 1,993,591 | 1,858,271 | - | - | 1,912,577 | 1,912,577 |
| Individuals | 4,478,841 | - | - | 4,276,172 | 4,276,172 | 3,455,890 | - | - | 3,737,353 | 3,737,353 |
| Financial assets at amortized cost / held to maturity | 755,024 | - | 755,014 | - | 755,014 | 895,379 | - | 894,923 | | 894,923 |
| Other financial assets | 60,188 | - | - | 60,188 | 60,188 | 26,700 | - | - | 26,700 | 26,700 |
| **Total** | **22,023,487** | - | **8,564,215** | **13,603,390** | **22,167,605** | **19,622,097** | - | **8,015,316** | **12,136,129** | **20,151,445** |

## 31 FAIR VALUE OF FINANCIAL INSTRUMENTS AND FAIR VALUE HIERARCHY (CONTINUED)

| | 2019 | | | | | | | | | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|
| | Carrying Value MDL'000 | Level 1 | Level 2 | Level 3 | Fair Value MDL'000 | Carrying Value MDL'000 Level 1 | Level 2 | Level 3 | | Fair Value MDL'000 Level 1 |
| **Financial liabilities** | | | | | | | | | | |
| Due to banks | 23,971 | - | - | 23,971 | 23,971 | 5,045 | - | - | 5,045 | 5,045 |
| Borrowings | 666,153 | - | - | 669,297 | 669,297 | 568,884 | - | - | 569,765 | 569,765 |
| Due to customers | 20,316,357 | - | - | 20,436,611 | 20,436,611 | 18,670,177 | - | - | 18,633,168 | 18,633,168 |
| Corporate including: | 5,526,823 | - | - | 5,525,905 | 5,525,905 | 5,273,661 | - | - | 5,257,097 | 5,257,097 |
| Demand deposits | 4,655,210 | - | - | 4,655,210 | 4,655,210 | 4,147,815 | - | - | 4,147,815 | 4,147,815 |
| Term deposits | 871,613 | - | - | 870,695 | 870,695 | 1,125,846 | - | - | 1,109,282 | 1,109,282 |
| Individuals including: | 14,789,534 | - | - | 14,910,706 | 14,910,706 | 13,396,516 | - | - | 13,376,072 | 13,376,072 |
| Demand deposits | 3,760,986 | - | - | 3,760,986 | 3,760,986 | 3,003,138 | - | - | 3,003,138 | 3,003,138 |
| Term deposits | 11,028,548 | - | - | 11,149,720 | 11,149,720 | 10,393,378 | - | - | 10,372,934 | 10,372,934 |
| Other financial liabilities | 325,779 | - | - | 325,779 | 325,779 | 439,682 | - | - | 439,682 | 439,682 |
| **Total** | **21,332,260** | **-** | **-** | **21,455,658** | **21,455,658** | **19,683,788** | **-** | **-** | **19,647,660** | **19,647,660** |

## 31 FAIR VALUE OF FINANCIAL INSTRUMENTS AND FAIR VALUE HIERARCHY (CONTINUED)

*Cash and cash equivalents*

The fair value of cash and cash equivalents equals to their carrying amount.

*Loans and advances to customers*

Loans are reduced by impairment allowance for loan losses. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

*Debt instruments at amortised cost*

Investment securities include only interest-bearing assets held to maturity. Fair value for held-to-maturity assets is based on market prices or broker / dealer price quotations.

*Borrowings, due to banks*

The fair value of floating rate borrowings approximates their carrying amount. The estimated fair value of fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

## 32 CLASSIFICATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY

The Bank classifies financial assets in the following categories:
- Financial assets at fair value through profit or loss;

- Financial assets at fair value through other comprehensive income;

- Financial assets at amortised cost.

## 32 PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY (CONTINUED)

The table below provides a reconciliation of financial assets with these measurement categories as at 31 December 2019:

| 31 December 2019 | Financial assets at amortised cost MDL'000 | Financial assets at fair value through other comprehensive income MDL'000 | Total MDL'000 |
|---|---|---|---|
| **Assets:** | | | |
| Cash on hand and balances with NBM | 6,753,765 | - | 6,753,765 |
| Due from banks | 1,995,549 | - | 1,995,549 |
| **Loans and advances to customers:** | | | |
| Corporate loans | 7,007,133 | - | 7,007,133 |
| Retail entities | 1,913,100 | - | 1,913,100 |
| Individuals | 4,478,841 | - | 4,478,841 |
| Financial assets at fair value through other comprehensive income | - | 1,270,306 | 1,270,306 |
| Financial assets at amortized cost | 755,024 | - | 755,024 |
| **Other financial assets:** | | | |
| Other | 60,188 | - | 60,188 |
| **Total financial assets** | **22,963,600** | **1,270,306** | **24,233,906** |

## 32 PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY (CONTINUED)

The table below provides a reconciliation of financial assets with these measurement categories as at 31 December 2018:

| 31 December 2018 | Financial assets at amortised cost MDL'000 | Financial assets at fair value through other comprehensive income MDL'000 | Total MDL'000 |
|---|---|---|---|
| **Assets:** | | | |
| Cash on hand and balances with NBM | 6,503,939 | - | 6,503,939 |
| Due from banks | 1,720,149 | - | 1,720,149 |
| | | | |
| **Loans and advances to customers:** | | | |
| Corporate loans | 6,265,464 | - | 6,265,464 |
| Retail entities | 1,858,271 | - | 1,858,271 |
| Individuals | 3,455,890 | - | 3,455,890 |
| Financial assets at fair value through other comprehensive income | - | 1,647,666 | 1,647,666 |
| Financial assets at amortized cost | 895,379 | - | 895,379 |
| **Other financial assets:** | | | |
| Other | 26,700 | - | 26,700 |
| **Total financial assets** | **20,725,792** | **1,647,666** | **22,373,458** |

As at 31 December 2019 and 31 December 2018 all financial liabilities of the Bank were carried at amortized cost.

## 33 RELATED PARTIES

During the year a number of banking and non-banking transactions were entered into with related parties in the normal course of business.

These include extending of loans, accepting of deposits, trade finance, payment settlement, foreign currency transactions and acquisition of services and goods from related parties.

The income and expense from above-mentioned transactions and the balances arose from the ordinary course of business and were performed at normal commercial prices.

In the table below are disclosed the balances and transactions with related parties during the years 2019 and 2018:

## 33 RELATED PARTIES (CONTINUED)

| | | | Related parties transactions | | | | | | | | | Equity transactions |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Related party | | | Loans at year-end (contractual interest rate: 8.75-17.00%) | Impairment allowance | Deposits at year-end (contractual interest rates: 0.10-6.75%) | Guarantees issued by the Bank | Loan Commitments | Interest income | Interest expenses | Non-interest income | Non-interest expenses | Dividends paid |
| | | | MDL'000 | MDL'000 | MDL'000 | MDL'000 | MDL'000 | MDL'000 | MDL'000 | MDL'000 | MDL'000 | MDL'000 |
| Civil society of Bank Shareholders and their affiliates | *Shareholders* | *2019* | 943 | 6 | 215,343 | - | 200 | 98 | 6,903 | 527 | 11,087 | 156,608 |
| | | *2018* | 1,682 | 21 | 169,140 | 3,200 | 1,712 | 2,338 | 3,360 | 1,870 | 15,254 | 67,600 |
| Other directors (executive/ non - executive) and their affiliates | *Management* | *2019* | 294,407 | 4,505 | 65,590 | - | 1,807 | 12,483 | 1,186 | 2,171 | 42,320 | 5,506 |
| | | *2018* | 335 | 2 | 214,526 | 14,000 | 125 | 278 | 3,170 | 1,408 | 38,629 | 1,114 |
| MAIB Leasing SA | *Subsidiary* | *2019* | 10,930 | 59 | 2,066 | - | - | 766 | - | 278 | 716 | - |
| | | *2018* | 18,563 | 1,837 | 4,881 | - | - | 1,462 | 12 | 463 | 716 | - |
| MoldMediaCard SRL | *Subsidiary* | *2019* | - | - | 9,632 | - | - | - | - | 581 | 26,536 | - |
| | | *2018* | - | - | 18,341 | - | - | - | 66 | 392 | 24,114 | - |
| **Total** | | ***2019*** | **306,280** | **4,570** | **292,631** | **-** | **2,007** | **13,347** | **8,089** | **3,557** | **80,659** | **162,114** |
| | | ***2018*** | **20,580** | **1,860** | **406,888** | **17,200** | **1,837** | **4,078** | **6,608** | **4,133** | **78,713** | **68,714** |

## 33 RELATED PARTIES (CONTINUED)

### *Key management remuneration*

The executive management and non-executive members of Bank's Board of Directors received remuneration during the years 2019 and 2018, as follows:

| | 2019 MDL'000 | 2018 MDL'000 |
|---|---|---|
| Executive management remuneration | 23,827 | 22,789 |
| Medical insurance contributions | 1,072 | 1,025 |
| Social fund | 4,283 | 5,048 |
| **Total executive management** | **29,182** | **28,862** |
| Board remuneration | 9,317 | 13,200 |
| Medical insurance contributions | 348 | 594 |
| Social fund | 1,391 | 2,927 |
| **Total Board** | **11,056** | **16,721** |

## 34 RISK MANAGEMENT

The risks are part of the Bank's activities. Effective risk management it is a key condition for a success, especially during current economic conditions. The key objectives such as the maximization of the profitability, reduction of the risk exposure, compliance with regulations determined that the risk management process becomes more complex and vital. The Bank is exposed to the credit risk, including the risk related to counterparties, liquidity risk, market risk that includes interest rate risk and currency risk, operational risk, country and transfer risk.

