2018 ANNUAL REPORT

MOBIAS BANCA

GROUPE SOCIETE GENERALE

BUILDING TEAM SPIRIT
TOGETHER

Summary

1

CEO MESSAGE

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In a 2018 stable but lackluster environment, Mobiasbanca posted once again very solid commercial and financial performances and strengthened its position in the banking sector.

Our number of active clients increased to 167,000 (from 161,000 in 2017 or +3%) and our net loan portfolio reached 5.2 billion (+11.3 %) pushing our market share in loans up to 15.2% (versus 14.5% in 2017). On their side, financial risks remained tightly under control, with inter alia a cost of risk allocations related to non-performing loans decreasing to 33 bps from 86 bps in 2017, and comfortable levels of equity and liquidity.

This translated into a net profit of MDL 296 million (+6.5%), providing a maintained average return on equity of 19% in a reduced rate context and confirming the ability of Mobiasbanca to deliver profitable growth in a mid-term perspective.

At the same time, Mobiasbanca continued to behave as a corporate citizen, being involved in and supporting a variety of CSR initiatives.

Our team's expertise, corporate culture and commitment to serve our customers at the highest professional level, consistent with Mobiasbanca's belonging to an international Western financial group, the trust and loyalty of our customers and the value added by our partners in the provision of valuable and diversified products and benefits to our customers, combined harmoniously to generate our 2018 achievements.

On behalf of the management team, I would like to thank all of them for their invaluable contribution. I would also like to express our gratitude to the members of the Bank's Supervisory Board for their involvement and contribution throughout the year and to the shareholders who have faithfully supported Mobiasbanca's development strategy.

I have no doubt that that Mobiasbanca is well prepared to continue growing and improving the quality of its services; to support the national economy in the years to come and to remain the reference bank on the Moldovan market.

2

A REFERENCE BANK- PROFILE

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Mobiasbanca was founded in 1990 with the legal status of a Limited Liability Company. In January 2007, the French financial group Société Générale became the major shareholder of Mobiasbanca, owning a share of 70.57% of the bank's equity capital. In May 2007, Société Générale increased its share in the bank by purchasing an additional 24.78%.

Becoming a part of the international financial corporation, Mobiasbanca retrained the model of a universal bank, dedicated currently to 3 pillars of activity:

• **Retail banking,** offering credit products, debit and credit cards, savings accounts, current operations and long-distance banking services for individuals and entrepreneurs;

• **Corporate & Investment Banking,** with a broad range of services, products and banking consultancy for multinational companies headquartered in Moldova, to local private and state companies, local authorities and financial institutions. Thanks to the extended network of branches, Mobiasbanca is able to serve corporate clients throughout the country, and offer expertise in various key banking areas by corporate consultants;

• **Specialized services** with a full range of complex financial and treasury services, such as: operational leasing, consumer loans in markets, titles, insurance products, pensions and others.

Starting with 2008, the development strategy of the bank was supported by two strong shareholders: ”BRD – Groupe Société Générale” S.A. holding 20% of the social capital and the European Bank for Reconstruction and Development (EBRD) holding 8.84% of shares. Thereby, the share of Société Générale at the end of 2008 effectively represented 67.85% and minority shareholders held 3.25% of the bank’s equity capital.

In the same year, the name of the bank was changed to CB ”Mobiasbanca – Groupe Société Générale” S.A.

After the majority shares were taken over by the Groupe Société Générale, Mobiasbanca continued its strategic partnerships with International Financial Institutions, currently being the first ranking bank on the Moldovan credit market to benefit from their trust and extension of the most financing programs in Moldova.

Bank’s belonging to Groupe Société Générale was a strategic chapter in Mobiasbanca’s history – the assurance of an important market position and a long-term strategic development. Since then, the bank significantly improved its performance indicators and position among the top players on the financial market, offering products that meet international standards and becoming a trusted partner of entrepreneurs, targeting excellence in financial services.

SOCIÉTÉ GÉNÉRALE

Société Générale is one of the leading European financial services groups, based on a diversified model of a universal bank. Société Générale is close to it's customers with innovative solutions, quality products and commitment of it's team. Société Générale teams provide consultancy and services to customers - individuals, companies and communities - on three core businesses:

- **French Retail banking,** under the brands of Société Générale, Credit du Nord and Boursorama,
- **International Retail Banking and Financial Services** in Central and Eastern Europe, Russia, Mediterranean Sea basin, Sub-Saharan Africa, Asia and French Territories overseas,
- **Global Banking and Investor Solutions** with a broad experience globally in investment financing and activities on capital markets.

Société Générale is also an important actor on specialized financial services market:

- insurance
- private banking services
- asset management
- services for investors

Being a socially responsible company, Société Générale is evaluated according to the following key indicators, measuring investment for sustainable development, as follows: DJSE (Global Europe), FTSE4Good and ASPI. The Group is also an active member of the 2007 Equator principles.

147
THOUSANDS OF EMPLOYEES

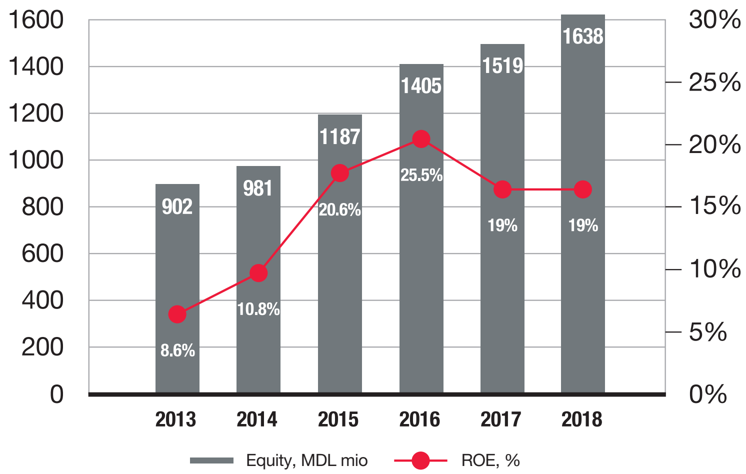
67
COUNTRIES

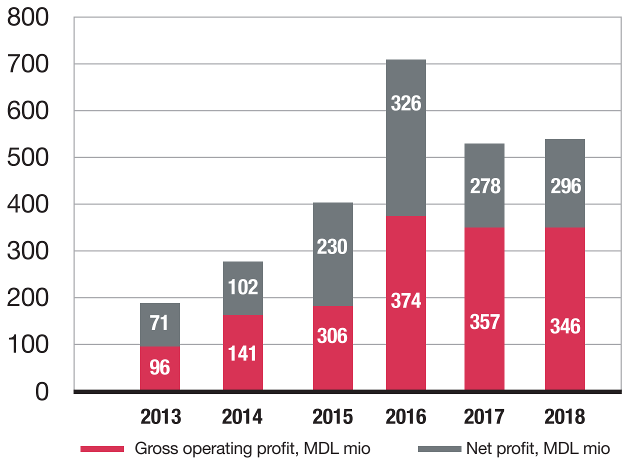
31
MIO CUSTOMERS

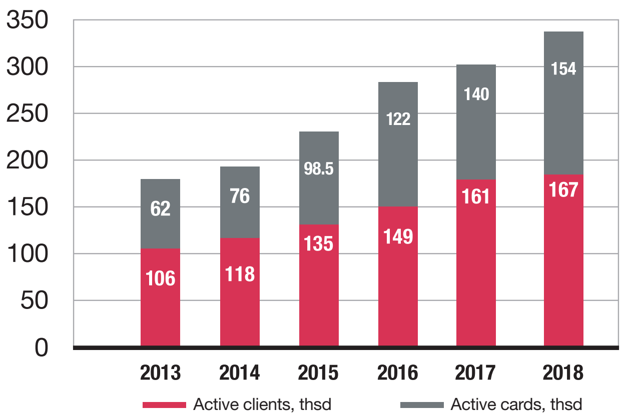
3

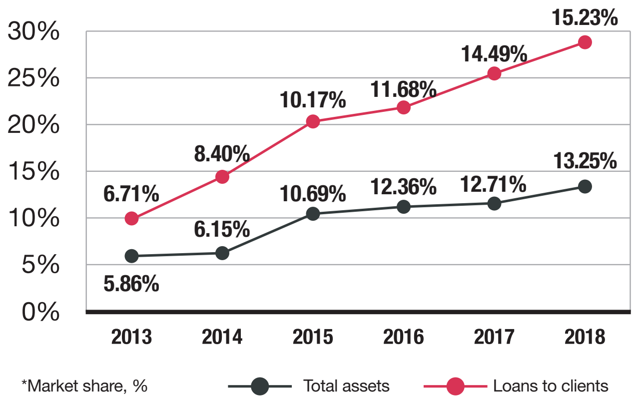
SOLID, PROFITABLE & GROWING BANK - KEY-FIGURES

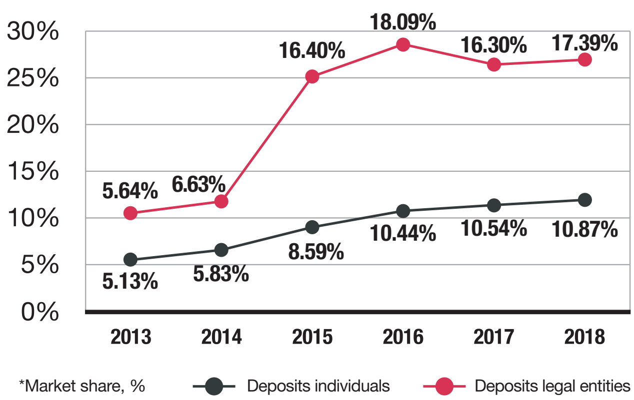
SOLID, PROFITABLE & GROWING BANK - KEY-FIGURES











4

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

The ambition of CB ”Mobiasbanca - Groupe Société Générale” S.A. is to consolidate its market position as the most reliable and trusted bank, chosen by its clients for the quality of its services. Mobiasbanca maintains the highest standards of ethics and transparency in the corporate governance system, with a strong engagement for long-term development.

The corporate governance of Mobiasbanca integrates all practices, organization, management and control of the bank resources, with the aim of granting trustful and transparent businesses, as well as balanced relations of its management bodies, regulating authorities, bank's shareholders and other stakeholders. Corporate governance specifies the distribution of rights and responsibilities between different categories of interested parties, such as: shareholders, managers, directors, heads of different structures, employees and the organizations representing their interests, clients and business partners, central and local authorities etc., and establishes the rules and procedures for taking decisions regarding bank's activity.

Four values inspire the daily work of the Bank:

• **The team spirit,** characterized by the commitment to transform the Bank into a leader in the relationship, with the ability to listen, promote constructive communication, as well as solidarity, cooperation (distribution of resources and best practices), internal consolidation of priorities;

• **Innovation,** by creating benefit in any product and service offered to customers, taking into account reputational risk;

• **Responsibility,** consisting in taking prompt decisions that meets both clients' needs and the banks' ones, without affecting their long-term goals; individual and collective courage to be responsible for their own actions and decisions, giving importance to the results and the methods by which they were achieved, taking into account the final consequences for all involved parties.

• **Commitment,** which makes the difference in the approach of the bank's clients and leads to a high quality of service and performance.

In order to ensure the efficient management of the Bank, the conduct of financial activities in a safe and prudent manner, the compliance with the provisions of the legislation in force and the protection of depositors' interests, the Bank adapted the internal control mechanism according to the new NBM Regulation on Bank's Management Framework, which entered in force on 01.07.2017.

Internal control within the MBSG is a set of means that allows the Bank's management to ensure that the operations, organization and procedures put in practice are in accordance with the legal provisions.

