BC MOLDOVA AGROINDBANK SA

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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

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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 2018, 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 2018, 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.

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. The provision represents management's best estimate of losses within the loans and advances to customers. 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.	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. 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. 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.

Key audit matter	Audit response
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. Refer to Note 9 of the accompanying financial statements.	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. 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. 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.

The engagement partner on the audit resulting in this independent auditor's report is Anatolie Bernaz.

BDO Audit & Consulting SRL

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28 March 2019

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

FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in thousand MDL, if not stated otherwise)

	Note	2018 MDL'000	2017 MDL'000
Interest income	22	1,286,223	1,342,449
Interest expense	22	(371,464)	(475,929)
Net interest income		914,759	866,520
Fee and commission income	23	418,904	431,697
Fee and commission expense	23	(158,996)	(142,511)
Net fee and commission income		259,908	289,186
Foreign exchange gains, net	24	238,432	230,285
Gains from financial assets available for sale and financial assets held to maturity		-	36,442
Dividend income		312	471
Other operating income	25	23,412	18,679
Personnel expenses	26	(405,178)	(343,785)
Amortization expenses	11, 12	(95,523)	(82,018)
Other operational expenses	27	(275,145)	(241,478)
Pre-provision operating profit		660,977	774,302
Impairment and provision net expenses	6, 9, 13, 28	(60,942)	(261,422)
Operating profit before tax		600,035	512,880
Income tax expense	17	(68,571)	(57,210)
Net profit for the year		531,464	455,670

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 2018
(All amounts expressed in thousand MDL, if not stated otherwise)

	Notes	2018 MDL'000	2017 MDL'000
Other comprehensive income			
Items that are or may be reclassified to profit or loss:			
Changes in fair value of available for sale financial assets	7	-	41,029
Changes in fair value of debt instruments classified as financial assets at fair value through other comprehensive income	7	(26,964)	-
Transfer in profit or loss on disposal of available-for-sale financial assets	7	-	(31,418)
Deferred tax related to the changes in fair value of available for sale financial assets	17	-	(2,016)
Deferred tax related to debt instruments classified as financial assets at fair value through other comprehensive income	17	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	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	(572)	-
Deferred tax related to the revaluation of land and buildings	17	1,520	8
Other comprehensive income for the year		(13,240)	7,603
Total comprehensive income for the year		518,224	463,273
Earnings per share (expressed in MDL per share)	19	512.19	439.14

The separate financial statements were authorised for issue on 28 March 2019 by the Executives of the Bank represented by:

President of the Management Board

Mr. Serghei Cebotari

Chief accountant

Mrs. Carolina Semeniuc

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

SEPARATE STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in thousand MDL, if not stated otherwise)

	Note	2018 MDL'000	2017 MDL'000
ASSETS			
Cash on hand	4	1,103,695	613,052
Balances with National Bank of Moldova	5	5,400,244	4,454,566
Due from banks	6	1,720,149	2,811,090
Financial assets available for sale	7	-	1,420,720
Financial assets at fair value through other comprehensive income	7	1,647,666	-
Investments in subsidiaries	8	139,669	133,091
Loans and advances to customers	9	11,579,625	9,874,217
Financial assets held to maturity	10	-	1,793,908
Financial assets at amortized cost	10	895,379	-
Property and equipment	11	1,008,805	856,129
Intangible assets	12	58,403	59,001
Other assets	13	90,034	187,648
Total assets		23,643,669	22,203,422
LIABILITIES			
Due to banks	14	5,045	47,247
Borrowings	15	568,884	682,979
Due to customers	16	18,670,177	17,555,746
Contingent commitments provisions	28	9,749	-
Deferred tax liability	17	32,229	34,919
Current tax liability	17	14,226	30,771
Other liabilities	18	457,174	203,262
Total liabilities		19,757,484	18,554,924
EQUITY			
Ordinary shares	19	207,527	207,527
Share premium		104,537	104,537
Available for sale financial assets revaluation reserve		-	99,375
Financial assets at fair value through other comprehensive income revaluation reserve		84,615	-
Property and equipment revaluation reserve		196,290	208,411
Retained earnings		3,293,216	3,028,648
Total equity		3,886,185	3,648,498
Total equity and liabilities		23,643,669	22,203,422

The separate financial statements were authorised for issue on 28 March 2019 by the Executives of the Bank represented by:

President of the Management Board	Contabilul-şef
Mr. Serghei Cebotari	Mrs. Carolina Semeniuc

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

SEPARATE STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018
(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

As at 31 December 2018 the non-distributable legal reserves amounted to MDL'000 455,132 (2017: MDL'000 465,394) and include reserve from revaluation of activelor la valoarea justă prin alte elemente rezultatului global, 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 (2018: MDL'000 259,400 şi 2017: MDL'000 394,498). Legal reserves and reserve recorded in accordance with prudential regulations of the National Bank of Moldova are included in the retained earnings column.

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

SEPARATE STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018
(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 2017	207,527	104,537	91,780	208,403	2,624,325	3,236,572
Total comprehensive income						
Net profit for the year	-	-	-	-	455,670	455,670
Other comprehensive income	-	-	7,595	8	-	7,603
Total comprehensive income for the year	-	-	7,595	8	455,670	463,273
Transactions with shareholders						
Dividends paid (Note 19)	-	-	-	-	(51,347)	(51,347)
Other transactions						
Balance as at 31 December 2017	207,527	104,537	99,375	208,411	3,028,648	3,648,498

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

SEPARATE STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

	Notes	2018 MDL'000	2017 MDL'000
Cash flows from operating activities			
Interest received		1,298,997	1,281,302
Interest paid		(376,645)	(486,169)
Commissions received		416,647	427,670
Commissions paid		(158,996)	(142,511)
Gains from trading in foreign currencies	24	252,391	242,540
Recoveries of loans previously written-off	9, 13	15,965	42,199
Other operating income		16,088	22,112
General and administrative expenses paid		(269,766)	(247,839)
Personnel expenses paid		(405,384)	(343,350)
Cash from operating activities before changes in operating assets and liabilities		789,297	795,954
Net (increase) /decrease in operating assets:			
Due from banks and National Bank of Moldova		(177,703)	(366,170)
Financial assets at amortized cost		242,651	378,457
Loans and advances to customers		(1,951,422)	(641,410)
Other assets		116,389	(49,694)
Net increase / (decrease) in operating liabilities			
Due to banks		(42,345)	40,706
Due to customers		1,362,640	2,648,850
Other liabilities		168,986	44,003
Net cash from operating activities before tax		508,493	2,850,696
Income tax paid		(71,532)	(55,449)
Net cash from operating activities		436,961	2,795,247

SEPARATE STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts expressed in thousand MDL, if not stated otherwise)

	Notes	2018 MDL'000	2017 MDL'000
Cash flows from investing activities			
Purchase of property and equipment and intangible assets	11, 12	(233,513)	(116,377)
Financial assets at fair value through other comprehensive income		(241,706)	(1,227,779)
Investments in subsidiaries		(6,578)	-
Proceeds from sale of investments in associates		312	471
Net cash used in investing activities		(481,485)	(1,343,685)
Cash flows from financing activities			
Repayment of borrowings		(219,365)	(291,515)
Proceeds from borrowings		120,426	148,082
Dividends paid	19	(132,329)	(51,710)
Net cash used in financing activities		(231,268)	(195,143)
Effect of exchange rate fluctuations		(16,668)	(28,464)
Net flows of cash and cash equivalents	21	(292,460)	1,227,955
Cash and cash equivalents as at 1 January		8,233,949	7,005,994
Cash and cash equivalents as at 31 December	21	7,941,489	8,233,949

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

1 GENERAL INFORMATION

BC Moldova Agroindbank SA ("the Bank") was established in 1991 as a joint stock commercial bank. The Bank operates through its head office located in Chisinau, 66 branches (2017: 66 branches) and 127 representatives (2017: 120 representatives) located throughout the country.

BC Moldova Agroindbank SA is a universal bank which holds the authorization issued by the National Bank of Moldova to perform all types of transactions in national and foreign currency on the territory of Republic of Moldova and on international markets. The Bank offers a wide range of banking products and services, divided into corporate and retail segments.

The Bank's corporate banking activities imply attracting deposits, cash handling services, lending and financing of foreign trade, payment orders, treasury and investment services.

The Bank also offers a comprehensive range of retail banking services for individuals: savings accounts, demand and term deposits, loans, foreign currency exchange operations and domestic and international funds transfers, treasury and investment services.

The segmentation is presented in Note 38.

As at 31 December 2018, the Bank held 100% of the share capital of MAIB Leasing SA (as at 31 December 2017: 100%), a subsidiary, which offers leasing products and 99.00% of the share capital of Moldmediacard SRL (as at 31 December 2017: 54.24%), a private limited company which offers processing services for card transactions.

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

As at 31 December 2018 the Bank had 2,427 employees (31 December 2017: 2,290).

The registered office of the Bank is located at 9/1 Constantin Tănase Street, Chisinau, Republic of Moldova.

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

1 GENERAL INFORMATION (CONTINUED)

As at 31 December 2018 and 31 December 2017, the Bank's shareholders structure was as follows:

	2018	2017
HEIM Partners Limited	41.09%	-
Civil society of Bank shareholders and their affiliates*	11.17%	11.81%
OOO "Evrobalt"**	0.00%	1.05%
UCCC "Moldcoop" and other entities acting in concert	2.52%	2.52%
Individuals who hold ≥ 1%, directly or indirectly	17.95%	16.29%
Others***	27.27%	27.24%
Shares provisionally registered on the Bank's name ****	0.00%	41.09%
Total	100.00%	100.00%

*As at 31 December 2018 the Civil society of the Bank's shareholders and its affiliates included 13 members (2017: 14 members) of which 1 member (2017: 1 member) of the executive management and the other 12 members were affiliated persons (2017: 13 members).

**According to the enforceable title issued by Chisinau Court (Central Office) on 22.11.2017, the registration of ownership rights in the personal accounts of one shareholder, individual, was restored by cancelling the subscriptions of the shares in the accounts of the shareholder of the Bank OOO "Evrobalt".