### 34.1 Risk management structure

The risk management system functioning within the Bank is based on actual requirements regarding the internal control system, general accepted practice, including recommendations of the Basel Committee for Banking Supervision.

The Bank's Council is responsible for approving the Bank's strategies, policies and general principles for addressing the risks in the Bank and risk limits, implementation of which is a task for the Bank executive, as part of specialized committees such as the Management Board, Credit Committee, and Asset and Liability Committee (ALCO).

## 34 RISK MANAGEMENT (CONTINUED)

### 34.1 Risk management structure (continued)

The Bank's Risk Committee is a permanent body with advisory functions, the main purpose of which is to ensure the organization of an efficient system for a permanent identification and assessment of risks related to the Bank's activity and to oversee the implementation of Bank's risk strategies.

### 34.2 Basic principles of risk management

The Bank's strategy on risk management is to ensure the capital adequacy of the Bank's risk appetite as well as the forecasted risk indicators in order to ensure continuity in the Bank's business and protect the interests of shareholders and customers. The Bank adopts a risk appetite according to the appropriate risk management strategies and policies, correlated with the overall business strategy, the bank's equity and risk management experience.

Risk management is carried out by applying structured management culture, policies, procedures and practices in order to identify, assess, monitor and reduce risk. Monitoring and controlling risks is conducted primarily by using the system of limits imposed by the Bank for each significant risk. Limits are monitored daily, ensuring communication to members of the Management Board/ALCO/Risk Committee and Board of Directors. Given the environmental change, market trends and / or increase of some risk indicators, the Bank intervenes and imposes limits or other control measures. Risk limits reflect in the first place the tolerance and risk appetite of the Bank.

The Bank has developed its own internal model for evaluation and quantification of the economic capital required in order to cover the main types of risk it faces such as credit, currency, market (interest rate and exchange rate) and operational risks. The Bank also uses guaranteeing and hedging its risk exposures through tools available on the market.

The stress testing process is an integral part of the bank's risk management system. The Bank is regularly reporting the results of these stress tests to the Bank's Management Board, the ALCO Committee, the Risk Committee, and eventually to the Board of Directors. If necessary, decisions are approved and recommendations are given in order to anticipate unfavourable events for the Bank. The Internal Audit Department has the function of assessing the effectiveness of the stress testing scenarios conducted within the bank for all risks related to the banking activity, taking into account possible events or changes in market conditions that may affect the Bank's activity.

In order to ensure effective risk management and obtain objective information on the condition and size of the risks, Bank's risk exposure is monitored continuously, information being presented and analyzed daily, so that the risks are identified and kept at the Bank's acceptable and justifiable level. Detailed monthly reports with information on the Bank's exposure, limits and risk parameters, the development of risk scenarios and their possible impact, and if necessary, are presented to the Bank's executive, including the specialized committees such as ALCO Committee, Credit Committee.

## 34 RISK MANAGEMENT (CONTINUED)

### 34.2 Basic principles of risk management (continued)

Quarterly, a comprehensive report is presented to the Risk Committee and the Bank's Council, which allows the members to create their own views on the efficiency of the bank's risk exposure and their management.

### 33.2 Country and transfer risk

Country risk is the risk determined by the eventual negative impact of economic, social and political conditions and events in a foreign country on the Bank's activity.

Transfer risk is the risk that it will be impossible for a foreign entity to convert certain financial liabilities in the necessary currency to settle the payment due to the deficiency of the respective currency as a result of restrictions imposed in that country.

The country risk management system within the Bank provides for the application and improvement of the internal model for evaluation and assessing of the risk category established for the country, on the basis of the analysis of complex factors, including the international rating assigned by the international rating agencies stipulated in the internal normative acts. Based on them the risk categories and the exposure limits of the bank toward each country are established. The review and adjustment of the approved limits is done periodically, but not less than once a year.

The compliance with the country limits is monitored continuously, Bank's Management, Risk Committee and Council is regularly informed about Bank exposure to the country and transfer risk.

## 34 RISK MANAGEMENT (CONTINUED)

### 34.3 Country and transfer risk (continued)

Bank's country risk exposure at 31 December:

| | | 2019 | | 2018 |
|---|---|---|---|---|
| **Country risk category** | **MDL'000** | **%** | **MDL'000** | **%** |
| I | 1,988,440 | 99.37 | 1,690,536 | 98.04 |
| II | 11,632 | 0.58 | 11,817 | 0.68 |
| III | 109 | 0.01 | 21,650 | 1.26 |
| IV | 817 | 0.04 | 384 | 0.02 |
| **Total** | **2,000,998** | **100** | **1,724,387** | **100** |

Category I includes countries with international rating AAA-AA, category II: A-BBB, category III: BB-B, category IV: less than B.

The Bank considers as acceptable the level of country risk, given that most of the financial resources exposed to country risk relate to States with a high solvency, and namely I risk category – 99.37%.

The Bank periodically assesses the credit quality of its exposure to country risk and performs various stress scenarios based on the severity of the assumed circumstances, estimating the size of potential losses if the conditions will occur and the impact on the Bank's capital. Developments in the global and regional economy and trends and their forecasts are continuously analysed, in order to react promptly and effectively to minimize risks.

### 34.3 Market risk

Market risk represents the risk of registering financial losses and /or the worsening of the financial position of the Bank, as a result of the unfavourable fluctuations in the price of the Bank's portfolio, determined by the changes in the risk factors such as: interest, exchange rates, volatility, etc.

The Bank identifies itself as being exposed to interest rate and currency risks. Market risk management is aimed at monitoring and maintaining the exposure of the financial instruments in the portfolio within the set parameters while optimizing the return on those investments.

## 34 RISK MANAGEMENT (CONTINUED)

### 34.4 Market risk (continued)

*34.4.1. Currency risk*

Currency risk is the risk of potential losses due to exchange rate changes (price) of the respective currency on exchange market.

The Bank manages the exchange rate risk through its prudent management of the open currency positions, the management and monitoring process being based on VAR methodology, the internal system of indicators and limits applied, maintenance of a balanced structure of assets and liabilities in foreign currency, applying stress scenarios to exchange rate developments and analysis of the impact on earnings and capital.

In order to calculate the equity requirement for the total net position in foreign currencies, the Bank uses the standardized approach to currency risk in accordance with the regulations established by the NBM.

In order to estimate the market risk derived from changes in exchange rates of foreign exchange to the Moldovan Leu, the Bank uses the VAR method with a confidence interval of 95%, calculated on the basis of information on daily fluctuations of exchange rates, recorded during a two year observation period.

The VAR limit and limits applied for the management of currency risk exposure are examined by ALCO and approved annually by the management, and included to the Annual Directives regarding the Limits and Risk Parameters.

**VAR Indicator** **(MDL'000)**

| | VAR Limit | Effectively at 31 December | Daily average | Maximum | Minimum |
|---|---|---|---|---|---|
| **2019** | 2,600 | 240 | 406 | 2,130 | 40 |
| **2018** | 2,600 | 985 | 362 | 1,396 | 26 |

To ensure effective monitoring of the currency risk and increase the Bank's protection against possible adverse developments in the risk factors, the Bank analyses the sensitivity of its opened currency positions to the volatility of the exchange rates.

The table below reflects the potential effect (on account of profit / loss) from daily change of foreign exchange rates that Bank mainly operates with and therewith significant exposure (given the size of balance sheet assets and foreign exchange liabilities): EUR, USD in relation to MDL.

## 34 RISK MANAGEMENT (CONTINUED)

### 34.4 Market risk (continued)

*34.4.1. Currency risk (continued)*

The sensitivity analysis is applied to open currency positions for each of the two currencies listed at 31 December 2019 and at 31 December 2018, given reasonable daily deviation increase / decrease in exchange rates of foreign currencies against to the national currency.

The amount of open currency positions includes the balances of balance sheet and off-balance sheet assets and liabilities in foreign currency. Negative amount, possibly obtained under scenario reflects a potential net reduction in foreign currency differences gains, net, while a positive amount reflects a possible increase in the foreign currency differences gains, net:

| Open currency position | Nominal value MDL'000 | Exchange rate % | Possible rate increase MDL'000 | Income/ (loss) effect % | Possible rate decrease MDL'000 |
|---|---|---|---|---|---|
| **As at 31 December 2019** | | | | | |
| EUR | (35,077) | 15.00 | (5,262) | (10.00) | 3,508 |
| USD | 6,079 | 15.00 | 912 | (15.00) | (912) |
| **Total** | | | **(4,350)** | | **2,596** |

| Open currency position | Nominal value MDL'000 | Exchange rate % | Possible rate increase MDL'000 | Income/ (loss) effect % | Possible rate decrease MDL'000 |
|---|---|---|---|---|---|
| **As at 31 December 2018** | | | | | |
| EUR | (80,729) | 15.00 | (12,109) | (10.00) | 8,073 |
| USD | (77,519) | 15.00 | (11,628) | (15.00) | 11,628 |
| **Total** | | | **(23,737)** | | **19,701** |

## 34 RISK MANAGEMENT (CONTINUED)

### 34.4 Market risk (continued)

*34.4.1. Currency risk (continued)*

The nominal value of open foreign exchange position is calculated according to the provisions of the NBM and includes the assets and financial liabilities and the conditional commitments at 31 December 2019 and 31 December 2018.

The Bank's assets and liabilities per currencies are disclosed in Note 35.

*34.4.2. Interest rate risk associated with activities outside of non-trading portfolio*

Interest rate risk is the current or future risk of impairment of profits and equity as a result of adverse changes in interest rates.