The internal control system was organized in accordance with “the free lines of defense” according to the principles of the Basel Committee:

• **The first line of defense** includes all employees and operational management of the Bank. Operational management is responsible for risks, their prevention and its management, by implementing permanent control measures at the first level:

– operational controls
– managerial supervision
– any cross-functional controls carried out by dedicated teams
– other systems that help the management of various risk categories, such as organizational systems (task separation), automatic processing and scheduled controls in IT applications, etc.

• **The second line** of defense is provided by the Compliance, Finance and Risk functions. As part of the internal control, these functions continuously inspect the safety and the control of risks that affect operations under the responsibility of operational management, by effectively applying established standards through procedures, methods and controls defined in the instructions.

• **The third line of defense** is provided by the Internal Audit Department, which is independent from business lines as well as from permanent control function.

The most important internal documents which regulate the Bank's corporate governance are:

– Bank's Charter,
– Corporate Governance Code,
– Directive no.1 The organization and operating rules of the Bank.

In order to improve the corporate governance system and to comply with the Law on Banking Activity, which was validated on 01.01.2018, at the Annual General Meeting of Shareholders of May 18th, 2018, being approved the following: Bank's Charter, the Regulation regarding General Meeting of Shareholders and the Regulation regarding Bank's Supervisory Board in new wording. The Bank's Supervisory Board approved in new wording the Code of Corporate Governance of the Bank and the Regulation on the Bank's Executive Body in July 2018. At the same time, the Law on Banking Activity established some derogations from the Law on Joint Stock Companies, according to which the Banks are not obliged to have the Commission of Censors, thereafter 30th of May 2018, the activity of the Bank's Commission of Censors in-service with the audit company ICS "Baker Tilly Klitou and Partners" SRL was interrupted.

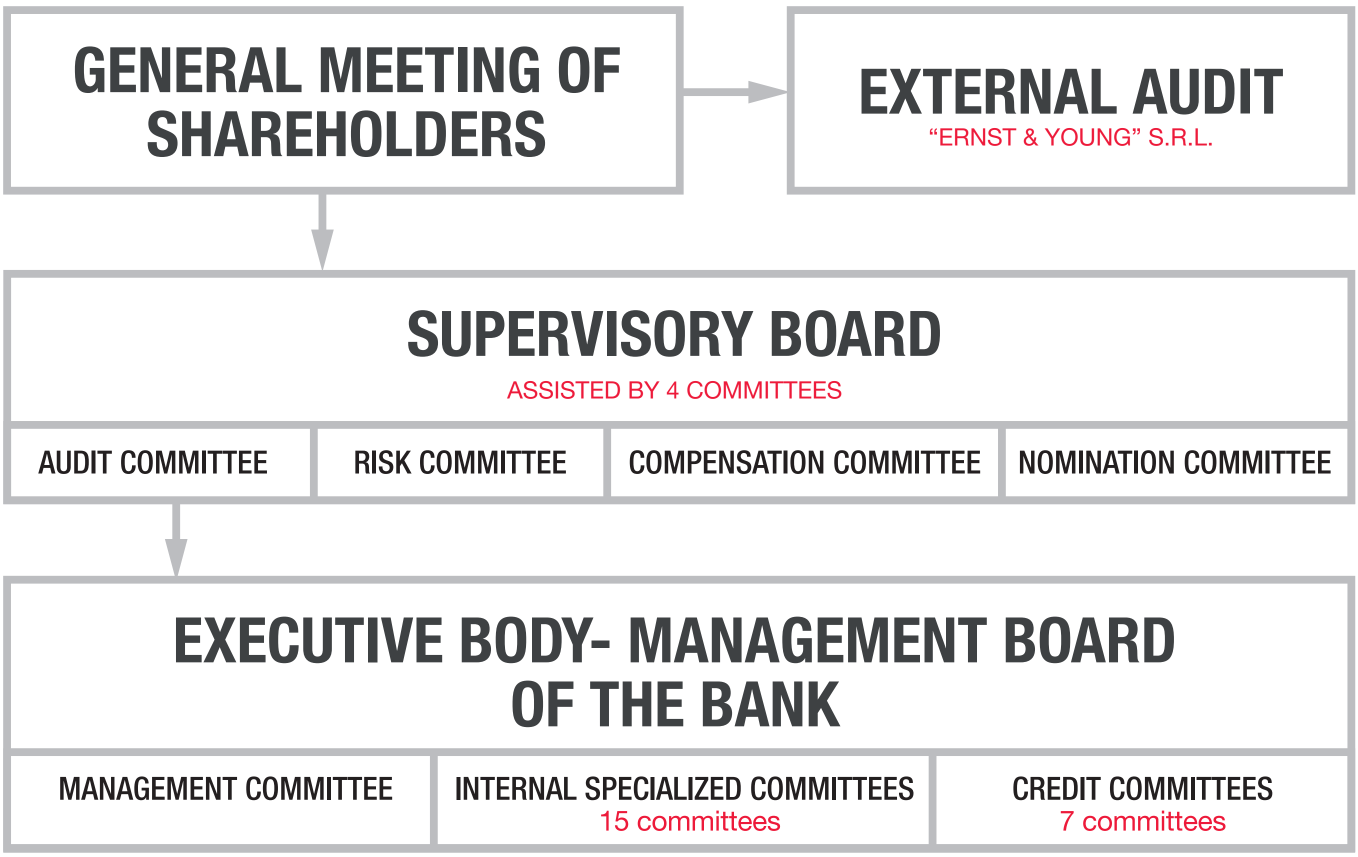
Mobiasbanca continued to review a large number of internal normative documents, in order to enhance the bank's efficiency and conformity with legal requirements in force and best international practices. Thus, during 2018, 80 internal normative documents were updated.

Bank's Code of Corporate Governance is published on the website https:// mobiasbanca.md/files/PJ/CGC2003.07.2018.pdf

COMPOSITION OF BANK'S SHAREHOLDERS AS OF 31ST OF DECEMBER 2018:

Total number of shareholders:	**170**
SOCIETE GENERALE, France	**67,85%**
BRD- Groupe Société Générale SA, Romania	**20,00%**
European Bank for Reconstruction and Development	**8,84%**
Minority shareholders (167)	**3,25%**
Treasury shares	**0.06%**

During 2018 only the minority shareholders list was modified, as follows: three individuals and one legal entity sold their shares, while three new individuals became shareholders.



THE STRUCTURE OF BANK'S SHAREHOLDERS

The management bodies of the Bank consists of:

- The General Meeting of Shareholders
- The Supervisory Board (the management and supervisory body)
- The Management Board (the collegial executive body)

THE GENERAL MEETING OF SHAREHOLDERS

On January 1st, 2019 CB „Mobiasbancă – Groupe Société Générale" S.A. had 170 shareholders.

On May 18th, 2018, the Annual General Meeting of Shareholders approved annual reports of the Supervisory Board and Executive Body, the profit distribution proposal, as well as the Bank's Charter in the new wording, and other issues related to its exclusive competence.

Since 2012, Mobiasbanca annually distributed part of the bank's profit for dividends payments; the rest being directed to bank's development. Taking in consideration, the results recorded by Mobiasbanca in the period of 2012-2017, the shareholders decided to pay dividends in the amount of MDL 13.4 per share, which resulted in a total of 134 million MDL or 50% of the net profit.

SUPERVISORY BOARD

The Supervisory Board is the governing body of the Bank, which fulfills the role of supervising and monitoring the management decision-taking process and is responsible for the Bank's overall activity and financial soundness. For this purpose, the Supervisory Board defines and supervises the implementation of the activity management framework that ensures effective and prudent bank management, including separation of responsibilities within the organization and prevention of conflicts of interest.

The Bank's Supervisory Board is responsible for ensuring good practices and good management of the institution, as well as regular financial reporting to the National Bank of Moldova. Under the supervision and direct responsibility of the Bank's Supervisory Board, there are Risk, Conformity and Audit functions.

The Supervisory Board consists of 5 members who are appointed and suspended by the General Meeting of Shareholders. The number of members of the Supervisory Board has been reduced from 7 to 5 members, according to the Bank's Charter in the new wording.

The members of the Supervisory Board have 4-year mandates. Due to the fact that one of the members of the Supervisory Board of the Bank resigned on his own initiative, the General Meeting of Shareholders of May 18th, 2018, in accordance with the requirements of the legislation in force, elected a new full composition of the Bank's Supervisory Board of 5 persons for a four-year term.

In 2018, the activity of the Supervisory Board was oriented, like in previous years, to the realization of the strategic objectives of the bank, and to the follow-up of the main activities directions.

In 2018 the Supervisory Board had 13 meetings: 2 plenaries and 11 meetings by correspondence, during which 123 issues were discussed.

The members of the Supervisory Board were re-evaluated at a collective level on the compliance with the criteria set out in Art. 43 of the Law on Banking Activity and was reconfirmed their collective adequacy in terms of knowledge, skills and experience.

MANAGEMENT BOARD

The Management Board is the collegial executive body of the Bank and performs the management function on all structural subdivisions, in the Bank's business fields and lines of business, except those which falls under the competence of the General Meeting of Shareholders and the Supervisory Board.

The Management Board performs the current bank management to achieve its strategic objectives, the risk management strategy, and bank's management framework.

In the performance of its functions, the Management Board acts in the interests of the Bank and its shareholders, including being responsible for the Supervisory Board for its financial performance, situations that may influence the bank's strategy and / or management framework, breaches of risk limits or compliance rules, weaknesses of the internal control system. Thus, the Management Board ensures the correct implementation of the Bank's management framework, the development and validation of internal normative documents subordinated to the regulations approved by the Bank's Supervisory Board.

The Management Board reports quarterly to the Supervisory Board on its activity, covering the following topics: major regulatory changes and changes in the banking system, bank's performances, major environmental trends, balance sheet evolution, loan portfolio evolution, resources evolution, income statement evolution etc. Currently, the Management Board is made up of 5 members. The members of the Management Board, except the President of the Management Board - CEO, were appointed by the Supervisory Board on 31.05.2018 for a three-year mandate.

The management of the Bank's Management Board is exercised by the President of the Management Board- CEO, Antoine Gabizon, who was appointed by the Supervisory Board in 2017 for a three-year term, from April 1st, 2017.

The Supervisory Board assesses annually the activity of the Management Board collectively and individually.

Respectively, the members of the Management Board correspond individually and collectively to the criteria set out in Art. 43 of the Law on Banking Activity and their adequacy in terms of knowledge, skills and experience was reconfirmed.

In 2018, the Management Board had 48 meetings, during which 223 issues were discussed.

THE COMMITTEES OPERATING WITHIN THE BANK

COMMITTEES REPORTING TO THE SUPERVISORY BOARD

There are four reporting committees responsible for providing the Supervisory Board with the necessary support in order to carry out its tasks:

- Risk Committee
- Audit Committee

• Compensation Committee
• Nomination Committee

The reporting committees are subordinated to the Supervisory Board, are independent from the Management Board and have a consultative function, making proposals and recommendations to the Supervisory Board in their responsible areas. The committees are formed exclusively from members of the Bank's Supervisory Board, where most of them must be independent according to the criteria established by the legislation in force.

RISK COMMITTEE

The Risk Committee advises the Supervisory Board regarding Bank's overall strategy and all types of risks' appetite, and assists the Supervisory Board in verifying the implementation of its strategy. The Committee also assists the Supervisory Board in examination of surveillance and monitoring systems for the measurement of banking and financial risks.

The Risk Committee, as part of its mission, performs a comprehensive risk assessment in the context of the Bank's situation (equity, results).