***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 2017: 3,022 shareholders) of which 2,773 shareholders are individuals and 225 are legal entities (31 December 2017: 2,785 individuals and 237 legal entities).

****The shares provisionally registered on the Bank's name refer to the following two stockholdings:

- The unique stockholding of 36,605 (thirty-six thousand six hundred five) newly issued First Class ordinary shares.
- The unique stockholding of 389,760 (three hundred and eighty-nine thousand seven hundred and sixty) newly issued First Class ordinary shares.

During 2018 these stockholding, were purchased and held in accordance with the provisions of art. 541 of Law no. 121-XVI of 04.05.2007 "On the administration and privatization of the public property" and the Government Decision of the Republic of Moldova no. 591 of 21.06.2018 "On the purchase and privatization of the newly issued shares of BC "Moldova-Agroindbank" S.A. by the Public Property Agency, which after the purchase was put on sale.

1 GENERAL INFORMATION (CONTINUED)

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 of 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 issued by the International Accounting Standards Board (IASB).

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") are prepared on the going concern basis and 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 are prepared under the historical cost and/or amortized cost except for the:

- 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 requires management to exercise 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. Revisions of accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period when the estimate is reviewed and future periods, if such revision affects the current and future periods.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are presented in Note 3.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(a) Standards effective for annual periods beginning on or after 1 January 2018

The following new standards and interpretations became effective for the Bank from 1 January 2018:

IFRS 9: Financial Instruments

The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Thus, on recognition of impairment losses on financial assets and provisions for contingent liabilities under IFRS 9, the Bank has formed additional reserves from equity (retained earnings) in the total amount of MDL'000 59,781.

The table below presents the reconciliation between allowance for impairment losses on loans under IAS 39, provisions on loans, guarantees and loan commitments under IAS 37 and allowance for impairment losses in accordance with IFRS 9.

	Note	Allowances for impairment losses estimated under IAS 39/ IAS 37 as at 31 December 2017 MDL'000	Effect of IFRS 9 MDL'000	Allowances for impairment losses estimated under IFRS 9 as at 1 January 2018 MDL'000
Allowances for impairment losses on loans and advances under IAS 39	9	1,054,382	(1,054,382)	-
Allowances for impairment losses on current accounts and placements in banks	6	-	40	40
Allowances for impairment losses on other assets not related to loans	13	39,081	(2,175)	36,906
Allowances for impairment losses on financial assets at amortized cost under IFRS 9 – Lease receivables	9	-	1,107,646	1,107,646
Allowances for impairment losses on financial assets at amortized cost under IFRS 9	13	-	1,700	1,700
Allowances for impairment losses on outstanding commissions and penalties under IFRS 9	28	-	5,468	5,468
Loan commitments	28	-	1,484	1,484
Total		1,093,463	59,781	1,153,244

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(a) Standards effective for annual periods beginning on or after 1 January 2018 (continued)

A reconciliation between reported accounting values in accordance with IAS 39 and those reported under IFRS 9 as at 1 January 2018 is as follows:

	Presentation under IAS 39 31.12.2017 MDL'000	Reclass MDL'000	Allowances for impairment losses on assets and formation of provisions remeasured under IFRS 9 MDL'000	Presentation under IFRS 9 01.01.2018 MDL'000
Financial ASSETS				
Cash on hand	613,052	-	-	613,052
Balances with National Bank of Moldova	4,454,566	-	-	4,454,566
Due from banks	2,811,090	-	(40)	2,811,050
Financial assets available for sale	1,420,720	(1,420,720)	-	-
Equity instruments at fair value through other comprehensive income	-	142,403	-	142,403
Debt instruments at fair value through other comprehensive income	-	1,278,317	-	1,278,317
Loans and advances to customers	9,874,217		(53,264)	9,820,953
Financial assets held to maturity	1,793,908	(1,793,908)	-	-
Financial assets at amortized cost	-	1,793,908	-	1,793,908
Other assets	117,201	-	475	117,676
Total assets	21,084,754	-	(52,829)	21,031,925
Financial LIABILITIES				
Due to banks	47,247	-	-	47,247
Borrowings	682,979	-	-	682,979
Due to customers	17,555,746	-	-	17,555,746
Non-financial LIABILITIES				
Conditional commitments provisions	-	-	6,952	6,952
Total liabilities	18,285,972	-	6,952	18,292,924

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(a) Standards effective for annual periods beginning on or after 1 January 2018 (continued)

IFRS 15: Revenue from Contracts with Customers

IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. This amendment did not have a significant impact on the financial statements of the Bank.

IFRS 15: Revenue from Contracts with Customers (Clarifications)

The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 Revenue from Contracts with Customers, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. This amendment had no material impact on the financial statements of the Bank.

IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)

The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. This amendment did not have a significant impact on the financial statements of the Bank.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(a) Standards effective for annual periods beginning on or after 1 January 2018 (continued)

IAS 40: Transfers to Investment Property (Amendments)

The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. This amendment did not have a significant impact on the financial statements of the Bank.

IFRIC INTERPRETATION 22: Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The Bank estimated that these amendments did not have a significant impact on the Bank's financial statements.

The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle*:***

- ***IAS 28 Investments in Associates and Joint Ventures:***

The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

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

IFRS 16: Leases

The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. Upon first application of the provisions of IFRS 16 Leases, the Bank recognized in the balance sheet 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
Assets under the right of use, received in operating lease	113,591
Operating lease liabilities	(113,591)

Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. The Bank estimated that these amendments will not have a significant impact on the Bank's financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

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

IFRS 9: Prepayment features with negative compensation (Amendments)

The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. The Bank estimated that these amendments will not have a significant impact on the Bank's financial statements.

IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)

The Amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. 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. The Bank did not expect that these amendments will have a significant impact on the Bank's financial statements.

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. The Bank did 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)

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

IAS 19: Plan amendment, curtailment or settlement (amendments)

The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. 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.

Conceptual Framework in IFRS standards

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

IFRS 3: Business combinations (amendments)

The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. 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.

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

The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. These Amendments have not yet been endorsed by the EU.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

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

The Bank does not expect that these amendments will have a significant impact on the Bank's financial statements.

The **IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. These annual improvements have not yet been endorsed by the EU. The Bank did not expect that these amendments will have a significant impact on the Bank's financial statements.

- ***IFRS 3 Business Combinations and IFRS 11 Joint Arrangements:***

The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

- ***IAS 12 Income Taxes***:

The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognize.

- ***IAS 23 Borrowing Costs:***

The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Foreign currency translation

Foreign currency transactions are translated 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 2018 and 2017 were:

	2018		2017	
	USD	Euro	USD	Euro
Average for the period	16.8031	19.8442	18.4902	20.8282
Year end	17.1427	19.5212	17.1002	20.4099

Exchange differences arising on the settlement of transactions at exchange rates different from those at the date of the original transaction and unrealised 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

The Bank recognises a financial asset or a financial liability on the statement of financial position when, and only when, the Bank becomes a party to the contractual provisions of the instrument.

Upon initial recognition, the Bank will classify its financial assets either at amortised cost or at fair value through other comprehensive income or at fair value through profit or loss. The financial liabilities will be classified either at amortised cost or at fair value through profit or loss statement.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Financial instruments (continued)

Classification of financial instruments (continued)

The principal is the financial asset fair value on initial recognition.

The interest is the consideration of the time value of money for the credit risk associated with the amount of principal due within a specified period of time and for other risks and key costs pertaining to the loan, as well as a profit margin.

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 elements of 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 elements of 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.

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.

Initial measurement

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Financial instruments (continued)

Initial measurement (continued)

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

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).

Subsequent Measurement of Financial Assets

Following the initial recognition, the Bank has to measure a financial asset at:

(a) amortised cost;

(b) fair value through other elements of comprehensive income; or

(c) fair value through profit or loss.

The impairment provisions for financial assets shall apply, which are measured at amortised cost and for financial assets which are measured at fair value through other elements of comprehensive income.

Subsequent Measurement of Financial Liabilities

The Bank shall classify all financial liabilities as subsequently measured:

a) at amortised cost; or

b) at fair value through profit or loss.

Effective Interest Method

The interest income/expenses must be calculated using the Effective Interest Method. These must be calculated by applying the Effective Interest Rate at amortised cost of a financial liability or at the gross carrying amount of a financial asset, 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Financial instruments (continued)

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, an entity must recalculate 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/book value 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).

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 individual 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 II 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/group of financial. 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 favorably, 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. Subsequent expenditure on property and equipment is only capitalised when the expenditure improves the condition of the asset beyond the originally assessed standard of performance.

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 are 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. 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 amortisation 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.

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.

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 amortisation 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 or constructive obligation to transfer economic benefits as a result of past events, it is more likely that not than an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

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

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

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

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.

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

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation 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 utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The tax rate used to calculate the current and deferred tax position at 31 December 2018 is 12% (2017: 12%).

2.25 Leasing

2.25.1 Finance leases - as a Lessee

From the lease commencement date, the Bank as lessee, recognizes an asset related to the right of use and a liability that results from the lease.

From the lease commencement date, the Bank measures the asset related to the right of use at cost. The cost of the asset related to the right of use shall include:

(a) Initial assessment of the lease liability;

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

(c) Any initial direct costs borne by the lessee; and

(d) An assessment of costs to be borne by the lessee for dismantling and removal of the underlying asset, for the restoration of the place where it is located or for bringing the underlying asset to the condition required in the terms and conditions of the lease, unless these costs are incurred to produce inventories.

From the lease commencement date, the Bank as lessee, assesses the lease liability at the updated value of the leasing payments which are not paid on that date. The leasing payments must be updated using the implicit interest rate in the lease if that rate can be immediately determined. If this rate cannot be determined immediately, the Bank as lessee, uses the incremental borrowing rate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.25 Leasing (continued)

2.25.1 Finance / operating leases - as a Lessee (continued)

In the initial assessment of the operational leases, the Bank as a lessee, shall classify the leases according to IFRS 16, Lease contracts only those contracts which fulfil one of the following conditions:

- the contract has a value higher than MDL 100 000 (one hundred thousand);

- the contract has a duration longer than 1 (one) year.

