

BC MOLDOVA AGROINDBANK SA

**CONSOLIDATED 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

CONSOLIDATED 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 consolidated financial statements of BC Moldova Agroindbank S.A. (the Bank) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated 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 consolidated financial statements* section of our report. We are independent of the Group 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated 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
<p>1 Provision for impairment of loans and advances to customers and lease receivables</p> <p>We focused on this matter due to the significance of loans and advances to customers and lease receivables and the significance of judgements and estimates required for calculation of the related impairment provision.</p> <p>The provision represents management's best estimate of losses within the loans and advances to customers/lease receivables.</p> <p>Specific provisions are calculated on an individual basis for significant loans/receivables. 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/receivable.</p>	<p>We assessed the key methodologies and related models for calculation of the provision for loans/receivables for consistency with the requirements of IFRS.</p> <p>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.</p> <p>We tested (on a sample basis) loans/receivables, which had not been identified by management as potentially impaired and formed our own judgement as to whether that was appropriate.</p>

Key audit matter	Audit response
<p data-bbox="191 309 810 562">For all other loans/receivables, collective provisions are calculated on a portfolio basis for loans/receivables of a similar nature. Such provisions are calculated using statistical models estimating the impact of current economic and credit conditions on loans/receivables portfolios. The design of and inputs to the models are subject to management judgement.</p> <p data-bbox="191 622 810 689">Refer to Notes 8 and 9 of the accompanying consolidated financial statements.</p>	<p data-bbox="842 309 1394 651">We tested (on a sample basis) loans/receivables 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.</p> <p data-bbox="842 667 1394 958">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 through re-performance, and various analytical procedures.</p>
Key audit matter	Audit response
<p data-bbox="191 1048 810 1093">2 Valuation of financial instruments not quoted in an active market</p> <p data-bbox="191 1099 810 1384">A significant part of the Group'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.</p> <p data-bbox="191 1429 810 1496">Refer to Note 7 of the accompanying consolidated financial statements.</p>	<p data-bbox="842 1099 1394 1608">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 Group'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.</p>

Key audit matter	Audit response
3 Valuation of non-current assets held for sale and investment property	
<p>At 31 December 2018, the Group's aggregate net value of non-current assets held for sale and investment property was 85,783 thousand lei. The valuation of these assets utilises unobservable inputs and assumptions. Changes in these inputs and assumptions may have a significant impact on the valuation. The significance and subjectivity of these valuations make them a key audit matter.</p>	<p>We assessed the selection of valuation methods and the design of valuation models, as well as the sources of significant assumptions. We also tested the determination of the lower of cost and net realisable value for a sample of individually significant non-current assets held for sale. Where management involved valuation specialists, we assessed their qualification and objectivity. For a sample of individually significant assets, we involved valuation specialist to assist us in assessing the reasonableness of the methodology and assumptions.</p>
<p>Refer to Notes 11 and 13 of the accompanying consolidated financial statements.</p>	

Other matter

This report is made solely to the Group's shareholders. Our audit work has been undertaken so that we might state to the Group'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 Group and the Group's shareholder, 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 consolidated 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.

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28 March 2019



Eugeniu Raietchi
Licensed Auditor
License AIF 0015

BC MOLDOVA AGROINDBANK SA

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

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

	Note	2018 <u>MDL'000</u>	2017 <u>MDL'000</u>
Interest income	24	1,296,066	1,346,215
Interest expense	24	<u>(376,445)</u>	<u>(481,744)</u>
Net interest income		919,621	864,471
Fee and commission income	25	419,046	432,037
Fee and commission expense	25	<u>(146,339)</u>	<u>(134,115)</u>
Net fee and commission income		272,707	297,922
Net foreign exchange gains	26	238,184	230,590
Gains from financial assets available for sale and financial assets held to maturity		-	36,442
Dividend income		312	471
Other operating income	27	29,689	26,397
Gains/losses from revaluation of investment property		48	1,118
Personnel expenses	28	(411,723)	(350,457)
Amortization expenses	12, 14	(98,248)	(84,334)
Other operational expenses	29	<u>(278,672)</u>	<u>(250,686)</u>
Pre-provision operating profit		671,918	771,934
Impairment and provision net expenses	30	<u>(65,379)</u>	<u>(252,245)</u>
Operating profit before tax		<u>606,539</u>	<u>519,689</u>
Income tax expense	19	<u>(70,093)</u>	<u>(58,050)</u>
Net profit for the year		536,446	461,639
Profit attributable to:			
Equity holders of the Bank		536,364	459,534
Non-controlling interests		<u>82</u>	<u>2,105</u>
Net profit for the year		<u>536,446</u>	<u>461,639</u>

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

BC MOLDOVA AGROINDBANK SA

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

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

	Note	2018 <u>MDL'000</u>	2017 <u>MDL'000</u>
Other comprehensive income			
<i>Items that are or may be reclassified to profit or loss:</i>			
Changes in fair value of available for sale financial assets	7	-	37,509
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		-	(31,418)
Deferred tax related to the changes in fair value of available for sale financial assets	19	-	(1,805)
Deferred tax related to debt instruments classified as financial assets at fair value through other comprehensive income	19	3,236	-
<i>Items that will never be reclassified to profit or loss:</i>			
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	19	(572)	-
Revaluation of land and buildings		15	217
Deferred tax related to the revaluation of land and buildings	19	<u>1,520</u>	<u>8</u>
Other comprehensive income for the year		<u>(13,225)</u>	<u>4,511</u>
Total comprehensive income for the year		<u>523,221</u>	<u>466,150</u>
Total comprehensive income attributable to:			
Equity holders of the Bank		523,139	464,045
Non-controlling interests		<u>82</u>	<u>2,105</u>
Total comprehensive income for the year		<u>523,221</u>	<u>466,150</u>
Earnings per share			
(expressed in MDL per share)	21	516.91	442.87

The consolidated financial statements were authorized for issue on 28 March 2019 by the Executives of the Group represented by:

President of the Management Board

Mr. Serghei Cebotari

Chief Accountant

Mrs. Carolina Semeniuc

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



BC MOLDOVA AGROINDBANK SA

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

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

	Note	31.12.2018 MDL'000	31.12.2017 MDL'000
ASSETS			
Cash on hand	4	1,103,882	613,201
Balances with National Bank of Moldova	5	5,400,244	4,454,566
Due from banks	6	1,720,607	2,811,178
Financial assets available for sale	7	-	1,420,720
Financial assets at fair value through other comprehensive income	7	1,647,666	-
Loans and advances to customers	8	11,563,088	9,842,927
Lease receivables	9	111,100	132,031
Financial assets held to maturity	10	-	1,793,908
Financial assets at amortized cost	10	900,370	-
Non-current assets held for sale	11	13,319	15,263
Property and equipment	12	1,015,912	864,015
Investment property	13	72,464	72,356
Intangible assets	14	66,362	63,815
Other assets	15	118,705	211,709
Total assets		23,733,719	22,295,689
LIABILITIES			
Due to banks	16	28,210	117,975
Borrowings	17	627,684	683,079
Due to customers	18	18,646,955	17,535,629
Contingent commitments provisions		9,749	-
Deferred tax liability	19	34,451	36,817
Current tax liability		14,734	30,972
Other liabilities	20	465,350	214,074
Total liabilities		19,827,133	18,618,546
EQUITY			
Ordinary shares	21	207,527	207,527
Share premium		104,537	104,537
Available for sale financial assets revaluation reserve		-	78,796
Financial assets at fair value through other comprehensive income revaluation reserve		64,036	-
Property and equipment revaluation reserve		196,630	208,736
Retained earnings		3,333,501	3,065,046
Total equity attributable to equity holders of the Bank		3,906,231	3,664,642
Non-controlling interests		355	12,501
Total equity		3,906,586	3,677,143
Total equity and liabilities		23,733,719	22,295,689

The consolidated financial statements were authorized 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 consolidated financial statements.
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BC MOLDOVA AGROINDBANK SA

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

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

	Attributable to equity holders of the Group							
	Ordinary shares MDL'000	Share premium MDL'000	Financial assets at fair value through other comprehensive income revaluation reserve MDL'000	Property and equipment revaluation reserve MDL'000	Retained earnings MDL'000	Total MDL'000	Non-controlling interests MDL'000	Total equity MDL'000
Balance as at 1 January 2018	207,527	104,537	78,796	208,736	3,065,046	3,664,642	12,501	3,677,143
Transition to IFRS 9	-	-	-	-	(68,942)	(68,942)	-	(68,942)
Balance as at 1 January 2018, restated	207,527	104,537	78,796	208,736	2,996,104	3,595,700	12,501	3,608,201
Total comprehensive income	-	-	(14,760)	1,535	-	(13,225)	-	536,446
Net profit for the year	-	-	-	-	536,364	536,364	82	536,446
Other comprehensive income	-	-	(14,760)	1,535	-	(13,225)	-	(13,225)
Total comprehensive income for the year	-	-	(14,760)	1,535	536,364	523,139	82	523,221
Transaction with shareholders	-	-	-	-	(221,016)	(221,016)	-	(221,016)
Dividends paid (Note 21)	-	-	-	(13,641)	22,049	8,408	(12,228)	(3,820)
Other transactions	-	-	-	-	-	-	-	-
Balance as at 31 December 2018	207,527	104,537	64,036	196,630	3,333,501	3,906,231	355	3,906,586

As at 31 December 2018 the legal reserves amounted to MDL'000 421,300 (2017: MDL'000 448,166) and include reserve from revaluation of assets at fair value through other comprehensive income, legal reserves and reserve from revaluation of property and equipment, which are non-distributable. Starting from 2012, according to the National Bank of Moldova requirements, an additional reserve was created by the Group. 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 and 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 consolidated financial statements.

BC MOLDOVA AGROINDBANK SA

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

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

	Attributable to equity holders of the Group							
	Ordinary shares	Share premium	Available for sale financial assets revaluation reserve	Property and equipment revaluation reserve	Retained earnings	Total	Non-controlling interests	Total equity
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Balance as at 1 January 2017	<u>207,527</u>	<u>104,537</u>	<u>74,510</u>	<u>208,511</u>	<u>2,656,859</u>	<u>3,251,944</u>	<u>10,396</u>	<u>3,262,340</u>
Total comprehensive income	-	-	-	-	459,534	459,534	2,105	461,639
Net profit for the year	-	-	4,286	225	-	4,511	-	4,511
Other comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	4,286	225	459,534	464,045	2,105	466,150
Transactions with shareholders	-	-	-	-	-	-	-	-
Dividends paid (Note 21)	-	-	-	-	(51,347)	(51,347)	-	(51,347)
Balance as at 31 December 2017	<u>207,527</u>	<u>104,537</u>	<u>78,796</u>	<u>208,736</u>	<u>3,065,946</u>	<u>3,664,642</u>	<u>12,501</u>	<u>3,677,143</u>

BC MOLDOVA AGROINDBANK SA

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

	Note	2018 <u>MDL'000</u>	2017 <u>MDL'000</u>
Cash flows from operating activities			
Interest received		1,309,319	1,285,702
Interest paid		(381,643)	(491,975)
Commissions received		409,393	420,054
Commissions paid		(138,819)	(126,148)
Income received from trading in foreign currencies	26	252,391	242,540
Recoveries of loans previously written-off	7	15,965	14,698
Other operating income received		14,304	28,187
General and administrative expenses paid		(268,239)	(249,569)
Personnel expenses paid		<u>(415,943)</u>	<u>(354,224)</u>
Cash flows from operating activities before changes in operating assets and liabilities:		796,728	769,265
<i>Net (increase) / decrease in operating assets:</i>			
Due from banks		(177,703)	(366,170)
Financial assets at amortized cost		242,651	378,457
Loans and advances to customers		(1,951,567)	(642,827)
Lease receivables		7,971	30,908
Other assets		113,760	(47,600)
<i>Net increase / (decrease) in operating liabilities:</i>			
Due to banks		(42,345)	40,706
Due to customers		1,362,489	2,646,398
Other liabilities		<u>152,748</u>	<u>63,859</u>
Net cash from operating activities before tax		504,732	2,872,996
Income tax paid		<u>(71,893)</u>	<u>(56,407)</u>
Net cash from operating activities		432,839	2,816,589

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

BC MOLDOVA AGROINDBANK SA**CONSOLIDATED STATEMENT OF CASH FLOWS****FOR THE YEAR ENDED 31 DECEMBER 2018*****(All amounts are expressed in thousand MDL, if not stated otherwise)***

	Note	<u>2018</u> <u>MDL'000</u>	<u>2017</u> <u>MDL'000</u>
Cash flows from investing activities			
Purchase of property and equipment and intangible assets	12, 14	(236,468)	(117,637)
Financial assets at fair value through other comprehensive income		(246,655)	(1,223,941)
Proceeds from sale of investments in associates		<u>312</u>	<u>121</u>
Net cash used in investing activities		(482,811)	(1,341,457)
Cash flows from financing activities			
Repayment of loans and borrowings		(286,573)	(290,098)
Proceeds from loans and borrowings		193,778	122,785
Dividends paid	21	<u>(132,329)</u>	<u>(51,710)</u>
Net cash used in financing activities		(225,124)	(219,023)
Effect of exchange rate fluctuation		<u>(16,955)</u>	<u>(28,503)</u>
Net increase in cash and cash equivalents	23	(292,051)	1,227,606
Cash and cash equivalents as at 1 January		8,234,185	<u>7,006,579</u>
Cash and cash equivalents as at 31 December	23	<u>7,942,134</u>	<u>8,234,185</u>

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

BC MOLDOVA AGROINDBANK SA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

1 GENERAL INFORMATION ABOUT THE GROUP

Reporting entity

Moldova Agroindbank Group (the "Group") includes the parent bank, BC Moldova Agroindbank S.A. (the "Bank") and its subsidiaries domiciled in the Republic of Moldova. The consolidated financial statements of the Group for the year ended on 31 December 2018 include the financial statements of BC Moldova Agroindbank SA and its subsidiaries (together referred to as the "Group"), which form the Group. The subsidiaries comprise the following entities:

Entities	Field of activity	31.12.2018	31.12.2017
MAIB- Leasing SA	Financial lease	100%	100%
Moldmediacard SRL	Processing of card payments	99%	54.24%

The Group has the following business lines: banking, which is performed by BC Moldova Agroindbank SA (the "Bank"), leasing and financing, performed by MAIB-Leasing SA, and processing of card transactions, performed by Moldmediacard SRL.

The Group has 2,461 employees as at 31 December 2018 (2,332 employees as at 31 December 2017).

BC Moldova Agroindbank SA

BC Moldova Agroindbank SA was incorporated in 1991 as a joint stock commercial bank. The Bank operates through its head office located in Chisinau, through the Clients Operations Division at the Central Office, 66 branches (2017: 66 branches) and 127 representative offices (2017: 120 offices) located throughout the Republic of Moldova.

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.

For the **corporate** segment the Bank offers bank services, such as: attracting deposits, cash handling services, lending and financing of foreign trade, payment orders, treasury and investment services.

For the **retail** segment the Bank offers bank services, such as: 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 36.

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

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

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

BC MOLDOVA AGROINDBANK SA**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2018*****(All amounts are expressed in thousand MDL, if not stated otherwise)*****1 GENERAL INFORMATION ABOUT THE GROUP (CONTINUED)****BC Moldova Agroindbank SA (continued)**

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

	<u>31.12.2018</u>	<u>31.12.2017</u>
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 holding \geq 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 (2017: 1 member) was 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 account of one shareholder, individual, was restored by canceling the subscriptions of the shares in the account 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 2773 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 stockholdings 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.

BC MOLDOVA AGROINDBANK SA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

1 GENERAL INFORMATION ABOUT THE GROUP (CONTINUED)

BC Moldova Agroindbank SA (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 dated 19.06.2018 "On prior approval for the acquisition of qualified holding in the share capital of BC "Moldova-Agroindbank" SA, HEIM Partners Limited, obtained the prior approval for acquiring this qualified holding in the amount of 41.09% of the share capital of the Bank.