In 2018, Risk Committee met in two plenary sessions and in one by correspondence where the following issues were discussed:

1. Banking, economic and political environment

2. Credit portfolio analysis

3. Recovery of non-performing loans

4. CNR evolution- risk cost analysis (CNR) for the current year

5. Currency risks

6. Market and country risks

7. Projects involving RISKS

8. Focus areas, etc.

Following the presentations, the current and planned actions were analyzed, an action plan was approved regarding the adjustment of the methodology of calculating the net cost of the risk and the adjustment of the structural risk limit and the interest rate sensitivity limit according to the requirements of the group.

AUDIT COMMITTEE

The Audit Committee's mission is to monitor the areas of preparation and control of accounting and financial information, monitor the independence of statutory auditors, monitor the effectiveness of internal control, measurement, supervision and risk control systems in accounting and financial processes. If necessary, it provides recommendations and its advices to the Supervisory Board.

In 2018, the Audit Committee met in two plenary sessions and in one by correspondence. The presentations were divided into two compartments: the permanent control activity and the periodical control activity.

Within the Committee, the following issues were presented: managerial supervision, operational risks, managing business continuity and crisis management, fight against money laundering and terrorist financing, information system security, security mechanism for bank staff and equipment, business continuity plan, risk of non-compliance, legal risks, structural risks, etc.

As well, during the meetings, reports on the monitoring of the internal audit missions and implementation of the recommendations of the periodical control, with the presentation of the key indicators were presented.

COMPENSATION COMMITTEE

The mission of the Compensation Committee is to review annually the bank's compensation policy, and in particular: proposes the principles of the Bank's compensation policy, analyzes the compensation policy of different categories of staff, proposes decisions of the Bank's Supervisory Board on the benefits granted to members of the Supervisory Board/ Executive Body, as well as to different categories of employees.

In 2018, the Compensation Committee met in two plenary sessions and analyzed the personnel retention rate, as well as the compensation market review. Staff retention measures have been proposed by improving benefits and by involving managers.

NOMINATION COMMITTEE

The role of the Nomination Committee is identification and recommendation of future members of the Supervisory Board/ Executive Body, periodic review of the Policy on the appointment of persons who hold key functions.

In 2018, the Nomination Committee met in one plenary session where the Nomination Committee's responsibilities were presented, were examined and approved as members of the Management Board for a new mandate, was performed a presentation regarding Bank's key functions.

CONSULTATIVE COMMITTEES FOR THE MANAGEMENT BOARD

MANAGEMENT COMMITTEE

In order to ensure adequate execution of the established competences of the Management Board, the Management Committee of the Bank has been created, chaired by President of the Management Board -CEO, which meets at least one time in two weeks.

The members of the Management Committee participate in the meetings and have the responsibilities to help, consult and pay attention to all sensitive issues they know or which may appear in connection with the decisions to be taken by the Bank's Management Board.

In order to efficiently organize corporate governance and ensure a good level of protection against the risks to which the Bank is exposed, organizational committees have been set up as follows:

INTERNAL SPECIALIZED COMMITTEES

1. Periodic Control
2. Credit and Market Risks
3. Operational Risks and Compliance
4. Assets and Liability Management
5. Legal Affairs
6. Information Security Systems
7. Budget
8. New Products
9. Prices Management
10. Projects (Steering Committee)
11. Real Estate
12. Human Resources

13. Crisis Situation management

14. Non-Performing Loans Recovery

15. Information Security Coordination

CREDIT COMMITTEES

Under credit policy, Credit Committees provide for the examination, approval and growing of credits and other commitments within the limits of competencies approved by the Supervisory Board.

Based on established competencies there are:

1. Bank Credit Committee
2. Corporate Banking Credit Committee
3. Large Corporate Credit Committee
4. Retail Banking Credit Committee
5. Network Credit Committee
6. CLA Credit Committee
7. Private Banking Credit Committee

The Bank has a framework for credit risk management, which takes into account the risk appetite and risk profile of the Bank, as well as of the market and macroeconomic conditions. It also has credit policies and procedures for identifying, assessing, monitoring and controlling credit risks, including counterparty credit risks.

During 2018, the Bank was the subject to a complex control of the National Bank of Moldova for the period 28.02.2014 - 28.02.2018.

In its conclusion, the National Bank of Moldova found that the structure of the bank's governing bodies was adequate, the governing bodies being composed of a suitable number of members. The members of the bank's governing bodies have a sufficient level of commitment and independence. During the control, it was found that within the bank there is a functional system of evaluation of the members of the management bodies in their appointment as well as in the re-evaluations. The Bank has established appropriate internal governance practices and procedures for the management body and specialized committees.

5

COMMERCIAL ACTIVITY

COMMERCIAL ACTIVITY

COMMERCIAL OFFERS AND EVENTS

Loans for individuals

As in previous years, Mobiasbanca participated actively in the consumer loan and mortgage markets, organizing five promotional campaigns and launching several dedicated offers.

Mobiasbanca joined the government program “Prima Casa” granting mortgage loans under special preferential conditions (e.g., 10% down payment) to eligible first-time mortgage buyers.

Mobiasbanca launched a dedicated mortgage loans offer for “Moldova IT Park” employees with a significant share of IT professionals eligible for mortgages in foreign currency.

Strong market demand for all types of mortgages helped lift production volumes to record levels. By the end of 2018, Mobiasbanca’s mortgage loan portfolio was 32% bigger than the year before.

In consumer lending, the maximum amount for unsecured consumer loans was raised to 200 000 MDL; This move aims to support shifting client demand towards bigger consumer loans supporting purchases of cars, other durable items and refurbishment of living quarters. Mobiasbanca leads the market in terms of number of granted consumer loans thanks to its “fast & easy” granting process and technology: most consumer unsecured requests are approved within 24 hours. Mobiasbanca’s consumer loan outstanding grew by 23% in 2018.

Financing for the agricultural sector

Mobiasbanca supports the Moldovan agricultural sector by providing financing tailor-made to the needs of its clients engaged in farming and agribusiness. In 2018, Mobiasbanca extended its agribusiness offer by adding new financing offers, incl. partnership programs with agricultural machinery dealerships. Mobiasbanca offers highly competitive interest rates on loans and leasing, both from the bank’s own sources and from international financing programs incl. EU lending facilities with grant components. Mobiasbanca is one of few Moldovan banks offering clients a full spectrum of international financing programs at attractive conditions.

Comprehensive offer for SMEs

Mobiasbanca strives to offer entrepreneurs the solutions they need at competitive conditions.

In September 2018, Mobiasbanca launched a new campaign offer for entrepreneurs: "We believe in you, we believe in your business".

The campaign features interest rates discounts on the entire range of business loan products; Entrepreneurs are encouraged to pursue their investment projects with the support of Mobiabanca acting as a trusted partner in a dynamic business environment.

Additionally, entrepreneurs benefited from promotional conditions for daily banking products.

Cards for individuals

Mobiasbanca strives to implement modern technologies aiming to increase customers’ satisfaction.

In 2018, selected ATMs in Chisinau and in regions were equipped with a new feature:

Cash-in service. Cash-in service allows clients to avoid queues at the cash desk and replenish their debit or credit cards around the clock (24/7). Clients are able to deposit cash in MDL, in EUR and USD. The deposited amount converts automatically into the currency of the client's account. This way, Mobiasbanca takes another step towards more simple and higher customer satisfaction.

In order to make online shopping by card more secure than ever, Mobiasbanca launched "3D Secure" service with a dynamic password - free of charge for Mobiasbanca cardholders. This service represents the highest security standard for Internet transactions. It is available only on merchant websites supporting "3D Secure" technology. The process is simple and convenient: the cardholder should confirm each transaction by entering a unique password received via SMS or e-mail.

Events dedicated to entrepreneurs

In 2018, Mobiasbanca organized an event dedicated to the development of the health care sector. We invited the largest medical companies in Moldova in order to present the bank's offer, including loans from international lending facilities with grant components. Mobiasbanca strives to encourage health care entrepreneurs to implement new investment projects for the benefit and well-being of their customers and conducive to an improving quality of life in Moldova.

The second event for legal entities in 2018 brought together entrepreneurs and experts in a discussion forum about import-export opportunities in the agricultural sector. The event served as a platform for discussion, sharing of experience and consultancy from bank experts, answering questions about import-export transactions and catalyzing discussions on the subject. Participating entrepreneurs received information about how to obtain financing of a project in case of various impediments, such as: insufficient collateral, intelligent trade finance solutions and other topics of interest.

Network contribution to the business

In 2018 Mobiasbanca continued to optimize its network of retail branches, relocating or refurbishing several branches with the aim to improve geographical coverage and sustain a high level of service and comfort for its clients in accordance with their high expectations. The number of active clients served in the bank's retail network increased by 3.6%, reaching 166 664 active clients at the end of the year. At the end of 2018, Mobiasbanca retail network comprised 53 points of sales, consisting of 51 retail branches, 1 corporate branch and 1 branch dedicated to private banking.

Network development actions realized during 2018:

• Relocation of branch no. 48 "Rezina" to a temporary site pending transfer to new, spacious and comfortable premises on 27th of August street;

• Merger of branch no. 34 "Calea Basarabiei" and Agency 34/1 "Efes" in Chisinau to a new unified premises, larger and refurbished, offering enhanced comfort and reachability. The new premises are centrally located on Uzinelor Street with good access by car and public transportation.

• Installation of six ATMs in new locations in Chisinau, Ungheni and Orhei.

At the same time, the clients' access to the bank's physical network was facilitated; the bank extended the reach of its ATM network, thus reaching 143 units at the end of the year. Mobiasbanca ATM network represents a share of 12,7% from total market of the country.

Throughout the year, Mobiasbanca participated in different events with a view to promote the bank's commercial offers to different market segments:

– Special events, promoting mortgage offers, for clients celebrating the first anniversary of Mobiasbanca Mortgage Center in April and Imobil Moldova Exhibition, which took place in March.

– Exhibition "Moldagrotech", focusing on farming technology and equipment, held in March and October.

– Conferences on financing of the horticultural projects in Ialoveni, Straseni, Orhei, Rezina, Edinet cities, organized by "Livada Moldovei" program, held in November and December.

Participation in these events and trade fairs enables Mobiasbanca to present and promote its commercial offers dedicated to each sector, meeting and consulting existing and potential clients related to the most advantageous financial solutions.

Moreover, Mobiasbanca organized several events in branches or in nearby neighborhoods, promoting its products and services to its clients and the local community:

– "Calea Basarabiei" branch celebrated its relocation;

– on the occasion of the 5th anniversary of the branch since opening, "Tudor Vladimirescu" branch, from Chisinau, invited its clients to the "Business Day" event;

– in Balti, Ungheni, Soroca, Drochia, Mobiasbanca joined local community to mark "City Day";

– employees from different institutions have benefited from dedicated presentations of commercial offers adapted to their field of activity, such as health (hospitals, clinics).

Local events are a good opportunity to meet our clients or prospective clients in an informal setting, reinforcing branches' cooperation relationships with the communities in which they operate.

The bank continued to promote the services offered by Mortgage Center through real estate transaction consultations, granting mortgage loans and offering auxiliary services, including property evaluation, documentary support, notary verification, insurance, registering property at Cadaster. The mortgage granting process at Mobiasbanca is fast and certified by standard ISO 9001:2015. Mortgage Center attracts new partnerships from real estate developers and trusted agencies, doubling its mortgage production in its 2nd year of operation.

Mobiasbanca continued to optimize processes linked to key products and services with the aim to enhance front office efficiency, accelerated credit application processing and facilitating easy access and usage of retail banking services. Further to this longstanding objective, several additional processes were optimized including mortgage loans, loans for legal entities and cash desk operations. Mobiasbanca reinforced its leading position in fast and hassle-free consumer unsecured lending with its new powerful scoring and workflow processing application.

Special attention has been paid to sales force training programs, strengthened and enhanced with differentiated training modules for each front office position.