The Bank treats IRRBB as a significant risk, being properly monitored, measured and controlled, in order to limit potential losses caused by adverse interest rate fluctuations so that such losses do not threaten the Bank 's profitability, own funds or operational safety.

The Bank manages the exposure to the IRRBB through the analysis of sensitive assets and liabilities within the interest rate review gap and through a system of limits and risk parameters approved by the Bank's Board within the internal regulations. The monitoring of the exposure to the interest rate risk of the banking portfolio and compliance with internal limits is performed at least once a month, within the Bank's Assets and Liabilities Management Committee.

The Bank quantifies its exposure to interest rate risk in the banking portfolio, in terms of affecting the economic value of the bank (EVE) and net interest income (NII), as a result of applying the shocks to changes in interest rates on the yield curve.

Estimating the sensitivity of the economic value of assets and liabilities outside the non-trading portfolio is calculated by comparing their present value to the value obtained as a result of the application of the interest rate curve to each predefined stress scenario.

Estimating the impact of the change in net interest income is the difference between the expected gains in a baseline scenario and the expected gains in alternative ones, negative shock or crisis scenarios, in a perspective of business continuity over the next year by considering a constant balance sheet.

## 34 RISK MANAGEMENT (CONTINUED)

### 34.4 Market risk (continued)

*34.4.2 Interest rate risk associated with activities outside of non-trading portfolio (continued)*

The table below sets out the net interest income sensitivity to a potential modification of the interest rate for individual intervals. The model does not measure non-interest-bearing elements.

| | Sensitivity of net interest income, MDL'000 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Increase in basis points | 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Total |
| 2019 | +100 | 27,051 | (1,698) | (6,347) | 2,468 | 2 | 21,476 |
| | +50 | 13,526 | (849) | (3,174) | 1,234 | 1 | 10,738 |
| 2018 | +100 | 5,539 | 2,725 | 3,531 | 4,498 | 12 | 16,305 |
| | +50 | 2,770 | 1,362 | 1,765 | 2,249 | 6 | 8,152 |

| | Sensitivity of net interest income, MDL'000 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Decrease in basis points | 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Total |
| 2019 | -100 | (27,051) | 1,698 | 6,347 | (2,468) | (2) | (21,476) |
| | -50 | (13,526) | 849 | 3,174 | (1,234) | (1) | (10,738) |
| 2018 | -100 | (5,539) | (2,725) | (3,531) | (4,498) | (12) | (16,305) |
| | -50 | (2,770) | (1,362) | (1,765) | (2,249) | (6) | (8,152) |

## 34 RISK MANAGEMENT (CONTINUED)

### 34.5 Liquidity risk

Liquidity risk is the current or future risk that affects profits and equity due to the Bank 's inability to meet its obligations at maturity.

To ensure financial equilibrium in terms of maturities, the Bank aims to maintain congruence between continuity and flexibility of attracting funds, by contracting liabilities with different maturity.

The Bank's liquidity risk management system provides for managing liquidity in accordance with regulatory requirements, systematic monitoring and analysis of risk factors related to current and long-term liquidity, regular reporting on the level of exposure of the Bank's liquidity risk, submission of recommendations and proposals, conducting stress tests to back up the projection of cash flows, and provides an assessment of the Bank's liquidity situation.

The Bank's liquidity risk management system foresees liquidity management in accordance with regulatory requirements, systematic monitoring and analysis of risk factors regarding the Bank's current and long-term liquidity. The Bank developed a range of indicators that allow analysing the dynamics of liquidity position The Bank aims to achieve an optimal balance between assets and liabilities on each maturity gap, by contracting a diversified and high quality portfolio of assets, ensuring sustainable and successful activity, and attracting financial resources with various maturities. An integral part of the liquidity risk management process represents the system of early warning indicators and liquidity position testing under crisis conditions.

The Bank maintains and updates the Crisis Recovery Plan, which represents a risk management tool aimed for determining the procedures for early identification of vulnerabilities and measures to be taken in order to mitigate the negative impact of a possible crisis situation.

Strict monitoring and prudent liquidity management is overseen by ALCO (the Bank's Assets and Liabilities Management Committee).

## 34 RISK MANAGEMENT (CONTINUED)

### 34.5 Liquidity risk (continued)

The table below sets out the remaining contractual cash flows until the maturity of the Bank's non-derivative financial liabilities. The amounts disclosed in the table represent undiscounted cash flows at 31 December 2019:

| | On demand MDL'000 | Less than 3 months MDL'000 | From 3 months to 1 year MDL'000 | From 1 to 5 years MDL'000 | More than 5 years MDL'000 | Total MDL'000 |
|---|---|---|---|---|---|---|
| **31 December 2019** | | | | | | |
| **Financial liabilities** | | | | | | |
| Due to banks | 23,971 | - | - | - | - | 23,971 |
| Borrowings | 23,606 | 66,057 | 153,991 | 437,781 | 25,354 | 706,789 |
| Due to customers | 9,478,299 | 1,544,487 | 6,183,464 | 3,620,726 | 53,061 | 20,880,037 |
| Liabilities related to operating leases | - | - | 38,085 | 51,993 | 10,579 | 100,657 |
| Other financial liabilities | 228,782 | - | - | - | - | 228,782 |
| **Total undiscounted financial liabilities** | **9,754,658** | **1,610,544** | **6,375,540** | **4,110,500** | **88,994** | **21,940,236** |
| Letters of credit | 15,257 | - | - | 963 | - | 16,220 |
| Financial guarantees | 296,495 | 20,714 | 31,303 | 41,717 | - | 390,229 |
| Financing commitments | 41,677 | 77,752 | 502,123 | 866,557 | 2 | 1,488,111 |
| **Total** | **10,108,087** | **1,709,010** | **6,908,966** | **5,019,737** | **88,996** | **23,834,796** |

## 34 RISK MANAGEMENT (CONTINUED)

### 34.5 Liquidity risk (continued)

The table below sets out the remaining contractual cash flows until the maturity of the Bank's non-derivative financial liabilities. The amounts disclosed in the table represent undiscounted cash flows at 31 December 2018:

| | On demand MDL'000 | Less than 3 months MDL'000 | From 3 months to 1 year MDL'000 | From 1 to 5 years MDL'000 | More than 5 years MDL'000 | Total MDL'000 |
|---|---|---|---|---|---|---|
| **31 December 2018** | | | | | | |
| **Financial liabilities** | | | | | | |
| Due to banks | 5,045 | - | - | - | - | 5,045 |
| Borrowings | 37,996 | 21,062 | 135,556 | 386,827 | 29,498 | 610,939 |
| Due to customers | 8,236,515 | 1,867,736 | 7,570,336 | 1,334,547 | 15,260 | 19,024,394 |
| Other financial liabilities | 439,682 | - | - | - | - | 439,682 |
| **Total undiscounted financial liabilities** | **8,719,238** | **1,888,798** | **7,705,892** | **1,721,374** | **44,758** | **20,080,060** |
| Letters of credit | - | 976 | - | - | - | 976 |
| Financial guarantees | 164,364 | 21,764 | 39,115 | 23,231 | - | 248,474 |
| Financing commitments | 42,283 | 176,197 | 285,144 | 460,741 | 1 | 964,366 |
| **Total** | **8,925,885** | **2,087,735** | **8,030,151** | **2,205,346** | **44,759** | **21,293,876** |

## 34 RISK MANAGEMENT (CONTINUED)

### 34.6 Counterparty risk

Counterparty risk (partner banks) is the risk of the counterparty defaulting on certain assets and liabilities arising from transactions in the financial markets (foreign exchange, monetary and securities) or in carrying out documentary and / or clearing operations that may cause losses to the Bank.

The Bank follows a prudent policy in partnership with local and foreign banks. The majority of the completed operations, as well as the funds held in the correspondent accounts, is completed through strategic partners with long-term cooperation experience.

The Bank 's counterparty risk management system provides the application and continuous improvement of the mechanisms for assessing and reviewing the solvency of partner banks on the basis of an internal evaluation model that provides the qualitative and quantitative analysis of banks in order to establish total exposure limits, depending on the type and term of the operations. The limits are reviewed and adjusted periodically.

In assessing the solvency category of the partner banks, in addition to the internal qualitative and quantitative parameters, the Bank takes into account the lowest international rating of the partner bank assigned by the rating agencies: Standard & Poor's, Moody's and Fitch Ratings.

In the process of controlling counterparty risk management (i.e. partner banks), the Bank provides clear procedures for current monitoring and post-factum control of compliance, the Bank's level of exposure to the partner bank individually and cumulatively, as well as the efficiency of the system of monitoring and control. The Bank assesses on a monthly basis the credit quality of its exposure to partner banks and performs various stress scenarios depending on the severity of the alleged circumstances.

Information on the analysis of the level of exposure of the Bank to the counterparty risk is provided daily to all interested units, and summary reports are presented monthly to the Bank's management.

### 34.7 Credit risk

For measurement purposes, the Bank use also stress tests to measure how the Bank risk profile would respond to potential adverse internal and external events and to identify the potential weaknesses and vulnerabilities in terms of credit risk positions.

The credit risk is the current or future risk of a negative impact on the profits and capital of the Bank as a result of a client's failure to meet its contractual obligations or of the deterioration of its financial performance and results.

The Bank monitors the credit risk through:

- procedures for identifying the markets where the Bank operates or intends to enter, for determining the characteristics of those markets (including their diversification and concentration degrees) and assessing new business opportunities for lending operations;

## 34 RISK MANAGEMENT (CONTINUED)

### 34.7 Credit risk (continued)

- types of credit products and parameters used for financing the customers' needs depending on the use purpose and on the customer's segment;
- procedures for appraising the counterparties and key criteria for determining the eligible counterparties, the conditions to be met by them in order to enter into business relations with the Bank and for obtaining the financing;
- the roles and responsibilities of subunits (subsidiaries, departments) and personnel involved in providing, monitoring and managing the lending operations;
- types of accepted collateral;
- the structure/scheme of approval powers, including the process of approving the derogations;
- the process of monitoring the customers/counterparties;
- the set of boundaries and restrictions.