MAIB-Leasing SA

MAIB-Leasing SA is a private equity entity founded by B.C. Moldova Agroindbank SA. ("MAIB") in September 2002 as a joint-stock company. The main activities performed by the Company are the finance lease of vehicles, commercial, industrial, agricultural and office equipment leasing, as well as the finance lease of real estate property. The Company, also grants financing to car dealers and loans to individuals and legal entities.

The Company operates in the Republic of Moldova and as at 31 December 2018 has 19 employees (24 employees as at 31 December 2017). The registered office of the Company is 49 Tighina Street, Chisinau, Republic of Moldova.

Moldmediacard SRL

Moldmediacard SRL is a private equity entity founded in March 2000. The business line of the Company is the selection, implementation, development and exploitation of systems implying the processing of card transactions and incorporation in the international card transaction system.

The Company operates in the Republic of Moldova and as at 31 December 2018 has 15 employees (18 employees as at 31 December 2017). The registered office of the Company is 9 Miron Costin Street, Chisinau, Republic of Moldova.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These consolidated financial statements of the Group are prepared in accordance with the International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”).

The consolidated financial statements (hereinafter referred to as “Financial statements”) are prepared considering the going concern assumption and are measured using the currency of the primary economic environment the Group operates in (functional currency). The financial statements are presented in Moldovan lei (“MDL”), rounded to the nearest value expressed in thousand Moldovan lei, which is the Group’s functional and presentation currency.

These consolidated financial statements are prepared based on historical cost, except for:

- certain financial investments and debt instruments, which are measured at fair value;
- buildings and land which are measured at the 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 use its judgment in the process of applying the Group’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 forms 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

*(All amounts are expressed in thousand MDL, if not stated otherwise)***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 standards and new interpretations became effective for the Group 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, when recognizing impairment losses on financial assets and recognizing provisions for conditional commitments under IFRS 9, the Group has formed additional reserves from equity (retained earnings) in the total amount of MDL'000 68,942.

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 <u>MDL'000</u>	Effect of IFRS 9 <u>MDL'000</u>	Allowances for impairment losses estimated under IFRS 9 as at 1 January 2018 <u>MDL'000</u>
Allowances for impairment losses on loans and advances under IAS 39	8	1,048,917	(1,048,917)	-
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	15	39,537	(2,210)	37,327
Allowances for impairment losses on financial assets at amortized cost under IFRS 9 – Lease receivables	9	43,509	9,245	52,754
Allowances for impairment losses on financial assets at amortized cost under IFRS 9	8	-	1,102,132	1,102,132
Allowances for impairment losses on outstanding commissions and penalties under IFRS 9	15	-	1,700	1,700
Loan commitments	30	-	5,468	5,468
Guarantees and letters of credit	30	-	<u>1,484</u>	<u>1,484</u>
Total		<u>1,131,963</u>	<u>68,942</u>	<u>1,200,905</u>

BC MOLDOVA AGROINDBANK SA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

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 <u>MDL'000</u>	Reclass <u>MDL'000</u>	Allowances for impairment losses on assets and formation of provisions remeasured under IFRS 9 <u>MDL'000</u>	Presentation under IFRS 9 01.01.2018 <u>MDL'000</u>
Financial ASSETS				
Cash on hand	613,201	-	-	613,201
Balances with National Bank of Moldova	4,454,566	-	-	4,454,566
Due from banks	2,811,178	-	(40)	2,811,138
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	9,842,927	-	(53,216)	9,789,711
Lease receivables	132,031	-	(9,245)	122,786
Financial assets held to maturity	1,793,908	(1,793,908)	-	-
Financial assets at amortized cost	-	1,793,908	-	1,793,908
Other assets	<u>155,005</u>	=	<u>511</u>	<u>155,516</u>
Total assets	<u>21,223,536</u>	=	<u>(61,990)</u>	<u>21,161,546</u>
Financial LIABILITIES				
Due to banks	117,975	-	-	117,975
Borrowings	683,079	-	-	683,079
Due to customers	17,535,629	-	-	17,535,629
Non-financial LIABILITIES				
Conditional commitments provisions	-	-	6,952	6,952
Total liabilities	<u>18,336,683</u>	=	<u>6,952</u>	<u>18,343,635</u>

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 had no material impact on the financial statements of the Group.

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 Group.

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 had no material impact on the financial statements of the Group.

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 had no material impact on the financial statements of the Group.

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)

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

•The IASB has issued the annual improvements to IFRSs 2014 – 2016 cycle, which is a collection of amendments to IFRSs:

➤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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

*(All amounts are expressed in thousand MDL, if not stated otherwise)***2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.1 Basis of preparation (continued)***(b) Standards issued but not yet effective****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 Group 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:

	<u>MDL'ooo</u>
Assets under the right of use, received in operating lease	113,591
Operating lease liabilities	(113,591)

IFRS 10 Consolidated financial statements (amendment) and IAS 28 Investments in associates and joint ventures (amendment): 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 Group does not expect that these amendments will have a significant impact on the Group's financial statements.

IFRS 9: Prepayment features with negative compensation (amendment)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

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

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. These Amendments have not yet been endorsed by the EU. The Group does not expect that these amendments will have a significant impact on the Group'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 Group does not expect that these amendments will have a significant impact on the Group's financial statements.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

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

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 Group does not expect that these amendments will have a significant impact on the Group'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 recognized.

➤ 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.

2.2 Principles of consolidation

The consolidated financial statements comprise the financial statements of BC Moldova Agroindbank SA and its subsidiaries: MAIB Leasing SA and Moldmediacard SRL - as at 31 December of each year.

Subsidiaries

Subsidiaries are those investees that the Group controls because the Group (i) has power to direct relevant activities of investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees in order to affect the amount of shareholders' returns

The subsidiaries are consolidated from the date on which the control is transferred to the Group and cease to be consolidated on the date on which the Group transfers the control to a third party.

The financial statements of the subsidiaries are prepared for the same reporting year as for the parent Group, using consistent accounting policies. The list of the Group's subsidiaries is presented in Note 1.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Principles of consolidation (continued)

Transactions eliminated on consolidation

Intra-Group balances and transactions, as well as unrealized income and expenses arising from intra-Group transactions, are fully eliminated in the consolidated financial statements.

Unrealized losses are eliminated similarly as unrealized profits, but only to the extent that there is no evidence of impairment.

Non-controlling interests

Non-controlling interest is that part of the net assets and of a subsidiary attributable to interests that are not owned, directly or indirectly, by the Bank. Non-controlling interest forms a separate component of the Group's equity.

The Group measures non-controlling interest that represents present ownership interest and entitles the Group to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis at the non-controlling interest's proportionate share of net assets of the acquire.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

*(All amounts are expressed in thousand MDL, if not stated otherwise)***2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.3 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 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 unrealized foreign exchange differences arising on translation of unsettled foreign currency denominated monetary assets and liabilities are recognized in the "Foreign exchange gains, net" line of the statement of profit or loss.

2.4 Financial instruments**Recognition of financial instruments**

The Group recognizes a financial asset or a financial liability on the statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the respective instrument. All regular purchases and sales of financial assets are recognized on the settlement date, i.e. the date that an asset is delivered to or by the Group. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulations or conventions in the market place.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Financial instruments (continued)

Classification of financial instruments

The Group shall classify the financial assets into the two categories stated below:

- (a) the Group 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 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.

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 comprehensive income. Nonetheless, the Group can make an irrevocable choice on initial recognition for certain investments in equity instruments, which otherwise would be measured at fair value through profit or loss to present the subsequent changes in the fair value of other comprehensive income.

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

The Group does not reclassify its financial liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Financial instruments (continued)

Reclassification between “fair value through profit or loss” and “amortised cost” is needed for liability instruments should the Group’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 Group 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 Group has to measure a financial asset or a financial liability at its fair value plus or minus, in the case of a financial asset or a financial liability, which is not measured at fair value through profit or loss, the transaction costs, which are directly attributable to the purchase or issuance of the financial asset or financial liability.

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

Upon initial recognition, the Group 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 Group has to measure a financial asset at:

- (a) amortised cost;
- (b) fair value through other 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 comprehensive income.

Subsequent Measurement of Financial Liabilities

The Group shall classify all financial liabilities as subsequently measured:

- a) at amortised cost; or

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Financial instruments (continued)

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.

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 Group 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 Group 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 Group individual financial statements, and subsequently shall be measured at fair value through other comprehensive income. Based on the Group's Business Model, as well as on the purpose the Group makes investments in capital instruments, the Group may take an irrevocable decision to classify the investments into the category "at fair value through other comprehensive income".

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Financial instruments (continued)

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 comprehensive income.

Identification and measurement of impairment of financial assets

At each reporting date, the Group 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 Group recognises expected losses for the financial instruments, which it has not designated as being measured at fair value through profit or loss.

The Group 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 Group 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 Group 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";

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Financial instruments (continued)

Identification and measurement of impairment of financial assets (continued)

The Group 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 Group 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.

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 37.7.

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 Group 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 Group 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 Group 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Financial instruments (continued)

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.

Elimination of financial assets

The Group 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 Group attempts to restructure loans rather than take over the collateral. This may involve expanding the payment schedule and renegotiating lending conditions. Management of the Group 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Investments in associates

An associate is an entity where the Group has substantial influence, which is neither a subsidiary nor a joint venture. The Group individual financial statements shall record the investments in associates at initial cost and subsequently at cost minus losses due to impairment, if such impairment signs have been detected.

2.6 Leasing

Finance leases (the Group as a Lessor)

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership.

A lease agreement is recognised at the commencement date of the lease period. The commencement of the lease period is the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease (i.e. the recognition of assets, liabilities, income and expenses resulting from the lease agreement, as appropriate).

The Group presents the assets held under a finance lease in the statement of financial statement as a receivable at an amount equal to the net investment in the lease. Net investment in the lease is the gross investment in lease discounted at the interest rate implicit in the lease agreement.

For finance leases, the gross investment is the aggregate amount of minimum lease payments plus the unguaranteed residual value. The difference between the gross investment in the lease and the net cost of acquisition of the leased object (the financed amount less commissions, costs, advances and granting fees) is recognized as unearned finance income. The finance lease income is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the receivable. The unearned income is presented as a reduction of gross investment in lease. The initial direct costs related to lease agreements are included in the initial value of the finance lease receivable and these reduce the amount of income recognized over the lease term. The lease receivables are subsequently measured at amortized cost using the effective interest method.

Operating leases (the Group as a Lessee)

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Non-current assets held for sale

Non-current assets classified as held for sale are assets whose carrying amount will be recovered principally through a sale transaction rather than through their continuous use. An asset held for sale must meet the following criteria:

- must be available for immediate sale in its actual condition;
- management must be committed to a plan to sell the asset;
- sale of the asset is highly probable;
- sale is expected to meet the recognition criteria as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of its carrying amount and fair value less costs to sell. If the fair value of the asset to be reclassified is lower than the carrying amount, the asset must be revalued until the asset is classified as held for sale, in accordance with applicable IFRS.

Non-current asset held for sale which was not sold during one year from the date of classification, ceases to be classified as held for sale, being reclassified as inventories, property and equipment, intangible assets, etc., depending on its characteristics and the intention of the Bank to use it subsequently.

Under certain circumstances, leased objects and pledges that are repossessed from debtors, as a result of the impossibility of collecting doubtful debts related to the lease, are classified as non-current assets held for sale. At the moment of repossession, assets are measured at the lower of the exposure value and the fair value of the leased assets. Subsequently, non-current assets held for sale are measured at the lower of the carrying amount and fair value less costs to sell.

2.8 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 less 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Property and equipment (continued)

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 in the table below. Land and assets under construction are not depreciated.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 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 Group, 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.

2.10 Investment property

Investment property are buildings owned by the Group, either held by the Group under a financial lease agreement, or available buildings of the Group held for lease on the basis of one or more operating lease agreements, as well as land held for capital appreciation rather than for sale, including agricultural land, as well as land held for undetermined future use. Investment properties are considered as long-term investments and are initially recognized at cost, including trading cost at initial value, and are subsequently measured at fair value. Thus, gain or loss caused by a change in fair value of the investment property is recognized in profit or loss as incurred.

2.11 Due to banks

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

2.12 Borrowings

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

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FOR THE YEAR ENDED 31 DECEMBER 2018

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Due to customers

Due to customers are non-derivative liabilities to individuals, state or legal entities and are carried at amortized 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 amortized cost, using the effective interest rate method.

2.14 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. 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.

2.15 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.

2.16 Impairment of non-financial assets

The Group 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 Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating units (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)

2.17 Financial guarantees

Financial guarantees agreements are contracts which enforce the issuer to make specific payments in order to repay a loss incurred by the holder because a specific debtor fails to make repayments at maturity in accordance with the terms of the debt instrument. Such financial guarantees are granted to banks, financial institutions and other entities on behalf of clients to secure loans, overdraft facilities and other bank facilities.

In the ordinary course of business, the Group issues financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the financial statements (within "other liabilities") at fair value, being the premium received.

Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognized, less, when appropriate, cumulative amortization recognized in the statement of profit or loss, and the best estimate of expenses 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 receivables". The premium received is recognized in the statement of profit or loss as "Commission income" on a straight line basis over the life of the guarantee.

2.18 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.

2.19 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation to transfer economic benefits as a result of past events, it is more likely than not that 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 expenses 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.

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FOR THE YEAR ENDED 31 DECEMBER 2018

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Contingent commitments provisions

When determining the amount of provisions for financing commitments and guarantees, the Group applies methods similar as for calculating balance sheet exposures. The Group 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.

2.21 Interest income and expenses

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss are recognized in the statement of profit or loss and other comprehensive income for all instruments measured at amortized cost using the effective interest method. 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 and leasing 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 and leasing agreements.

2.22 Other operating income and expenses

Other operating income, as well as operating expenses, are recognized on an accrual basis.

2.23 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 registered as expenses as the services are received.

2.24 Pension costs and employees' benefits

The Group makes contributions to the Republic of Moldova state funds for social insurance, medical insurance and unemployment benefits, which are calculated on the basis of salaries of all employees of the Group. The Group does not operate any other retirement plan and has no other obligation to provide further benefits to current or former employees.

2.25 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.26 Related parties

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

- (a) A person or a close member of that person's family is related to a reporting entity if that person:
 - (i) has control or joint control over the reporting entity;
 - (ii) has significant influence over the reporting entity; or
 - (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- (b) An entity is related to a reporting entity if any of the following conditions applies:
 - (i) The entity and the reporting entity are members of the same group (meaning 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.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) 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.
 - (vi) The entity is controlled or jointly controlled by a person identified in letter (a).
 - (vii) A person referred to 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 represents 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)

2.27 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%).

The deferred tax assets and liabilities are offset at the Group level.

2.28 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group'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 36.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS 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, lease receivables and other receivables

The Group 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 37.7.

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

When the fair value of financial assets can not be determined from market information, it is determined using asset techniques, including models of discounting cash flows.

The data for these models are taken from the observations made on the market, where possible, but if this is not possible, a degree of judgment is needed to establish fair values.

Estimates include considerations such as liquidity risk, credit risk and volatility. Changes in estimates of these factors may affect the reported 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Fair value of financial instruments

The Group 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 entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within level 1 that 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, for the financial instrument at the date of the consolidated 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 Group's portfolio is insignificant.

Please see Note 33 for presentation of fair value of financial instruments and the sensitivity of these at the entries used.

BC MOLDOVA AGROINDBANK SA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

4 CASH ON HAND

	31.12.2018	31.12.2017
	<u>MDL'000</u>	<u>MDL'000</u>
Cash, including:	1,103,882	613,201
- commemorative and jubilee coins	<u>108</u>	<u>60</u>
	<u>1,103,882</u>	<u>613,201</u>

5 BALANCES WITH NATIONAL BANK OF MOLDOVA

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

Current account and mandatory reserves

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

The balance reserved in USD and EUR on mandatory reserve accounts amounted to USD'000 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%), and for funds attracted in freely convertible currency the reserve rate is 14% (2017: 14%). For the means attracted with a maturity of over 2 years it is nil (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% per annum) for reserves in MDL.