If the implicit interest rate is not established in the lease, the Bank will use as the marginal lending rate, the average rate on deposits attracted by the Bank from individuals by currencies and maturities.

The amortization of the asset related to the right of use is carried out linearly throughout the term of the contract.

The expenses related to the lease leasing payments which are not recognized and assessed according to IFRS 16, shall be classified in the profit or loss statement as rent expenses.

2.25.2 Operating leases – as a Lessor

A lease is classified as an operating lease if it does not essentially transfer all the risks and benefits related to the right of property of the underlying asset.

If the contract characteristics clearly show that the lease does not essentially transfer all the risks and benefits related to the right of property of the underlying asset, then the lease is classified as operating.

The Bank, as lessee, recognizes the leasing payments related to the operating lease to income on a straight line basis.

2.25.3 Finance leases – as a Lessor

A lease is classified as a financial lease if it essentially transfers all the risks and rewards related to the right of property of the underlying asset. A lease is classified as a financial lease if:

(a) The lease transfers the title of property of the underlying asset to the lessee until the end of the lease term;

(b) The lessee has the option of purchasing the underlying asset at a price that is expected to be low enough to the fair value at the date when the option becomes exercisable so that, at the date of the lease start there is a reasonable assurance that the option will be exercised;

(c) The lease term covers for the greater part the underlying asset economic lifetime, even if the title of property is not transferred;

(d) From the lease commencement date, the updated value of the leasing payments is at least equal to the entire fair value of the underlying asset; and

e) The underlying asset has such a specialized character that only the lessee can use it without major amendments.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.25 Leasing (continued)

2.25.3 Finance leases – as a Lessor (continued)

Issues that point to situations that individually or in combination could also lead to the classification of leases as finance leases are:

(a) if the lessee can terminate the lease, the lessor's losses resulting from the termination of the lease are borne by the lessee;

(b) the gains or losses resulting from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equaling most of the sales proceeds at the end of the lease); and

(c) the lessee has the ability to continue the leasing for a second period, at a rent that is substantially lower than the market rent.

From the lease commencement date, the Bank recognizes, in the statement of financial position, the assets held under a finance lease and presents them as a receivable at an amount equal to the net investment in the lease.

At the initial assessment, the Bank, as the lessor, uses the default interest rate in the lease to assess the net investment in the lease. Initial direct costs are included in the initial assessment of the net investment in the lease and reduce the amount of income recognized during the lease term.

Revenues from financing during the lease term are reflected at a constant periodic rate of return on the net lease investment of the lessor. The Bank applies the recognition and impairment principles and procedures for a net investment in lease in accordance with IFRS 9, as described in Chapter 5.12 of this Policy.

The estimated unguaranteed residual values used in computing the lessor's gross investment in the lease are reviewed regularly, which corrects the revenue allocation over the lease term.

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.

3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (CONTINUED)

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

	31.12.2018 MDL'000	31.12.2017 MDL'000
Cash, including:	1,103,695	613,052
- commemorative and jubilee coins	*108*	*60*
	1,103,695	613,052

5 BALANCES WITH NATIONAL BANK OF MOLDOVA

	31.12.2018 MDL'000	31.12.2017 MDL'000
Current account	4,329,009	3,385,601
Mandatory reserves	1,071,235	1,068,965
	5,400,244	4,454,566

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 National Bank of Moldova ("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 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 18,706 and EUR'000 38,449 respectively (2017: USD'000 19,606 and EUR'000 35,948). For the means attracted with a maturity of less than 2 years the required reserve rate is 42.5% (2017: 40%), while for means attracted in freely convertible currency it is 14% (2017: 14%). For the means attracted with a maturity of over 2 years the required reserve rate is 0% (2017: 0%).

The interest paid by NBM on the mandatory reserves during 2018 varied between 0.22% and 0.25% per annum (2017: 0.22%-0.23% per annum) for reserves in foreign currency and 2.89% – 3.22% per annum (2017: 3.20%-5.18% pe an) for reserves in MDL.

The required reserves have to be kept at an average limit at the 15th of each month. The level should be established at the average 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

	31.12.2018 MDL'000	31.12.2017 MDL'000
Current accounts	1,608,294	2,429,382
Placements	111,874	381,708
Less: allowance for impairment losses	(19)	-
	1,720,149	2,811,090

All current accounts and deposit balances are in foreign currencies with foreign banks such as KBC (Belgium), Raiffeisen Bank International AG (Austria), Bank of New York (USA), LBBV (Germany), Sberbank (Russia), etc.. (2017: KBC (Belgium), Commertzbank (Germany), Bank of New York (USA), Sberbank (Russia), Raiffeisen Bank International AG (Austria), etc).

The Bank's amounts in current accounts are not restricted.

The Bank's placements include deposits at KBC (Belgium) of MDL'000 51,459 (at 31.12.2017 amounts in current accounts were placed: MDL'000 307,913 at KBC and at RZB) and restricted deposits of MDL'000 60,396 (31.12.2017: MDL'000 73,795).

The restricted deposits mainly represent deposits placed for clients and under membership agreements signed with Visa, MasterCard, American Express of USD'000 2,626 (MDL'000 44,942) and EUR'000 830 (MDL'000 15,454) (31 December 2017: USD'000 2,523 (MDL'000 43,136) and EUR'000 1,500 (MDL'000 30,615)).

During 2018 were recorded recoveries from allowances for impairment losses on current accounts and placements from banks in amount of MDL'000 14. (2017: 0).

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

Rating	Rating Agency	31.12.2018 MDL'000	31.12.2017 MDL'000
AA	Fitch	257,584	612,665
AA-	Standard&Poor's	-	21,466
A+/ A1	Standard&Poor's, Fitch, Moody's	754,166	-
A	Standard&Poor's, Fitch	21,858	1,574,791
A-	Standard&Poor's , Fitch	632,194	-
BBB+	Standard&Poor's, Fitch	20,744	586,831
BBB	Standard&Poor's, Fitch	8,581	376
Baa3	Moody's	3,236	324
Rating Ba2 / BB and lower	Standard&Poor's, Moody's	21,655	14,506
Without rating	-	131	131
Total		**1,720,149**	**2,811,090**

7 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME / FINANCIAL ASSETS AVAILABLE FOR SALE

	31.12.2018 MDL'000	31.12.2017 MDL'000
Financial assets available for sale, of which:	-	1,420,720
Equity instruments available for sale	-	142,403
Debt instruments available for sale	-	1,278,317
Equity instruments at fair value through other comprehensive income	151,552	-
Debt instruments at fair value through other comprehensive income	1,496,114	-
	1,647,666	1,420,720

Equity instruments at fair value through other comprehensive income / available for sale:

	2018 MDL'000	2017 MDL'000
Balance at 1 January	142,403	161,868
*Disposals	(699)	(43,283)
Additions	50	-
Increase/ (decrease) in fair value	9,798	17,014
(Increase)/ decrease of allowance for impairment losses	-	6,804
Balance at 31 December	151,552	142,403

*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.

*During the year 2017 the Bank sold the investment held in the share capital of IM "Suedzucker Moldova" S.A. at the price of MDL'000 47,915, so the difference between the cost value of this investment and its trading value amounted to MDL'000 36,008, which was reflected in the profit and loss account.

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 / FINANCIAL ASSETS AVAILABLE FOR SALE (CONTINUED)

Equity instruments at fair value through other comprehensive income / available for sale (continued)

	Field of activity	Ownership % 2018	2017	31.12.2018 MDL'000	31.12.2017 MDL'000
Visa Inc.	Transaction processing	0.001%	0.001%	68,595	58,808
IM Glass Container Prim SA	Sugar processing	16.89%	16.89%	51,696	50,458
IM Glass Container Company SA	Glass manufacturing	17.43%	17.43%	29,154	30,663
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%	900	877
Garantinvest SRL	Transaction processing	0%	9.92%	-	440
Depozitarul Central Unic al Valorilor Mobiliare	Registration services, depositary, clearing	0.20%	-	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%	-	-
				151,552	142,403

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 / FINANCIAL ASSETS AVAILABLE FOR SALE (CONTINUED)

As at 31 December 2018 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.

The fair value of investments in the equity of Î.M. „Glass Container Company" S.A., Î.M. „Glass Container Prim" S.A. and Î.M. „Suedzucker Moldova" S.A was determined based on the valuation performed by an external valuer.

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 (2019 – 2022), an annual long-term growth rate of 6% 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 ÎM Biroul de Credit SRL, Depozitarul Național de Valori Mobiliare al Moldovei, Depozitarul Central Unic al Valorilor Mobiliare și 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.

7 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME / FINANCIAL ASSETS AVAILABLE FOR SALE (CONTINUED)

Debt instruments at fair value through other comprehensive income / available for sale:

	2018 MDL'000	2017 MDL'000
Balance at 1 January	1,278,317	12,170
*Disposals	(1,272,815)	(159,668)
Additions	1,505,020	1,401,843
Increase/ (decrease) in fair value	(14,408)	23,972
(Increase)/ decrease of allowance for impairment losses	-	-
Balance at 31 December	1,496,114	1,278,317

State securities were classified as debt securities at fair value through other comprehensive income to have a reserve if the Bank would have the need for money and would sell them on the secondary market. The final maturity of these state securities is September 21, 2023.