The Bank shall define minimum coverage levels with collateral depending on the credit product, its value and term of exposure, and liquidity of collateral, so that to have sufficient amortization for any eventual declines in their market value.

The table below shows the maximum exposure to credit risk of the statement of financial position and off-balance sheet items of the Bank. The table also discloses the financial effect of the fair value of total collateral held per types.

## 34 RISK MANAGEMENT (CONTINUED)

### 34.7 Credit risk (continued)

| | | Fair value of the collateral | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 31 December 2019 | Maximum exposure to credit risk | Cash in deposit accounts | Government guarantees/ other | Securities | Immovable assets | Movable assets | Total eligible collateral | Excess of collateral | Net exposure | Allowances for impairment loses |
| | MDL'000 | MDL'000 | MDL'000 | MDL'000 | MDL'000 | MDL'000 | MDL'000 | MDL'000 | MDL'000 | MDL'000 |
| **Loans and receivables** | **14,237,372** | **37,952** | **499,306** | **348,041** | **7,741,094** | **3,059,108** | **11,685,501** | **7,907,937** | **2,551,871** | **838,298** |
| Corporate | 7,673,744 | 21,166 | 499,306 | 12,629 | 4,040,558 | 2,450,468 | 7,024,127 | 4,438,866 | 649,617 | 666,611 |
| Retail, entities | 1,974,100 | 16,549 | - | 16,360 | 1,248,448 | 607,347 | 1,888,704 | 1,769,199 | 85,396 | 61,000 |
| Retail, individuals | 4,589,528 | 237 | - | 319,052 | 2,452,088 | 1,293 | 2,772,670 | 1,699,872 | 1,816,858 | 110,687 |
| **Commitments** | **1,894,560** | **14,046** | - | - | **316,069** | **460,740** | **790,855** | **804,653** | **1,103,705** | **9,470** |
| Letters of credit | 16,220 | - | - | - | 1 | 962 | 963 | 484 | 15,257 | 129 |
| Guarantees | 390,229 | 11,922 | - | - | 149,758 | 163,550 | 325,230 | 191,339 | 64,999 | 1,846 |
| Financing commitments | 1,488,111 | 2,124 | - | - | 166,310 | 296,228 | 464,662 | 612,830 | 1,023,449 | 7,495 |
| **Total** | 16,131,932 | 51,998 | 499,306 | 348,041 | 8,057,163 | 3,519,848 | 12,476,356 | 8,712,590 | 3,655,576 | 847,768 |

## 34 RISK MANAGEMENT (CONTINUED)

### 34.7 Credit risk (continued)

| 31 December 2018 | Maximum exposure to credit risk | Fair value of the collateral | | | | | | | | Net exposure | Allowances for impairment loses |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Cash in deposit accounts | Government guarantees /other | Securities | Immovable assets | Movable assets | Total eligible collateral | Excess of collateral | | |
| | MDL'000 | MDL'000 | MDL'000 | MDL'000 | MDL'000 | MDL'000 | MDL'000 | MDL'000 | MDL'000 | MDL'000 |
| **Loans and receivables** | **12,422,540** | **36,656** | **120,609** | **116,808** | **6,418,832** | **2,684,389** | **9,377,294** | **3,427,891** | **3,045,246** | **842,915** |
| Corporate | 6,965,111 | 13,158 | 120,606 | 2,635 | 3,225,223 | 2,163,490 | 5,525,112 | 1,241,977 | 1,439,999 | 699,647 |
| Retail, entities | 1,919,016 | 22,702 | 3 | 5,600 | 1,127,809 | 518,944 | 1,675,058 | 809,167 | 243,958 | 60,745 |
| Retail, individuals | 3,538,413 | 796 | - | 108,573 | 2,065,800 | 1,955 | 2,177,124 | 1,376,747 | 1,361,289 | 82,523 |
| **Commitments** | **1,213,816** | **33,968** | - | - | **110,072** | **50,718** | **194,758** | **145,132** | **1,019,058** | **9,749** |
| Letters of credit | 976 | - | - | - | 166 | 417 | 583 | - | 393 | 3 |
| Guarantees | 248,474 | 17,607 | - | - | 37,847 | 17,355 | 72,809 | 29,341 | 175,665 | 1,078 |
| Financing commitments | 964,366 | 16,361 | - | - | 72,059 | 32,946 | 121,366 | 115,791 | 843,000 | 8,668 |
| **Total** | **13,636,356** | **70,624** | **120,609** | **116,808** | **6,528,904** | **2,735,107** | **9,572,052** | **3,573,023** | **4,064,304** | **852,664** |

## 34 RISK MANAGEMENT (CONTINUED)

### 34.7 Credit risk (continued)

The Bank ensure analysis of exposure to credit risk at portfolio level to prevent and identify areas exposed to concentrations risk, by analyzing exposures at individual level and / or group of interconnected persons, types of activity, categories of debtors, currencies, terms, products, etc. The evolution of the concentration parameters is analyzed through the set of established limits.

The tables below show the concentrations degree of risk at industry level and by components of the financial statements.

| **Loans** | | **2019** | | **2018** |
|---|---|---|---|---|
| | **MDL'000** | **%** | **MDL'000** | **%** |
| Agriculture / Food industry | 3,234,772 | 22.7% | 2,843,927 | 22.9% |
| including: | | | | |
| *agriculture* | 1,266,902 | 8.9% | 1,003,264 | 8.1% |
| *food industry* | 1,967,870 | 13.8% | 1,840,663 | 14.8% |
| *winery* | 820,881 | 5.8% | 815,796 | 6.6% |
| Non-food industry | 767,074 | 5.4% | 764,418 | 6.2% |
| Consumer | 4,589,526 | 32.2% | 3,538,413 | 28.5% |
| Commerce | 3,828,044 | 26.9% | 3,577,350 | 28.8% |
| Transport | 334,615 | 2.4% | 317,314 | 2.6% |
| Postal services/telecommunications | 343,726 | 2.4% | 364,439 | 2.9% |
| Construction and real estate | 480,538 | 3.4% | 491,464 | 4.0% |
| Utilities | 229,545 | 1.6% | 215,340 | 1.7% |
| Financial institutions | 245,978 | 1.7% | 243,102 | 2.0% |
| Other | 183,554 | 1.3% | 66,773 | 0.5% |
| | **14,237,372** | **100%** | **12,422,540** | **100%** |

| **Commitments** | | **2019** | | **2018** |
|---|---|---|---|---|
| | **MDL'000** | **%** | **MDL'000** | **%** |
| Agriculture / Food industry | 103,437 | 7.0% | 149,007 | 15.5% |
| including: | | | | |
| *agriculture* | 53,083 | 3.6% | 50,693 | 5.3% |
| *food industry* | 50,354 | 3.4% | 98,314 | 10.2% |
| *winery* | 2,043 | 0.1% | 5,511 | 0.6% |
| Non-food industry | 86,772 | 5.8% | 17,543 | 1.8% |
| Consumer | 311,404 | 20.9% | 207,601 | 21.5% |
| Commerce | 688,472 | 46.3% | 412,637 | 42.8% |
| Transport | 55,900 | 3.7% | 55,617 | 5.8% |
| Postal services/telecommunications | - | - | 24,587 | 2.5% |
| Construction and real estate | 40,353 | 2.7% | 38,279 | 4.0% |
| Financial institutions | 40,956 | 2.8% | 54,499 | 5.7% |
| Non-commercial organizations | 158,190 | 10.6% | - | - |
| Other | 2,627 | 0.2% | 4,596 | 0.5% |
| | **1,488,111** | **100%** | **964,366** | **100%** |

## 34 RISK MANAGEMENT (CONTINUED)

### 34.7 Credit risk (continued)

| Letters of credit / guarantees | 2019 | | 2018 | |
|---|---|---|---|---|
| | MDL'000 | % | MDL'000 | % |
| Agriculture / Food industry including: | 37,466 | 9.2% | 16,432 | 6.6% |
| *agriculture* | 968 | 0.2% | 1,127 | 0.5% |
| *food industry* | 36,498 | 9.0% | 15,305 | 6.1% |
| *winery* | - | - | - | - |
| Non-food industry | 15,826 | 3.9% | 3,234 | 1.3% |
| Consumer | 1,410 | 0.4% | 2 | 0.0% |
| Commerce | 252,730 | 62.2% | 161,892 | 64.9% |
| Transport | 15,229 | 3.7% | 26,524 | 10.6% |
| Postal services/telecommunications | 89 | 0.0% | 72 | 0.0% |
| Construction and real estate | 79,608 | 19.6% | 38,928 | 15.6% |
| Utilities (electricity, electrical and thermal storage, gas, water supply) | - | - | - | 0.0% |
| Financial institutions | - | - | 5 | 0.0% |
| Other | 4,091 | 1.0% | 2,360 | 0.9% |
| | **406,449** | **100%** | **249,449** | **100%** |

The loans granted to 20 major customers (Groups) of the Bank as at 31 December 2019 amounted to MDL'000 4,215,378 representing 29.61% of the Bank's gross loan portfolio (2018: MDL'000 3,909,459 or 31.47%).