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

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6 DUE FROM BANKS

	31.12.2018	31.12.2017
	<u>MDL'000</u>	<u>MDL'000</u>
Current accounts	1,608,752	2,429,470
Placements	<u>111,874</u>	<u>381,708</u>
Less: allowance for impairment losses	(19)	-
	<u>1,720,607</u>	<u>2,811,178</u>

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.).

As the National Bank of Moldova withdrew the license of Banca Sociala on 16.10.2015, the amount of MDL'000 948 deposited in the Group's accounts (subsidiary company) at Banca Sociala was sequestered.

The Group's placements include deposit at KBC (Belgium) of MDL'000 51,459 (at 31.12.2017 the Group's resources were placed at KBC in the amount of: MDL'000 307,913 and at RZB Vienna) and restricted deposits of MDL'000 60,396 (at 31.12.2017: MDL'000 73,795).

Restricted deposits mainly represent placements for clients and under membership agreements signed with Visa, MasterCard, American Express and deposits which guarantee the Bank's clients documentary transactions in amount 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	31.12.2017
		<u>MDL'000</u>	<u>MDL'000</u>
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
No rating	-	589	219
Total		<u>1,720,607</u>	<u>2,811,178</u>

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

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

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

	2018	2017
	<u>MDL'000</u>	<u>MDL'000</u>
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	-	<u>6,804</u>
Balance at 31 December	<u>151,552</u>	<u>142,403</u>

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

In 2018, the Group 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.

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

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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 %		31.12.2018	31.12.2017
		2018	2017	MDL'000	MDL'000
Visa Inc.	Transaction processing	0.001%	0.001%	68,595	58,808
IM Glass Container Prim SA	Glass manufacturing	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	Bureau of credit histories	6.70%	6.70%	1,019	1,019
S.W.I.F.T. SCRL	Transaction processing	0.01%	0.01%	900	877
Garantinvest SRL	Financial intermediaries	0%	9.92%	-	440
Depozitarul Central Unic al Valorilor Mobiliare	Registrar services, depositary and clearing	0.20%	-	50	-
Depozitarul Național de Valori Mobiliare al Moldovei SA	Depository 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. and S.W.I.F.T. SCRL are recognized as at 31 December 2018 at historical cost because the fair value can not be determined reliably, 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.

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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 Group'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 Group's management decided to maintain the amount of the impairment allowance at full cost of the investment, as accounted for as at 31 December 2012.

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

The fair value of the Group'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 Group's investments, such as equity investments in IM Biroul de Credit SRL, Depozitarul National de Valori Mobiliare al Moldovei, Depozitarul Central Unic al Valorilor Mobiliare and Bursa de Valori a Moldovei SA were acquired by the Group 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 Group's products/services.

Refer to Note 33 for the fair value measurement disclosures.

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

8 LOANS AND ADVANCES TO CUSTOMERS

	31.12. 2018	31.12. 2017
	<u>MDL'000</u>	<u>MDL'000</u>
Corporate customers	6,946,737	6,391,736
Retail entities	1,919,016	1,889,682
Individuals	<u>3,538,413</u>	<u>2,610,426</u>
Total loans, gross	12,404,166	10,891,844
Less: total allowances for impairment losses on loans, including:		
	<u>(841,078)</u>	<u>(1,048,917)</u>
- Allowances on loans – portfolio of corporate customers	<u>(697,810)</u>	<u>(907,480)</u>
- Allowances on loans – portfolio of retail entities	<u>(60,745)</u>	<u>(113,673)</u>
- Allowances on loans – portfolio of individuals	<u>(82,523)</u>	<u>(27,764)</u>
Total loans, net	<u>11,563,088</u>	<u>9,842,927</u>

The concentration of risk in economic sectors for customers' loan portfolio:

Corporate	Stage 1	Stage 2	Stage 3	31.12.2018	31.12.2017
				<u>Total</u>	<u>Total</u>
				<u>MDL'000</u>	<u>MDL'000</u>
Agriculture/ Food industry	1,435,368	577,340	29,587	2,042,295	2,180,929
<i>including:</i>					
<i>agriculture</i>	244,991	-	-	244,991	289,864
<i>food industry</i>	1,190,377	577,340	29,587	1,797,304	1,891,065
<i>including wine production</i>	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
Telecommunications	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	208,703	-	-	208,703	80,991
Other	<u>9,156</u>	-	-	<u>9,156</u>	<u>27,749</u>
Total	<u>5,096,098</u>	<u>1,202,049</u>	<u>648,590</u>	<u>6,946,737</u>	<u>6,391,736</u>

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FOR THE YEAR ENDED 31 DECEMBER 2018

*(All amounts are expressed in thousand MDL, if not stated otherwise)***8 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

The concentration of risk in economic sectors for customers' loan portfolio (continued):

Retail entities	Stage 1	Stage 2	Stage 3	31.12.2018	31.12.2017
				Total	Total
				MDL'000	MDL'000
Agriculture/ Food industry	728,667	36,275	36,690	801,632	689,181
<i>including:</i>					
<i>agriculture</i>	700,102	33,640	24,531	758,273	641,938
<i>food industry</i>	28,565	2,635	12,159	43,359	47,243
<i>including wine production</i>	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
Telecommunications	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	<u>1,796,938</u>	<u>65,760</u>	<u>56,318</u>	<u>1,919,016</u>	<u>1,889,682</u>
Individuals	Stage 1	Stage 2	Stage 3	31.12.2018	31.12.2017
				Total	Total
				MDL'000	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	<u>3,328,505</u>	<u>150,567</u>	<u>59,341</u>	<u>3,538,413</u>	<u>2,610,426</u>

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8 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	1,527,759	817,034	-	2,344,793	1,907,645
Non-performing	13,961	-	648,590	662,551	1,120,859
Less: Allowances for impairment losses, of which:					
assessed collectively	(61,387)	(6,173)	-	(67,560)	(58,261)
assessed individually	(50,244)	(219,277)	(360,729)	(630,250)	(849,219)
Total	<u>4,984,467</u>	<u>976,599</u>	<u>287,861</u>	<u>6,248,927</u>	<u>5,484,256</u>
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	<u>1,776,516</u>	<u>58,335</u>	<u>23,420</u>	<u>1,858,271</u>	<u>1,776,009</u>
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	<u>3,296,494</u>	<u>137,787</u>	<u>21,609</u>	<u>3,455,890</u>	<u>2,582,662</u>

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8 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	0 - 30 days	> 30 days	0 - 30 days	> 30 days	
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	
Corporate customers	5,096,098	-	1,202,049	-	288,889	-	6,946,737
Retail entities	1,796,938	-	41,418	24,342	1,491	749	1,919,016
Individuals	3,328,505	=	104,517	46,050	8,371	7,974	3,538,413
Total loans, gross	10,221,541	-	1,347,984	70,392	298,751	8,723	12,404,166
Less: allowances for impairment losses on loans, including:							
assessed collectively	(164,064)	=	(231,571)	(14,084)	(140,590)	(5,515)	(841,078)
assessed individually	(113,820)	-	(11,207)	(14,084)	(5,653)	(5,515)	(193,547)
	(50,244)	-	(220,364)	-	(134,937)	-	(647,531)
Total loans, net	10,057,477	=	1,116,413	56,308	158,161	3,208	11,563,088

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8 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Ageing analysis of portfolio by days in arrears during 2017:

31 December 2017	0-30 days MDL'000	31-90 days MDL'000	More than 90 days MDL'000	Total MDL'000
Corporate customers	5,669,767	-	721,969	6,391,736
Retail entities	1,751,587	18,999	119,096	1,889,682
Individuals	2,527,530	47,133	35,763	2,610,426
	9,948,884	66,132	876,828	10,891,844
Less: allowances for impairment losses on loans, including:				
assessed collectively	(473,434)	(6,336)	(569,147)	(1,048,917)
assessed individually	(77,701)	(6,034)	(31,147)	(114,882)
	(395,733)	(302)	(538,000)	(934,035)
	9,475,450	59,796	307,681	9,842,927

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8 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

	Corporate customers	Retail entities	Individuals	Total
	MDL'000	MDL'000	MDL'000	MDL'000
Balance as at 1 January 2018	914,989	115,392	71,751	1,102,132
Impairment charge	49,108	2,670	18,475	70,253
Amounts written off as uncollectible	(251,011)	(56,689)	(7,663)	(315,363)
Foreign exchange differences	(15,276)	(628)	(40)	(15,944)
Balance as at 31 December 2018	697,810	60,745	82,523	841,078

The movement in the impairment allowance during 2017 under IAS 39 is presented below:

	Corporate customers	Retail entities	Individuals	Total
	MDL'000	MDL'000	MDL'000	MDL'000
Balance as at 1 January 2017	767,024	104,403	25,533	896,960
Impairment charge	228,077	22,100	9,392	259,569
Amounts written off as uncollectible	(68,179)	(11,435)	(7,161)	(86,775)
Foreign exchange differences	(19,441)	(1,396)	-	(20,837)
Balance as at 31 December 2017	907,481	113,672	27,764	1,048,917

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.

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8 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The analysis in changes of allowances for impairment losses on loans is presented below:

				31.12.2018
<i>Corporate customers</i>	Stage 1	Stage 2	Stage 3	<u>Total</u>
				<u>MDL'000</u>
As at 1 January 2018	256,820	95,914	562,255	914,989
Increases due to initiation and purchase	37,666	4,252	-	41,918
Decreases due to derecognition	(2,096)	(5,153)	(25)	(7,274)
Variations due to changes in credit risk (net)	(177,860)	133,964	58,150	14,254
Amounts written off as uncollectible	-	-	(251,011)	(251,011)
Foreign exchange differences	(2,899)	(3,527)	(8,640)	(15,066)
As at 31 December 2018	<u>111,631</u>	<u>225,450</u>	<u>360,729</u>	<u>697,810</u>
<i>Retail entities</i>	Stage 1	Stage 2	Stage 3	31.12.2018
				<u>Total</u>
				<u>MDL'000</u>
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	<u>20,422</u>	<u>7,425</u>	<u>32,898</u>	<u>60,745</u>
<i>Individuals</i>	Stage 1	Stage 2	Stage 3	31.12.2018
				<u>Total</u>
				<u>MDL'000</u>
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	<u>32,011</u>	<u>12,780</u>	<u>37,732</u>	<u>82,523</u>

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FOR THE YEAR ENDED 31 DECEMBER 2018

*(All amounts are expressed in thousand MDL, if not stated otherwise)***9 LEASE RECEIVABLES**

The Group is the lessor in finance lease agreements in EUR, USD and MDL, having as lease objects vehicles, commercial, industrial, agricultural and office equipment, as well as industrial, commercial and residential buildings.

The table below presents the structure of lease receivables.

	31.12. 2018	31.12. 2017
	<u>MDL'000</u>	<u>MDL'000</u>
Legal entities	68,201	74,667
Individuals	<u>62,174</u>	<u>70,769</u>
Total lease receivables, gross	<u>130,375</u>	<u>145,436</u>
Less: allowances for impairment losses on finance lease receivables total, including:		
- Allowances – lease receivables legal entities	(12,332)	(8,794)
- Allowances – lease receivables individuals	(6,943)	(4,611)
Total lease receivables, net	<u>111,100</u>	<u>132,031</u>

The concentration of risk in economic sectors for customers' lease receivables portfolio:

	Stage 1	Stage 2	Stage 3	31.12.2018	31.12.2017
				<u>Total</u>	<u>Total</u>
				<u>MDL'000</u>	<u>MDL'000</u>
Individuals	34,382	2,523	25,269	62,174	70,769
Legal entities:					
Industry and construction	14,410	29	9,152	23,591	28,488
Trade	9,421	584	2,834	12,839	13,511
Services	14,432	-	4,964	19,396	17,716
Agriculture	3,116	-	322	3,438	4,999
Transport	3,854	-	5,083	8,937	9,953
Total:	<u>79,615</u>	<u>3,136</u>	<u>47,624</u>	<u>130,375</u>	<u>145,436</u>

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

9 LEASE RECEIVABLES (CONTINUED)

Ageing analysis of portfolio by days in arrears and stages as at 31 December 2018:

	<u>Stage 1</u>			<u>Stage 2</u>			<u>Stage 3</u>			<u>Total</u>
	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
Legal entities	38,591	6,643	-	-	613	-	-	555	21,799	68,202
Individuals	27,823	6,559	-	-	2,523	-	700	-	24,569	62,115
	66,414	13,202	-	-	3,136	-	700	555	46,368	130,315
Less: Allowances for impairment losses, from which										
Assessed collectively	(564)	(192)	-	-	(456)	-	(5)	-	(3,472)	(4,687)
Assessed individually	-	-	-	-	-	-	(32)	-	(14,554)	(14,586)
	<u>65,850</u>	<u>13,010</u>	<u>-</u>	<u>-</u>	<u>2,680</u>	<u>-</u>	<u>663</u>	<u>555</u>	<u>28,342</u>	<u>111,110</u>

Ageing analysis of portfolio by days in arrears as at 31 December 2017:

31 December 2017	<u>0-30 days</u>	<u>31-90 days</u>	<u>More than 90 days</u>	<u>Total</u>
	<u>MDL'000</u>	<u>MDL'000</u>	<u>MDL'000</u>	<u>MDL'000</u>
Legal entities	47,752	3,634	23,281	74,667
Individuals	33,558	5,128	32,083	70,769
	81,310	8,762	55,364	145,436
Less: Allowances for impairment losses, from which:				
Assessed collectively	(691)	(218)	(1,080)	(1,989)
Assessed individually	(12)	(196)	(11,208)	(11,416)
	<u>80,607</u>	<u>8,348</u>	<u>43,076</u>	<u>132,031</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

9 LEASE RECEIVABLES (CONTINUED)

Movements in allowance for impairment losses on finance lease receivables are presented below:

	<u>Legal entities</u>	<u>Individuals</u>	<u>Total</u>
	<u>MDL'000</u>	<u>MDL'000</u>	<u>MDL'000</u>
As at 1 January 2018	13,659	8,992	22,651
Impairment charge	(835)	(1,759)	(2,594)
Foreign exchange differences	(492)	(290)	(782)
As at 31 December 2018	<u>12,332</u>	<u>6,943</u>	<u>19,275</u>

The table below presents the movements of allowances for impairment losses according to IAS 39 during 2017:

	<u>Legal entities</u>	<u>Individuals</u>	<u>Total</u>
	<u>MDL'000</u>	<u>MDL'000</u>	<u>MDL'000</u>
As at 1 January 2017	6,164	6,173	12,337
Impairment charge	2,586	(1,603)	983
Foreign exchange differences	44	41	85
As at 31 December 2017	<u>8,794</u>	<u>4,611</u>	<u>13,405</u>

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9 LEASE RECEIVABLES (CONTINUED)

The analysis in changes of allowances for impairment losses on finance lease receivables:

<i>Legal entities</i>	Stage 1	Stage 2	Stage 3	31.12.2018
				<u>Total</u> <u>MDL'ooo</u>
As at 1 January 2018	859	71	12,729	13,659
Increases due to initiation and purchase	321	143	-	464
Decreases due to derecognition	(281)	(22)	(816)	(1,119)
Variations due to changes in credit risk (net)	(369)	(41)	230	(180)
Foreign exchange differences	(20)	(6)	(466)	(492)
As at 31 December 2018	<u>510</u>	<u>145</u>	<u>11,677</u>	<u>12,332</u>

<i>Individuals</i>	Stage 1	Stage 2	Stage 3	31.12.2018
				<u>Total</u> <u>MDL'ooo</u>
As at 1 January 2018	426	1,723	6,843	8,992
Increases due to initiation and purchase	100	80	-	180
Decreases due to derecognition	(124)	(222)	(1,260)	(1,606)
Variations due to changes in credit risk (net)	(147)	(1,255)	1,069	(333)
Foreign exchange differences	(11)	(13)	(266)	(290)
As at 31 December 2018	<u>244</u>	<u>313</u>	<u>6,386</u>	<u>6,943</u>

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10 FINANCIAL ASSETS HELD TO MATURITY/ FINANCIAL ASSETS AT AMORTISED COST

	31.12.2018	31.12.2017
	<u>MDL'000</u>	<u>MDL'000</u>
Financial assets held to maturity	-	1,793,908
Debt instruments at amortised cost	900,370	-
	<u>900,370</u>	<u>1,793,908</u>

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	31.12.2017
	<u>MDL'000</u>	<u>MDL'000</u>
Treasury bills	4,991	221,277
Government bonds	46,329	74,630
Certificates issued by the NBM	<u>849,050</u>	<u>1,498,001</u>
	<u>900,370</u>	<u>1,793,908</u>

As at 31 December 2018 the treasury bills issued by the Ministry of Finance of the Republic of Moldova had a maturity of 93 days, with an annual interest rate ranging between 4.00% (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 to 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 Group had certificates issued by the National Bank of Moldova in the Group portfolio in amount of MDL'000 850 with an annual interest rate of 6.5% (as at 31 December 2017 the Group had certificates issued by the National Bank of Moldova in Group portfolio in amount of MDL'000 1,500 with an annual interest rate of 6.5%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

*(All amounts are expressed in thousand MDL, if not stated otherwise)***11 NON-CURRENT ASSETS HELD FOR SALE**

As at 31 December 2018 the Group has classified foreclosed collateral as assets held for sale at book value of MDL'000 12,362 (2017: MDL'000 14,306) and property and equipment classified as held for sale in accordance with IFRS 5 provisions in the amount of MDL'000 957 (2017: MDL'000 957).