LARGE CORPORATE ACTIVITY

The bank's relationship with Large Corporate clients continued performing in all concerned business lines activities. Mobiasbanca consolidated its reference bank position for the most important domestic and multinational companies present in our country, which once again confirms the confidence of our customers. The principles underlying the sustainable development of this business segment refer to long-term approach in relation with our clients and proactivity in supporting their business initiatives.

Our priorities over the past year were linked to strengthening the partnership relations with the largest companies in Moldova, cooperating with successful companies and providing the financial support for their business development. In 2018, the bank has participated in financing and successful implementation of several projects in key-sectors of the national economy: agri-business, telecommunications, public services, transports, retail trade and infrastructure development.

Commercial indicators registered a positive trend, while the quality of bank's placements remained at a high level, confirming the prudency and correctness of the decisions concerning the lending activity. At the same time, our concern remains the continuous modernization of products and services range dedicated for Large Corporate customers, i.e. innovative financing technologies and cash-management products coupled with the latest trends in international banking.

Part of the Corporate Banking Division, the Corporate and Local Public Authorities Department is the unit of the bank in charge of managing relations with medium-sized companies as well as with LPAs. The managed clients' portfolio is covering a diversified segment in terms of sectoral concentration and a wide range of activities such as agriculture, commerce, services, transport and textile industry.

The primary objective of the team in 2018 was to take a personalized approach and to identify appropriate solutions for each individual client to strengthen long-term partnerships. Thus, it has been confirmed that the range of products and banking services for customers in the managed segment are easily adaptable to the requirements of each customer. At the same time, taking into account the fast digitalization of the business environment, an increased attention is dedicated to the development of electronic products and remote banking tools, which allows the bank services to adapt to the clients' daily needs.

During the 2018 year, a number of ambitious projects were implemented, so most of the clients implemented their own ideas, thanks to the financial support, including the international financial resources, as well as thanks to the professionalism of the bank's team, which appropriately structured the financing. As a result, both sides have benefited from the realization of the projects. Thanks to these consolidated efforts, 2018 marked a net credit portfolio growth of 14% in this customers segment.

GLOBAL TRANSACTIONS

Monetary Market

During 2018, FOREX market of Republic Moldova marked stabilization, without major volatilities. In this market conjuncture, Mobiasbanca succeeded to develop FX trading, which determined a volume growth of 19.8% in 2018 vs 2016. It generated an NBI of 126,5 M MDL.

Relationship with International Financial Institutions

2018 was a very intense and productive year for Mobiasbanca in its relationship with International Financial Institutions (IFIs), which continued to remain solid due to a good cooperation and active promotion of joint financing projects in progress.

In 2018, the bank focused on landing from resources of the EU4business EBRD Credit Line program, generating positive results, in particularly, a significant increase of the loan portfolio due to fully assimilated credit line in amount of 10 Mil. EUR. These results were possible due to the launching of the financial leasing operations, Mobiasbanca being the only financial institution in the country offering financial leasing with a Grant component.

Likewise, in 2018, Mobiasbanca continued actively to promote funding programs among young entrepreneurs, especially those developing business in rural area, facilitating their access to funding under special conditions with Grant component, which was possible thanks to the funds raised from the external loans granted by the International Fund for Agricultural Development accessed through the Government of R. Moldova. Moreover, the best young entrepreneurs being customers of Mobiasbanca, have been awarded for outstanding results and interesting funded projects.

In 2018, numerous positive progress have been registered because of the fruitful collaboration with the Credit Line Directorate, IFAD Implementation Unit (dedicated to agro-industrial companies), EIB (Fruit Garden of Moldova) where the final beneficiaries financed from international funds benefited from various advantages as tax and duty exemptions and free technical assistance.

Cash Management Section

In 2018 Mobiasbanca obtained the capacity to provide the global and local solutions for companies' efficient liquidity management, correlated with Société Générale Group and the international high standards, by integration of Mobiasbanca in the Cash Management business line organized within Societe Generale Group. As part of a large international banking group, Mobiasbanca can provide with international Cash Management solutions based on the contracts signed both with Société Générale and with other major banks worldwide.

Starting from the premise that in an ever-changing competitive environment, reliable and efficient cash management is a major factor in the success of the companies' commercial transactions, in 2018 Mobiasbanca continued to strengthen the Cash Management services. An event of particular importance in 2018 was the launching in pilot of a new remote banking system for legal entities, Internet-Payments type, which is a qualitatively new system, with a high degree of security and comfort and with a wide range of remote services offered for managing the Company's liquidity. Thanks to these actions, it was possible to evaluate and consider once more the expectations and needs of our Clients over the services that will be offered at a distance.

Leasing activity

Mobiasbanca engaged a continuous growth of its leasing commercial activity. The total amount of financed and leased assets for previous year is above 6.7 Mio EUR, from which at least 45% is for equipment. Additionally, the net banking income for leasing operations has doubled compared to 2017.

During last year, the Bank registered high requests and offered good solutions for both retail and corporate segments. Among financing products promoted were leasing forms international vendors, Health Care program, InnovFin guarantee facility, Fruit Garden Program.

Likewise, the Bank registered a good performance within Partnership programs (Credit Partener and Leasing Partener), becoming a reference partner for the Vendors involved in cooperation relations. In 2018 Mobiasbanca made a good entry on the agricultural market, being financed from partnership programs assets in total amount above 2.1 Mio EUR (within both credit and leasing financing).

In the second half of 2018, the Bank launched a new product that presented a particularly good rate of implementation: leasing from EU4business EBRD Credit Line program. For the first time was launched on the local market a leasing product with grant facility. Our clients had the opportunity to implement their projects by way of this program in various areas: medical, transportation, industrial, services and others.

Correspondent banks

Being a safe and reliable partner, Mobiasbanca offers a wide range of products and services specific to international trade, both settlements and securing of international transactions. The presence of a broad network of correspondent banks of its Group support the servicing of the Bank's business operations. Via its accounts held in 10 foreign banks and through an extensive network of RMA (SWIFT keys), Mobiasbanca is able to process international payments in over 80 currencies, allowing customers to trade globally. The good cooperation with the corresponding foreign banks allows to make changes, to cancel and refund payments, and to carry out the necessary investigations, fast and with minimal costs. The products and services offered bring significant benefits by simplifying the entire process of foreign exchange transactions.

Correspondent network is constantly developed with first-class foreign banks. Given the backdrop of stricter regulations, each existing or potential correspondent bank is subject to an appropriate due diligence, in the area of anti-money laundering and terrorism financing in line with national and international requirements and best-practices, in order to ensure that Mobiasbanca is comfortable undertaking business with the bank concerned.

Trade Finance

In 2018, Mobiasbanca's goal was to further support the development of Moldovan companies by offering high quality Trade Finance products (bank guarantees, letters of credit, documentary collections, etc.) in international commercial transactions.

Trade Finance activity has grown steadily, being a benchmark for both the corporate segment and the SME segment, but also for international financial institutions. The Bank maintained its market share of around 35% depending on the number of international transactions performed and for the third consecutive year was named "The Most Active Issuing Bank in Moldova in 2018" by the Trade Facilitation Program (TFP) EBRD (London).

The above-mentioned results are due to the continuity of the policy of streamlining and simplifying the processes and the continuous control of the quality of the services provided to the clients.

AFFLUENT SEGMENT EVOLUTION

2018 was another successful year in private banking and affluent client segments, with growing product sales, transactions and deposit balances. High quality advice and personalized service rendered by well-trained personal bankers remain a distinct competitive advantage for Mobiasbanca in the premium client segment. The bank has developed specific expertise to support major international transactions with attention to compliance checking and legal validation.

High net worth clients investing on foreign markets esteem specialized services of this nature, not common on the local market. A dedicated organization featuring specially trained advisors for affluent clients served in the Mobiasbanca branch network has resulted in new clients from this segment being attracted to Mobiasbanca. Existing clients are being equipped with additional products and packages, generating additional transactions for the bank.

MULTICHANNEL SERVICE

MultiCanal is the Bank's subdivision with which customers interact remotely, benefiting from the necessary information support for banking products and services by phone or e-mail. Remote communication channels facilitate product contracting, sending cards abroad at customer request, and other services.

Thus, customers can contract cards, eMobias.md, MobiasSMS and eFactura services by simply calling the Contactell service, available 24 hours, 7 days a week.

MultiCanal activity in 2018 was characterized by a focus on sales team support, increasing the number of telemarketing campaigns and distance sales.

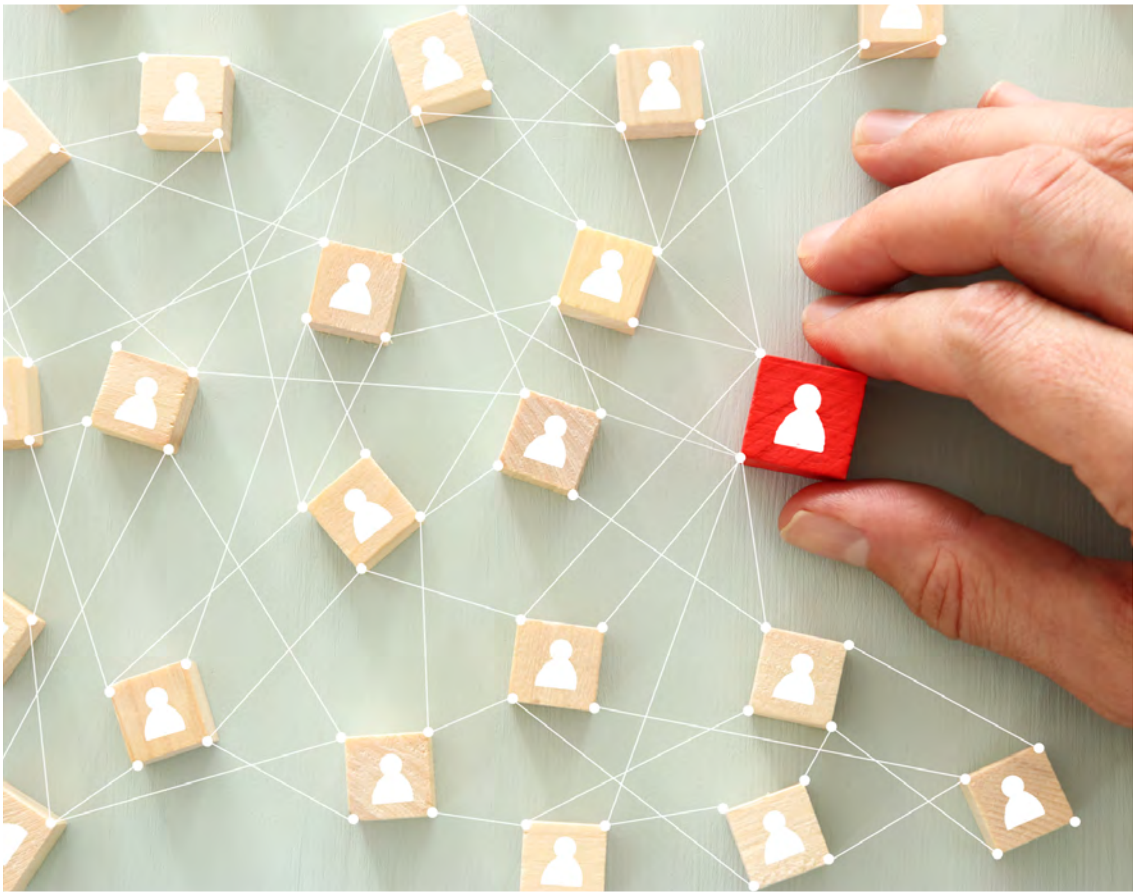
In 2018, 900,000 SMS were sent to customers in different promotional campaigns and account / product status information.