8 INVESTMENTS IN SUBSIDIARIES

	Sector	Ownership 2018, %	2018 MDL'000	2017 MDL'000
MAIB Leasing SA	Finance lease	100%	163,452	163,451
MoldMediaCard SRL	Processing of card payments	99.00%	11,522	4,945
Minus: provision for impairment			(35,305)	(35,305)
			139,669	133,091

8 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

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

	2018 MDL'000	2017 MDL'000
Investments in subsidiaries		
Balance as at 1 January	133,091	60,311
Increase in share capital	-	99,851
Additions – by increasing the Bank's ownership%	6,578	-
(Increase)/decrease of impairment	-	(27,071)
Balance as at 31 December	139,669	133,091

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

	31.12.2018 MDL'000	31.12.2017 MDL'000
Corporate clients	6,965,111	6,428,491
Retail entities	1,919,016	1,889,682
Individuals	3,538,413	2,610,426
Total loans, gross	12,422,540	10,928,599
Less: total allowances for impairment losses on loans, including:	(842,915)	(1,054,382)
- Allowances on loans – portfolio of corporate customers	(699,647)	(912,945)
- Allowances on loans – portfolio of retail entities	(60,745)	(113,673)
- Allowances on loans – portfolio of individuals	(82,523)	(27,764)
Total loans, net	11,579,625	9,874,217

9 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The concentration of the customer's loan portfolio per economic sectors is as follows:

Corporate	Stage 1	Stage 2	Stage 3	31.12.2018 Total MDL'000	31.12.2017 Total MDL'000
Agriculture and food industry *including:*	1,435,368	577,340	29,587	2,042,295	2,180,929
agriculture	244,991	-	-	244,991	289,864
food industry	1,190,377	577,340	29,587	1,797,304	1,891,065
including wine production	222,154	577,339	-	799,493	714,706
Non-food industry	223,543	309,757	157,862	691,162	730,822
Trade	2,367,255	165,907	155,903	2,689,065	2,429,535
Transport	140,896	149,045	-	289,941	278,126
Telecommunication	363,712	-	-	363,712	247,300
Construction and real estate	347,465	-	91,356	438,821	224,049
Energy sector	-	-	213,882	213,882	192,235
Financial institutions and organizations	227,077	-	-	227,077	117,746
Other	9,156	-	-	9,156	27,749
Total	5,114,472	1,202,049	648,590	6,965,111	6,428,491

9 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The concentration of the customer's loan portfolio per economic sectors is as follows (continued):

Retail entities	**Stage 1**	**Stage 2**	**Stage 3**	**31.12.2018 Total MDL'000**	**31.12.2017 Total MDL'000**
Agriculture and food industry	728,667	36,275	36,690	801,632	689,181
including:					
agriculture	700,102	33,640	24,531	758,273	641,938
food industry	28,565	2,635	12,159	43,359	47,243
including wine production	16,303	-	-	16,303	17,939
Non-food industry	63,399	9,180	677	73,256	86,739
Trade	854,268	15,696	18,321	888,285	898,738
Transport	27,269	103	1	27,373	33,486
Telecommunication	726	-	1	727	180
Construction and real estate	48,245	4,273	125	52,643	58,323
Energy sector	1,458	-	-	1,458	-
Financial institutions and organizations	15,612	70	343	16,025	60,968
Other	57,294	163	160	57,617	62,067
Total	1,796,938	65,760	56,318	1,919,016	1,889,682

Individuals	**Stage 1**	**Stage 2**	**Stage 3**	**31.12.2018 Total MDL'000**	**31.12.2017 Total MDL'000**
Mortgage	1,775,185	43,211	24,887	1,843,283	1,157,373
Consumer loans - secured	322,977	16,153	13,101	352,231	290,456
Consumer loans - unsecured	1,074,108	45,813	19,277	1,139,198	1,002,602
Credit cards	156,235	45,390	2,076	203,701	159,995
Total	3,328,505	150,567	59,341	3,538,413	2,610,426

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	31.12.2018 Total MDL'000	31.12.2017 Total MDL'000
Corporate					
Performing					
Standard	3,554,378	385,015	-	3,939,393	3,363,232
Supervised	1,546,133	817,034	-	2,363,167	1,907,645
Non-performing	13,961	-	648,590	662,551	1,157,614
Less: Allowances for impairment losses, of which:					
assessed collectively	(61,387)	(6,173)	-	(67,560)	(58,261)
assessed individually	(52,081)	(219,277)	(360,729)	(632,087)	(854,684)
Total	5,001,004	976,599	287,861	6,265,464	5,515,546
Retail entities					
Performing					
Standard	1,554,674	14,809	-	1,569,483	1,460,363
Supervised	241,072	41,114	675	282,861	294,794
Non-performing	1,192	9,837	55,643	66,672	134,525
Less: Allowances for impairment losses, of which:					
assessed collectively	(20,422)	(6,338)	(16,704)	(43,464)	(28,857)
assessed individually	-	(1,087)	(16,194)	(17,281)	(84,816)
Total	1,776,516	58,335	23,420	1,858,271	1,776,009
Individuals					
Performing					
Standard	3,198,895	1,872	-	3,200,767	2,335,632
Supervised	102,209	104,503	1,896	208,608	175,895
Non-performing	27,401	44,192	57,445	129,038	98,899
Less: Allowances for impairment losses, of which:					
assessed collectively	(32,011)	(12,780)	(37,732)	(82,523)	(27,764)
assessed individually	-	-	-	-	-
Total	3,296,494	137,787	21,609	3,455,890	2,582,662

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)

Ageing analysis of portfolio by days in arrears during 2017:

31 December 2017	0-30 days	31-90 days	Over 90 days	Total
	MDL'000	MDL'000	MDL'000	MDL'000
Corporate	5,706,522	-	721,969	6,428,491
Retail entities	1,751,587	18,999	119,096	1,889,682
Individuals	2,527,530	47,133	35,763	2,610,426
	9,985,639	66,132	876,828	10,928,599
Less: allowances for impairment losses on loans, including:	(478,899)	(6,336)	(569,147)	(1,054,382)
assessed collectively	(77,701)	(6,034)	(31,147)	(114,882)
assessed individually	(401,198)	(302)	(538,000)	(939,500)
	9,506,740	59,796	307,681	9,874,217

9 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

	Corporate	Retail entities	Individuals	Total
	MDL'000	MDL'000	MDL'000	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 movement in individual and collective impairment allowance during the year 2017 in accordance with IAS 39 is presented below:

	Corporate	Retail entities	Individuals	Total
	MDL'000	MDL'000	MDL'000	MDL'000
As at 1 January 2017	775,017	104,403	25,533	904,953
Impairment charge	225,549	22,100	9,392	257,041
Amounts written off as uncollectible	(68,179)	(11,435)	(7,161)	(86,775)
Foreign exchange differences	(19,441)	(1,396)	-	(20,837)
As at 31 December 2017	912,946	113,672	27,764	1,054,382

The impairment charge for the period is different 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 15,191 (2017: MDL'000 14,698). 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 is presented below:

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	31.12.2018 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	31.12.2018 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 / FINANCIAL ASSETS HELD TO MATURITY

	31.12.2018 MDL'000	31.12.2017 MDL'000
Financial assets held to maturity	-	1,793,908
Debt instruments at amortised cost	895,379	-
	895,379	1,793,908

The structure of debt instruments at amortised cost / financial assets held to maturity for 2018 and 2017 is presented in the table below:

	31.12.2018 MDL'000	31.12.2017 MDL'000
Treasury bills	-	221,277
Government bonds	46,329	74,630
Certificates issued by the NBM	849,050	1,498,001
	895,379	1,793,908

As at 31 December 2018 the treasury bills issued by the Ministry of Finance of the Republic of Moldova had a maturity of 91 and 365 days with an annual interest rate ranging between 4.24 % and 6.40% (2017: 5.83 % and 8.46% per annum). As at 31 December 2018 government bonds issued by the Ministry of Finance of the Republic of Moldova had a maturity of 730 and 1,826 days, with an annual interest rate ranging between 4.32 % and 8.35% (2017: 5.70 % and 13.00% per annum).

As at 31 December 2018 the Bank had certificates issued by the National Bank of Moldova in Bank's portfolio in amount of MDL'000 850 with an annual interest rate of 6.5% (as at 31 December 2017 the bank had certificates issued by the National Bank of Moldova in Bank portfolio in amount of MDL'000 1,500 with an annual interest rate of 6.5%).

11 PROPERTY AND EQUIPMENT

	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 (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 2017						
Cost/revalued value	638,040	440,627	32,593	24,472	199,394	1,335,126
Accumulated depreciation and impairment	(171,798)	(310,231)	(19,048)	(17,336)	-	(518,413)
Carrying amount	466,242	130,396	13,545	7,136	199,394	816,713
Year ended 31 December 2017						
Net carrying value at 1 January	466,242	130,396	13,545	7,136	199,394	816,713
Additions	580	-	-	-	107,426	108,006
Transfers	6,613	67,504	5,083	3,213	(82,413)	-
Disposals, net		(114)	-	-	-	(114)
*Reclassified in assets held for sale	(92)	-	(1,040)	-	-	(1,132)
Depreciation charge	(11,846)	(49,669)	(3,800)	(2,029)	-	(67,344)
Carrying amount	461,497	148,117	13,788	8,320	224,407	856,129
At 31 December 2017						
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)
Net book value	461,497	148,117	13,788	8,320	224,407	856,129

11 PROPERTY AND EQUIPMENT (CONTINUED)

As at 31 December 2018, the cost of the Bank's fully depreciated but still used property and equipment amounted to MDL'000 309,530 (as at 31 December 2017: MDL'000 272,475).

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.

12 INTANGIBLE ASSETS

	2018 MDL'000	2017 MDL'000
Balance as at 1 January		
Cost	117,058	107,057
Accumulated amortization	(58,057)	(43,383)
Net book value	59,001	63,674
Year ended 31 December		
Net value as at 1 January	59,001	63,674
Additions	**20,651**	10,001
Disposals	-	-
Amortisation charge	(21,249)	(14,674)
Net book value	58,403	59,001
As at 31 December		
Cost	137,709	117,058
Accumulated amortization	(79,306)	(58,057)
Net book value	58,403	59,001

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

As at 31 December 2018 the cost of fully amortized intangible assets comprising in total 84 units (2017: 71 units) amounted to MDL'000 32,863 (2017: MDL'000 29,169).

Intangible assets comprise the automatic banking system "Globus/T24" with a carrying value of MDL'000 35,168 as at 31 December 2018 (2017: MDL'000 29,391), which, according to contractual provisions, will be used by the Bank till 30 September 2030.