Non-current assets held for sale include residential and commercial real estate property, cars and equipment taken into possession from lessees, as a result of forced interruption of leasing agreements as a result of overdue payments.

Type	31.12.2018 <u>MDL</u>	31.12.2017 <u>MDL</u>
<u>Foreclosed collateral</u>	<u>13,129</u>	<u>15,233</u>
<i>Real estate</i>	<i>10,856</i>	<i>13,567</i>
<i>Vehicles</i>	<i>1,227</i>	<i>620</i>
<i>Special equipment</i>	<i>764</i>	<i>764</i>
<i>Equipment</i>	<i><u>282</u></i>	<i><u>282</u></i>
<u>Non-current assets held for sale</u>	<u>957</u>	<u>957</u>
Allowance for impairment	<u>(767)</u>	<u>(927)</u>
Non-current assets held for sale, net	<u>13,319</u>	<u>15,263</u>

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FOR THE YEAR ENDED 31 DECEMBER 2018

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

12 PROPERTY AND EQUIPMENT

	Revalued Land and buildings MDL'000	Furniture and equipment MDL'000	Vehicles MDL'000	Leasehold improvements MDL'000	Cost Assets under construction MDL'000	Total MDL'000
As at 1 January 2018						
Cost/revalued amount	649,757	508,067	34,265	27,363	224,408	1,443,860
Accumulated depreciation	(185,636)	(354,772)	(20,434)	(19,003)	-	(579,845)
Net book value	<u>464,121</u>	<u>153,295</u>	<u>13,831</u>	<u>8,360</u>	<u>224,408</u>	<u>864,015</u>
Year ended 31 December 2018						
Net value as at 1 January	464,121	153,295	13,831	8,360	224,408	864,015
Additions	-	45	872	-	244,971	245,888
Revaluations	15	-	-	-	-	15
Transfers	15,818	106,731	13,753	4,150	(140,452)	-
Disposals, net	(11,755)	(63)	(3,252)	-	(2,987)	(18,057)
Depreciation charge	(11,439)	(58,393)	(3,414)	(2,703)	-	(75,949)
Net book value	<u>456,760</u>	<u>201,615</u>	<u>21,790</u>	<u>9,807</u>	<u>325,940</u>	<u>1,015,912</u>
As at 31 December 2018						
Cost/revalued amount	644,641	606,958	43,527	31,513	325,940	1,652,579
Accumulated depreciation	(187,881)	(405,343)	(21,737)	(21,706)	-	(636,667)
Net book value	<u>456,760</u>	<u>201,615</u>	<u>21,790</u>	<u>9,807</u>	<u>325,940</u>	<u>1,015,912</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

12 PROPERTY AND EQUIPMENT (CONTINUED)

As at 31 December 2018, the cost of the Group'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 provisions.

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

12 PROPERTY AND EQUIPMENT (CONTINUED)

	Revalued		Furniture and		Vehicles		Leasehold		Assets under		Total
	Land and buildings	MDL'000	equipment	MDL'000	MDL'000	MDL'000	improvements	MDL'000	construction	MDL'000	
As at 1 January 2017											
Cost/ revalued amount	642,470		452,551		33,494		24,847		199,598		1,352,960
Accumulated depreciation	(173,900)		(315,787)		(19,826)		(17,653)		-		(527,166)
Net book value	<u>468,570</u>		<u>136,764</u>		<u>13,668</u>		<u>7,194</u>		<u>199,598</u>		<u>825,794</u>
Year ended as at 31 December 2017											
Net value as at 1 January	468,570		136,764		13,668		7,194		199,598		825,794
Additions	580		358		-		-		107,427		108,365
Revaluation	216		-		-		-		-		216
Transfers	6,613		67,504		5,083		3,213		(82,413)		-
Disposals, net	-		(156)		-		-		(204)		(360)
*Reclassified to assets held for sale	(92)		-		(1,040)		-		-		(1,132)
Depreciation	(11,766)		(51,175)		(3,880)		(2,047)		-		(68,868)
Net book value	<u>464,121</u>		<u>153,295</u>		<u>13,831</u>		<u>8,360</u>		<u>224,408</u>		<u>864,015</u>
As at 31 December 2017											
Cost/ revalued amount	649,757		508,067		34,265		27,363		224,408		1,443,860
Accumulated depreciation	(185,636)		(354,772)		(20,434)		(19,003)		-		(579,845)
Net book value	<u>464,121</u>		<u>153,295</u>		<u>13,831</u>		<u>8,360</u>		<u>224,408</u>		<u>864,015</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

13 INVESTMENT PROPERTY

	2018 <u>MDL'000</u>	2017 <u>MDL'000</u>
As at 1 January	72,356	78,991
Additions	60	-
Disposals	-	(7,753)
Revaluation	<u>48</u>	<u>1,118</u>
As at 31 December	<u>72,464</u>	<u>72,356</u>

14 INTANGIBLE ASSETS

	2018 <u>MDL'000</u>	2017 <u>MDL'000</u>
Balance as at 1 January		
Cost	179,588	168,817
Accumulated amortization	<u>(115,773)</u>	<u>(100,307)</u>
Net book value	<u>63,815</u>	<u>68,510</u>
Year ended 31 December		
Net value as at 1 January	63,815	68,510
<i>Additions, including:</i>	24,846	26,090
Goodwill	2,497	-
Disposals	-	(15,319)
Amortisation charge	<u>(22,299)</u>	<u>(15,466)</u>
Net book value	66,362	63,815
As at 31 December		
Cost	204,434	179,588
Accumulated amortization	<u>(138,072)</u>	<u>(115,773)</u>
Net book value	<u>66,362</u>	<u>63,815</u>

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

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14 INTANGIBLE ASSETS (CONTINUED)

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

The intangible assets include the T24 automated banking system with the book value as at 31 December 2018 of MDL'000 35,168 (2017: MDL'000 29,391), which according to the contractual provisions will be used by the Group until 30.09.2030.

In 2015, the Group launched the American Express Acceptance and Issuance Project. The book value of the license at 31 December 2018 amounted to MDL'000 5,184 (2017: MDL'000 7,673).

15 OTHER ASSETS

	31.12.2018	31.12.2017
	<u>MDL'000</u>	<u>MDL'000</u>
<i>Other non-financial assets</i>		
Prepayments	56,369	70,628
Low-value items and materials in stock	12,107	6,175
Receivables due from budget	221	642
Other cancelled fees	<u>584</u>	<u>888</u>
	69,281	78,333
<i>Other financial assets</i>		
Receivables related to cancelled finance lease agreements	43,335	42,983
Receivables from other financial institutions	39,265	127,433
Financing contracts	12,758	4,177
Receivables from insurance companies	1,134	1,185
Other assets	<u>38,060</u>	<u>35,888</u>
	134,552	211,666
Less: impairment losses for other assets	(85,128)	(78,290)
	<u>118,705</u>	<u>211,709</u>

Receivables from other financial institutions represent receivables arising from clearing operations related to Visa, Mastercard and American Express systems 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 system has the "A 1" and "P-1" ratings, while MasterCard Incorporated: "A-3" and "P-2" ratings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

15 OTHER ASSETS (CONTINUED)

Receivables related to cancelled finance lease agreements represent early terminated finance lease contracts due to the lessees' breaches of the contractual clauses. The Group has recognized the difference between the fair value of the repossessed lease objects and the carrying amount of the finance lease receivables as assets, as the Group can claim these amounts from lessees in accordance with the provisions of the finance lease contracts. For certain agreements in 2018 the Group is in process of taking into possession the lease objects or the available collateral, while for others it had already foreclosed all lease objects, but it sues for the recovery of those amounts which were not covered by the value of the repossessed lease objects.

Financing contracts represent loans granted to car dealers, legal entities for investment and real estate projects, working capital needs and other purposes, and also to individuals - mortgages and consumer. The financing contracts are secured by movable items (as vehicles for car dealers) and mortgage (for other debtors).

Receivables related to cancelled leasing agreements, financing, credit sales

The Group uses the following credit quality categories to manage the credit risk of financing, cancelled lease agreements, credit sale and other receivables:

- Neither past due nor impaired - if payments are made regularly and in accordance with contract terms;
- Past due, but not impaired
 - Past due 30 days - if payments are overdue up to 30 days;
 - Past due 31-90 days - if payments are overdue from 31 to 90 days;
- Impaired- if payments are overdue more than 90 days.

Movement in impairment allowance for receivables from sales on credit during 2018 and 2017 was as follows:

	2018	2017
	<u>MDL'000</u>	<u>MDL'000</u>
Balance as at 1 January	<u>21,629</u>	<u>23,185</u>
Impairment charge	74	(1,233)
Write-off and other reclassifications	<u>(19,282)</u>	<u>(323)</u>
Balance as at 31 December	<u>2,421</u>	<u>21,629</u>

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Movement in impairment allowance for receivables related to cancelled finance lease agreements during 2018 and 2017 was as follows:

	2018	2017
	<u>MDL'000</u>	<u>MDL'000</u>
Balance as at 1 January	56,661	<u>109,939</u>
Adjustment to transition to IFRS 9	(511)	-
Impairment charge	10,677	18,377
Write-off and other reclassifications	<u>15,880</u>	<u>(71,655)</u>
Balance as at 31 December	<u>82,707</u>	<u>56,661</u>

The value of net impairment losses in 2018 differs from the value presented in the consolidated statement of profit or loss and other comprehensive income in 2018 and 2017, the result of the recovery of amounts written-off previously as non-recoverable in amount of MDL'000 776 (2017: MDL'000 429). The recovery value of those was credited directly to the "Impairment and provision net expenses" line in the statement of profit or loss and other comprehensive income for the year.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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16 DUE TO BANKS

	<u>Currency</u>	<u>Maturity</u>	<u>31.12.2018</u> <u>MDL'000</u>	<u>31.12.2017</u> <u>MDL'000</u>
Borrowings from and current accounts of other banks				
Current accounts of other banks				
	USD	Non - applicable	2,658	2,476
	MD	Non - applicable	<u>2,387</u>	<u>44,771</u>
			<u>5,045</u>	<u>47,247</u>
Loans and borrowings for financing the lease activity				
FinComBank SA	EUR	September 2019	28	18,402
Comertbank	EUR	December 2020	7,053	9,724
Moldindconbank	EUR	October 2019	8,127	28,170
Banca Comerciala Română	EUR	March 2021	7,957	11,361
EuroCreditBank	EUR	September 2018	=	<u>3,071</u>
			<u>23,165</u>	<u>70,728</u>
			<u>28,210</u>	<u>117,975</u>

As at 31 December 2018 and 31 December 2017 the Group pledged the right to collect receivables under finance lease agreements and financing contracts and repossessed assets to secure the contracted loans and borrowings as follows:

	<u>31.12.2018</u> <u>MDL'000</u>	<u>31.12.2017</u> <u>MDL'000</u>
Moldindconbank	13,643	42,074
Banca Comercială Română	26,099	27,071
FinComBank	18,686	23,442
Comertbank	9,791	10,800
EuroCreditBank	=	<u>7,450</u>
	<u>68,219</u>	<u>110,837</u>

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17

BORROWINGS

	<u>Currency</u>	<u>Maturity</u>	<u>31.12.2018</u> <u>MDL'000</u>	<u>31.12.2017</u> <u>MDL'000</u>
Borrowings from International Financial Institutions:				
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 Filiere du Vin	MDL/USD /EUR EUR	25.02.2022 02.06.2025	6,274 <u>108,924</u> 568,884	18,039 <u>143,456</u> 682,979
Borrowings from other organizations to finance the leasing activity				
Autospace SRL			-	<u>100</u>
Extra-K SA			<u>58,800</u>	<u>100</u>
			<u>58,800</u>	
			<u>627,684</u>	<u>683,079</u>

As at 31 December 2018 the Group has pledged the right to collect lease receivables and financing contracts, foreclosed collateral to secure the loans and borrowings from Extra –K S.A. in amount of MDL'000 59,954 (2017: 0).

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.

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18 DUE TO CUSTOMERS

	31.12.2018	31.12.2017
	<u>MDL'000</u>	<u>MDL'000</u>
Legal entities		
Current accounts, including:		
Corporate customers	1,563,712	1,544,545
Retail customers	<u>2,560,881</u>	<u>2,179,452</u>
	4,124,593	3,723,997
Term deposits, including:		
Corporate customers	342,742	383,115
Retail customers	<u>783,104</u>	<u>887,935</u>
	<u>1,125,846</u>	<u>1,271,050</u>
	5,250,439	4,995,047
Individuals		
Current accounts	3,003,138	2,333,010
Term deposits	<u>10,393,378</u>	<u>10,207,572</u>
	<u>13,396,516</u>	<u>12,540,582</u>
	<u>18,646,955</u>	<u>17,535,629</u>

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 Group'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.

19 TAXATION

	31.12.2018	31.12.2017
	<u>MDL'000</u>	<u>MDL'000</u>
Current income tax expenses	68,275	58,097
Deferred income tax expense	<u>1,818</u>	<u>(47)</u>
Income tax expenses for the year	<u>70,093</u>	<u>58,050</u>

BC MOLDOVA AGROINDBANK SA**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2018*****(All amounts are expressed in thousand MDL, if not stated otherwise)*****19 TAXATION (CONTINUED)**

Current income tax is calculated on the taxable income for 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 is 12% (2017: 12%).