These are analysed by industry as follows:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | MDL'000 | % | MDL'000 | % |
| Agriculture / Food industry including: | 1,704,901 | 40.4% | 1,252,557 | 32.0% |
| *agriculture* | 219,591 | 5.2% | 189,478 | 4.8% |
| *food industry* | 1,485,310 | 35.2% | 1,063,079 | 27.2% |
| *winery* | 587,301 | 14.0% | 476,996 | 12.2% |
| Non-food industry | - | 0.0% | 318,521 | 8.1% |
| Consumer | 4,982 | 0.1% | 4,970 | 0.1% |
| Commerce | 1,719,719 | 40.8% | 1,481,094 | 37.9% |
| Transport | 1,358 | 0.0% | - | - |
| Postal services/telecommunications | 343,543 | 8.2% | 363,712 | 9.3% |
| Construction and real estate | 183,679 | 4.4% | 211,728 | 5.4% |
| Utilities (electricity, electrical and thermal storage, gas, water supply) | 228,503 | 5.4% | 213,882 | 5.5% |
| Financial institutions | 28,693 | 0.7% | 62,995 | 1.6% |
| | **4,215,378** | **100%** | **3,909,459** | **100%** |

For significant credit risk concentration at the industry level please refer to Note 9.

## 34 RISK MANAGEMENT (CONTINUED)

### 34.7 Credit risk (continued)

***Individual/collective approach (portfolio segmentation)***
The Bank shall calculate the ECL either through individual method or collective method.

Individual measurement is mandatory for the customers, which exposure exceeds the materiality threshold of MDL 10,000,000 set up by the Bank and have credits classified into Stage 3 (default). Upon individual measurement, the Bank takes into account weighted scenarios for all probable cash flows, namely: asset contractual flows, the flows resulting from the sale of collateral and other credit improvements, having specified the time-table of expected cash flows and the estimated probability of realising each scenario.

Collective measurement of financial instruments is carried out on the basis of homogenous groups of assets. In order to segment the portfolio in portfolios with similar credit risk, the Bank uses the following characteristics:

Type of Customer;

Credit product;

Credit duration;

Share of credit value in the total market value of collateral.

***Credit Risk Increase and Default***

The Bank continuously monitors the developments of asset portfolio quality to identify if the amount of discounts for the calculated losses is to be estimated through determining the expected losses for a 12-month period or over the life of the asset. The Bank shall primarily apply qualitative methods to identify the credit risk increase defined in light of the internal classification system and combinations of ratings and number of past due days. Regardless of the change in the exposure category, if the contractual payments are at least 30 days past due, it shall be considered that the credit risk has grown significantly relative to its initial recognition.

The Bank considers a financial instrument to be in the stage of default (classified into Stage 3) in any case when the Debtor reports more than 90 days of past due. As part of qualitative measurement if a customer is in the stage of default, the Bank shall review also the outcomes furnished by the classification system and by other available in-house data.

The Bank policy is to deem a financial instrument as "recovered" and, therefore, be reclassified from Stage 3 when the implicit criteria leading to its default are no longer in place. The decision to classify an asset into Stage 2 or Stage 1 shall depend on the classification category updated at the time of "recovery" and if it shows or not a significant increase of credit risk in comparison with the initial recognition.

## 34 RISK MANAGEMENT (CONTINUED)

### 34.7 Credit risk (continued)

***Estimating the Probability of Default (PD)***

The probability of default shall be estimated by the Bank, using Markov chain approach on the basis of information pertaining to the transaction amongst different credit states, based on the pre-established baskets of days past due for each homogenous groups of assets (portfolios with homogeneous credit risk). The transition probabilities shall be determined by the actual number of migrations observed during the time concerned, subject to analysis on a monthly basis, for a 60-month period.

The Migration Matrix shall comprise the following baskets of past dues:

Zero days past due;

1-30 days past due;

31 – 60 days past due;

61 – 90 days past due;

More than 90 days past due.

To determine the probability of default over the whole life it is necessary to multiply the result of monthly transition wherever appropriate.

***Estimating the Loss Given Default (LGD)***

The Loss Given Default (LGD) estimates shall be carried out using the Recovery Matrix by having applied the Vintage approach at the level of portfolios with homogeneous credit risk. The cohorts were built based on the criterion of calendar quarter default entry of exposure, for which quarterly recoveries were noticed. To eliminate the impact of outliers on the average recovery indicator, upon building the Recovery Matrix, small exposures with the balance below MDL 100 were excluded, as well as large exposures (with significant early repayments).
To fill in the Matrix with the protection related to unnoticed recoveries, a statistic approach has been applied described in the relevant published literature as Chain-ladder models, which purpose is to estimate the future recovery curve based on the noticed recoveries.

## 34 RISK MANAGEMENT (CONTINUED)

### 34.7 Credit risk (continued)

***Analysis of the impact of changes in the factors used to estimate the expected credit losses***

The table below presents the impact of changes in the parameters used in the assessment process of the expected losses on impairment allowance:

| **31.12.2019** | **Corporate** | **Retail entities** | **Mortgages** | **Consumption** | **Financing commitments** | **Letters of credit and guarantees** | **Total** |
|---|---|---|---|---|---|---|---|
| | **MDL'000** | **MDL'000** | **MDL'000** | **MDL'000** | **MDL'000** | **MDL'000** | **MDL'000** |
| *Impairment allowances and provisions collectively assessed* | | | | | | | |
| Increase by 10% of PD and LGD | 21,980 | 7,889 | 9,860 | 9,006 | 1,298 | 415 | 50,448 |
| Decrease by 10% of PD and LGD | (19,886) | (7,700) | (9,467) | (11,563) | (1,175) | (375) | (50,166) |
| *Impairment allowances and provisions individually assessed* | | | | | | | |
| Increase of flows by 10% | (56,170) | (2,072) | - | - | - | - | (58,424) |
| Decrease of flows by 10% | 47,335 | 1,325 | - | - | - | - | 48,660 |

## 34 RISK MANAGEMENT (CONTINUED)

### 34.7 Credit risk (continued)

| 31.12.2018 | Corporate | Retail entities | Mortgages | Consumption | Financing commitments | Letters of credit / guarantees | Total |
|---|---|---|---|---|---|---|---|
| | MDL'000 | MDL'000 | MDL'000 | MDL'000 | MDL'000 | MDL'000 | MDL'000 |
| *Impairment allowances and provisions collectively assessed* | | | | | | | |
| Increase by 10% of PD and LGD | 14,188 | 8,349 | 7,984 | 7,420 | 784 | 227 | 38,952 |
| Decrease by 10% of PD and LGD | (12,837) | (8,258) | (7,559) | (8,120) | (710) | (205) | (37,689) |
| *Impairment allowances and provisions individually assessed* | | | | | | | |
| Increase of flows by 10% | (63,209) | (1,728) | - | - | (433) | 0 | (65,370) |
| Decrease of flows by 10% | 54,391 | 949 | - | - | 433 | 0 | 55,773 |

### 34.8 Taxation risk

The Bank is committed to ensure a sustainable management of taxation risk by building and maintaining a transparent, effective and efficient tax function in the Bank. The Bank strictly respects and applies the tax legislation in effect for all taxes. The implementation of IFRS, in effect from 1 January 2012 was considered when revising tax laws by introducing specific rules for the treatment of adjustments resulted from the implementation and their subsequent effect. In this context, a careful analysis to identify differences in accounting treatments, having a fiscal impact, both on the current and deferred taxes was performed.

It is expected that in the future the tax framework will be subject to frequent changes. Taking into account the previous experience, these aspects could be applied retrospectively. Tax liabilities of the Bank are open to tax inspection for a period of four years.

### 34.9 Operational risk

Operational risk is the current or future risk that affects profits and capital resulting from inadequate or failed internal processes or systems and / or from the action of some persons (employees) or external events.

The Bank is aware of the importance of managing the operational risk arising from its business activities as well as of the need to hold an adequate level of capital to absorb the potential losses associated with this type of risk.

## 34 RISK MANAGEMENT (CONTINUED)

### 34.9 Operational risk (continued)

The Bank has an operational risk management framework that includes policies and processes for identifying measuring/evaluating, analyzing, managing and controlling operational risk. Policies and processes are appropriate to the size, nature and complexity of the Bank's activities and are adjusted periodically according to the operational risk profile.

For operational risk management, the Bank uses the following tools:

Collection and management of operational risk events. The Bank has a historical database, in which operational risk events are centralized, reported by all organizational units.

Definition and monitoring of key risk indicators (KRI), measures, used in the operational risk assessment, monitoring and reporting phases. The purpose of key risk indicators is: to act as early warning signs of potential operational and control risk issues; to define tolerance levels and critical thresholds for operational risk and to indicate dynamic changes in the level of operational risk over time.

Identification and assessment of operational risk through the exercise of risk self-assessment and associated controls. The self- assessment process allows the identification and assessment of operational risks related to that year, as well as the measures to be taken to reduce the losses caused by the occurrence of operational risk events.

Analysis of test stress scenarios related to operational risk. The scenario analysis aims to assess the potential effects of one or more possible operational risk events (extreme but probable events) on the Bank 's financial situation.

For more efficient management, the Bank uses procedures and support processes in operational risk management, namely:

Risk analysis and assessment of new products and activities;

Compliance procedures and related risk management;

Management of the outsourcing process, regulated by internal policies regarding the outsourcing of the Bank's activities and operations;

Business Continuity Management characterized by maintaining and updating the business continuity plan;

Information and communication technology risk management.

The management framework is also supported by an appropriate organizational structure, with clear roles and responsibilities, in line with the assumption that the Bank's subunits bear the primary responsibility for managing operational risk and enforcing appropriate control.