Overall, through alternative communication channels, by phone or eMobias, remote sales of the products have tripled.

With the launch of the Business Internet Banking Service, the activity of the Legal Supports Division started.

6

HUMAN RESOURCES



HUMAN RESOURCES

In 2018, the Human Resources Department continued to deliver projects and actions in line with the strategic HR axes: career management, people development, competitive benefits and reward, employee engagement and satisfaction.

Career Management

Internal mobility plays a vital role for Mobiasbanca to motivate qualified and talented

employees, capitalizing their expertise and experience within the organization. Throughout last year, career interviews between HR and the employees continued, in order to assess the potential of each employee and to ensure that they are occupying the right position according to their experience and skills. Mobiasbanca is committed to filling vacant positions with suitable internal candidates whenever possible. In accordance with its Recruitment Policy, all open positions are advertised to internal staff. The bank also seeks to promote cross-department moves to enable employees to expand their skills and experience in order to have more well-rounded careers. In 2018, 139 employees changed their position as a result of the Bank's internal mobility policy. Changes of functions were accompanied by specific training paths, which contain various learning methods.

People development

Our training objectives were focused on three main axes in 2018:

• **Business** - continuing to strengthen customer focus by enhancing front office employees' skills, both soft & technical;

• **Compliance** - continuing to strengthen the risk and compliance culture conducting behaviors on the Culture and Conduct Code;

• **Management** - continuing to develop our management culture, especially by incorporating the Leadership Model into our practices.

The wide range of training programs covered employees from all business segments and support functions areas through various methods for learning and development: technical trainings, transversal initiatives for competencies development, workshops, conferences, the use of e-learning tools and other resources for documentation available on the intranet.

Starting training programs for the new employees, which aim is to introduce and orient newcomers into the organization and to acknowledge them with our value based culture, to foster a positive experience and to provide new employees with an overview of their training plan and career path;

Internal Business School such as Universal Tellers, CLIPRI and CLIPRO advisers, which incorporate customer care, product knowledge, client oriented sales, financial analysis - theory and workshops behavioral curricula;

Management Training Programs, in accordance with group values, based on a set of competencies developed by internal and external trainers;

Behavioral Training Programs - customer care, communication, sales & negotiation techniques;

Risk Awareness Culture Programs: during the reporting year a new Culture and Conduct Programme was organized. The main concept of the program was to raise employees' awareness of integrity and to motivate them to continue to act honestly and fairly according to Group standards.

Competitive Benefits and Reward

Along with competitive remuneration, we also offered to our employees many attractive company benefits. In 2018 we enlarged our list by introducing two new benefits - meal tickets and dedicated budget for team building activities for each bank unit. These benefits were welcomed and used by all bank employees.

Employee Engagement and Satisfaction

In 2018, the Bank focused on implementing the action plans in order to increase employees' engagement and satisfaction. There were new initiatives, while other existing events were extended: employee's opinion survey, focus on feedback and its increased frequency, regular top management visits of the bank's units, peer-to-peer feedback sessions within middle managers, wellbeing program designed to support both healthy lifestyle and parenting.

7

RISK MANAGEMENT AND COMPLIANCE

RISK MANAGEMENT AND COMPLIANCE

RISK MANAGEMENT

It is both our role and our responsibility to serve our customers by properly managing risks. The Bank relies on a robust and efficient risk management unit that works across all our businesses and the markets, and also on a strong risk culture shared by all employees.

In 2018 the Bank achieved good results in many areas, such as:

• Maintaining good quality of the loan portfolio, in line with established risk appetite.

• Continuous improvement of the credit and market risk monitoring tools, digitalization of the processes.

• Appropriate reporting regarding all the main aspects of risk management delivered to the Risk Committee and the Supervisory Board.

• Performing of an increased number of trainings for Bank's employees enhancing their Risk Culture.

It also implemented of NBM requirements for Basel III and IFRS 9:

• Compliance of Risk Function and Risk Administration to Basel III requirements.

• Better roles and activities distribution in risk management through upgrading of several internal documents, including risk administration and concentration risk.

• Development of Risk Appetite Framework and Risk Appetite Statement.

• Improvement of IFRS 9 methodologies in provisioning.

CONFORMITY

Mobiasbanca continues to focus on a strong compliance culture. To ensure that compliance is integrated at all levels of activity, we continue to implement best practices and the highest international standards of transparency, conduct, security and integrity to ensure effective corporate governance. The compliance function is responsible for identifying, evaluating, managing and monitoring numerous types of risks, including notably compliance risk, reputational risk, money laundering risk, risk of breach of embargo and sanctions regulations, and proposes measures to limit Bank's exposure to these risks. The compliance function ensures that the internal control system works efficiently in all of these areas.

In order to manage properly the risks outlined above, and to ensure that the Bank's activity complies with best international practices, the requirements of national legislation and the requirements of Societe Generale Group, Mobiasbanca set up a well-defined and structured internal regulatory framework for the timely identification and prevention of potential deficiencies, situations that may generate conflicts of interest or ambiguities during the Bank's activity.

Mobiasbanca is in the process of continuous development and improvement, and we can highlight some of the 2018 achievements in these areas:

- Mobiasbanca has successfully passed the National Bank complex audit and external audit on Money Laundering / Terrorist Financing and Know Your Client;

- We have continued to improve our on-boarding process and customer relationship management processes as part of the e-Transofrmation project;

- In order to comply with the amendments made within the legislation framework by the Service for the Prevention and Combating of Money Laundering and Terrorist Financing and the National Bank of Moldova, Mobiasbanca performed the necessary changes in its internal normative documents and processes;

- Mobiasbanca has implemented a series of project in Compliance aiming to increase efficiency;

- There have been a number of large-scale trainings, involving 100% of employees, related to Compliance, and Code of Conduct.

A specific attention had given to the Code of Conduct in 2018, aiming to promote certain values within the bank such as integrity, confidentiality, transparency and diligence in order to improve the quality of the services offered and to protect the bank's reputation.

The development of internal regulations on ethics and bank employees' professional conduct, and on-going employee training programs in the field of compliance, contribute to increasing the level of corporate culture and increasing the quality of customer service.

8

COMMITTED TO QUALITY

COMMITTED TO QUALITY

QUALITY COMMITMENT

BC "Mobiasbanca - Groupe Société Générale" S.A. is the only bank and the first company in the Republic of Moldova certified according to the new standard ISO 9001: 2015, the standard which provides the necessary mechanisms for the ongoing development and improvement of its activity, contributing to client satisfaction with services and products offered.

ISO 9001: 2015 is evidence and an assessment of the quality of management, best practices in the organization, the company focus on quality - improving product performance and customer service. The ISO certification perimeter includes the following financial services: international transfers through payment orders, bank guarantees, documentary credentials, incaso and real estate loans.

In a difficult economic environment, this certification confirms the bank's transparency and compliance with regulatory, compliance and regulatory requirements in the field, and provides the bank's customers and partners with confidence.

Starting from the Bank's main goal of enhancing customer satisfaction by continually improving its products and services, a number of actions have been taken throughout 2018:

Internal and external audit in order to supervise compliance with the requirements of ISO 9001: 2015 Quality Management System (CMS);

– Regular review of the internal regulatory framework to support the efficient functioning of processes;

– Performance Indicators (KPI) monitoring and evaluation campaigns to continuously improve processes within the SMC perimeter;

– Evaluating customer satisfaction through various tools and sources of information;

– Generic Campaigns (Excellence Award, Quality Week, etc.) in order to promote and implement the "quality" concept at any level of banking activity;

– Dedicated training.

The assumed role of partner in supporting clients with fidelity is achieved through individual and collective awareness of Mobiasbanca values: team spirit, innovation, responsibility and commitment. They support the bank's actions in strengthening the culture of quality and are based on a deep sense of involvement, both personal and collective.

9

CORPORATE SOCIAL RESPONSIBILITY

CORPORATE SOCIAL RESPONSIBILITY

BC "Mobiasbanca - Groupe Société Générale" S.A. applies the principles of corporate social responsibility both in its business and in business relations, by reasonable practicing of the banker's profession. We are a socially responsible bank, actively involved in the development of the community in which we operate, supporting multiple social projects dedicated to culture and the arts, education and sport.

In 2018, our main concern was to build a strategy to empower the bank's employees in volunteer and charity activities, to continue supporting health, people in difficulty and to promote sport and healthy lifestyle.

In 2018, we continued to support the arts and culture institutions of national importance.

Collaboration with youth organizations has focused on supporting pupils and students in developing the skills they need for their professional future in information and entrepreneurship technologies.

Together with AVI Moldova, we have developed a financial education project for acquainting young people with online payment technologies.

Art and culture

We aim to support projects that provide wider access for public to culture, and the bank can bring the arts closer to people. We are honored to be the partner of the National Art Museum and to provide the general public with unique emotions within "Museum Night" and the International Biennale of Painting events. We value artistic talents by exposing the artworks of native artists in the bank's premises and supporting painting exhibitions.

As artists do, we put a lot of passion in our work. We support excellence in musical art together with the National Philharmonic "Serghei Lunchevici" and promote the young talents through the International Canto Academic Contest "Alexei Stârcea". At the same time, we promote the French language at the annual National French Song Festival "Chantons, amis".

Education and Innovation

We encourage young entrepreneurs to join the Dreamups Community - a startup accelerator and facilitator, to learn how to develop their own business, to get inspiration from innovative ideas and to find a reliable team in entrepreneurship.

The future belongs to both - technologies and young people. We believe in alternative education for children and young people through the technologies of the future and support the Youth4Innovation Association in their activity.

We believe that professional orientation should be done on the school's desks. That is why, annually, students from the Moldovan and foreign educational institutions benefit from internships at Mobiasbanca. Multiple visits are organized for pupils and students throughout the year in order to contribute to the financial education of the new generation.

Through the "No cash is cool" project, implemented with AVI Moldova, we contributed to the education of young people and the familiarization of about 1,000 students about modern online payment systems and the usage of bank cards.

Sports

We like all sports that give people confidence and livelihood, including oval balloon sport. For more than a decade, since 2008, we are the general partner of the National Rugby Federation in Moldova and the initiators of the Republicans' Speranta Rugby Cup - Mobiasbanca Children's Tournament.

As in chess, the banking sector also needs analysis and predictability. We promote chess play among children through the annual event - the Mobiasbanca Chess Cup. We also support the passion for chess of blind and visually impaired people in the Republican Chess Championship, organized by the Association of the Blind of Moldova.

We support the Special Olympics Association in Moldova in its efforts to integrate children with intellectual disabilities through sport and the participation of young athletes in various sports competitions in the country and abroad.

Charity

In 2018, again, the bank's volunteers were among the main supporters of the cause promoted by Hospice of Hope Moldova - raising funds for children and adults suffering from incurable diseases by actively participating in the cycling tournament or football tournament.

When we are thinking in the same way, we are stronger. When we decide to reach a goal, no one stops us. Our growing team, participating in the 4th edition of the 2018 Chisinau International Marathon, proves every year that the team spirit is invincible at Mobiasbanca!

Children need the care of adults. To grow with the confidence that everything will be good in their lives. We bring a joy to the children from Bălți by renovating the playroom and two salons from the Balti Municipal Clinic Hospital, the Pediatrics section, and by supporting the boarding school for the poorly-sighted children.

To give - is to receive. The giving – brings feeling of joy. On the eve of winter holidays, we give a little bit of our heart to the Winter Charity Bazaar, organized by the International Women's Club.

Together with our clients, we installed an advanced ventilation system and new windows and doors in the Reanimation and Intensive Care Unit of the “Emilian Cotaga” clinic, the only unit in the country that treats every year about 120 children with the most serious burns.