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

	31.12.2018 <u>MDL'000</u>	31.12.2017 <u>MDL'000</u>
Profit before tax	606,539	519,689
Tax calculated at applicable rate of 12% (2017:12%)	72,785	62,363
Tax effect of:		
Non-taxable income	(12,183)	(13,084)
Non-deductible expenses	9,659	8,973
Philanthropic, sponsorship and other expenses	<u>(168)</u>	<u>(202)</u>
Income tax expense for the year	<u>70,093</u>	<u>58,050</u>

BC MOLDOVA AGROINDBANK SA

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2018	Balance at 1 January MDL'000	Recognized in profit or loss MDL'000	Recognized in comprehensive income MDL'000	Deferred tax assets MDL'000	Deferred tax liabilities MDL'000	Net balance at 31 December MDL'000
TAXATION (CONTINUED)						
Current accounts and deposits with banks	116	(2)	-	114	-	114
Loans to customers	179	(126)	-	53	-	53
Lease receivables	303	(48)	-	255	-	255
Financial assets at fair value through other comprehensive income, including: <i>the revaluation of equity investments</i>	(7,881)	(1)	2,664	-	(5,218)	(5,565)
<i>the revaluation of debt investments</i>	(4,993)	-	(572)	-	(5,565)	-
Non-current assets held for sale	(2,888)	-	3,236	348	-	348
Property and equipment	(58)	37	-	-	(21)	(21)
Investment property	(27,380)	(1,400)	1,520	-	(27,260)	(27,260)
Intangible assets	(2,434)	(119)	-	-	(2,553)	(2,553)
Other assets	22	(5)	-	17	-	17
Borrowings	92	(102)	-	-	(10)	(10)
Tax losses	84	(22)	-	62	-	62
Other liabilities	-	-	-	-	-	-
	<u>140</u>	<u>(30)</u>	<u>-</u>	<u>110</u>	<u>-</u>	<u>110</u>
Total deferred tax assets (liabilities)	(36,817)	(1,818)	4,184	611	(35,062)	(34,451)

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19 TAXATION (CONTINUED)

2017	Balance at 1 January MDL'000	Recognized in profit or loss MDL'000	Recognized in comprehensive income MDL'000	Deferred tax assets MDL'000	Deferred tax liabilities MDL'000	Net balance at 31 December MDL'000
Current accounts and deposits with banks	122	(6)	-	116	-	116
Loans to customers	376	(197)	-	179	-	179
Lease receivables	269	34	-	303	-	303
Available for sale financial assets	(5,722)	(355)	(1,804)	-	(7,881)	(7,881)
Non-current assets held for sale	(59)	1	-	-	(58)	(58)
Property and equipment	(27,877)	490	7	-	(27,380)	(27,380)
Investment property	(2,618)	184	-	-	(2,434)	(2,434)
Intangible assets	26	(4)	-	22	-	22
Other assets	32	60	-	92	-	92
Borrowings	82	2	-	84	-	84
Tax losses	1	(1)	-	-	-	-
Other liabilities	301	(161)	-	140	-	140
Total deferred tax assets (liabilities)	(35,067)	47	(1,797)	936	(37,753)	(36,817)

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20 OTHER LIABILITIES

	31.12.2018	31.12.2017
	<u>MDL'000</u>	<u>MDL'000</u>
<i>Other non-financial liabilities</i>		
Other taxes payable	22,381	21,201
<i>Other financial liabilities</i>		
Dividends payable	171,500	82,813
Trade payables	3,947	5,493
Due to insurance companies (subsidiary)	23	74
Settlements with other financial institutions	149,548	37,531
Advances from customers on future lease agreements	1,890	1,777
Payables to employees	900	801
*Other liabilities	<u>115,161</u>	<u>64,384</u>
	<u>465,350</u>	<u>214,074</u>

*Other liabilities include creditors of unidentified amounts MDL'000 6,992 (2017: MDL'000 4,586), payments received for transfer by destination MDL'000 19,326 (2017: MDL'000 15,309), transactions with securities MDL'000 26,306 (2017: MDL'000 3,029), payments related to E-Commerce MDL'000 11,972 (2017: MDL'000 11,975), settlements related to Paying Agent MDL'000 9,342 (2017: MDL'000 9,718), reserved amounts for salary projects MDL'000 885 (2017: MDL'000 5,109) and other liabilities MDL'000 40,338 (2017: MDL'000 14,658).

21 SHARE CAPITAL AND EARNINGS PER SHARE

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

During 2018 the Group 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 in circulation	Net profit	Earnings per share	Diluted earnings per share
		<u>MDL'000</u>	<u>MDL</u>	<u>MDL</u>
31 December 2017	1,037,634* (see note 1)	459,534	442.87	442.87
31 December 2018	1,037,634	536,364	516.91	516.91

BC MOLDOVA AGROINDBANK SA**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2018***(All amounts are expressed in thousand MDL, if not stated otherwise)***22 OWN FUNDS**

At Group level only the parent-bank is subject to externally imposed capital requirements.

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

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

The parent-bank complies with the requirements of the established own funds, as presented in the table below.

	31.12.2018
	<u>MDL'000</u>
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%

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*(All amounts are expressed in thousand MDL, if not stated otherwise)***23 CASH AND CASH EQUIVALENTS**

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

	31.12.2018	31.12.2017
	<u>MDL'000</u>	<u>MDL'000</u>
Cash on hand	1,103,882	613,201
Balances with National Bank of Moldova	4,329,009	3,385,601
Current accounts and overnight deposits with banks	1,660,193	2,737,382
Certificates issued by the National Bank of Moldova	<u>849,050</u>	<u>1,498,001</u>
	7,942,134	8,234,185

24 NET INTEREST INCOME

	2018	2017
	<u>MDL'000</u>	<u>MDL'000</u>
<i>Interest income</i>		
Loans and advances to customers	981,030	983,061
State securities	<u>174,167</u>	<u>189,311</u>
Loans and advances to banks	129,520	159,999
Financial assets held to maturity	<u>11,349</u>	<u>13,844</u>
	1,296,066	1,346,215
<i>Interest expense</i>		
Due to customers (individuals)	303,136	397,830
Due to customers (companies)	48,111	50,282
Due to banks and other organizations	<u>25,198</u>	<u>33,632</u>
	376,445	481,744
Net interest income	<u>919,621</u>	<u>864,471</u>

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25 NET FEE AND COMMISSION INCOME

	2018	2017
	<u>MDL'000</u>	<u>MDL'000</u>
<i>Fee and commission income</i>		
Cash transactions	97,404	88,124
Processing of clients' payments	61,678	57,663
Transactions with debit cards	141,144	105,102
Commissions on salary transferred to debit cards	13,558	10,961
Money transfer services	17,202	15,641
Cash delivery service	6,138	6,112
Commission from direct debit transactions	6,822	6,704
Commissions on guarantees and letters of credit	6,702	7,888
Service fees on client accounts	33,316	35,185
Commissions from other services to clients	<u>35,082</u>	<u>98,657</u>
	419,046	432,037
<i>Fee and commission expense</i>		
Transactions with debit cards	45,044	33,797
Processing centres services	73,537	64,670
Commissions charged by correspondent banks	2,461	2,849
Commissions for cash transactions	12,142	12,456
Cash withdrawal related to debit cards	3,288	2,846
Others*	<u>9,867</u>	<u>17,497</u>
	<u>146,339</u>	<u>134,115</u>
Net fee and commission income	<u>272,707</u>	<u>297,922</u>

*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 2018 the contributions to the Deposit Guarantee Fund are included as part of other operational expenses (see note 29).

26 NET FOREIGN EXCHANGE GAINS

	2018	2017
	<u>MDL'000</u>	<u>MDL'000</u>
Gains from trading in foreign currencies	252,391	242,540
Foreign exchange translation losses	<u>(14,207)</u>	<u>(11,950)</u>
Net result	<u>238,184</u>	<u>230,590</u>

BC MOLDOVA AGROINDBANK SA**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2018***(All amounts are expressed in thousand MDL, if not stated otherwise)***27 OTHER OPERATING INCOME**

	2018	2017
	<u>MDL'000</u>	<u>MDL'000</u>
Penalties received	15,670	15,361
Income from unpaid and expired dividend liabilities	806	1,247
Gains from disposal of other assets	1,492	1,413
Income from rent	1,552	4,989
Gain on disposal of property and equipment	2,065	187
Other income	<u>8,104</u>	<u>3,200</u>
	<u>29,689</u>	<u>26,397</u>

28 PERSONNEL EXPENSES

	2018	2017
	<u>MDL'000</u>	<u>MDL'000</u>
Salaries and bonuses	298,452	264,488
Social insurance and contributions	66,743	61,645
Medical insurance contributions	14,597	11,941
Table Tickets	5,149	-
Other personnel expenses	<u>26,782</u>	<u>12,383</u>
	<u>411,723</u>	<u>350,457</u>

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

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29 OTHER OPERATIONAL EXPENSES

	2018	2017
	<u>MDL'000</u>	<u>MDL'000</u>
Rent	41,954	41,007
Advertising and charity	35,342	38,157
Repairs and maintenance	33,162	32,608
Contributions to the Deposit Guarantee Fund*	22,226	-
Maintenance of intangible assets	13,839	13,807
Utilities	14,266	13,653
Safeguarding of assets and security	11,023	9,958
Postage and telecommunication	8,585	8,812
Transportation	7,996	7,629
Stationery and supplies	11,626	10,551
Business promotion	7,748	4,556
Professional services	12,691	9,698
Remuneration of Group Council and Censors Committee	17,630	15,150
Dealing and informational services	3,508	5,341
Inventory	6,005	5,417
Travel	3,239	2,920
Insurance	3,067	2,389
Training	2,928	2,843
Other fees and commissions	337	578
Expenses for debt collection services	1,400	1,400
Write down of assets	1,681	786
Other expenses	<u>18,419</u>	<u>23,426</u>
	<u>278,672</u>	<u>250,686</u>

Other expenses include property tax, penalties paid, amounts relating 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 25).

BC MOLDOVA AGROINDBANK SA**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2018***(All amounts are expressed in thousand MDL, if not stated otherwise)*

30 IMPAIRMENT AND PROVISION NET EXPENSES

Impairment of interest bearing assets includes impairment of:

	Note	2018 <u>MDL'000</u>	2017 <u>MDL'000</u>
Loans and advances	8	55,062	244,871
Finance lease receivables	9	(2,594)	983
Other assets	15	9,975	6,391
Conditional commitments	31	2,950	-
Current accounts and deposits at banks	6	(14)	-
		<u>65,379</u>	<u>252,245</u>

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31 GUARANTEES AND OTHER FINANCIAL COMMITMENTS

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

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

In the normal course of business, the Group 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 Group as a result of a customer's default on a guarantee, these instruments also present a degree of credit risk to the Group. The Group 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 Group's guarantees and other financial commitments as at 31 December 2018 and 31 December 2017:

2018	Less than 1 month <u>MDL'000</u>	From 1 to 3 months <u>MDL'000</u>	From 3 months to 1 year <u>MDL'000</u>	From 1 to 5 years <u>MDL'000</u>	More than 5 years <u>MDL'000</u>	<u>Total</u> <u>MDL'000</u>
Letters of credit	-	976	-	-	-	976
Guarantees	164,364	21,764	39,115	23,231	-	248,474
Financing commitments	<u>42,283</u>	<u>176,197</u>	<u>285,144</u>	<u>460,741</u>	1	<u>964,366</u>
Total	<u>206,647</u>	<u>198,937</u>	<u>324,259</u>	<u>483,972</u>	1	<u>1,213,816</u>
2017	Less than 1 month <u>MDL'000</u>	From 1 to 3 months <u>MDL'000</u>	From 3 months to 1 year <u>MDL'000</u>	From 1 to 5 years <u>MDL'000</u>	More than 5 years <u>MDL'000</u>	<u>Total</u> <u>MDL'000</u>
Letters of credit	7,662	7,682	-	-	-	15,344
Guarantees	233,853	20,471	31,444	25,021	-	310,789
Financing commitments	<u>4,948</u>	<u>66,443</u>	<u>446,907</u>	<u>392,182</u>	-	<u>910,480</u>
Total	<u>246,463</u>	<u>94,596</u>	<u>478,351</u>	<u>417,203</u>	-	<u>1,236,613</u>

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31 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	<u>Total</u>
	<u>MDL'000</u>	<u>MDL'000</u>	<u>MDL'000</u>	<u>MDL'000</u>
Balance 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
Balance as at 31 December 2018	<u>7,382</u>	<u>2,228</u>	<u>139</u>	<u>9,749</u>

32 CAPITAL COMMITMENTS

As at 31 December 2018 and 31 December 2017, the Group had no capital commitments.

33 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 Group 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.

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33 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 as follows:

	2018				2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets				Fair value				Fair value
Financial assets available for sale	-	-	-	MDL'000	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								
Lands and buildings	-	-	456,760	456,760	-	-	464,121	464,121
Investment property	-	72,464	-	72,464	-	72,356	-	72,356
Total assets recurring fair value measurements	68,595	1,568,578	539,717	2,176,890	58,808	1,350,673	547,716	1,957,197

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

*(All amounts are expressed in thousand MDL, if not stated otherwise)***33 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:

	<u>Fair value</u>	<u>Valuation technique</u>	<u>Inputs used</u>	<u>Range of inputs (weighted average)</u>	<u>Reasonable change</u>	<u>Sensitivity of fair value</u>
31 December 2018						
	82,957			8.65%-		
Equity instruments at fair value through other comprehensive income		Discounted cash flows	Weighted average cost of capital	13.01%	+10%	(34,399)
		Market value	Market price for the financial asset	(10.22%)	-10%	64,540
	68,595				±5%	±3,430
Lands and buildings	456,760	Market value	Market price for comparable properties (MDL/sq.m)	Lands – 29-4,137 (2,319) Buildings – 98-36,935 (14,186)	±10%	±45,676
31 December 2017						
	83,595			8.15%-	+10%	(20,857)
Financial assets available for sale		Discounted cash flows	Weighted average cost of capital	15.79%	-10%	28,793
		Market value	Market price for the financial asset	(13.05%)	±5%	±2,940
	58,808					
Land and buildings	464,121	Market value	Market price for comparable properties (MDL/sq.m)	Lands– 29-4,137 (2,319) Buildings– 98-36,935 (14,186)	±10%	±46,412

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

The above tables disclose 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 recognized in other comprehensive income, total equity.

There were no changes in valuation technique for level 1, 2 and 3 recurring fair value measurements during the year ended 31 December 2018 (31 December 2017: none).

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 which report to the Management Board. The Group involves an external valuer who hold a recognized 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 recognized as standard within the financial services industry.

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	2018		2017	
	Fair value		Fair value	
	MDL'000	MDL'000	MDL'000	MDL'000
Financial assets				
Accounts with NBM	5,400,244	5,400,244	4,454,566	4,454,566
Due from banks	1,720,607	1,720,607	2,811,178	2,811,178
Loans to customers:				
corporate customers	6,248,927	12,092,363	9,842,927	10,257,935
retail entities	1,858,271	6,442,433	5,484,255	5,671,254
individuals	3,455,890	1,912,577	1,776,010	1,840,391
Lease receivables	111,100	3,737,353	2,582,662	2,746,290
Financial assets at amortized cost/ held to maturity	900,370	120,215	132,031	143,100
Other financial assets	51,845	899,914	1,793,908	1,793,860
Total	19,747,254	20,164,973	19,189,615	19,615,644

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	Carrying value MDL'000	2018			Carrying value MDL'000	2017		
		Fair value				Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
Financial liabilities								
Due to banks	28,210	-	28,210	117,975	-	-	117,975	117,975
Borrowings	627,684	-	627,880	683,079	-	-	692,637	692,637
Due to customers	18,646,955	-	18,609,947	17,535,629	-	-	17,454,036	17,454,036
Legal entities, including:	5,250,439	-	5,233,875	4,995,047	-	-	4,994,550	4,994,550
current accounts	4,124,593	-	4,124,593	3,723,997	-	-	3,723,997	3,723,997
term deposits	1,125,846	-	1,109,282	1,271,050	-	-	1,270,553	1,270,553
Individuals, including:	13,396,516	-	13,376,072	12,540,582	-	-	12,459,486	12,459,486
current accounts	3,003,138	-	3,003,138	2,333,010	-	-	2,333,010	2,333,010
term deposits	10,393,378	-	10,372,934	10,207,572	-	-	10,126,476	10,126,476
Other financial liabilities	442,968	-	442,968	192,873	-	-	192,873	192,873
Total	19,745,817	-	19,709,005	18,529,556	-	-	18,457,521	18,457,521

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FOR THE YEAR ENDED 31 DECEMBER 2018

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

33 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.