## 35 STATEMENT OF FINANCIAL POSITION STRUCTURE BY CURRENCY

| | | | | 31 December 2019 | |
|---|---|---|---|---|---|
| | **Total MDL'000** | **MDL MDL'000** | **USD MDL'000** | **EUR MDL'000** | **Other MDL'000** |
| **ASSETS** | | | | | |
| Cash on hand | 940,113 | 463,351 | 77,117 | 348,141 | 51,504 |
| Balances with NBM | 5,813,652 | 4,455,945 | 404,454 | 953,253 | - |
| Due from banks | 1,995,549 | - | 723,821 | 1,263,703 | 8,025 |
| Financial assets at fair value through other comprehensive income | 1,270,306 | 1,270,306 | - | - | - |
| Investments in subsidiaries | 139,669 | 139,669 | - | - | - |
| Loans and advances to customers | 13,399,074 | 7,904,165 | 1,473,124 | 4,021,785 | - |
| Financial assets at amortized cost | 755,024 | 755,024 | - | - | - |
| Property and equipment and right-of-use assets | 1,258,213 | 1,258,213 | - | - | - |
| Intangible assets | 63,174 | 63,174 | - | - | - |
| Other assets | 193,915 | 115,020 | 18,379 | 60,270 | 246 |
| **Total assets** | **25,828,689** | **16,424,867** | **2,696,895** | **6,647,152** | **59,775** |
| **LIABILITIES** | | | | | |
| Due to banks | 23,971 | 21,920 | 2,051 | - | - |
| Borrowings | 666,153 | 292,688 | 22,478 | 350,987 | - |
| Due to customers | 20,316,357 | 11,443,170 | 2,625,262 | 6,210,587 | 37,338 |
| Conditional commitments provisions | 9,470 | 5,105 | 1,284 | 3,081 | - |
| Deferred tax liabilities | 43,403 | 43,403 | - | - | - |
| Current tax liability | 27,614 | 27,614 | | | |
| Other liabilities | 348,205 | 186,514 | 41,143 | 120,418 | 130 |
| **Total liabilities** | **21,435,173** | **12,020,414** | **2,692,218** | **6,685,073** | **37,468** |
| **GAP** | **4,393,516** | **4,404,453** | **4,677** | **(37,921)** | **22,307** |

## 35 STATEMENT OF FINANCIAL POSITION STRUCTURE BY CURRENCY (CONTINUED)

| | | | | 31 December 2018 | |
|---|---|---|---|---|---|
| | Total MDL'000 | MDL MDL'000 | USD MDL'000 | EUR MDL'000 | Other MDL'000 |
| **ASSETS** | | | | | |
| Cash on hand | 1,103,695 | 480,896 | 82,341 | 474,520 | 65,938 |
| Balances with NBM | 5,400,244 | 4,329,009 | 320,670 | 750,565 | - |
| Due from banks | 1,720,149 | 44 | 356,171 | 1,341,794 | 22,140 |
| Financial assets at fair value through other comprehensive income | 1,647,666 | 1,647,666 | - | - | - |
| Investments in subsidiaries | 139,669 | 139,669 | - | - | - |
| Loans and advances to customers | 11,579,625 | 6,527,068 | 1,588,542 | 3,464,015 | - |
| Financial assets at amortized cost | 895,379 | 895,379 | - | - | - |
| Property and equipment | 1,008,805 | 1,008,805 | - | - | - |
| Intangible assets | 58,403 | 58,403 | - | - | - |
| Other assets | 90,034 | 50,330 | 21,801 | 17,647 | 256 |
| **Total assets** | **23,643,669** | **15,137,269** | **2,369,525** | **6,048,541** | **88,334** |
| **LIABILITIES** | | | | | |
| Due to banks | 5,045 | 2,387 | 2,658 | - | - |
| Borrowings | 568,884 | 291,514 | 29,893 | 247,477 | - |
| Due to customers | 18,670,177 | 10,342,882 | 2,437,298 | 5,855,755 | 34,242 |
| Conditional commitments provisions | 9,749 | 9,749 | - | - | - |
| Deferred tax liabilities | 32,229 | 32,229 | - | - | - |
| Current tax liability | 14,226 | 14,226 | - | - | - |
| Other liabilities | 457,174 | 384,529 | 30,272 | 39,047 | 3,326 |
| **Total liabilities** | **19,757,484** | **11,077,516** | **2,500,121** | **6,142,279** | **37,568** |
| **GAP** | **3,886,185** | **4,059,753** | **(130,596)** | **(93,738)** | **50,766** |

## 36 MATURITY STRUCTURE

The Bank's assets and liabilities structure as at 31 December 2019 and as at 31 December 2018 taking as a basis the remaining period to maturity, is as follows:

| 31 December 2019 | Total MDL'000 | Less than 1 year MDL'000 | More than 1 year MDL'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash on hand | 940,113 | 940,113 | - |
| Balances with National Bank of Moldova | 5,813,652 | 5,813,652 | - |
| Due from banks | 1,995,549 | 1,995,549 | - |
| Financial assets at fair value through other comprehensive income | 1,270,306 | 854,805 | 415,501 |
| Investments in subsidiaries | 139,669 | - | 139,669 |
| Loans and advances to customers, net | 13,399,074 | 4,959,877 | 8,439,197 |
| Financial assets at amortized cost | 755,024 | 755,024 | - |
| Property and equipment | 1,258,213 | - | 1,258,213 |
| Intangible assets | 63,174 | - | 63,174 |
| Other assets | 193,915 | 193,915 | - |
| **Total Assets** | **25,828,689** | **15,512,935** | **10,315,754** |
| **Liabilities** | | | |
| Due to banks | 23,971 | 23,971 | - |
| Borrowings | 666,153 | 236,443 | 429,710 |
| Due to customers | 20,316,357 | 16,978,526 | 3,337,831 |
| Conditional commitments provisions | 9,470 | 9,470 | - |
| Deferred tax liabilities | 43,403 | - | 43,403 |
| Current tax liability | 27,614 | 27,614 | - |
| Other liabilities | 348,205 | 348,205 | - |
| **Total Liabilities** | **21,435,173** | **17,624,229** | **3,810,944** |
| **MATURITY GAPS** | **4,393,516** | **(2,111,294)** | **6,504,810** |

## 36 MATURITY STRUCTURE (CONTINUED)

| 31 December 2018 | Total MDL'000 | Less than 1 year MDL'000 | More than 1 year MDL'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash on hand | 1,103,695 | 1,103,695 | - |
| Balances with National Bank of Moldova | 5,400,244 | 5,400,244 | - |
| Due from banks | 1,720,149 | 1,720,149 | - |
| Financial assets at fair value through other comprehensive income | 1,647,666 | 1,071,658 | 576,008 |
| Investments in subsidiaries | 139,669 | - | 139,669 |
| Loans and advances to customers, net | 11,579,625 | 4,966,961 | 6,612,664 |
| Financial assets at amortized cost | 895,379 | 880,553 | 14,826 |
| Property and equipment | 1,008,805 | - | 1,008,805 |
| Intangible assets | 58,403 | - | 58,403 |
| Other assets | 90,034 | 90,034 | - |
| **Total Assets** | **23,643,669** | **15,233,294** | **8,410,375** |
| **Liabilities** | | | |
| Due to banks | 5,045 | 5,045 | - |
| Borrowings | 568,884 | 186,420 | 382,464 |
| Due to customers | 18,670,177 | 17,388,775 | 1,281,402 |
| Conditional commitments provisions | 9,749 | 9,749 | - |
| Deferred tax liabilities | 32,229 | - | 32,229 |
| Current tax liability | 14,226 | 14,226 | - |
| Other liabilities | 457,174 | 457,174 | - |
| **Total Liabilities** | **19,757,484** | **18,061,389** | **1,696,095** |
| **MATURITY GAPS** | **3,886,185** | **(2,828,095)** | **6,714,280** |

## 37 INTEREST RATE RISK EXPOSURES

The table below set out the Bank's exposure to interest rate risk based on the earlier of contractual maturity of its financial instruments or the next interest rate repricing date, if the instruments are subject to variable interest rates.

Bank's policy on interest rate risk management is to minimize exposure and continuously to adapt interest repricing dates and maturities for assets and liabilities.

## 37 INTEREST RATE RISK EXPOSURE (CONTINUED)

| 31 December 2019 | Total MDL'000 | Less than 1 month MDL'000 | From 1 month to 3 months MDL'000 | From 3 months to 1 year MDL'000 | From 1 to 5 years MDL'000 | More than 5 years MDL'000 | Non-interest bearing items MDL'000 |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| Cash on hand | 940,113 | - | - | - | - | - | 940,113 |
| Balances with National Bank of Moldova | 5,813,652 | 5,813,652 | - | - | - | - | - |
| Due from banks | 1,995,549 | 1,995,549 | - | - | - | - | - |
| Financial assets at fair value through other comprehensive income | 1,270,306 | 183,814 | 164,976 | 536,058 | 200,975 | - | 184,483 |
| Investment in subsidiaries | 139,669 | - | - | - | - | - | 139,669 |
| Loans and advances to customers (floating rate) | 13,341,042 | 13,307,574 | - | - | - | - | 33,468 |
| Loans and advances to customers (fixed rate) | 58,032 | 1,116 | 1,719 | 8,859 | 46,136 | 202 | - |
| Financial assets at amortized cost | 755,024 | 743,276 | 2,558 | 9,190 | - | - | - |
| Property and equipment and right-of-use assets | 1,258,213 | - | - | - | - | - | 1,258,213 |
| Intangible assets | 63,174 | - | - | - | - | - | 63,174 |
| Other assets | 193,915 | - | - | - | - | - | 193,915 |
| **Total Assets** | **25,828,689** | **22,044,981** | **169,253** | **554,107** | **247,111** | **202** | **2,813,035** |