In 2015 the Bank launched the project of acceptance and issuance of American Express Cards. As at 31 December 2018 the carrying value of the license was MDL'000 5,184 (2017: MDL'000 7,673).

13 OTHER ASSETS

	31.12.2018 MDL'000	31.12.2017 MDL'000
Other non-financial assets		
Inventory and low value materials in stock	12,062	6,134
Prepayments	50,321	63,362
Non-current assets held for sale	957	957
Other financial assets		
Receivables from other financial institutions	39,265	127,433
Other receivables	28,510	26,668
	130,158	223,597
Less allowance for impairment of other assets and related payments	(41,082)	(36,906)
	90,034	187,648

Receivables from other financial institutions represent clearing balances with Visa, American Expres and MasterCard in amount of MDL'000 34,296 (2017: MDL'000 115,796), receivables due to international money transfer systems in amount of MDL'000 4,968 (2017: MDL'000 11,637). According to Moody's rating agency Visa International has the "A 1" and "P-1" ratings, while MasterCard Incorporated: "A 3" and "P-2" ratings.

The movement in the impairment allowance for receivables and related payments for the year 2018 and 2017 is presented below:

	2018 MDL'000	2017 MDL'000
At 1 January	36,906	39,388
Adjustments to transition to IFRS 9	(475)	-
Impairment charge	7,397	(759)
Write-offs	(2,746)	(1,723)
At 31 December	41,082	36,906

The impairment charge is different from the amount presented in the statement of profit or loss for the years 2018 and 2017 due to the recovery of amounts previously written off as uncollectible in amount of MDL'000 776 (2017: MDL'000 429). The amount of the recovery was credited directly to the "Net impairment loss on loans and receivables".

14 DUE TO BANKS

Loans and current accounts from other banks	Currency	Maturity	31.12.2018 MDL'000	31.12.2017 MDL'000
Current accounts of other banks	USD	Non applicable	2,658	2,476
	MDL	Non applicable	2,387	44,771
			5,045	47,247

15 BORROWINGS

Borrowings from International Financial Institutions:	Currency	Maturity	2018 MDL'000	2017 MDL'000
Rural Investment and Services Project (RISP)	MDL/USD/ EUR	01.04.2026	96,968	113,029
International Fund for Agricultural Development (IFAD)	MDL/USD/ EUR	16.03.2026	238,635	264,677
Project for Competitiveness Improvement (PCI)	MDL/USD/ EUR	01.04.2026	85,891	109,110
Kreditanstalt fur Wiederaufbau	MDL/USD/ EUR	15.07.2025	32,192	34,668
Millennium Challenge	MDL/USD/ EUR	25.02.2022	6,274	18,039
Fillere du Vin	EUR	02.06.2025	108,924	143,456
			568,884	682,979

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

	31.12.2018 MDL'000	31.12.2017 MDL'000
Legal entities		
Current accounts, including:		
Corporate customers	1,568,593	1,545,960
Retail customers	2,579,222	2,188,154
	4,147,815	3,734,114
Term deposits, including:		
Corporate customers	342,742	383,115
Retail customers	783,104	897,935
	1,125,846	1,281,050
	5,273,661	5,015,164
Individuals		
Current accounts	3,003,138	2,333,010
Term deposits	10,393,378	10,207,572
	13,396,516	12,540,582
	18,670,177	17,555,746

As at 31 December 2018, current accounts of legal entities and individuals include restricted deposits under guarantee agreements in the amount of MDL'000 84,314 (31 December 2017: MDL'000 171,589).

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

	2018 MDL'000	2017 MDL'000
Current income tax expense	67,077	57,457
Deferred income tax expense	1,494	(247)
Income tax expense for the year	68,571	57,210

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 standard income tax rate in 2018 was 12% (2017: 12%).

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

	2018 MDL'000	2017 MDL'000
Profit before tax	600,035	512,880
Tax calculated at applicable rate of 12% (2016:12%)	72,004	61,546
Tax effect of:		
Non-taxable income	(12,083)	(11,490)
Non-deductible expenses	8,818	7,356
Philanthropic, sponsorship and other expenses	(168)	(202)
Income tax expense for the year	68,571	57,210

17 TAXATION (CONTINUED)

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

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 reevaluation of equity investments	*(4,992)*	-	*(572)*	-	*(5,564)*	*(5,564)*
the reevaluation 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)

17 TAXATION (CONTINUED)

2017	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:	377	(197)	-	180	-	180
impairment losses	-	-	-	-	-	-
recognised at amortised cost	*377*	*(197)*	-	*180*	-	*180*
Available for sale financial assets, including:	(5,864)	-	(2,016)	-	(7,879)	(7,879)
impairment losses	-	-	-	-	-	-
the reevaluation reserve for equity investments	*(5,854)*	-	*862*	-	*(4,992)*	*(4,992)*
the reevaluation reserve for state securities	*(10)*	-	*(2,877)*	-	*(2,887)*	*(2,887)*
Property and equipment, including:	(27,637)	443	8	-	(27,187)	(27,187)
revaluation reserve	*(26,367)*	-	*8*	-	*(26,360)*	*(26,360)*
depreciation	*(1,270)*	*443*	-	-	*(827)*	*(827)*
Non-current assets held for sale	(34)	1	-	-	(33)	(33)
Total deferred tax assets (liabilities)	(33,158)	247	(2,008)	180	(35,099)	(34,919)

18 OTHER LIABILITIES

	31.12.2018 MDL'000	31.12.2017 MDL'000
Other non-financial liabilities		
Other tax payables	17,492	15,685
	17,492	15,685
Other financial liabilities		
Due to other financial institutions	149,548	37,531
Dividends payables	171,500	82,813
Due to suppliers	3,180	3,369
Settlements with E-Comert	11,972	11,975
Settlements with the service Agent de Plata	9,342	9,718
* Other liabilities	94,140	42,171
	439,682	187,577
	457,174	203,262

*Other liabilities include unidentified amounts of MDL'000 6,992 (2017: MDL'000 4,586), payments received for transfers of MDL'000 19,326 (2017: MDL'000 15,309), transactions with securities MDL'000 26,306 (2017: MDL'000 3,029), sums reserved for salary projects MDL'000 885 (2017: MDL'000 5,109) and other liabilities of MDL'000 40,631 (2017: MDL'000 14,138).

19 SHARE CAPITAL AND EARNINGS PER SHARE

Share capital as at 31 December 2018 comprises 1,037,634 authorized ordinary shares, with a nominal value of MDL 200 (31 December 2017: 1,037,634).

During 2018 the Bank declared and distributed dividends from the net profit of the year ended 31 December 2017, in the amount of MDL'000 221,016 or MDL 213 per share (2017: MDL'000 51,347 or MDL 84 per share).

	Ordinary shares outstanding	Net Profit for the year MDL'000	Earnings per share MDL	Diluted Earnings per share MDL
As at 31 December 2017	1,037,634* *(see Note 1)*	455,670	439.14	439.14
As at 31 December 2018	1,037,634	531,424	512.19	512.19

20 OWN FUNDS

During 2017 and in the first 6 months of the year 2018 the Bank was in compliance with the prudential requirements regarding capital adequacy established by the National Bank of Moldova.

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

The requirements on the own funds ratio represent min 16.25%, including capital buffer requirements.

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

	31.12.2018 MDL'000
Common equity Tier 1	3,082,182
Additional Tier 1 Capital	-
Tier 2 Capital	-
Total own Funds:	**3,082,182**
Risk exposure quantum	
Credit risk	11,606,212
Operational risk	2,118,948
Market risk	125,936
Settlement/ delivery risk	-
Total risk exposure quantum	**13,851,096**
Common equity Tier 1 ratio	22.25%
Tier 1 Capital ratio	22.25%
Total own funds ratio	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	
	2018	2017	2018	2017
	MDL'000	MDL'000	MDL'000	MDL'000
Cash on hand	1,103,695	613,052	490,643	147,742
Current accounts with NBM	4,329,009	3,385,601	943,408	315,944
Current accounts and overnight deposits with banks	1,659,735	2,737,295	(1,077,560)	703,465
Certificates issued by NBM	849,050	1,498,001	(648,951)	60,804
	7,941,489	8,233,949	(292,460)	1,227,955

22 NET INTEREST INCOME

	2018	2017
	MDL'000	MDL'000
Interest income		
Loans and advances to customers	982,536	993,139
State securities	174,167	189,311
Due from banks	129,520	159,999
	1,286,223	1,342,449
Interest expense		
Due to customers (individuals)	303,136	397,830
Due to customers (companies)	48,177	50,644
Due to banks and borrowings	20,151	27,455
	371,464	475,929
Net interest income	914,759	866,520

23 NET FEE AND COMMISSION INCOME

	2018 MDL'000	2017 MDL'000
Fee and commission income		
Cash transactions	97,404	88,124
Processing of clients' payments	61,030	56,958
Transactions with debit cards	141,144	105,102
Other services rendered to clients	35,082	98,657
Servicing of client accounts	33,822	35,550
Money transfer services	17,202	15,641
Guarantees and letters of credit	6,702	7,888
Salaries transferred to debit cards	13,558	10,961
Direct debit service	6,822	6,704
Cash delivery service	6,138	6,112
	418,904	431,697
Fee and commission expense		
Services of the processing center	86,111	73,066
Debit card services	45,044	33,797
Cash transactions	12,142	12,456
Cash withdrawal related to debit cards	3,288	2,846
Commissions charged by correspondent banks	2,461	2,849
Other*	9,950	17,497
	158,996	142,511
Net fee and commission income	259,908	289,186

*In 2017 the contributions to the Deposit Guarantee Fund amounting MDL'000 8,955 were included as part of other fee and commission expenses. Starting from 2018 the contributions to the Deposit Guarantee Fund are included as part of other operational expenses (see note 27).