Net loans and lease receivables

Loans and lease receivables are reduced by the impairment allowance on loans and lease receivables. The estimated fair value of loans and lease receivables 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

Debt instruments at amortised cost 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.

34 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT CATEGORY

In 2018, in accordance with IFRS 9-*Financial instruments*, the Group 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 Group 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").

The tables below provides a reconciliation of financial assets under these measurement categories as at 31 December 2018 and 31 December 2017:

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34 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT CATEGORY (CONTINUED)

The table below provides a reconciliation of financial assets under 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 National Bank	6,504,126	-	-	6,504,126
Due from banks	1,720,607	-	-	1,720,607
Loans and advances to customers:				
Corporate customers	6,248,927	-	-	6,248,927
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
Lease receivables:				
Legal entities	55,870	-	-	55,870
Individuals	55,230	-	-	55,230
Financial assets at amortised cost	900,370	-	-	900,370
Other financial assets:				
Receivables related to cancelled lease agreements (leasing)	11,364	-	-	11,364
Due from providers (leasing)	12,471	-	-	12,471
Due from insurance companies (leasing)	1,134	-	-	1,134
Other financial assets	26,876	-	-	26,876
Total financial assets	20,851,136	1,647,666	-	22,498,802

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34 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT CATEGORY (CONTINUED)

The table below provides a reconciliation of financial assets under these measurement categories as at 31 December 2017:

31 December 2017	Loans and receivables MDL'000	Available for sale assets MDL'000	Assets held for trading MDL'000	Held to	
				maturity assets MDL'000	Total MDL'000
Assets					
Cash on hand and balances with National Bank	5,067,767	-	-	-	5,067,767
Due from banks	2,811,178	-	-	-	2,811,178
Loans and advances to customers:					
Corporate customers	5,484,255	-	-	-	5,484,255
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
Lease receivables:					
Corporate customers	71,396	-	-	-	71,396
Individuals	71,704	-	-	-	71,704
Financial assets held to maturity	-	-	-	1,793,908	1,793,908
Other financial assets:					
Receivables related to cancelled lease agreements (leasing)	12,879	-	-	-	12,879
Receivables from other financial institutions	110,059	-	-	-	110,059
Due from providers (leasing)	3,721	-	-	-	3,721
Due from insurance companies (leasing)	1,185	-	-	-	1,185
Other	27,161	-	-	-	27,161
Total financial assets	18,019,977	1,420,720	-	1,793,908	21,234,605

34 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT CATEGORY (CONTINUED)

As at 31 December 2018 and 31 December 2017 all financial liabilities of the Group were carried at amortised cost.

35 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 deposits, finance trade, payment settlement, foreign currency transactions and acquisition of services and goods from related parties.

The income and expense from above-mentioned transactions and 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 the related parties during the years 2018 and 2017.

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35 RELATED PARTIES (CONTINUED)

In the table below are disclosed the balances as at year ended 31 December:

Related parties		Loans (4-15.50%)		Impairment loss on loans	Lease receivables (9%-15%)		Loans received (5.6%-11.55%)		Deposits (0.10-6.25%)		Guarantees issued by the Group		Commitments to grant loans	
		MDL'000	MDL'000		MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Civil society of Group shareholders and their affiliates and persons holding or controlling 1% or more of the Group's share capital	2018	1,682	21	-	-	169,140	-	3,200	1,712					
	Shareholders	2017	6,441	69	-	-	96,164	-	139					
Other directors (executive/ non- executive) and their affiliates	2018	335	2	-	-	214,526	273	14,000	125					
	Management	2017	1,604	1	428	100	261,103	24,229	1,929					
Total	2018	<u>2,017</u>	<u>23</u>	<u>-</u>	<u>-</u>	<u>383,666</u>	<u>273</u>	<u>17,200</u>	<u>1,837</u>					
	2017	<u>8,045</u>	<u>70</u>	<u>428</u>	<u>-</u>	<u>100</u>	<u>357,267</u>	<u>24,229</u>	<u>2,068</u>					

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35 RELATED PARTIES (CONTINUED)

In the table below are disclosed the transactions for the year ended 31 December:

Related parties	2018	2017	Interest and commission income MDL'000	Interest and commission expenses MDL'000	Non-interest income MDL'000	Non-interest expenses MDL'000	Assets procurement MDL'000	Dividends received MDL'000
Civil society of Group shareholders and their affiliates and persons holding or controlling 1% or more of the Group's share capital	2,338	939	2,338	3,362	1,870	15,254	1,895	67,600
Other directors								
(executive/ non-executive) and their affiliates								
<i>Shareholders</i>			939	3,696	340	3,077	-	21,633
<i>Management</i>			232	2,303	2,546	51,689	600	4,545
Total	2018	2017	2,660	6,532	3,278	57,347	1,895	68,714
	2017		1,171	5,999	2,886	54,766	600	26,178

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35 RELATED PARTIES (CONTINUED)*Key management remuneration*

The executive management and non-executive members of Group Board of Directors received remuneration during the years 2018 and 2017, as follows:

	2018	2017
	<u>MDL'000</u>	<u>MDL'000</u>
Executive management remuneration	25,259	23,714
Medical insurance contributions	1,136	1,005
Social fund	5,575	5,434
Total executive management	<u>31,970</u>	<u>30,153</u>
Board remuneration	13,402	11,170
Medical insurance contributions	603	502
Social fund	<u>2,971</u>	<u>2,569</u>
Total Board	<u>16,976</u>	<u>14,241</u>

36 SEGMENT REPORTING

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

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

The Group is organised into the following reportable segments:

- Retail Banking - representing 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 organisation.
- Other – this segment include Corporate Investments and subdivisions of support and management as well as subsidiary entities (Leasing and card transactions).

(b) Factors used by the Management to identify the reportable segments

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

36 SEGMENT REPORTING (CONTINUED)

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

(c) Measurement of reportable segment profit or loss

For defining profit or loss on reportable segments, the Group apply 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 Group has no significant income from foreign customers.

The Group has no long-term assets located in countries other than the Republic of Moldova.

(e) Major customers

The Group has no external customers with revenues exceeding 10 % of Group's total revenue.

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36 SEGMENT REPORTING (CONTINUED)

The segment information for the reportable segments for the year ended at 31 December 2018 and 31 December 2017 is set below:

31 December 2018	Corporate banking MDL'000	Retail banking MDL'000	Treasury MDL'000	Other MDL'000	Total MDL'000	Adjustments MDL'000	Total per statement of profit or loss MDL'000
Interest income	411,142	572,336	302,745	9,843	1,296,066	-	1,296,066
Interest income from inter segment sales	51,604	514,272	102,049	=	667,925	(667,925)	=
Total interest income	462,746	1,086,608	404,794	9,843	1,963,991	(667,925)	1,296,066
Interest expense on customer deposits and other borrowings	19,592	351,872	-	4,981	376,445	-	376,445
Interest expenses for inter segment sales	211,640	235,575	220,710	=	667,925	(667,925)	=
Total interest expenses	231,232	587,447	220,710	4,981	1,044,370	(667,925)	376,445
Net interest income	231,514	499,161	184,084	4,862	919,621	-	919,621
Total non-interest income	78,524	357,614	3,487	9,470	449,095	-	449,095
Total income	310,038	856,775	187,571	14,332	1,368,716	-	1,368,716

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36 SEGMENT REPORTING (CONTINUED)

31 December 2018	Corporate banking	Retail banking	Treasury	Other	Total	Adjustments	Total per statement of profit or loss
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Net foreign exchange gains	85,395	163,554	(10,517)	(248)	238,184	-	238,184
Direct expenses of the cost centre	54,146	497,090	16,699	268,799	836,734	-	836,734
Depreciation and amortization	3,066	45,800	1,077	48,305	98,248	-	98,248
Indirect income (redistributed between segments)	(88,438)	72,504	15,934	-	-	-	-
Indirect expenses (of the administrative and support centre)	24,196	287,452	2,305	(313,953)	-	-	-
Pre-provision operating profit	225,587	262,491	172,907	10,933	671,918	-	671,918
Impairment and provision net expenses:	49,963	21,384	(20)	(5,948)	65,379	-	65,379
Operating profit before tax	175,624	241,107	172,927	16,881	606,539	-	606,539
Income tax expense	21,877	34,606	12,088	1,522	70,093	-	70,093
Net profit for the year	153,747	206,501	160,839	15,359	536,446	-	536,446

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SEGMENT REPORTING (CONTINUED)

31 December 2017	Corporate banking		Retail banking		Treasury		Other		Total		Adjustments MDL'000	Total per statement of profit or loss MDL'000
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000		
Interest income	497,195	495,944	349,310	3,766	1,346,216	-	1,346,215					
Interest income from inter segments sales	59,354	666,593	47,179	=	773,126	(773,126)	-					
Total interest income	556,549	1,162,537	396,489	3,766	2,119,341	(773,126)	1,346,215					
Interest expenses on customer deposits and other borrowings	21,564	454,365	-	5,815	481,744	-	481,744					
Interest expenses for inter segment sales	252,632	245,190	275,304	=	773,126	(773,126)	-					
Total interest expenses	274,196	699,555	275,304	5,815	1,254,870	(773,126)	481,744					
Net interest income	282,353	462,982	121,185	(2,049)	864,471	-	864,471					
Total non-interest income	79,368	358,987	5,355	52,755	496,465	-	496,465					
Total income	361,721	821,969	126,540	50,706	1,360,936	-	1,360,936					

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36 SEGMENT REPORTING (CONTINUED)

31 December 2017	Corporate banking	Retail banking	Treasury	Other	Total	Adjustments	Total per statement of profit or loss
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Net foreign exchange gains	76,175	165,956	(11,846)	305	230,590	-	230,590
Direct expenses of the cost centre	46,044	436,650	16,119	236,445	735,258	-	735,258
Depreciation and amortization	2,722	38,925	1,134	41,553	84,334	-	84,334
Indirect income (redistributed between segments)	(86,296)	71,218	15,078	-	-	-	-
Indirect expenses (of the administrative and support centre)	20,859	242,427	2,284	(265,570)	-	-	-
Pre-provision operating profit	281,975	341,141	110,235	38,583	771,934	-	771,934
Impairment and provision net expenses:	223,602	31,405	-	(2,762)	252,245	-	252,245
Operating profit before tax	58,373	309,736	110,235	41,345	519,689	-	519,689
Income tax expense	12,487	36,280	7,350	1,933	58,050	-	58,050
Net profit for the year	45,886	273,456	102,885	39,412	461,639	-	461,639

The total segments revenue and net profit differs from the profit and revenue, disclosed in the statement of comprehensive income due to intersegment revenue / expenses which are not significant enough to be disclosed.

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SEGMENT REPORTING (CONTINUED)

31 December 2018	Corporate banking			Retail banking			Treasury			Other			Total per statement of financial position MDL'000
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	
ASSETS													
Cash on hand	-	-	-	-	-	-	-	-	-	1,103,882	-	-	1,103,882
Balances with National Bank of Moldova	-	-	-	-	-	-	5,400,244	-	-	-	-	-	5,400,244
Due from banks	-	-	-	-	-	-	1,720,607	-	-	-	-	-	1,720,607
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	1,496,114	-	-	151,552	-	-	1,647,666
Loans and advances to customers	6,248,927	-	-	5,314,161	-	-	-	-	-	-	-	-	11,563,088
Lease receivables	-	-	-	-	-	-	-	-	-	111,100	-	-	111,100
Financial assets at amortized cost	-	-	-	-	-	-	895,379	-	-	4,991	-	-	900,370
Non-current assets held for sale	-	-	-	-	-	-	-	-	-	13,319	-	-	13,319
Property and equipment	-	-	-	-	-	-	-	-	-	1,015,912	-	-	1,015,912
Investment property	-	-	-	-	-	-	-	-	-	72,464	-	-	72,464
Intangible assets	-	-	-	-	-	-	-	-	-	66,362	-	-	66,362
Other assets	<u>2,081</u>	-	-	<u>16,226</u>	-	-	-	-	-	<u>100,398</u>	-	-	<u>118,708</u>
Total assets	<u>6,251,008</u>	-	-	<u>5,330,387</u>	-	-	<u>9,512,344</u>	-	-	<u>2,639,980</u>	-	-	<u>23,733,719</u>

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36 SEGMENT REPORTING (CONTINUED)

31 December 2018	Corporate banking MDL'000	Retail banking MDL'000	Treasury MDL'000	Other MDL'000	Total per statement of financial position MDL'000
LIABILITIES					
Due to banks	-	-	5,045	23,165	28,210
Borrowings	-	-	568,884	58,800	627,684
Due to customers	1,906,454	16,740,501	-	-	18,646,955
Conditional commitments provisions	9,610	139	-	-	9,749
Deferred tax liability	9,876	13,260	10,328	986	34,451
Other liabilities	4,801	166,205	-	309,078	480,084
Total liabilities	1,930,741	16,920,105	584,257	392,029	19,827,133

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SEGMENT REPORTING (CONTINUED)

31 December 2017	Corporate banking			Retail banking			Treasury			Other			Total per statement of financial position MDL'000
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	
ASSETS													
Cash on hand	-	-	-	-	-	-	-	-	-	613,201	-	-	613,201
Balances with National Bank of Moldova	-	-	-	-	-	-	4,454,566	-	-	-	-	-	4,454,566
Due from banks	-	-	-	-	-	-	2,811,178	-	-	-	-	-	2,811,178
Financial assets available for sale	-	-	-	-	-	-	1,278,317	-	-	142,403	-	-	1,420,720
Loans and advances to customers	5,484,255	-	-	4,358,672	-	-	-	-	-	-	-	-	9,842,927
Lease receivables	-	-	-	-	-	-	-	-	132,031	-	-	-	132,031
Financial assets held to maturity	-	-	-	-	-	-	1,793,908	-	-	-	-	-	1,793,908
Non-current assets held for sale	-	-	-	-	-	-	-	-	-	15,263	-	-	15,263
Property and equipment	-	-	-	-	-	-	-	-	-	864,015	-	-	864,015
Investment property	-	-	-	-	-	-	-	-	-	72,356	-	-	72,356
Intangible assets	-	-	-	-	-	-	-	-	-	63,815	-	-	63,815
Other assets	-	-	-	14,317	-	-	-	-	-	197,392	-	-	211,709
Total assets	5,484,255	4,372,989	10,337,969	2,100,476	22,295,689								

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36 SEGMENT REPORTING (CONTINUED)

31 December 2017	Corporate banking			Retail banking		Treasury	Other	Total per
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	statement of financial position MDL'000
LIABILITIES								
Due to banks	-	-	-	-	47,247	70,728	117,975	
Borrowings	-	-	-	-	682,979	100	683,079	
Due to customers	1,927,660	15,607,969	-	-	-	-	17,535,629	
Deferred tax liability	3,660	21,809	8,205	3,143	-	-	36,817	
Other liabilities	4,970	57,469	-	182,607	-	-	245,046	
Total liabilities	1,936,290	15,687,247	738,431	256,578	18,618,546			

37 RISK MANAGEMENT

The risks are part of the Group's activities. Effective risk management is a key condition for 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 Group is exposed to the credit risk, inclusive regarding the partner banks (the risk related to counterparties), liquidity risk, market risk, that includes currency risk, interest rate risk associated with non-trading activity, operational risk, country and transfer risk.

37.1 Risk management structure

Risk management structure is based on actual requirements regarding the internal control system, general accepted practice, including recommendations of the Basel Committee for Banking Supervision.

The Board of Directors is responsible for approving the strategies, policies and general principles for addressing risks within the Group and risk limits, the task which is delegated to Bank's Executive, including within specialized committees such as the Management Board, the Credit Committee, the Asset Liability Management Committee.

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 Group's risk strategies.