Music, gifts and surprises waited for the children from boarding schools at a special event - "Santa with the red bag ", within the National Philharmonic "Serghei Lunchevici", which became the land of Santa Claus because Mobiasbanca . About 500 children filled the hall with smiles and joy following the evolution of the loved artists on the stage and the appearance of Santa Claus with fantastic characters from fairytales.

BC "Mobiasbancă - Groupe Societe Generale" S.A.

Financial Statements
31 December 2018

Prepared in accordance with International Financial Reporting Standards

Contents

Building a better
working world

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of BC Mobiasbanca - Groupe Societe Generale S.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of BC Mobiasbanca - Groupe Societe Generale S.A. (the Bank), which comprise the statement of financial position as at December 31, 2018, the statement of comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at December 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

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

Key audit matters

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

For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the "Auditor's responsibilities for the audit of the financial statements" section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matters

Impairment of loans and advances to customers

Loans and advances to customers represent a significant part (47.2% of total assets of the Bank, being in net value of 5,190,037 thousand MDL) from the total assets of the Bank as at 31 December 2018. As a result of the adoption of IFRS 9 "Financial instruments" effective 1 January 2018 the Bank has implemented a new impairment model based on expected credit loss (ECL) estimation. Management's assessment of expected credit loss for loans and advances to customers is a complex process and involves increased degree of management judgement and use of estimates. Such an assessment is inherently uncertain, involving forecasting of future macroeconomic conditions in a number of scenarios as well as assessment of the credit standing of the exposures by employing models based on a series of historical data and assumptions, valuation of collaterals and timing of recovery of collateral.

Further these models require the significant judgment of management regarding appropriate segmentation, the identification of significant changes in credit risk, the inclusion of forward-looking elements as well as the application of management overlay to reflect on circumstances beyond the modelling capabilities.

Notes 2.4.1.1 and 2.5.8 to the financial statements present more information on the estimation of impairment allowance for loans and advances to customers.

Given the complexity of the requirements of IFRS 9, judgment used in estimating the individual and collective impairment allowance and significance of loans and advances to customers this is considered to be a key audit matter.

How our audit addressed the key audit matter

Our audit procedures included, among others, the assessment of the Bank's methodology regarding the identification of impairment indicators and the evaluation of the management's process for the calculation of the expected credit losses, including governance over the determination of key judgements. This included probability weighted macroeconomic scenarios, staging criteria and the credit risk parameters models. We assessed the design and evaluated the operating effectiveness of internal controls over the monitoring of loans and advances to customers and over impairment calculations including the quality of underlying data and relevant systems.

For expected credit losses for loans calculated on an individual basis (stage 3), our evaluation was focused on the loans with the most significant potential impact on the consolidated and separate financial statements and considered the key assumptions underlying the impairment identification and quantification such as estimated future cash flows, including realizable value of collaterals and estimates of recovery on default by comparing with our own understanding and available market information. Our internal valuation specialists were involved, as appropriate, to assist us in performing our audit procedures.

For expected credit losses for loans for which the credit risk has not increased significantly since initial recognition (stage 1) and for loans for which the credit risk has increased significantly since initial recognition (stage 2) we tested key models developed by management with the assistance of our internal credit risk specialists.

We further assessed the adequacy of the Bank's disclosures in the consolidated and separate financial statements regarding exposure to credit risk.

Key audit matter

Information Technology (IT) systems relevant for financial reporting

A significant part of the Bank's operations and financial reporting process is reliant on IT systems involving automated processes and controls over the capture, storage and processing of information. An important component of this internal control system involves existence of and adherence to appropriate user access and change management processes and controls. These controls are particularly important because they ensure that the access and changes to IT systems and data are made by authorized persons in an appropriate manner.

The IT environment of the Bank is complex with a significant number of interconnected systems and databases. Due to the high automation of the processes relevant for financial reporting and to the complexity of the IT environment of the Bank, a high proportion of the overall audit procedures was concentrated in this area. We therefore consider that this area represent a key audit matter.

How our audit addressed the key audit matter

We focused our audit procedures on those IT systems and controls that are significant for the financial reporting process. As the audit procedures over the IT systems require specific expertise, we involved our IT specialists in assisting us with performing the audit procedures. Our audit procedures included, among others, the following procedures:

- Understanding and assessing the overall IT control environment and the controls in place, including the ones over access to systems and data, as well as IT system changes. We tailored our audit approach based on the financial significance of the system and the existence of automated procedures supported by the respective system.

- We tested the operating effectiveness of controls over granting access rights to determine if only appropriate users had the ability to create, modify or delete user accounts for the relevant applications.
- We also tested the operating effectiveness of controls around the development and changes of applications to determine whether these are appropriately authorized, tested and implemented.
- Additionally, we assessed and tested the design and operating effectiveness of the application and IT-dependent controls in the processes relevant to our audit.

Other information

Other information consists of the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our audit opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

On behalf of

ICS Ernst & Young SRL

License Series A MMII
No. 051506 dated 16.05.2006

Lilia Colin
Licensed Auditor
Series AG, Nr. 0036 dated 15.01.2016 issued
by the Ministry of Finance of Moldova

Chisinau, Republic of Moldova
30 April 2018

Series AIF 0029 dated 15.11.2018 issued by
the National Bank of Moldova

Statement of Comprehensive Income for the year ended 31 December 2018

	Note	2018	2017
(in thousands MDL)			
Interest income	3	623,291	622,917
Interest expense	3	(180,788)	(181,208)
Net interest income		**442,503**	**441,709**
Fee and commission income	4	169,602	162,692
Fee and commission expense	4	(63,863)	(63,935)
Net fee and commission income		**105,739**	**98,757**
Net trading income	5	126,566	126,451
Credit loss expense on financial assets	6	(16,350)	(43,908)
Other operating income	7	13,859	558
Net operating income		**672,317**	**667,475**
Personnel expenses	8	(172,146)	(142,950)
Depreciation of property and equipment	17	(25,110)	(27,113)
Amortization of intangible assets	18	(18,558)	(11,390)
Other operating expenses	9	(126,969)	(128,914)
Profit before tax		**329,534**	**313,200**
Income tax expense	10	(33,869)	(35,521)
Profit for the year		**295,665**	**277,679**
Basic earnings per share (in MDL)	11	**29,58**	**27,78**

The accounting policies and Notes on pages 6 to 128 form part of, and should be read in conjunction with, these financial statements.

Antoine Gabizon
President of the Management Board / CEO
CB "Mobiasbanca – Groupe Societe Generale" S.A.

30 April 2019

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ERNST & YOUNG
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Date.....30/04/2019.....

Statement of Financial Position as at 31 December 2018

	Note	31 December 2018	31 December 2017
(in thousands MDL)			
Assets			
Cash and balances with Central Bank	12	2,849,558	2,341,539
Due from banks	13	1,675,171	1,771,186
Derivative financial instruments		(218)	210
Financial assets at fair value through profit or loss	16	2,199	-
Financial investments – loans and receivable	15	-	1,143,937
Financial investments - available for sale	16	-	1,031
Loans and advances to customers	14	5,190,037	4,641,003
Debt instruments at amortized cost	15	1,050,553	-
Other assets	19	40,069	31,404
Property and equipment	17	142,447	146,921
Deferred tax assets	10	4,151	1,734
Intangible assets	18	31,112	35,669
Total assets		**10,985,079**	**10,114,634**
Liabilities			
Due to Central Bank		-	21
Due to banks	20	1,376	3,454
Derivative financial instruments		(777)	120
Due to customers	21	8,276,951	7,487,646
Borrowed funds from IFIs	22	916,995	959,911
Other liabilities	23	109,272	101,885
Provisions	24	43,389	42,184
Total liabilities		**9,347,206**	**8,595,221**
Equity			
Issued capital	25	100,000	100,000
Treasury shares	25	(56)	(56)
Share premium		151,410	151,410
General reserve		10,674	10,674
Prudential reserve		162,923	174,640
Retained earnings		1,212,922	1,082,745
Total equity		**1,637,873**	**1,519,413**
Total liabilities and equity		**10,985,079**	**10,114,634**

The accounting policies and Notes on pages 6 to 128 form part of, and should be read in conjunction with, these financial statements.

Antoine Gabizon
President of the Management Board – CEO
CB "Mobiasbanca – Groupe Societe Generale" S.A.

30 April 2019

REPUBLICA MOLDOVA, mun. CHIŞINĂU
BANCA COMERCIALĂ
MOBIASBANCA
MOBIASBANCA-Groupe Société Générale" S.A.

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Statement of Changes in Equity for the year ended 31 December 2018

(in thousands MDL)	Issued capital	Treasury shares	Share premium	General reserve	Prudential reserve	Reserves	Retained earnings	Total
At 1 January 2017	**100,000**	**(56)**	**151,410**	**10,674**	**133,268**	**8,114**	**1,001,533**	**1,404,943**
Profit	-	-	-	-	-	-	277,679	**277,679**
Prudential reserves	-	-	-	-	41,372	(8,114)	(33,258)	-
Dividends	-	-	-	-	-	-	(163,209)	**(163,209)**
At 31 December 2017	**100,000**	**(56)**	**151,410**	**10,674**	**174,640**	-	**1,082,745**	**1,519,413**
Impact of adopting IFRS 9	-	-	-	-	(11,717)	-	(31,563)	**(43,280)**
Restated Opening Balance	**100,000**	**(56)**	**151,410**	**10,674**	**162,923**	-	**1,051,182**	**1,476,133**
Profit	-	-	-	-	-	-	295,665	**295,665**
Dividends	-	-	-	-	-	-	(133,925)	**(133,925)**
At 31 December 2018	**100,000**	**(56)**	**151,410**	**10,674**	**162,923**	-	**1,212,922**	**1,637,873**

General reserve represents a statutory non-distributable reserve that according to the legislation consists of 10% of the share capital.

Prudential reserve represent general reserves for covering the bank risks related to the differences between the asset impairment losses and provisions for contingent liabilities, according to the IFRS, and the amount calculated but unformed of allowances for losses on contingent assets and liabilities, according to the prudential regulations. This reserve is created since 2012 according to the chart of accounts approved by the National Bank of Moldova and may not be distributable.

The accompanying notes on pages 6 to 128 form an integral part of the financial statements.

Statement of Cash Flows for the year ended 31 December 2018

	Note	2018	2017
(in thousands MDL)			
Cash flows from operating activities			
Profit before tax		329,534	313,200
Adjustments for:			
Depreciation and amortization	15,16	43,667	38,503
Loss on disposal of property and equipment	8	216	1,038
Net impairment gain on financial assets	6	(12,255)	(43,908)
Foreign exchange loss/(gain)		25,284	(97,505)
Interest income		(623,291)	(622,917)
Interest expenses		180,788	181,208
Tax expense	9	(33,869)	(35,521)
Changes in:			
Mandatory reserves		(367,565)	(327,710)
Due from Banks		3,393	4,166
Loans and advances to customers		(590,672)	(732,546)
Other assets		(9,796)	29,375
Deposits from banks		(2,078)	(607)
Deposits from customers		789,889	442,025
Other liabilities		3,392	13,039
Cash received/(used) in operating activities before interest		**(263,363)**	**(838,160)**
Interest paid		(177,662)	(185,160)
Interest received		636,893	609,805
Income tax paid		1,196	(34,222)
Cash received in operating activities		**197,064**	**(447,737)**
Investing activities			
Purchase of property and equipment		(20,352)	(29,473)
Purchase of intangible assets		(14,001)	(18,803)
Proceeds from sale of property and equipment		(182)	(420)
Purchase of securities		(16,353,664)	(14,951,242)
Proceeds from securities		16,283,455	15,152,701
Cash received/(used) from investing activities		**(104,744)**	**152,763**
Financing activities			
Proceeds from loans from banks and IFI's		229,112	797,859
Repayment of loans from banks and IFI's		(301,043)	(159,391)
Dividends paid		(133,925)	(163,149)
Cash received/(used) from financing activities		**(205,856)**	**475,319**
Increase in cash and cash equivalents		**(113,536)**	**180,345**
Cash and cash equivalents at 1 January	26	**2,686,605**	**2,506,260**
Cash and cash equivalents at 31 December	26	**2,573,069**	**2,686,605**

The accounting policies and Notes on pages 6 to 128 form part of, and should be read in conjunction with, these financial statements.