## 37 INTEREST RATE RISK EXPOSURE (CONTINUED)

| 31 December 2019 | Total MDL'000 | Less than 1 month MDL'000 | From 1 month to 3 months MDL'000 | From 3 months to 1 year MDL'000 | From 1 to 5 years MDL'000 | More than 5 years MDL'000 | Non-interest bearing items MDL'000 |
|---|---|---|---|---|---|---|---|
| **LIABILITIES** | | | | | | | |
| Due to banks | 23,971 | - | - | - | - | - | 23,971 |
| Borrowings | 666,153 | 75,628 | 310,276 | 247,191 | - | - | 33,058 |
| Due to customers (fixed rate deposits) | 971,142 | 506 | 28,763 | 941,583 | 290 | - | - |
| Due to customers (floating rate deposits) | 19,345,215 | 19,263,726 | - | - | - | - | 81,489 |
| Conditional commitments provisions | 9,470 | - | - | - | - | - | 9,470 |
| Deferred tax liabilities | 43,403 | - | - | - | - | - | 43,403 |
| Other liabilities | 375,819 | - | - | - | - | - | 375,819 |
| **Total liabilities** | **21,435,173** | **19,339,860** | **339,039** | **1,188,774** | **290** | **-** | **567,210** |
| **Interest gap** | **4,393,516** | **2,705,121** | **(169,786)** | **(634,667)** | **246,821** | **202** | **2,245,825** |
| **Cumulative interest gap** | | **2,705,121** | **2,535,335** | **1,900,668** | **2,147,489** | **2,147,691** | **4,393,516** |

## 37 INTEREST RATE RISK EXPOSURE (CONTINUED)

| 31 December 2018 | Total MDL'000 | Less than 1 month MDL'000 | From 1 month to 3 months MDL'000 | From 3 months to 1 year MDL'000 | From 1 to 5 years MDL'000 | More than 5 years MDL'000 | Non-interest bearing items MDL'000 |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| Cash on hand | 1,103,695 | - | - | - | - | - | 1,103,695 |
| Balances with National Bank of Moldova | 5,400,244 | 5,139,806 | - | - | - | - | 260,438 |
| Due from banks | 1,720,149 | 1,720,149 | - | - | - | - | - |
| Financial assets at fair value through other comprehensive income | 1,647,666 | 134,740 | 440,743 | 538,368 | 382,263 | - | 151,552 |
| Investment in subsidiaries | 139,669 | - | - | - | - | - | 139,669 |
| Loans and advances to customers (floating rate) | 11,465,308 | 11,409,641 | - | - | - | - | 55,667 |
| Loans and advances to customers (fixed rate) | 114,317 | 1,843 | 6,724 | 47,667 | 56,841 | 1,242 | - |
| Financial assets at amortized cost | 895,379 | 855,387 | 9,940 | 15,285 | 14,767 | - | - |
| Property and equipment | 1,008,805 | - | - | - | - | - | 1,008,805 |
| Intangible assets | 58,403 | - | - | - | - | - | 58,403 |
| Other assets | 90,034 | - | - | - | - | - | 90,034 |
| **Total Assets** | **23,643,669** | **19,261,566** | **457,407** | **601,320** | **453,871** | **1,242** | **2,868,263** |

## 37 INTEREST RATE RISK EXPOSURE (CONTINUED)

| 31 December 2018 | Total MDL'000 | Less than 1 month MDL'000 | From 1 month to 3 months MDL'000 | From 3 months to 1 year MDL'000 | From 1 to 5 years MDL'000 | More than 5 years MDL'000 | Non-interest bearing items MDL'000 |
|---|---|---|---|---|---|---|---|
| **LIABILITIES** | | | | | | | |
| Due to banks | 5,045 | 5,045 | - | - | - | - | - |
| Borrowings | 568,884 | 98,594 | 183,992 | 246,493 | - | - | 39,805 |
| Due to customers (fixed rate deposits) | 7,823 | 1,068 | 963 | 1,746 | 4,046 | - | - |
| Due to customers (floating rate deposits) | 18,662,354 | 18,602,959 | - | - | - | - | 59,395 |
| Conditional commitments provisions | 9,749 | - | - | - | - | - | 9,749 |
| Deferred tax liabilities | 32,229 | - | - | - | - | - | 32,229 |
| Other liabilities | 471,400 | - | - | - | - | - | 471,400 |
| **Total liabilities** | **19,757,484** | **18,707,666** | **184,955** | **248,239** | **4,046** | **-** | **612,578** |
| **Interest gap** | **3,886,185** | **553,900** | **272,452** | **353,081** | **449,825** | **1,242** | **2,255,685** |
| **Cumulative interest gap** | | **553,900** | **826,352** | **1,179,433** | **1,629,258** | **1,630,500** | **3,886,185** |

The Bank extends loans and accepts deposits bearing fixed rates as well as variable rates. Floating rate loans to customers and deposits from customers represent instruments in respect of which the Bank has the right to change unilaterally the interest rate in line with the rates on the market. The Bank has to give 15 day notice prior to the date when the change takes place. For interest gap disclosure purposes, loans and deposits bearing floating rates were considered to have a 15-day notice re-pricing period and were classified into the category "less than 1 month".

## 38 SEGMENT REPORTING

Operating segments are structural units of the Bank that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the Management Board and by the heads of departments responsible for making operational decisions based on the reports prepared in the prescribed manner.

### (a) Description of products and services from which each reportable segment derives its revenue

The Bank is organised on the basis of the following main business segments:

- **Retail banking** – representing private banking services to entities of small and medium-sized businesses and to individuals for private customer current accounts; financing of consumer loans and mortgages, pawn services, deposits, investment savings products, custody, credit and debit cards, electronic products, other services.
- **Corporate banking** – this segment includes various types of financing current and investment activities of companies (loans, credit lines, guarantees, letters of credit etc.), maintenance of current accounts of companies, deposits placements, payroll, foreign currency transactions and financial instruments, provision of investment services.
- **Treasury** – this segment includes interbank transactions (FOREX operations, attracting and placing deposits and interbank loans, transactions with treasury bills, transactions with certificates issued by the NBM) on internal and external financial markets within established limits, as well as attracting loans and credit lines from banks and other international financial institutions.
- **Other** –includes Corporate Investments and subdivisions of support and management. Corporate this segment Investments Department ensures the formation and management of the entities' equity holdings portfolio and the provision of different services on the capital market as an investment company.

### (b) Factors that management used to identify the reportable segments

The Bank's segments are strategic business units that focus on different categories of clients. Taking into consideration the particularity of clients and bank services segmentation, business units are managed separately.

For the presentation of information on reportable segments, due to not significant values, the assets, liabilities and profit or loss related to Corporate Investments Department and subsidiaries are included in „Other" category, which also includes units of support and management.

## 38 SEGMENT REPORTING (CONTINUED)

### (c) Measurement of operating segment profit or loss

For defining profit or loss on reportable segments, the Bank applies internal regulations of distribution of revenue and expenses using internal system of pricing transfer and some allocation keys of indirect revenue and expenses.

### (d) Geographical information

The Bank does not have significant income from foreign customers.

The Bank does not have non-current assets (more than one year) located abroad.

### (d) Major customers

The Bank has no external customers which generate revenues exceeding 10% of Bank total revenue.

## 38 SEGMENT REPORTING (CONTINUED)

Segment information for the reportable segments for the year ended at 31 December 2019 and 31 December 2018:

| 31 December 2019 | Corporate banking MDL'000 | Retail banking MDL'000 | Treasury MDL'000 | Other MDL'000 | Total MDL'000 | Eliminations MDL'000 | Total per profit or loss statement MDL'000 |
|---|---|---|---|---|---|---|---|
| Interest income | 458,231 | 651,137 | 264,914 | - | 1,374,282 | - | 1,374,282 |
| Interest income applying transfer prices (inter segments sales) | 49,154 | 553,642 | 99,494 | - | 702,290 | (702,290) | - |
| **Total interest income** | **507,385** | **1,204,779** | **364,408** | **-** | **2,076,572** | **(702,290)** | **1,374,282** |
| Interest expense on deposits and borrowings | 13,452 | 357,525 | 865 | - | 371,842 | - | 371,842 |
| Interest expense applying transfer prices (inter segments sales) | 227,553 | 293,737 | 181,000 | - | 702,290 | (702,290) | - |
| **Total interest expense** | **241,005** | **651,262** | **181,865** | **-** | **1,074,132** | **(702,290)** | **371,842** |
| **Net interest income** | **266,380** | **553,517** | **182,543** | **-** | **1,002,440** | **-** | **1,002,440** |
| Total non-interest income | 94,778 | 410,991 | 5,230 | 8,214 | 519,213 | - | 519,213 |
| **TOTAL INCOME** | **361,158** | **964,508** | **187,773** | **8,214** | **1,521,653** | **-** | **1,521,653** |

## 38 SEGMENT REPORTING (CONTINUED)

| 31 December 2019 | Corporate banking MDL'000 | Retail banking MDL'000 | Treasury MDL'000 | Other MDL'000 | Total MDL'000 | Eliminations MDL'000 | Total per profit or loss statement MDL'000 |
|---|---|---|---|---|---|---|---|
| Foreign exchange gains less losses | 107,708 | 183,693 | (18,994) | - | 272,407 | - | 272,407 |
| Direct expenses of the cost center | 67,980 | 545,187 | 14,696 | 295,928 | 923,791 | - | 923,791 |
| Depreciation and amortization | 3,342 | 96,382 | 1,200 | 50,558 | 151,482 | - | 151,482 |
| Indirect income (redistributed between segments) | (107,651) | 89,048 | 18,603 | - | - | - | - |
| Indirect expenses (of the administrative and support center) | 26,716 | 309,809 | 2,748 | (339,273) | - | - | - |
| **Pre-provision operating profit** | **263,177** | **285,871** | **168,738** | **1,001** | **718,787** | - | **718,787** |
| Impairment and provision net expenses: | (73,875) | (2,210) | 222 | - | (75,863) | - | (75,863) |
| **Operating profit before tax** | **337,052** | **288,081** | **168,516** | **1,001** | **794,650** | - | **794,650** |
| Income tax expense | 37,798 | 40,806 | 12,223 | 152 | 90,979 | - | 90,979 |
| **Net profit for the year** | **299,254** | **247,275** | **156,293** | **849** | **703,671** | - | **703,671** |