37.2 Basic principles of risk management

The Group's risk management strategy aims to ensure that capital is adequately tailored to the Group's risk appetite as well as to the forecasted budget ratios in conditions of controlled risk to ensure both continuity in the Group's operations and the protection of the interests of shareholders and customers. The Group adopts a risk appetite according to appropriate risk management strategies and policies, correlated with the overall business strategy, the Bank's equity and risk management experience.

Risk management is performed through structured application of management culture, policies, procedures and practices to identify, evaluate, monitor, and reduce risk. Risk monitoring and control is primarily driven by the limit system, which the Group has imposed on every significant risk. The limits are continuously monitored, ensuring communication to the Bank's Management Board/ Asset and Liability Management Committee/ Risk Committee members, Bank's Council. Taking into account environmental changes, market trends and/ or increasing some risk indicators, the Group intervenes and imposes limits or other control and management measures. The risk limits imply, first of all, the Group's tolerance and risk appetite.

37 RISK MANAGEMENT (CONTINUED)

37.2 Basic principles of risk management (continued)

The Group has developed its own internal model for assessing and quantifying the size of the capital needed to cover the main types of risk to which it is exposed to, namely the credit, currency, interest rate risks associated with the banking and operational portfolios. The same time, the Group uses securement and operations to hedge its exposures at risk through instruments available on the market.

The stress testing process is an integral part of the risk management system within the Group. The Group conducts regular stress tests, the results obtained are reported to the Bank's Management Board, the ALCO Committee, the Risk Committee, and eventual the Bank Council with further approval of relevant decisions, if needed, in order to avoid adverse events to the Bank. The Internal Audit Department assesses the effectiveness of stress testing scenarios conducted within the Group for all risks related to 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 status and extent of risks, the Group's risk exposures are monitored on an ongoing basis, with daily information being presented and analyzed in this respect. Monthly and quarterly reports detailed with Group exposure, compliance with risk limits and risk parameters, and the possible impact scenarios in those cases are presented to the Bank's Executives, including specialized committees such as ALCO, the Credit Committee.

Quarterly, a comprehensive report is submitted to the Bank's Risk Committee and Council, allowing members of the committee to make their own opinion on the Group's exposure to the risk and the effectiveness of their management system.

37.3 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 Group'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 Group 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.

Compliance with country limits is monitored continuously by informing in the preset periodicity the Bank's Management Board, the Bank's Risk Committee and the Bank's Board on the level of Group's exposure to the country and transfer risk.

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37 RISK MANAGEMENT (CONTINUED)

37.3 Country and transfer risk (continued)

Group's country exposure as at 31 December:

Country risk category	2018		2017	
	<u>MDL'000</u>	%	<u>MDL'000</u>	%
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	<u>1,724,387</u>	<u>100</u>	<u>3,021,675</u>	<u>100</u>

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

The Group 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 Group 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 Group'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.

37.4 Market risk

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

The Group is 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.

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37 RISK MANAGEMENT (CONTINUED)

37.4 Market risk (continued)

37.4.1 Currency risk

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

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

In order to 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 years period of observation.

VAR index

(MDL'000)

	<u>VAR limit</u>	<u>Effectively as at 31 December</u>	<u>Daily average</u>	<u>Maximum</u>	<u>Minimum</u>
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 Group's protection against possible adverse developments in the risk factors, the Group 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 Group mainly operates with and therewith significant exposure (given the size of balance sheet assets and foreign exchange liabilities): EUR and USD in relation to MDL.

The stress analysis is applied to open currency positions for each of the three currencies listed at 31 December 2018, given reasonable daily deviation increase/decrease in exchange rates of foreign currencies against 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:

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37 RISK MANAGEMENT (CONTINUED)

37.4 Market risk (continued)

37.4.1 Currency risk (continued)

Open currency position	Nominal value MDL'000	FX rate %	Possible daily rate increase MDL'000	Income/ (loss) effect %	Possible daily 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			<u>(23,737)</u>		<u>19,701</u>

Open currency position	Nominal value MDL'000	FX rate %	Possible daily rate increase MDL'000	Income/ (loss) effect %	Possible daily 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			<u>8,299</u>		<u>(7,723)</u>

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 as at 31 December 2018 and 31 December 2017.

See Note 38 for the structure of Group's assets and liabilities per currencies.

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37 RISK MANAGEMENT (CONTINUED)

37.4 Market risk (continued)

37.4.2 Interest rate risk associated with activities outside of non-trading portfolio

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

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 Group 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.

The table below shows the sensitivity of net interest income to a possible proportional change in interest rates within each maturity band in dependence of the interest revaluation range. The model does not evaluate the 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
	+100	5,665	2,795	3,792	4,389	12	16,653
2018	+50	2,833	1,398	1,896	2,194	6	8,327
	+100	1,597	1,110	8,428	4,060	(15)	15,180
2017	+50	799	555	4,214	2,030	(8)	7,590

		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	(5,665)	(2,795)	(3,792)	(4,389)	(12)	(16,653)
	-50	(2,833)	(1,398)	(1,896)	(2,194)	(6)	(8,327)
2017	-100	(1,597)	(1,110)	(8,428)	(4,060)	15	(15,180)
	-50	(799)	(555)	(4,214)	(2,030)	8	(7,590)

37 RISK MANAGEMENT (CONTINUED)

37.5 Liquidity risk

Liquidity risk is the current or future risk that affects profits and equity due to the Group's inability to meet its obligations at maturity. The Group's liquidity risk management system foresees liquidity management in accordance with regulatory requirements, systematic monitoring and analysis of risk factors regarding the Group's current and long-term liquidity, periodic reporting on the exposure level of the Group's liquidity risk, with issuing relevant recommendations and proposals. An integral part of the liquidity risk management process represents the system of early warning indicators and liquidity position testing under crisis conditions.

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

The Group sets and approves a set of limits for measuring and controlling the liquidity risk. The Group develops a series of indicators which allow analysing of the liquidity position at a determined reporting date and in dynamic. To ensure an optimal balance between assets and liabilities on each maturity, the Group tends to maintain the concordance between continuity and flexibility of attracting funds, by contracting liabilities with different maturities.

Since liquidity risk implies not only the actual deficit of necessary financial means, but the cost of obtaining those, the Group aims to ensure a diversified and high quality assets portfolio, ensuring a durable and successful activity.

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37 RISK MANAGEMENT (CONTINUED)

37.5 Liquidity risk (continued)

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

31 December 2018	On demand MDL'000	Less than 3 months MDL'000	From 3 months to 1 year MDL'000	From 1 yo 5 years MDL'000	Over 5 years MDL'000	Total MDL'000
Financial liabilities						
Due to banks	6,765	3,262	11,158	8,279	-	29,464
Borrowings	38,601	21,617	138,142	460,072	29,498	687,930
Due to customers	8,213,293	1,867,736	7,570,336	1,334,547	15,260	19,001,172
Other financial liabilities	442,969	-	-	-	-	442,969
Total undiscounted financial liabilities	8,701,628	1,892,615	7,719,636	1,802,898	44,758	20,161,535
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	460,742	1	964,367
Total	8,908,275	2,091,552	8,043,895	2,286,871	44,759	21,375,352

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RISK MANAGEMENT (CONTINUED)

37.5 Liquidity risk (continued)

The table below sets out the remaining contractual cash flows until the maturity of the Group'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 yo 5 years MDL'000	Over 5 years MDL'000	Total MDL'000
Financial liabilities						
Due to banks	51,115	7,126	31,867	27,464	-	117,572
Borrowings	53,017	12,170	157,247	486,316	23,228	731,978
Due to customers	7,307,780	1,950,894	7,011,053	1,587,313	10,205	17,867,245
Other financial liabilities	192,873	-	-	-	-	192,873
Total undiscounted financial liabilities	7,604,785	1,970,190	7,200,167	2,101,093	33,433	18,909,668
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	7,851,248	2,064,786	7,678,518	2,518,296	33,433	20,146,281

37 RISK MANAGEMENT (CONTINUED)

37.6 Counterparty risk

The management system of credit risk of partner banks (counterparty risk) in the Group 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 through the lowest international rating of partner bank attributed by rating agencies: Standard&Poor's, Moody's and Fitch Ratings, in order to establish certain exposure limits, with further structuring in dependence on the type and term of the transactions. The limits are revised and adjusted periodically.

37.7 Credit risk

For measurement purposes, the Group shall use also stress tests to measure how the Group 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 shall be defined as the current or future risk to negatively affect the profits and capitals due to the Debtor's failure to meet the contractual obligations.

For the credit risk management, the Group has defined and applies:

- procedures for identifying the markets where the Group 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 Group 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 Group 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 displays cumulative information on maximum exposure to credit risk of Group Balance Sheet and off-Balance elements. The Table comprises also the financial effect of the total fair value of pledge held by types and its value surplus.

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37	RISK MANAGEMENT (CONTINUED)	37.7	Credit risk (continued)	Fair value of the collateral							Allowances for impairment losses		
				Maximum exposure to credit risk	Cash and cash equivalents	Government guarantees / other	Securities	Immovable assets	Movable assets	Total eligible collateral		Excess of collateral	Net exposure
31 December 2018				MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
	Loans, from which	12,404,166	36,656	120,609	116,808	6,418,832	2,684,389	9,377,294	3,427,891	3,026,872	841,078		
	Corporate	6,946,737	13,158	120,606	2,635	3,225,223	2,163,490	5,525,112	1,241,977	1,421,625	697,810		
	Retail entities	1,919,016	22,702	3	5,600	1,127,809	518,944	1,675,058	809,167	243,958	60,745		
	Individuals	3,538,413	796	-	108,573	2,065,800	1,955	2,177,124	1,376,747	1,361,289	82,523		
	Lease contracts	130,375	-	-	-	17,026	91,522	108,549	-	21,827	19,276		
	Legal entities	68,201	-	-	-	2,483	51,078	53,562	-	14,640	12,333		
	Individuals	62,174	-	-	-	14,543	40,444	54,987	-	7,187	6,943		
	Commitments, from which	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	13,748,357	70,624	120,609	116,808	6,545,930	2,826,629	9,680,601	3,573,023	4,067,757	870,103		

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37 RISK MANAGEMENT (CONTINUED)

37.7 Credit risk (continued)

31 December 2017	Maximum exposure to credit risk	Cash and cash equivalents	Government guarantees / other	Securities	Immovable assets	Movable assets	Fair value of the collateral			Net exposure	Allowances for impairment losses
							MDL'000	MDL'000	MDL'000		
	10,891,844	89,497	161,478	10,230	5,889,474	2,419,413	8,570,092	3,599,700	2,321,752	1,049,917	
Corporate	6,391,736	21,149	161,478	-	3,280,073	1,973,634	5,436,334	1,517,443	955,402	908,480	
Retail entities	1,889,682	65,970	-	10,230	1,175,483	443,080	1,694,763	917,817	194,919	113,673	
Individuals	2,610,426	2,378	-	-	1,433,918	2,699	1,438,995	1,164,440	1,171,431	27,764	
Lease contracts	145,436	-	-	-	23,303	107,106	130,409	-	15,028	13,405	
Legal entities	74,667	-	-	-	2,872	61,972	64,843	-	9,824	8,794	
Individuals	70,769	-	-	-	20,431	45,134	65,566	-	5,204	4,611	
Commitments, from which	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	12,273,893	143,684	161,478	10,230	6,119,229	2,699,767	9,134,388	3,857,401	3,139,506	1,063,322	

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37 RISK MANAGEMENT (CONTINUED)

37.7 Credit risk (continued)

The Group 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	2,843,927	22.9%	2,870,110	26.4%
Inclusive:				
<i>agriculture</i>	1,003,264	8.1%	931,802	8.6%
<i>food industry</i>	1,840,663	14.8%	1,938,308	17.8%
<i>of which wine production</i>	815,796	6.6%	732,645	6.7%
Non-food industry	764,418	6.2%	817,561	7.5%
Loans to individuals	3,538,413	28.5%	2,610,425	24.0%
Trade	3,577,350	28.8%	3,328,273	30.6%
Transport	317,314	2.6%	311,612	2.9%
Telecommunications	364,439	2.9%	247,480	2.3%
Construction and real estate	491,464	4.0%	282,372	2.6%
Energy sector	215,340	1.7%	192,235	1.8%
Financial Institutions and Organizations	224,728	1.8%	141,959	1.3%
Other	66,773	0.5%	89,818	0.8%
	12,404,166	100%	10,891,845	100%
Lease receivables				
Individuals	62,174	47.7%	70,769	48.7%
Legal entities:				
Industry and construction	23,591	18.1%	28,488	19.6%
Trade	12,839	9.8%	13,511	9.3%
Services	19,396	14.9%	17,716	12.2%
Agriculture	3,438	2.6%	4,999	3.4%
Transport	8,937	6.9%	9,953	6.8%
	130,375	100%	145,436	100%

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37 RISK MANAGEMENT (CONTINUED)

37.7 Credit risk (continued)

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

Letters of credit / Guarantees	2018		2017	
	<u>MDL'000</u>	%	<u>MDL'000</u>	%
Agriculture / Food industry inclusive:	16,432	6.6%	220,751	66.6%
<i>agriculture</i>	1,127	0.5%	220,750	66.6%
<i>food industry</i>	15,305	6.1%	1	0.0%
<i>of which wine production</i>	-	0.0%	-	0.0%
Non-food industry	3,234	1.3%	1,487	0.4%
Loans to individuals	2	0.0%	-	0.0%
Trade	161,892	64.9%	-	0.0%
Transport	26,524	10.6%	-	0.0%
Telecommunications	72	0.0%	-	0.0%
Construction and real estate	38,928	15.6%	87,894	26.5%
Energy sector	-	0.0%	21,204	6.4%
Financial Institutions and Organizations	5	0.0%	-	0.0%
Other	<u>2,360</u>	<u>0.9%</u>	-	<u>0.0%</u>
	<u>249,449</u>	<u>100%</u>	<u>331,336</u>	<u>100%</u>

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37 RISK MANAGEMENT (CONTINUED)

37.7 Credit risk (continued)

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

These customers can be analyzed by industries as follows:

	<u>2018</u>		<u>2017</u>	
	<u>MDL'000</u>	%	<u>MDL'000</u>	%
Agriculture / Food industry	1,252,557	32.0%	1,562,193	42.0%
Inclusive:				
<i>agriculture</i>	189,478	4.8%	235,569	6.3%
<i>food industry</i>	1,063,079	27.2%	1,326,624	35.7%
<i>of which wine production</i>	476,996	12.2%	438,686	11.8%
Non-food industry	318,521	8.1%	504,702	13.6%
Loans to individuals	4,970	0.1%	3,097	0.1%
Trade	1,481,094	37.9%	1,286,002	34.6%
Telecommunications	363,712	9.3%	169,337	4.6%
Construction and real estate	211,728	5.4%	-	0.0%
Energy sector	213,882	5.5%	192,235	5.2%
Financial Institutions and Organizations	62,995	1.6%	-	0.0%
	<u>3,909,459</u>	<u>100%</u>	<u>3,717,566</u>	<u>100%</u>

Leasing receivables granted to 20 major customers can be analyzed by industries as follows:

	<u>2018</u>		<u>2017</u>	
	<u>MDL'000</u>	%	<u>MDL'000</u>	%
Individuals	16,926	33.1%	25,399	44.7%
Legal entities:				
Industry and constructions	15,552	30.4%	17,739	31.2%
Trade	3,689	7.2%	1,361	2.4%
Services	8,120	15.9%	6,278	11.0%
Agriculture	1,166	2.3%	-	0.0%
Transport	5,660	11.1%	6,097	10.7%
	<u>51,113</u>	<u>100%</u>	<u>56,874</u>	<u>100%</u>

For significant credit risk concentration at the industry level please refer to Notes 8 and 9.

37 RISK MANAGEMENT (CONTINUED)

37.7 Credit risk (continued)

Individual/collective approach (portfolio segmentation)

The Group 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 Group shall take 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 shall be carried out on the basis of homogenous groups of assets. In order to segment the portfolio in portfolios with similar credit risk, the Group 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 Group 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 Group primarily applies 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 Group 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 Group shall review also the outcomes furnished by the classification system and by other available in-house data.