Notes to the Financial Statements

1 Corporate information

Commercial Bank BC "Mobiasbanca – Groupe Societe Generale" S.A. ("the Bank") was established in the Republic of Moldova in 1990. The Bank was registered by the National Bank of Moldova ("NBM") in July 1990 as a commercial bank and transformed into a joint stock commercial bank in 1996.

During June 2002 the Bank was reregistered as an open joint stock commercial bank and its shares became listed on the Moldova Stock Exchange.

The Bank's head office is located on Boulevard Stefan cel Mare si Sfant, 81A, Chisinau, Republic of Moldova.

Holder of banking license, the Bank offers a complete set of banking operations and services to enterprises and private customers.

As at 31 December 2018 the bank has 53 points of sale, out of which 51 universal points of sale, 1 VIP branch and 1 specialized (2017: 54 points of sale: 52 universal points of sale, 1 VIP branch and 1 specialized).

During 2007 there was a change in major shareholders of the Bank – the new shareholder became Societe Generale, France owing 95.35% of the share capital of the Bank. Societe Generale was created in 1864 as a banking company, registered in France. Its head office is located on 29 Boulevard Haussmann, 75009, Paris, France, and its shares are listed on the Paris Stock Exchange.

During 2008 there was an additional increase of share capital of the Bank, as a result of which the major shareholders' structure changed by adding 2 new shareholders – EBRD subscribing for 8.84% of the share capital of the Bank and BRD – Groupe Societe Generale S.A. subscribing for 20% of the share capital of the Bank. The share of the Societe Generale decreased as a result of this transaction and since the end of 2008 effectively represents 79.51%, taking into account its shareholding in BRD.

2 Accounting policies

2.1 Basis of preparation

The financial statements have been prepared on the historical cost basis except for financial instruments measured at fair value: derivative financial instruments, financial assets at fair value through profit and loss (FVPL), and available-for-sale financial assets (AFS). If a reliable measure of fair value is not available for available-for-sale financial assets they are measured at cost less impairment provision.

2.2 Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB).

Notes to the Financial Statements

2 Accounting policies (continued)

2.3 Presentation of financial statements

The Bank presents its statement of financial position in order of liquidity based on the Bank's intention and perceived ability to recover/settle the majority of assets/liabilities of the corresponding financial statement line item. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non–current) is presented in Note 30.

Financial assets and financial liabilities are generally reported gross in the consolidated statement of financial position except when IFRS netting criteria are met.

2.4 Changes in accounting policies and disclosures

2.4.1 New and amended standards and interpretations

In these financial statements, the Bank has applied, for the first time, IFRS 15 *Revenue from Contracts with Customers*, IFRS 9 *Financial Instruments* and the consequential amendments to IFRS 7 *Financial instruments: Disclosures*, effective for annual periods beginning on or after 1 January 2018. The nature and effect of the changes as result of the adoption of these new accounting standards are described below.

The Bank has not adopted early any other standard, interpretations or amendments that has been issued but is not yet effective.

2.4.1.1 IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 for annual periods on or after 1 January 2018.

The Bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognized directly in retained earnings as of 1 January 2018 and are disclosed in 2.8.

2.4.1.1.1 Changes to classification and measurement

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the Bank's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity and amortized cost) have been replaced by:

- Debt instruments at amortized cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses onderecognition
- Financial assets FVPL

2 Accounting policies (continued)

2.4 Changes in accounting policies and disclosures (continued)

The accounting for financial liabilities remains largely the same as it was under IAS 39.

The Bank's classification of its financial assets and liabilities is explained in Note 2.5.5. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in Note 2.8.

2.4.1.1.2 Changes to the impairment calculation

The adoption of IFRS 9 has fundamentally changed the Bank's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Bank to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

Details of the Bank's impairment method are disclosed in Note 2.5.8. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in Note 2.8.

2.4.1.2 IFRS 7R

To reflect the differences between IFRS 9 and IAS 39, IFRs 7 Financial instruments: Disclosures was updated and the Bank has adopted it, together with IFRS 9, for the beginning 1 January 2018. Changes include:

- Transition disclosures, as shown in Note 2.8
- Detailed qualitative and quantitative information about the ECL calculation, such as the assumptions and inputs used are set out in Note 27.1.2

The Bank concluded on the following assessments based on the facts and circumstances that existed at the date of initial application as at 1 January 2018:

- The business models under which the Bank held and managed its financial assets
- Whether to continue or revoke previous designations of financial assets and financial liabilities that it measured at FVTPL
- For financial liabilities that it continued to designate as FVPL, whether presenting the impact of changes its own credit risk in OCI would create or enlarge an accounting mismatch in profit or loss
- Whether to elect to classify certain equity instruments not held for trading as FVOCI

Reconciliation from opening to closing ECL allowances are presented in Notes 13.1, 14.1, 15.1 and 19.

Notes to the Financial Statements

2 Accounting policies (continued)

2.4 Changes in accounting policies and disclosures (continued)

2.4.1.3 IFRS 15 *Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers which replaces all existing revenue requirements and related interpretations and is effective for annual periods beginning on 1 January 2018. IFRS 15 redefined the principles for recognizing revenue and is applicable to all contracts with customers other than contracts in the scope of other standards (e.g., interest and fee income integral to financial instruments which would be in the scope of IFRS 9 and lease income). Certain requirements in IFRS 15 are also relevant for the recognition and measurement of gains or losses on disposal of non-financial assets that are not in the ordinary course of business.

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled to in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Bank adopted IFRS 15 using the full retrospective method of adoption which requires it to restate comparative figures. Many of the Bank's revenue streams (e.g., interest income, gains and losses on financial instruments) are outside the scope of IFRS 15 and, therefore, accounting for those streams did not change as a result of the adoption of IFRS 15. The Bank's revenue streams that are within the scope of IFRS 15 relate to fee and commission income disclosed in Note 4.

The effect of the transition on the current period has not been disclosed as the standard provides an optional practical expedient not to do so. The Bank did not apply any of the other available optional practical expedients available on transition. The adoption of IFRS 15 did not have any impact in Bank's equity.

2.4.1.4 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. The amendments did not have impact on the financial position or performance of the Bank.

Notes to the Financial Statements

2 Accounting policies (continued)

2.4 Changes in accounting policies and disclosures (continued)

2.4.1.5 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. The amendments did not have impact on the financial position or performance of the Bank

2.4.1.6 IFRIC INTERPETATION 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 amendments will not have impact on the financial position or performance of the Bank

2.4.1.7 Annual Improvements to IFRSs 2014 – 2016 Cycle

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.

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Notes to the Financial Statements

2 Accounting policies (continued)

2.4 Changes in accounting policies and disclosures (continued)

2.4.2 Presentation of net interest income

With effect from 1 January 2018, paragraph 82(a) of IAS 1 requires interest revenue calculated using the effective interest rate (EIR) method to be presented separately on the face of the income statement. This implies that interest revenue calculated using the EIR method is to be differentiated and presented separately from interest revenue calculated using other methods.

The Bank considers its net interest margin to be a key performance indicator; the measure includes both interest calculated using the effective interest method and interest recognized on a contractual basis on its financial assets/liabilities measured at FVPL other than those held for trading.

The existent portfolio of debt instrument financial assets classified at FVPL is not significant amounting MDL 1,168 thousand as at 31 December 2018. The Bank has therefore concluded that including an additional line item entitled, “Other interest income” in order to show all interest income resulted from FVPL financial assets would not add additional value to its stakeholders and decided to keep one single line item entitled “Interest income” for showing interest income calculated using the EIR and on a contractual basis on its financial assets measured at FVPL. The Bank has also elected to present its interest expense in a manner consistent and symmetrical with interest income.

The Bank’s accounting policies in respect of interest income/expense and the effective interest method are set out in Note 2.5.2.

Notes to the Financial Statements

2. Accounting policies

2.5 Summary of significant accounting policies

2.5.1 Foreign Currency translation

(i) Functional and presentation currency

The financial statements are presented in Moldovan Lei ("MDL"), rounded to the nearest thousand, which is the Bank's functional and presentation currency.

(ii) Transactions and balances

Transactions in foreign currencies are initially recorded at the spot rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange at the reporting date. All differences arising on non–trading activities are taken to Net trading income in the income statement.

Non–monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition. Non–monetary items measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined.

The official exchange rates for major foreign currencies at year-end were as follows:

	31 December 2018	31 December 2017
(in Moldovan Lei per unit of foreign currency)		
US dollar	17.1427	17.1002
Russian Rouble	0.2469	0.2969
Euro	19.5212	20.4099

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.2 Recognition of interest income

(i) The effective interest rate method

Under both IFRS 9 and IAS 39, interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortized cost, financial instruments designated at FVPL. Interest income on interest bearing financial assets measured at FVOCI under IFRS 9, similarly to interest bearing financial assets classified as available-for-sale or held to maturity under IAS 39 are also recorded by using the EIR method. The EIR is the rate that exactly discounts contractual cash receipts through the life of the financial instrument.t.

The EIR (and therefore, the amortized cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Bank recognizes interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan..

The Bank calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets.

(ii) Interest and similar income/expenses

Net interest income comprises interest income and interest expense calculated using the effective interest method. In its Interest income/expense calculated using the effective interest method, the Bank only includes interest on those financial instruments that are set out in Note 2.5.2 (i) above.

The Bank calculates interest income on financial assets, other than those considered credit-impaired, by applying the EIR to the gross carrying amount of the financial asset.

When a financial asset becomes credit-impaired (as set out in Note 2.5.8 and is therefore regarded as 'Stage 3', the Bank calculates interest income by applying the EIR to the net amortised cost of the financial asset. If the financial asset cures (as outlined in Note 2.5.8 and 27.1.2.1) and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, then the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the balance sheet with an increase or reduction in interest income. The adjustment is subsequently amortized through Interest and similar income in the income statement. The Bank calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets.

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.3 Fess and commission income

The Bank earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognized at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for providing the services.

The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The Bank's revenue contracts do not typically include multiple performance obligations. When the Bank provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time.

The Bank has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

2.5.4 Financial instruments – initial recognition

(i) Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognized on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognized when funds are transferred to the customers' accounts. The Bank recognizes balances due to customers when funds are transferred to the Bank.

(ii) Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Notes 2.5.4 and 2.5.5. Financial instruments are initially measured at their fair value (as defined in Note 2.5.4 (ii)), except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price.

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Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.4 Financial instruments – initial recognition (continued)

(iii) Measurement categories of financial assets and liabilities

From 1 January 2018, the Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortized cost, as explained in Note 2.5.5.1
- FVPL, as explained in Note 2.5.5.3

The Bank classifies and measures its derivative and trading portfolio at FVPL. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies, as explained in Note 26.

Before 1 January 2018, the Bank classified its financial assets as loans and receivables (amortized cost), FVPL, available-for-sale or held-to-maturity (amortized cost), as explained in Note 2.4.1.1.1

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortized cost or at FVPL when they are held for trading and derivative instruments or the fair value designation is applied.