24 FOREIGN EXCHANGE GAINS, NET

	2018 MDL'000	2017 MDL'000
Gains from trading in foreign currencies	252,391	242,540
Foreign exchange translation losses	(13,959)	(12,255)
Net result	238,432	230,285

25 OTHER OPERATING INCOME

	2018 MDL'000	2017 MDL'000
Penalties received	12,032	10,851
Income from unpaid and expired dividend liabilities	806	1,247
Gains from disposal of other assets	1,492	1,413
Income from rent	1,217	4,356
Gain on disposal of property and equipment	2,065	187
Other income	5,800	625
	23,412	18,679

26 PERSONNEL EXPENSES

	2018 MDL'000	2017 MDL'000
Salaries and bonuses	293,260	259,237
Social insurance and contributions	65,635	60,452
Medical insurance	14,364	11,713
Meal Tickets	5,138	-
Other personnel expenses	26,781	12,383
	405,178	343,785

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

	2018 MDL'000	2017 MDL'000
Rent expenses	41,581	40,248
Repairs and maintenance expenses	33,131	32,556
Advertising and sponsorship expenses	35,133	37,958
Contributions to Deposit Guarantee Fund*	22,226	-
Maintenance of intangible assets expenses	13,839	13,807
Utilities expenses	14,124	13,653
Professional services expenses	11,845	8,362
Security expenses	10,796	9,649
Post and telecommunication expenses	8,511	8,698
Stationery and supplies expenses	11,626	10,543
Transportation expenses	7,870	7,486
Expenses for the remuneration of the Bank's Council and Censors	17,375	14,786
Dealing and informational services expenses	3,508	5,341
Business promotion expenses	7,735	4,526
Inventory expenses	6,005	5,403
Insurance expenses	3,041	2,351
Business trips expenditures	3,215	2,902
Training expenses	2,926	2,833
Debts collecting services	1,400	1,400
Expenses for the disposal of other assets	1,681	786
Other expenses	17,577	18,190
	275,145	241,478

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

*In 2017 the contributions to the Deposit Guarantee Fund amounting MDL'000 8,955 were included as part of other fee and commission expenses (see note 23).

28 GUARANTEES AND OTHER FINANCIAL COMMITMENTS

The aggregate amount of outstanding guarantees, commitments and other off-balance sheet items as at 31 December 2018 and 31 December 2017 is:

	2018 MDL'000	2017 MDL'000
Letters of credit	976	15,344
Guarantees	248,474	310,789
Financing commitments and other	964,366	910,480
	1,213,816	1,236,613

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 9,749 is required in relation to this risk at 31 December 2018 (2017: nil).

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 2018 and 31 December 2017:

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

2017	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	7,662	7,682	-	-	-	15,344
Guarantees	233,853	20,471	31,444	25,021	-	310,789
Financing commitments and other	4,948	66,443	446,907	392,182	-	910,480
Total	246,463	94,596	478,351	417,203	-	1,236,613

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 2018 are presented below:

	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 2018 and 31 December 2017 the Bank did not have any commitment.

30 CONTINGENCIES

At 31 December 2018 and 31 December 2017 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:

				2018 Fair Value MDL'000				2017 Fair Value MDL'000
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
Financial assets available for sale	-	-	-	-	58,808	1,278,317	83,595	1,420,720
Equity instruments at fair value through other comprehensive income	68,595	-	82,957	151,552	-	-	-	-
Debt instruments at fair value through other comprehensive income		1,496,114		1,496,114	-	-	-	-
Non-financial assets								
Land and buildings	-	-	454,208	454,208	-	-	461,497	461,497
Total assets recurring fair value measurements	68,595	1,496,114	537,165	2,101,874	58,808	1,278,317	545,092	1,882,217

(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 2018 and 31 December 2017:

	Fair value	Valuation technique	Inputs used	Range of inputs (weighted average)	Reasonable change	Sensitivity of fair value
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
	58,808	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 December 2017						
Financial assets available for sale	83,595	Discounted cash flows	Weighted average cost of capital	8.15%-15.79% (13.05%)	+10%	(20,857)
					-10%	28,793
	58,808	Market value	Market price for the financial asset		±5%	±2,940
Land and buildings	461,497	Market value	Market prices for comparable properties (MDL/sq.m.)	Lands – 29-4,137 (2,319) Buildings – 98-36,935 (14,186)	±10%	±46,150

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.

There were no changes in valuation technique for levels 1, 2 and 3 recurring fair value measurements during the year ended 31 December 2017.

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 valuer 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:

	2018					2017				
	Carrying Value MDL'000	Fair Value MDL'000				Carrying Value MDL'000	Fair Value MDL'000			
		Level 1	Level 2	Level 3	Total		Level 1	Level 2	Level 3	Total
Financial assets										
Accounts in NBM	5,400,244	-	5,400,244	-	5,400,244	4,454,566	-	4,454,566	-	4,454,566
Demand deposits and bank accounts	1,720,149	-	1,720,149	-	1,720,149	2,811,090	-	2,811,090	-	2,811,090
Loans to:	11,579,625	-	-	12,109,429	12,109,429	9,874,217	-	-	10,290,434	10,290,434
Corporate	6,265,464	-	-	6,459,499	6,459,499	5,515,545	-	-	5,703,753	5,703,753
Retail entities	1,858,271	-	-	1,912,577	1,912,577	1,776,010	-	-	1,840,391	1,840,391
Individuals	3,455,890	-	-	3,737,353	3,737,353	2,582,662	-	-	2,746,290	2,746,290
Financial assets at amortized cost / held to maturity	895,379	-	894,923		894,923	1,793,908	-	1,793,860	-	1,793,860
Other financial assets	26,700	-	-	26,700	26,700	117,201	-	-	117,201	117,201
Total	19,622,097	-	8,015,316	12,136,129	20,151,445	19,050,982	-	9,059,516	10,407,635	19,467,151

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

	2018					2017				
	Carrying Value MDL'000	Fair Value MDL'000				Carrying Value MDL'000	Fair Value MDL'000			
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3		Level 1
Financial liabilities										
Due to banks	5,045	-	-	5,045	5,045	47,247	-	-	47,247	47,247
Borrowings	568,884	-	-	569,765	569,765	682,979	-	-	692,637	692,637
Due to customers	18,670,177	-	-	18,633,168	18,633,168	17,555,746	-	-	17,473,992	17,473,992
Corporate including:	5,273,661	-	-	5,257,097	5,257,097	5,015,164	-	-	5,014,506	5,014,506
Demand deposits	4,147,815	-	-	4,147,815	4,147,815	3,734,114	-	-	3,734,114	3,734,114
Term deposits	1,125,846	-	-	1,109,282	1,109,282	1,281,050	-	-	1,280,392	1,280,392
Individuals including:	13,396,516	-	-	13,376,072	13,376,072	12,540,582	-	-	12,459,486	12,459,486
Demand deposits	3,003,138	-	-	3,003,138	3,003,138	2,333,010	-	-	2,333,010	2,333,010
Term deposits	10,393,378	-	-	10,372,934	10,372,934	10,207,572	-	-	10,126,476	10,126,476
Other financial liabilities	439,682	-	-	439,682	439,682	187,577	-	-	187,577	187,577
Total	19,683,788	-	-	19,647,660	19,647,660	18,473,549	-	-	18,401,453	18,401,453

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

In 2018, in accordance with IFRS 9-*Financial instruments*, 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.

In 2017, for the purposes of measurement, IAS 39, *Financial Instruments: Recognition and Measurement*, the Bank classifies financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL").

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	Financial assets at fair value through profit or loss 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

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 2017:

31 December 2017	Loans and receivables MDL'000	Available for sale assets MDL'000	Held for trading assets MDL'000	Held to maturity MDL'000	Total MDL'000
Assets:					
Cash on hand and balances with NBM	5,067,618	-	-	-	5,067,618
Due from banks	2,811,090	-	-	-	2,811,090
Loans and advances to customers:					
Corporate loans	5,515,545	-	-	-	5,515,545
Retail entities	1,776,010	-	-	-	1,776,010
Individuals	2,582,662	-	-	-	2,582,662
Financial assets available for sale	-	1,420,720	-	-	1,420,720
Financial assets held to maturity	-	-	-	1,793,908	1,793,908
Other financial assets:					
Other	117,201	-	-	-	117,201
Total financial assets	17,870,126	1,420,720	-	1,793,908	21,084,754

As at 31 December 2018 and 31 December 2017 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 2018 and 2017:

33 RELATED PARTIES (CONTINUED)

			Related parties transactions									Equity transactions
Related party			Loans at year-end (contractual interest rate: 5.6-14.75%)	Impairment allowance	Deposits at year-end (contractual interest rates: 0-11%)	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*	*2018*	1,682	21	169,140	3,200	1,712	2,338	3,360	1,870	15,254	67,600
		2017	6,441	69	96,164	-	139	939	3,696	340	3,077	21,633
Other directors (executive/ non - executive) and their affiliates	*Management*	*2018*	335	2	214,526	14,000	125	278	3,170	1,408	38,629	1,114
		2017	1,604	1	261,103	24,229	1,929	154	2,254	2,546	48,599	4,545
MAIB Leasing SA	*Subsidiary*	*2018*	18,563	1,837	4,881	-	-	1,462	12	463	716	-
		2017	37,262	5,465	1,415	-	-	10,135	-	300	716	-
MoldMediaCard SRL	*Subsidiary*	*2018*	-	-	18,341	-	-	-	66	392	24,114	-
		2017	-	-	18,702	-	-	-	362	405	19,636	-
Total		*2018*	20,580	1,860	406,888	17,200	1,837	4,078	6,608	4,133	78,713	68,714
		2017	45,307	5,535	377,384	24,229	2,068	11,228	6,312	3,591	72,028	26,178

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 2018 and 2017, as follows:

	2018 MDL'000	2017 MDL'000
Executive management remuneration	22,789	21,570
Medical insurance contributions	1,025	913
Social fund	5,048	4,944
Total executive management	**28,862**	**27,427**
Board remuneration	13,200	10,966
Medical insurance contributions	594	493
Social fund	2,927	2,522
Total Board	**16,721**	**13,981**

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 unfavorable 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:

Country risk category	2018		2017	
	MDL'000	%	MDL'000	%
I	1,690,536	98.04	2,841,633	94.04
II	11,817	0.68	164,999	5.46
III	21,650	1.26	14,579	0.48
IV	384	0.02	464	0.02
Total	1,724,387	100	3,021,675	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 – 98.04%.