## 38 SEGMENT REPORTING (CONTINUED)

| 31 December 2018 | Corporate banking MDL'000 | Retail banking MDL'000 | Treasury MDL'000 | Other MDL'000 | Total MDL'000 | Eliminations MDL'000 | Total per profit or loss statement MDL'000 |
|---|---|---|---|---|---|---|---|
| Interest income | 411,142 | 572,336 | 302,745 | - | 1,286,223 | - | 1,286,223 |
| Interest income applying transfer prices (inter segments sales) | 51,604 | 514,272 | 102,049 | - | 667,925 | (667,925) | - |
| **Total interest income** | **462,746** | **1,086,608** | **404,794** | **-** | **1,954,148** | **(667,925)** | **1,286,223** |
| Interest expense on deposits and borrowings | 19,592 | 351,872 | - | - | 371,464 | - | 371,464 |
| Interest expense applying transfer prices (inter segments sales) | 211,640 | 235,575 | 220,710 | - | 667,925 | (667,925) | - |
| **Total interest expense** | **231,232** | **587,447** | **220,710** | **-** | **1,039,389** | **(667,925)** | **371,464** |
| **Net interest income** | **231,514** | **499,161** | **184,084** | **-** | **914,759** | **-** | **914,759** |
| **Total non-interest income** | **78,524** | **357,614** | **3,487** | **3,003** | **442,628** | **-** | **442,628** |
| **TOTAL INCOME** | **310,038** | **856,775** | **187,571** | **3,003** | **1,357,387** | **-** | **1,357,387** |

## 38 SEGMENT REPORTING (CONTINUED)

| 31 December 2018 | Corporate banking MDL'000 | Retail banking MDL'000 | Treasury MDL'000 | Other MDL'000 | Total MDL'000 | Eliminations MDL'000 | Total per profit or loss statement MDL'000 |
|---|---|---|---|---|---|---|---|
| Foreign exchange gains less losses | 85,395 | 163,554 | (10,517) | - | 238,432 | - | 238,432 |
| Direct expenses of the cost center | 54,146 | 497,090 | 16,699 | 271,384 | 839,319 | - | 839,319 |
| Depreciation and amortization | 3,066 | 45,800 | 1,077 | 45,580 | 95,523 | - | 95,523 |
| Indirect income (redistributed between segments) | (88,438) | 72,504 | 15,934 | - | - | - | - |
| Indirect expenses (of the administrative and support center) | 24,196 | 287,452 | 2,305 | (313,953) | - | - | - |
| **Pre-provision operating profit** | **225,587** | **262,491** | **172,907** | **(8)** | **660,977** | - | **660,977** |
| Impairment and provision net expenses: | 49,915 | 21,384 | (20) | (10,337) | 60,942 | - | 60,942 |
| **Operating profit before tax** | **175,672** | **241,107** | **172,927** | **10,329** | **600,035** | - | **600,035** |
| Income tax expense | 21,877 | 34,606 | 12,088 | - | 68,571 | - | 68,571 |
| **Net profit for the year** | **153,795** | **206,501** | **160,839** | **10,329** | **531,464** | - | **531,464** |

## 38 SEGMENT REPORTING (CONTINUED)

| 31 December 2019 | Corporate banking MDL'000 | Retail banking MDL'000 | Treasury MDL'000 | Others MDL'000 | Total per statement of financial position MDL'000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash on hand | - | - | - | 940,113 | 940,113 |
| Balances with National Bank of Moldova | - | - | 5,813,652 | - | 5,813,652 |
| Due from banks | - | - | 1,995,549 | - | 1,995,549 |
| Financial assets at fair value through other comprehensive income | - | - | 1,085,824 | 184,482 | 1,270,306 |
| Investments in subsidiaries | - | - | - | 139,669 | 139,669 |
| Loans and advances to customers | 7,007,133 | 6,391,941 | - | - | 13,399,074 |
| Financial assets at amortized cost | - | - | 755,024 | - | 755,024 |
| Property and equipment and right-of-use assets | - | - | - | 1,258,213 | 1,258,213 |
| Intangible assets | - | - | - | 63,174 | 63,174 |
| Other assets | 1,740 | 16,478 | - | 175,697 | 193,915 |
| **Total Assets** | **7,008,873** | **6,408,419** | **9,650,049** | **2,761,348** | **25,828,689** |

## 38 SEGMENT REPORTING (CONTINUED)

| 31 December 2019 | Corporate banking MDL'000 | Retail banking MDL'000 | Treasury MDL'000 | Others MDL'000 | Total per statement of financial position MDL'000 |
|---|---|---|---|---|---|
| **LIABILITIES** | | | | | |
| Due to banks | - | - | 23,971 | - | 23,971 |
| Borrowings | - | - | 666,153 | - | 666,153 |
| Due to customers | 1,913,906 | 18,402,451 | - | - | 20,316,357 |
| Conditional commitments provisions | 6,373 | 3,097 | - | - | 9,470 |
| Deferred tax liabilities | 18,458 | 15,252 | 9,640 | 53 | 43,403 |
| Other liabilities | 4,580 | 75,252 | - | 295,987 | 375,819 |
| **Total Liabilities** | **1,943,317** | **18,496,052** | **699,764** | **296,040** | **21,435,173** |

## 38 SEGMENT REPORTING (CONTINUED)

| 31 December 2018 | Corporate banking MDL'000 | Retail banking MDL'000 | Treasury MDL'000 | Others MDL'000 | Total per statement of financial position MDL'000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash on hand | - | - | - | 1,103,695 | 1,103,695 |
| Balances with National Bank of Moldova | - | - | 5,400,244 | - | 5,400,244 |
| Due from banks | - | - | 1,720,149 | - | 1,720,149 |
| Financial assets at fair value through other comprehensive income | - | - | 1,496,114 | 151,552 | 1,647,666 |
| Investments in subsidiaries | - | - | - | 139,669 | 139,669 |
| Loans and advances to customers | 6,265,464 | 5,314,161 | - | - | 11,579,625 |
| Financial assets at amortized cost | - | - | 895,379 | - | 895,379 |
| Property and equipment | - | - | - | 1,008,805 | 1,008,805 |
| Intangible assets | - | - | - | 58,403 | 58,403 |
| Other assets | 2,081 | 16,226 | - | 71,727 | 90,034 |
| **Total Assets** | **6,267,545** | **5,330,387** | **9,511,886** | **2,533,851** | **23,643,669** |

## 38 SEGMENT REPORTING (CONTINUED)

| 31 December 2018 | Corporate banking MDL'000 | Retail banking MDL'000 | Treasury MDL'000 | Others MDL'000 | Total per statement of financial position MDL'000 |
|---|---|---|---|---|---|
| **LIABILITIES** | | | | | |
| Due to banks | - | - | 5,045 | - | 5,045 |
| Borrowings | - | - | 568,884 | - | 568,884 |
| Due to customers | 1,911,335 | 16,758,842 | - | - | 18,670,177 |
| Conditional commitments provisions | 9,610 | 139 | - | - | 9,749 |
| Deferred tax liabilities | 9,326 | 12,522 | 9,754 | 627 | 32,229 |
| Other liabilities | 4,801 | 166,205 | - | 300,394 | 471,400 |
| **Total Liabilities** | **1,935,072** | **16,937,708** | **583,683** | **301,021** | **19,757,484** |

## 39 EVENTS AFTER THE REPORTING PERIOD

In March 2020, the Commission for Exceptional Situations of the Republic of Moldova issued the following provisions on:

- Stopping the activity of points of sales, except for food, pharmacies and gas stations;
- Cessation of leisure, recreation, gyms, sports centers, swimming pools, fitness rooms, theaters, cinemas, concert halls, museums;
- Recommendation on minimizing the presence of employees at work;
- Cessation of international passenger transport;
- Stopping the activity of some state border crossing points.

Management has estimated that the Banks's business will be potentially affected by:

- The ability of companies to serve loans in conditions of low activity;
- The ability of individuals to serve loans in the event of a possible decrease in disposable income;
- Withdrawal or non-extension of deposits by individuals and legal entities to meet the needs of cash flow in conditions of reduced income;
- Reducing the volume of settlements in national currency and foreign currency;
- Reducing the volume of cash transactions.

In order to support customers, the Bank has decided to postpone the payment of instalments on loans, including interest, for both individuals and legal entities, for the period March - May 2020. In June 2020, the bank will negotiate individually with each client either the reimbursement of outstanding payments in the same month, or a rescheduling of payments for a mutually agreed period.

According to the Bank's estimates, the deferral of payments on loans and their rescheduling will not have a significant influence on the amortized cost and the net interest income on the loan portfolio. At the same time, the Bank estimates that the quality of the portfolio will change, but its impact could not be quantified at the date of issuing the report.

In addition, the Bank announced the extension of deposit agreements that expire during the period 17.03.2020-30.04.2020.

The Bank's management has developed various scenarios for the evolution of the situation and considers that within reasonable limits it will not influence the Bank's ability to continue its activity in the near future.