The Group 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.

37 RISK MANAGEMENT (CONTINUED)

37.7 Credit risk (continued)

Estimating the Probability of Default (PD)

The probability of default shall be estimated by the Group, 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.

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37 RISK MANAGEMENT (CONTINUED)

37.7 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	Leasing	Total
	<u>MDL'000</u>	<u>MDL'000</u>	<u>MDL'000</u>	<u>MDL'000</u>	<u>MDL'000</u>	<u>MDL'000</u>	<u>MDL'000</u>	<u>MDL'000</u>
<i>Impairment allowances and provisions collectively assessed</i>								
Increase by 10% of PD and LGD	14,188	8,349	7,984	7,420	784	227	5,081	44,033
Decrease by 10% of PD and LGD	(12,837)	(8,258)	(7,559)	(8,120)	(710)	(205)	(4,007)	(41,696)
<i>Impairment allowances and provisions individually assessed</i>	(63,025)	(1,728)	-	-	(433)	-	(13,420)	(78,606)
Increase of flows by 10%	54,207	949	-	-	433	-	18,746	74,335
Decrease of flows by 10%	14,188	8,349	7,984	7,420	784	227	5,081	44,033
01.01.2018								
<i>Impairment allowances and provisions collectively assessed</i>								
Increase by 10% of PD and LGD	13,760	6,108	7,311	6,513	793	(282)	13,101	47,304
Decrease by 10% of PD and LGD	(12,450)	(6,091)	(6,891)	(6,741)	(717)	-	(12,703)	(45,593)
<i>Impairment allowances and provisions individually assessed</i>	(84,946)	(8,334)	-	-	(77)	-	(7,933)	(101,290)
Increase of flows by 10%	79,055	4,750	-	-	77	-	11,013	94,895
Decrease of flows by 10%	13,760	6,108	7,311	6,513	793	(282)	13,101	47,304

37 RISK MANAGEMENT (CONTINUED)

37.8 Taxation risk

The Group is committed to ensure a sustainable management of taxation risk by building and maintaining a transparent, effective and efficient tax function within the Group. The Group strictly respects and applies the tax legislation in force for all categories of fees and taxes. The implementation of IFRS, put into force since 01 January 2012, was taken into consideration for the revision of the fiscal legislation by introducing specific regulations for treating the adjustments resulted the implementation and further. In this connection, a careful analysis was made to identify the differences in accounting treatments, having a fiscal impact, both on the current tax liability as well as on the deferred tax liability.

It is anticipated that fiscal legislation will be subject to frequent amendments in the future. Considering the precedents, these aspects might be applied retrospectively. Tax liabilities of the Group are open to tax inspection for a period of four years.

37.9 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 Group 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 Group has adopted and implemented a general operational risk management framework that contributes to effective operational risk management and increasing the profitability of the group.

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).
- Analyzing and assessing the risk for the new products and activities.
- Defining and monitoring key risk indicators.
- Reporting operational risk and related losses.

37 RISK MANAGEMENT (CONTINUED)

37.9 Operational risk (continued)

- 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.

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38 STATEMENT OF FINANCIAL POSITION STRUCTURE BY CURRENCY

	31 December 2018				
	<u>Total</u> <u>MDL'000</u>	<u>MDL</u> <u>MDL'000</u>	<u>USD</u> <u>MDL'000</u>	<u>EUR</u> <u>MDL'000</u>	<u>Other</u> <u>MDL'000</u>
ASSETS					
Cash on hand	1,103,882	481,083	82,341	474,520	65,938
Balances with NBM	5,400,244	4,329,009	320,670	750,565	-
Due from banks	1,720,607	422	356,171	1,341,874	22,140
Financial assets at fair value through other comprehensive income	1,647,666	1,647,666	-	-	-
Loans and advances to customers	11,563,088	6,527,068	1,588,542	3,447,478	-
Lease receivables	111,100	20,437	909	89,754	-
Financial assets at amortized cost	900,370	900,370	-	-	-
Non-current assets held for sale	13,319	13,319	-	-	-
Property and equipment	1,015,912	1,015,912	-	-	-
Investment property	72,464	72,464	-	-	-
Intangible assets	66,362	66,362	-	-	-
Other assets	<u>118,705</u>	<u>68,888</u>	<u>22,013</u>	<u>27,548</u>	<u>256</u>
Total assets	23,733,719	15,143,000	2,370,646	6,131,739	88,334
LIABILITIES					
Due to banks	28,210	2,387	2,658	23,165	-
Borrowings	627,684	291,514	29,893	306,277	-
Due to customers	18,646,955	10,322,028	2,437,286	5,853,399	34,242
Conditional commitments provisions	9,749	9,749	-	-	-
Deferred tax liabilities	34,451	34,451	-	-	-
Current tax liability	14,734	14,734	-	-	-
Other liabilities	<u>465,350</u>	<u>392,705</u>	<u>30,272</u>	<u>39,047</u>	<u>3,326</u>
Total liabilities	19,827,133	11,067,568	2,500,109	6,221,888	37,568
GAP	3,906,586	4,075,432	(129,463)	(90,149)	50,766

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38 STATEMENT OF FINANCIAL POSITION STRUCTURE BY CURRENCY (CONTINUED)

	31 December 2017				
	<u>Total</u> <u>MDL'000</u>	<u>MDL</u> <u>MDL'000</u>	<u>USD</u> <u>MDL'000</u>	<u>EUR</u> <u>MDL'000</u>	<u>Other</u> <u>MDL'000</u>
ASSETS					
Cash on hand	613,201	317,240	39,345	194,778	61,838
Balances with NBM	4,454,566	3,385,601	335,264	733,701	-
Due from banks	2,811,178	210	963,915	1,825,284	21,769
Financial assets available for sale	1,420,720	1,420,720	-	-	-
Loans and advances to customers	9,842,927	5,547,444	1,192,984	3,102,499	-
Lease receivables	132,031	24,376	-	107,655	-
Financial assets held to maturity	1,793,908	1,793,908	-	-	-
Non-current assets held for sale	15,263	15,263	-	-	-
Property and equipment	864,015	864,015	-	-	-
Investment property	72,356	72,356	-	-	-
Intangible assets	63,815	63,815	-	-	-
Other assets	<u>211,709</u>	<u>144,858</u>	<u>32,909</u>	<u>33,122</u>	<u>820</u>
Total assets	22,295,689	13,649,806	2,564,417	5,997,039	84,427
LIABILITIES					
Due to banks	117,975	44,771	2,476	70,728	-
Borrowings	683,079	349,556	39,401	294,122	-
Due to customers	17,535,629	9,334,909	2,479,150	5,694,025	27,545
Deferred tax liabilities	36,817	36,817	-	-	-
Current tax liability	30,972	30,972	-	-	-
Other liabilities	<u>214,074</u>	<u>163,026</u>	<u>23,044</u>	<u>27,527</u>	<u>477</u>
Total liabilities	<u>18,618,546</u>	<u>9,960,051</u>	<u>2,544,071</u>	<u>6,086,402</u>	<u>28,022</u>
GAP	3,677,143	3,689,755	20,346	(89,363)	56,405

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39 MATURITY STRUCTURE

31 December 2018	<u>Total</u> <u>MDL'000</u>	<u>Less than</u> <u>1 year</u> <u>MDL'000</u>	<u>More than</u> <u>1 year</u> <u>MDL'000</u>
ASSETS			
Cash on hand	1,103,882	1,103,882	-
Balances with National Bank of Moldova	5,400,244	5,400,244	-
Due from banks	1,720,607	1,720,607	-
Financial assets at fair value through other comprehensive income	1,647,666	1,071,658	576,008
Loans and advances to customers	11,563,088	4,952,345	6,610,743
Lease receivables	111,100	63,217	47,883
Financial assets at amortized cost	900,370	885,544	14,826
Non-current assets held for sale	13,319	-	13,319
Property and equipment	1,015,912	-	1,015,912
Investment property	72,464	-	72,464
Intangible assets	66,362	-	66,362
Other assets	<u>118,705</u>	<u>118,705</u>	-
Total assets	23,733,719	15,316,202	8,417,517
LIABILITIES			
Due to banks	28,210	5,045	23,165
Borrowings	627,684	186,420	441,264
Due to customers	18,646,955	17,365,553	1,281,402
Conditional commitments provisions	9,749	9,749	-
Deferred tax liabilities	34,451	-	34,451
Current tax liability	14,734	14,734	-
Other liabilities	<u>465,350</u>	<u>465,350</u>	-
Total liabilities	19,827,133	18,046,851	1,780,282
Maturity gaps	3,906,586	(2,717,330)	6,623,916

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39 MATURITY STRUCTURE (CONTINUED)

31 December 2017	<u>Total</u> <u>MDL'000</u>	<u>Less than</u> <u>1 year</u> <u>MDL'000</u>	<u>More than</u> <u>1 year</u> <u>MDL'000</u>
ASSETS			
Cash on hand	613,201	613,201	-
Balances with National Bank of Moldova	4,454,566	4,454,566	-
Due from banks	2,811,178	2,811,178	-
Financial assets available for sale	1,420,720	914,660	506,060
Loans and advances to customers	9,842,927	4,210,455	5,632,472
Lease receivables	132,031	82,814	49,217
Financial assets held to maturity	1,793,908	1,747,377	46,531
Non-current assets held for sale	15,263	-	15,263
Property and equipment	864,015	-	864,015
Investment property	72,356	-	72,356
Intangible assets	63,815	-	63,815
Other assets	<u>211,709</u>	<u>211,709</u>	-
Total assets	22,295,689	15,045,960	7,249,729
LIABILITIES			
Due to banks	117,975	58,707	59,268
Borrowings	683,079	210,598	472,481
Due to customers	17,535,629	16,063,078	1,472,551
Deferred tax liabilities	36,817	-	36,817
Current tax liability	30,972	30,972	-
Other liabilities	<u>214,074</u>	<u>214,074</u>	-
Total liabilities	<u>18,618,546</u>	<u>16,577,429</u>	<u>2,041,117</u>
Maturity gaps	<u>3,677,143</u>	<u>(1,531,469)</u>	<u>5,208,612</u>

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INTEREST RATE RISK EXPOSURE

The table below set out the Group'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. Group's policy on interest rate risk management is to minimize exposure and continuously to adapt interest repricing dates and maturities for assets and liabilities.

31 December 2018	Total MDL'000	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	MDL'000	MDL'000	MDL'000	MDL'000	
ASSETS												
Cash on hand	1,103,882	-	-	-	-	-	-	-	-	-	-	1,103,882
Balances with National Bank of Moldova	5,400,244	5,139,806	-	-	-	-	-	-	-	-	-	260,438
Due from banks	1,720,607	1,720,607	-	-	-	-	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	1,647,666	134,740	440,743	538,368	382,263	-	-	-	-	-	-	151,552
Loans and advances to customers (floating rate)	11,448,771	11,393,104	-	-	-	-	-	-	-	-	-	55,667
Loans and advances to customers (fixed rate)	114,317	1,843	6,724	47,667	56,841	1,242	-	-	-	-	-	-
Lease receivables	111,100	23,651	7,090	26,102	47,883	-	-	-	-	-	-	6,374
Financial assets at amortized cost	900,370	860,378	9,940	15,285	14,767	-	-	-	-	-	-	-
Non-current assets held for sale	13,319	-	-	-	-	-	-	-	-	-	-	13,319
Property and equipment	1,015,912	-	-	-	-	-	-	-	-	-	-	1,015,912
Investment property	72,464	-	-	-	-	-	-	-	-	-	-	72,464
Intangible assets	66,362	-	-	-	-	-	-	-	-	-	-	66,362
Other assets	118,705	-	-	-	-	-	-	-	-	-	-	118,705
Total assets	23,733,719	19,274,129	464,497	627,422	501,754	1,242	-	-	-	-	-	2,864,675

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INTEREST RATE RISK EXPOSURE (CONTINUED)

31 December 2018	<u>Total</u> MDL'000	<u>Less than</u> <u>1 month</u> MDL'000	<u>From 1</u> <u>month to 3</u> <u>months</u> MDL'000	<u>From 3</u> <u>months</u> <u>to 1 year</u> MDL'000	<u>From 1 to 5</u> <u>years</u> MDL'000	<u>More than</u> <u>5 years</u> MDL'000	<u>Non-interest</u> <u>bearing items</u> MDL'000
LIABILITIES							
Due to banks	28,210	28,210	-	-	-	-	-
Borrowings	627,684	98,594	183,992	246,493	58,800	-	39,805
Due to customers (fixed rate)	7,823	1,068	963	1,746	4,046	-	-
Due to customers (floating rate)	18,639,132	18,579,737	-	-	-	-	59,395
Conditional commitments provisions	9,749	-	-	-	-	-	9,749
Deferred tax liabilities	34,451	-	-	-	-	-	34,451
Current tax liability	14,734	-	-	-	-	-	14,734
Other liabilities	465,350	-	-	-	-	-	465,350
Total liabilities	<u>19,827,133</u>	<u>18,707,609</u>	<u>184,955</u>	<u>248,239</u>	<u>62,846</u>	<u>-</u>	<u>623,484</u>
Interest gap	<u>3,906,586</u>	<u>566,520</u>	<u>279,542</u>	<u>379,183</u>	<u>438,908</u>	<u>1,242</u>	<u>2,241,191</u>
Cumulative interest gap		<u>566,520</u>	<u>546,062</u>	<u>1,225,245</u>	<u>1,664,153</u>	<u>1,665,395</u>	<u>3,906,586</u>

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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	613,201	-	-	-	-	-	613,201
Balances with National Bank of Moldova	4,454,566	4,454,566	-	-	-	-	-
Due from banks	2,811,178	2,811,178	-	-	-	-	-
Financial assets available for sale	1,420,720	137,823	187,157	589,680	363,657	-	142,403
Loans and advances to customers (floating rate)	9,322,792	8,782,253	-	-	-	-	540,539
Loans and advances to customers (fixed rate)	520,135	-	34,160	485,975	-	-	-
Lease receivables	132,031	33,289	8,592	33,139	49,217	-	7,794
Financial assets held to maturity	1,793,908	1,555,890	118,843	72,644	46,531	-	-
Non-current assets held for sale	15,263	-	-	-	-	-	15,263
Property and equipment	864,015	-	-	-	-	-	864,015
Investment property	72,356	-	-	-	-	-	72,356
Intangible assets	63,815	-	-	-	-	-	63,815
Other assets	211,709	-	-	-	-	-	211,709
Total assets	22,295,689	17,774,999	348,752	1,181,438	459,405	-	2,531,095

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40 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
LIABILITIES							
Due to banks	117,975	117,975	-	-	-	-	-
Borrowings	683,079	151,406	192,660	299,301	-	-	39,712
Due to customers (fixed rate)	65,531	17,006	36,523	6,292	4,179	1,531	-
Due to customers (floating rate)	17,470,098	17,427,567	-	-	-	-	42,531
Deferred tax liabilities	36,817	-	-	-	-	-	36,817
Current tax liability	30,972	-	-	-	-	-	30,972
Other liabilities	214,074	-	-	-	-	-	214,074
Total liabilities	18,618,546	17,713,954	229,183	305,593	4,179	1,531	364,106
Interest gap	3,677,143	61,045	119,569	875,845	455,226	(1,531)	2,166,989

The Group 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 Group has the right to change unilaterally the interest rate in line with the rates on the market. The Group has to give a 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".

41 CONTINGENT LIABILITIES

At 31 December 2018 and 31 December 2017 the Group is the defendant in several lawsuits arising in the ordinary corporate activity. According to Management and the Legal Department of the Group, the loss probability is small and accordingly no provision has been made in these financial statements.

42 EVENTS AFTER THE REPORTING DATE

There were no events after the reporting period.