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 unfavorable 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.

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
2018	2,600	985	362	1,396	26
2017	2,600	655	372	1,061	17

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 three currencies listed at 31 December 2017, 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 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

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 2017					
EUR	11,518	15.00	1,728	(10.00)	(1,152)
USD	43,804	15.00	6,571	(15.00)	(6,571)
Total			8,299		(7,723)

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 2018 and 31 December 2017.

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 risk of loss resulting from changes in interest rates, which can influence the future cash flows or market value of financial instruments.

Interest rate risk is managed mainly by monitoring sensitive assets and liabilities under GAPs review of interest rates and using a system of approved limits.

The Bank quantifies its exposure to the interest rate risk outside the trading portfolio, in terms of possible fluctuations in the economic value and in terms of the volatility of net interest income.

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 the yield curve on net interest income is made by considering the constant balance sheet at a given reporting date (each balance sheet item which reaches maturity is replaced by a balance sheet item with similar characteristics), over a one-year horizon and simultaneous shocks.

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
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
2017	+100	1,096	1,110	8,428	4,060	(15)	14,679
	+50	548	555	4,214	2,030	(8)	7,339

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
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)
2017	-100	(1,096)	(1,110)	(8,428)	(4,060)	15	(14,679)
	-50	(548)	(555)	(4,214)	(2,030)	8	(7,339)

34 RISK MANAGEMENT (CONTINUED)

34.5 Liquidity risk

Liquidity risk represents the incapacity of the Bank to ensure at any moment in time and at a reasonable price the necessary monetary funds in order to meet its obligations resulting from the outflow of deposits and other obligations or from an increase in the amount of the non-liquid assets. 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 maintains and updates the crisis recovery Plan, which presents a risk management tool aimed at identifying procedures for early identification of flaws and measures to mitigate the negative impact of a possible crisis situation.

The Bank developed a range of indicators that allow analysing the dynamics of liquidity position. 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.

Given that liquidity risk involves not only deficit of the needed funds, but also the cost of obtaining them, the Bank aims to ensure a diversified portfolio and a high quality of the assets, thus securing a sustainable and successful activity.

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)

34.5 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 2017:

31 December 2017	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
Financial liabilities						
Due to banks	47,247	-	-	-	-	47,247
Borrowings	53,017	12,170	157,145	486,316	23,228	731,876
Due to customers	7,327,897	1,950,894	7,011,053	1,587,313	10,205	17,887,362
Other financial liabilities	187,577	-	-	-	-	187,577
Total undiscounted financial liabilities	7,615,738	1,963,064	7,168,198	2,073,629	33,433	18,854,062
Letters of credit	7,662	7,682	-	-	-	15,344
Financial guarantees	233,853	20,471	31,444	25,021	-	310,789
Financing commitments	4,948	66,443	446,907	392,182	-	910,480
Total	7,862,201	2,057,660	7,646,549	2,490,832	33,433	20,090,675

34 RISK MANAGEMENT (CONTINUED)

34.6 Counterparty risk

The management system of counterparty risk in the Bank provides a mechanism for implementation and improvement of assessment and review of the solvency of partner banks based on an internal evaluation model that involves the qualitative and quantitative analysis of the banks and the lowest rating provided by the international agencies: Standard & Poor's, Moody's and Fitch Ratings, to establish certain exposure limits, with further structuring based on the type and term of the operations. The limits are revised and adjusted periodically.

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;
- 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 amortisation 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)

31 December 2018	Maximum exposure to credit risk	Cash in deposit accounts	Fair value of the collateral: Government guarantees/ other	Securities	Immovable assets	Movable assets	Total eligible collateral	Excess of colleteral	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	**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)

			Fair value of the collateral							
31 December 2017	Maximum exposure to credit risk	Cash in deposit accounts	Government guarantees/other	Securities	Immovable assets	Movable assets	Total eligible collateral	Excess of colleteral	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	**10,928,599**	**89,497**	**161,478**	**10,230**	**5,889,474**	**2,419,413**	**8,570,092**	**3,599,700**	**2,358,507**	**1,054,382**
Corporate	6,428,491	21,149	161,478	-	3,280,073	1,973,634	5,436,334	1,517,443	992,157	912,945
Retail, entities	1,889,682	65,970	-	10,230	1,175,483	443,080	1,694,763	917,817	194,919	113,673
Retail, individuals	2,610,426	2,378	-	-	1,433,918	2,699	1,438,995	1,164,440	1,171,431	27,764
Commitments	**1,236,613**	**54,187**	-	-	**206,452**	**173,248**	**433,887**	**257,701**	**802,726**	-
Letters of credit	15,344	-	-	-	-	-	-	-	15,344	-
Guarantees	310,789	46,119	-	-	115,381	95,450	256,950	158,948	53,839	-
Financing commitments	910,480	8,068	-	-	91,071	77,798	176,937	98,753	733,543	-
Total	12,165,212	143,684	161,478	10,230	6,095,926	2,592,661	9,003,979	3,857,401	3,161,233	1,054,382

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	2018		2017	
	MDL'000	%	MDL'000	%
Agriculture / Food industry including:	2,843,927	22.9%	2,870,110	26.3%
agriculture	1,003,264	8.1%	931,802	8.5%
food industry	1,840,663	14.8%	1,938,308	17.7%
winery	815,796	6.6%	732,645	6.7%
Non-food industry	764,418	6.2%	817,561	7.5%
Consumer	3,538,413	28.5%	2,610,425	23.9%
Commerce	3,577,350	28.8%	3,328,273	30.5%
Transport	317,314	2.6%	311,612	2.9%
Postal services/telecommunications	364,439	2.9%	247,480	2.3%
Construction and real estate	491,464	4.0%	282,372	2.6%
Utilities (electricity, electrical and thermal storage, gas, water supply)	215,340	1.7%	192,235	1.8%
Financial institutions	243,102	2.0%	178,714	1.6%
Other	66,773	0.5%	89,817	0.8%
	12,422,540	100%	10,928,599	100%

Commitments	2018		2017	
	MDL'000	%	MDL'000	%
Agriculture / Food industry including:	149,007	15.5%	125,911	13.8%
agriculture	50,693	5.3%	92,494	10.2%
food industry	98,314	10.2%	33,417	3.7%
winery	5,511	0.6%	1,773	0.2%
Non-food industry	17,543	1.8%	43,128	4.7%
Consumer	207,601	21.5%	168,754	18.5%
Commerce	412,637	42.8%	384,970	42.3%
Transport	55,617	5.8%	4,788	0.5%
Postal services/telecommunications	24,587	2.5%	72,934	8.0%
Construction and real estate	38,279	4.0%	20,690	2.3%
Financial institutions	54,499	5.7%	8,655	1.0%
Other	4,596	0.5%	80,649	8.9%
	964,366	100%	910,479	100%

34 RISK MANAGEMENT (CONTINUED)

34.7 Credit risk (continued)

Letters of credit / guarantees	2018		2017	
	MDL'000	%	MDL'000	%
Agriculture / Food industry	16,432	6.6%	220,751	66.6%
including:				
agriculture	1,127	0.5%	220,750	66.6%
food industry	15,305	6.1%	1	0.0%
winery	-	0.0%	-	0.0%
Non-food industry	3,234	1.3%	1,487	0.4%
Consumer	2	0.0%	-	0.0%
Commerce	161,892	64.9%	-	0.0%
Transport	26,524	10.6%	-	0.0%
Postal services/telecommunications	72	0.0%	-	0.0%
Construction and real estate	38,928	15.6%	87,894	26.5%
Utilities (electricity, electrical and thermal storage, gas, water supply)	-	0.0%	21,204	6.4%
Financial institutions	5	0.0%	-	0.0%
Other	2,360	0.9%	-	0.0%
	249,449	100%	331,336	100%

The loans granted to 20 major customers (Groups) of the Bank as at 31 December 2018 amounted to MDL'000 3,909,459 representing 31.47% of the Bank's gross loan portfolio (2017: MDL'000 3,717,566 or 34.02%).

These are analysed by industry as follows:

	2018		2017	
	MDL'000	%	MDL'000	%
Agriculture / Food industry	1,252,557	32.0%	1,562,193	42.0%
including:				
agriculture	189,478	4.8%	235,569	6.3%
food industry	1,063,079	27.2%	1,326,624	35.7%
winery	476,996	12.2%	438,686	11.8%
Non-food industry	318,521	8.1%	504,702	13.6%
Consumer	4,970	0.1%	3,097	0.1%
Commerce	1,481,094	37.9%	1,286,002	34.6%
Postal services/telecommunications	363,712	9.3%	169,337	4.6%
Construction and real estate	211,728	5.4%	-	0.0%
Utilities (electricity, electrical and thermal storage, gas, water supply)	213,882	5.5%	192,235	5.2%
Financial institutions	62,995	1.6%	-	0.0%
	3,909,459	100%	3,717,566	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:

31.12.2018	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	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 RISK MANAGEMENT (CONTINUED)

34.7 Credit risk (continued)

01.01.2018	Corporate	Retail entities	Mortgages	Consump - tion	Financing commitme nts	Letters of credit / guaran- tees	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	13,760	6,108	7,311	6,513	793	(282)	34,203
Decrease by 10% of PD and LGD	(12,450)	(6,091)	(6,891)	(6,741)	(717)	-	(32,890)
Impairment allowances and provisions individually assessed							
Increase of flows by 10%	(85,498)	(8,334)	-	-	(77)	0	(93,909)
Decrease of flows by 10%	79,607	4750	-	-	77	0	84,434

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 RISK MANAGEMENT (CONTINUED)

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.

Operational risk management is conducted in accordance with the policies and procedures developed and implemented, as well as in accordance with national and international regulatory requirements.

In this context, in order to reduce inherent risk in operational activities and to achieve effective operational risk management, the Bank has adopted and implemented a general operational risk management framework that contributes to effective operational risk management.

Operational risk management includes the following:

• Collecting and managing operational risk events.

• Identifying and evaluating operational risk through the risk self-assessment exercise and associated controls (RCSA).

• Defining and monitoring key risk indicators.

• Reporting operational risk and related losses.

• Measures to minimize operational risk, including the implementation of action plans to improve the internal control system.

• Keeping and updating the business continuity plan

• Calculation of the capital requirement.

The operational risk management system provides for the application of all processes and procedures necessary to identify, assess, monitor and control this type of risk. The management framework is also supported by an adequate organizational structure with clear roles and responsibilities, according to the assumption that the main responsibility for managing operational risk and the application of the appropriate account remains with the business units.

35 STATEMENT OF FINANCIAL POSITION STRUCTURE BY CURRENCY

	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

35 STATEMENT OF FINANCIAL POSITION STRUCTURE BY CURRENCY (CONTINUED)

	31 December 2017				
	Total MDL'000	MDL MDL'000	USD MDL'000	EUR MDL'000	Other MDL'000
ASSETS					
Cash on hand	613,052	317,234	39,345	194,635	61,838
Balances with NBM	4,454,566	3,385,601	335,264	733,701	-
Due from banks	2,811,090	45	963,915	1,825,361	21,769
Financial assets available for sale	1,420,720	1,420,720	-	-	-
Investments in subsidiaries	133,091	133,091	-	-	-
Loans and advances to customers	9,874,217	5,547,444	1,192,984	3,133,789	-
Financial assets held to maturity	1,793,908	1,793,908	-	-	-
Property and equipment	856,129	856,129	-	-	-
Intangible assets	59,001	59,001	-	-	-
Other assets	187,648	129,723	32,627	24,478	820
Total assets	22,203,422	13,642,896	2,564,135	5,911,964	84,427
LIABILITIES					
Due to banks	47,247	44,771	2,476	-	-
Borrowings	682,979	349,556	39,401	294,022	-
Due to customers	17,555,746	9,354,062	2,479,834	5,694,305	27,545
Deferred tax liabilities	34,919	34,919	-	-	-
Current tax liability	30,771	30,771	-	-	-
Other liabilities	203,262	159,822	23,044	19,919	477
Total liabilities	18,554,924	9,973,901	2,544,755	6,008,246	28,022
GAP	3,648,498	3,668,995	19,380	(96,282)	56,405

36 MATURITY STRUCTURE

The Bank's assets and liabilities structure as at 31 December 2018 and as at 31 December 2017 taking as a basis the remaining period to maturity, is as follows:

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

36 MATURITY STRUCTURE (CONTINUED)

31 December 2017	Total MDL'000	Less than 1 year MDL'000	More than 1 year MDL'000
Assets			
Cash on hand	613,052	613,052	-
Balances with National Bank of Moldova	4,454,566	4,454,566	-
Due from banks	2,811,090	2,811,090	-
Financial assets available for sale	1,420,720	914,660	506,060
Investments in subsidiaries	133,091	-	133,091
Loans and advances to customers, net	9,874,217	4,225,455	5,648,762
Financial assets held to maturity	1,793,908	1,747,377	46,531
Property and equipment	856,129	-	856,129
Intangible assets	59,001	-	59,001
Other assets	187,648	187,648	-
Total Assets	22,203,422	14,953,848	7,249,574
Liabilities			
Due to banks	47,247	47,247	-
Borrowings	682,979	210,498	472,481
Due to customers	17,555,746	16,083,195	1,472,551
Deferred tax liabilities	34,919	-	34,919
Current tax liability	30,771	30,771	-
Other liabilities	203,262	203,262	-
Total Liabilities	18,554,924	16,574,973	1,979,951
MATURITY GAPS	3,648,498	(1,621,125)	5,269,623

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 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	Less than 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Non-interest bearing items
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	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

37 INTEREST RATE RISK EXPOSURE (CONTINUED)

31 December 2017	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	613,052	-	-	-	-	-	613,052
Balances with National Bank of Moldova	4,454,566	4,454,566	-	-	-	-	-
Due from banks	2,811,090	2,811,090	-	-	-	-	-
Financial assets available for sale	1,420,720	137,823	187,157	589,680	363,657	-	142,403
Investment in subsidiaries	133,091	-	-	-	-	-	133,091
Loans and advances to customers (floating rate)	9,354,082	8,813,543	-	-	-	-	540,539
Loans and advances to customers (fixed rate)	520,135	-	34,160	485,975	-	-	-
Financial assets held to maturity	1,793,908	1,555,890	118,843	72,644	46,531	-	-
Property and equipment	856,129	-	-	-	-	-	856,129
Intangible assets	59,001	-	-	-	-	-	59,001
Other assets	187,648	-	-	-	-	-	187,648
Total assets	22,203,422	17,772,912	340,160	1,148,299	410,188	-	2,531,863

37 INTEREST RATE RISK EXPOSURE (CONTINUED)

31 December 2017	Total	Less than 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Non-interest bearing items
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
LIABILITIES							
Due to banks	47,247	47,247	-	-	-	-	-
Borrowings	682,979	151,406	192,660	299,201	-	-	39,712
Due to customers (fixed rate deposits)	65,531	17,006	36,523	6,292	4,179	1,531	-
Due to customers (floating rate deposits)	17,490,215	17,447,684	-	-	-	-	42,531
Deferred tax liabilities	34,919	-	-	-	-	-	34,919
Other liabilities	234,033	-	-	-	-	-	234,033
Total liabilities	18,554,924	17,663,343	229,183	305,493	4,179	1,531	351,195
Interest gap	3,648,498	109,569	110,977	842,806	406,009	(1,531)	2,180,668
Cumulative interest gap		109,569	220,546	1,063,352	1,469,361	1,467,830	3,648,498

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 Departament 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, wich 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 2018 and 31 December 2017:

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 2017	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	497,195	495,944	349,310	-	1,342,449	-	1,342,449
Interest income applying transfer prices (inter segments sales)	59,354	666,593	47,179	-	773,126	(773,126)	-
Total interest income	556,549	1,162,537	396,489	-	2,115,575	(773,126)	1,342,449
Interest expense on deposits and borrowings	21,564	454,365	-	-	475,929	-	475,929
Interest expense applying transfer prices (inter segments sales)	252,632	245,190	275,304	-	773,126	(773,126)	-
Total interest expense	274,196	699,555	275,304	-	1,249,055	(773,126)	475,929
Net interest income	282,353	462,982	121,185	-	866,520	-	866,520
Total non-interest income	79,368	358,987	5,355	43,579	487,289	-	487,289
TOTAL INCOME	361,721	821,969	126,540	43,579	1,353,809	-	1,353,809

38 SEGMENT REPORTING (CONTINUED)

31 December 2017	Corporate banking	Retail banking	Treasury	Other	Total	Eliminations	Total per profit or loss statement
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Foreign exchange gains less losses	76,175	165,956	(11,846)	-	230,285	-	230,285
Direct expenses of the cost center	46,044	436,650	16,119	228,961	727,774	-	727,774
Depreciation and amortization	2,722	38,925	1,134	39,237	82,018	-	82,018
Indirect income (redistributed between segments)	(86,296)	71,218	15,078	-	-	-	-
Indirect expenses (of the administrative and support center)	20,859	242,427	2,284	(265,570)	-	-	-
Pre-provision operating profit	281,975	341,141	110,235	40,951	774,302	-	774,302
Impairment and provision net expenses:	223,602	31,405	-	6,415	261,422	-	261,422
Operating profit before tax	58,373	309,736	110,235	34,536	512,880	-	512,880
Income tax expense	12,487	36,280	7,350	1,093	57,210	-	57,210
Net profit for the year	45,886	273,456	102,885	33,443	455,670	-	455,670

38 SEGMENT REPORTING (CONTINUED)

31 December 2018	Corporate banking	Retail banking	Treasury	Others	Total per statement of financial position
	MDL'000	MDL'000	MDL'000	MDL'000	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	Retail banking	Treasury	Others	Total per statement of financial position
	MDL'000	MDL'000	MDL'000	MDL'000	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	626	32,229
Other liabilities	4,801	166,205	-	300,394	471,400
Total Liabilities	**1,935,072**	**16,937,708**	**583,683**	**301,020**	**19,757,484**

38 SEGMENT REPORTING (CONTINUED)

31 December 2017	Corporate banking	Retail banking	Treasury	Others	Total per statement of financial position
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
ASSETS					
Cash on hand	-	-	-	613,052	613,052
Balances with National Bank of Moldova	-	-	4,454,566	-	4,454,566
Due from banks	-	-	2,811,090	-	2,811,090
Financial assets available for sale	-	-	1,278,317	142,403	1,420,720
Investments in subsidiaries	-	-	-	133,091	133,091
Loans and advances to customers	5,515,545	4,358,672	-	-	9,874,217
Financial assets held to maturity	-	-	1,793,908	-	1,793,908
Property and equipment	-	-	-	856,129	856,129
Intangible assets	-	-	-	59,001	59,001
Other assets	-	14,317	-	173,331	187,648
Total Assets	5,515,545	4,372,989	10,337,881	1,977,007	22,203,422

38 SEGMENT REPORTING (CONTINUED)

31 December 2017	Corporate banking	Retail banking	Treasury	Others	Total per statement of financial position
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
LIABILITIES					
Due to banks	-	-	47,247	-	47,247
Borrowings	-	-	682,979	-	682,979
Due to customers	1,929,075	15,626,671	-	-	17,555,746
Deferred tax liabilities	3,516	20,956	7,884	2,563	34,919
Other liabilities	4,970	57,469	-	171,594	234,033
Total Liabilities	**1,937,561**	**15,705,096**	**738,110**	**174,157**	**18,554,924**

39 EVENTS AFTER THE REPORTING PERIOD

There were no events after the reporting period.