2.5.5 Financial assets and liabilities

2.5.5.1 Due from banks, Loans and advances to customers, Financial investments at amortized cost

Before 1 January 2018, Due from bank and Loans and advances to customers, included non–derivative financial assets with fixed or determinable payments that were not quoted in an active market, other than those:

- That the Bank intended to sell immediately or in the near term
- That the Bank, upon initial recognition, designated as at FVPL or as available-for-sale
- For which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration, which were designated as available-for-sale.

From 1 January 2018, the Bank only measures *Due from banks*, *Loans and advances to customers* and *other financial investments at amortized cost* if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.5 Financial assets and liabilities (continued)

(i) Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)

The expected frequency, value and timing of sales are also important aspects of the Bank's assessment

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

(ii) The SPPI Test

As a second step of its classification process the Bank assesses the contractual terms of financial to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set. In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.5 Financial assets and liabilities (continued)

2.5.5.2 Due to customers due to banks and borrowed funds

After initial measurement, due to customers, due to banks and borrowed funds are subsequently measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the EIR. A compound financial instrument which contains both a liability and an equity component is separated at the issue date.

2.5.5.3 Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis

  Or

- The liabilities (and assets until 1 January 2018 under IAS 39) are part of a group of financial liabilities (or financial assets, or both under IAS 39), which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy

  Or

- The liabilities (and assets until 1 January 2018 under IAS 39) containing one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.5 Financial assets and liabilities (continued)

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at FVPL due to changes in the Bank's own credit risk. Such changes in fair value are recorded in the Own credit reserve through OCI and do not get recycled to the profit or loss. Interest earned or incurred on instruments designated at FVPL is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument. Interest earnt on assets mandatorily required to be measured at FVPL is recorded using contractual interest rate. Dividend income from equity instruments measured at FVPL is recorded in profit or loss as other operating income when the right to the payment has been established

2.5.5.4 Financial guarantees, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognized in the financial statements (within Provisions) at fair value, being the premium received.

Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the income statement, and – under IAS 39 – the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or – under IFRS 9 – an ECL provision as set out in Note 2.5.8 and 2.5.9.

The premium received is recognized in the income statement in *Net fees and commission income* on a straight-line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, under IAS 39, a provision was made if they were an onerous contract but, from 1 January 2018, these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position. The nominal values of these instruments together with the corresponding ECLs are disclosed in Note 24. The Bank occasionally issues loan commitments at below market interest rates draw down. Such commitments are subsequently measured at the higher of the amount of the ECL allowance and the amount initially recognized less, when appropriate, the cumulative amount of income recognized.

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.5 Financial assets and liabilities (continued)

2.5.5.5 Available-for -sale Financial investments (Policy applicable before 1 January 2018)

Available-for-sale investments include equity and debt securities. Equity investments classified as available-for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss.

Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions.

The Bank has not designated any loans or receivables or debt securities as available-for-sale.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Where no reliable estimate of fair value is available, equity investments are stated at restated cost less impairment.

Unrealized gains and losses are recognized directly in equity (Other comprehensive income) in the Available-for sale reserve. When the investment is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the income statement in Other operating income. Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first–in first–out basis. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR. Dividends earned whilst holding available-for-sale financial investments are recognized in the income statement as Other operating income when the right of the payment has been established. The losses arising from impairment of such investments are recognized in the income statement in 'Impairment losses on financial investments' and removed from the Available-for-sale reserve.

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.6 Reclassification of financial assets and liabilities

From 1 January 2018, the Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets or liabilities in 2017.

2.5.7 Derecognition of financial assets and liabilities

2.5.7.1 Derecognition due to substantial modification of terms and conditions

The Bank derecognizes a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

When assessing whether or not to derecognize a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded. For financial liabilities, the Bank considers a modification substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten percent. For financial assets, this assessment is based on qualitative factors.

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.7 Derecognition of financial assets and liabilities (continued)

2.5.7.2 Derecognition other than for substantial modification

(i) Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when the rights to receive cash flows from the financial asset have expired. The Bank also derecognizes the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Bank has transferred the financial asset if, and only if, either:

- The Bank has transferred its contractual rights to receive cash flows from the financial asset

  Or

- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement

Pass-through arrangements are transactions where by the Bank retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates
- The Bank cannot sell or pledge the original asset other than as security to the eventual recipients
- The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay.

In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.7 Derecognition of financial assets and liabilities (continued)

2.5.7.2 Derecognition other than for substantial modification (continued)

A transfer only qualifies for derecognition if either:

- The Bank has transferred substantially all the risks and rewards of the asset

  Or

- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognized only to the extent of the Bank's continuing involvement, in which case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration·the Bank could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Bank would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

(ii) Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in profit or loss.

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.8 Impairment of financial assets (Policy applicable starting 1 January 2018)

2.5.8.1 Financial assets carried at amortized cost

This category includes due from banks, loans and advances to customers as well as held to maturity investment securities.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past–due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group.

The Bank has developed a methodology for assessing impairment on loans and advances that is based on three years historical information on the timing and the amounts of the expected future cash flows. The Bank regularly reviews the methodology and assumptions used for estimating future cash flows in order to reduce any differences between loss estimates and actual loss.

(i) Overview of expected credit loss (ECL) principle

As described in Note 2.4.1.1, the adoption of IFRS 9 has fundamentally changed the Bank's loan loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. From 1 January 2018, the Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in referred to as "financial instruments".

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Bank's policies for determining if there has been a significant increase in credit risk are set out in Note 27.1.2.

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.8 Impairment of financial assets (continued)

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

PDs, both for LTECLs and for 12mECLs are calculated on a collective basis (the description of criteria determining the calculation of ECL on collective or individual basis are set out in Note 27.1), depending on the nature of the underlying portfolio of financial instruments.

The LGD collectively evaluated for impairment is estimated based on historical loss or recovery experience observed.

The collective ECL calculation parameters take into account the current situation and the impact of the forward-looking information (considering the expectation related to the evolution of macro-economic indicators), as described in Note 27.1.

For the purpose of specific provisions calculated for individually assessed counterparties that are declared "in default", the Bank assesses the cash flow that is expected to recover from client's operation (if there is an activity that generates cash flows) or by exercising the guaranties and collaterals. The expected cash flows are spread over the time so that their value is discounted at the time of provisioning closing. The uncovered part of exposure by estimated recoveries is provisioned.

The Bank has established a methodology to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Bank groups its loans into Stage 1, Stage 2 and Stage 3, as described below:

- Stage 1: when loans are first recognized, the Bank recognizes an allowance based on 12mECLs . Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from other stages.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered in "default" or credit-impaired. The bank records and allowance for the LTECLs
- POCI: This category would be used for financial assets that are credit-impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognized based on a credit-adjusted EIR. ECLs are only recognized or released to the extent that there is a subsequent change in the expected credit losses.

The bank records an allowance for the 12mECLs and LTECLs.

This is explained in Notes 27.1.

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.8 Impairment of financial assets (continued)

(ii) The calculation of ECLs

The Bank calculates ECLs based on a scenarios with most probable outcome to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- PD: the Probability of Default is an estimate of the likelihood of default over a given time horizon;
- EAD: the Exposure at Default is the basis for provisioning;
- LGD: the Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on historic recoveries;
- FL: the Forward Looking coefficient is a coefficient used at the calibration of PD which takes into account the expectation related to the evolution of macro-economic indicators.
- CCF: the Cash Conversion Factor used to estimate the EAD for off-balance commitments and contingencies, subject to ECL calculation.

The key elements for ECL calculation are explained in Notes 27.1.2

The concept of PD is further explained in Note 27.1

The mechanics of the ECL method are summarized below:

Stage 1:

The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to EAD at reporting date, multiplied by one-year PD, CCF, LGD and FL.

Stage 2:

When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, but PDs are estimated over the lifetime of the instrument.

Stage 3:

For loans considered credit-impaired (as defined in Note 27.1.2), the Bank recognizes the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.8 Impairment of financial assets (continued)

(iii) Credit Cards and other revolving Facility

The Bank's product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the Bank has the right to cancel and/or reduce the facilities with a notification period as specified in lending agreement. The Bank does not limit its exposure to credit losses to the contractual notice period and calculates ECL over a period of the validity of the facility agreement under rules disclosed in Note 2.5.8.1(ii) above.

(iv) Forward looking information

In order to assess the FL coefficient, the Bank has determined the correlation between the dynamic of main macroeconomic indicators and evolution of internal probability of default (PD), subsequently estimating the PD for 2019-2021 time horizon.

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as:

- Gross Domestic Product (GDP), y-o-y growth (real prices); - source IMF
- Inflation (e-o-y data); - source IMF
- EUR/MDL exchange rate (e-o-y data); - source SG Headquarter estimations
- Unemployment rate (e-o-y data) - source IMF.

The historical data for these indicators has been collected from official sources; the forecasted figures have been taken from IMF report, from data included in Medium-term budgetary framework of the Bank (2019-2021) and from SG Headquarter estimations (exchange rate for EUR/USD).

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Detailed information about these inputs and sensitivity analysis are provided in Note 27.1.

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.9 Credit enhancements: collateral valuation and financial guarantees

The Bank seeks to use collateral, where required by internal normative bank, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets. The fair value of collateral is generally assessed, at a minimum, at inception and periodically according to internal rules, however, some collateral, for example, cash, is valued daily.

To the extent possible, the Bank uses active market data for valuing financial assets, held as collateral. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as evaluation companies and other independent sources.

2.5.10 Collateral repossessed

The Bank's accounting policy under IFRS 9 remains the same as it was under IAS 39. The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to Bank property according to legal local rules. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Bank's policy.

In its normal course of business, the Bank does not physically repossess properties or other assets in its portfolio, but realize different actions for selling these assets (auctions, publicity, onsite visits etc.). As a result of this practice, the real estate properties under legal repossession processes are not recorded on the balance sheet, but are reflected at the memorandum accounts.

2.5.11 Write-offs

The Bank's accounting policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery and the asset is fully covered by provisions. Any subsequent recoveries are credited to credit loss expense. Details regarding write off policy are presented in Note 27.1.1.

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.12 Forborne and modified loans

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the front-office unit or Risk Management Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions.

It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. The forborne loans are classified in Stage 3 for at least 12 months. After that, it will have a minimum 24-month probation period during which any delay more than 30 days will lead to classification in S3. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities have to be considered performing;
- The probation period of two years has passed from the date the forborne contract was considered performing;
- The customer does not have any contract that is more than 30 days past due.

The loans for which was made a commercial renegotiation (necessary for developing the business relation with the client) are not considered forborne and are treated as performing. Commercial renegotiation is referring to the modification of interest rate, the substitution of pledge, or any other event, in which the Bank has the opportunity to refuse this renegotiation (meaning that it is voluntarily agreed by the Bank) with any impact on the activity of the client. The modification of any initial condition of the loans is considered as commercial renegotiation only if the client is treated as performing, no delay more than 30 days was registered during the last 3 months and the counterparty meets all criteria of the bank to be credited. All other modifications are considered forbearance.

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.13 Impairment of financial assets (Policy before 1 January 2018)

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

Evidence of impairment may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty; the probability that they will enter bankruptcy or other financial reorganization; default or delinquency in interest or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.5.13.1 Financial assets carried at amortized cost

For financial assets carried at amortized cost (such as amounts due from banks, loans and advances to customers as well as held to maturity investments), the Bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.13 Impairment of financial assets (Policy applicable before 1 January 2018) (continued)

The interest income is recorded as part of Interest and similar income.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write–off is later recovered, the recovery is credited to the 'Credit loss expense'.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. If the Bank has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new EIR determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

2.5.13.2 Available-for-sale financial investments

For available-for-sale financial investments, the Bank assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available-for-sale, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The interest income is recorded as part of Interest and similar income. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.14 Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, cash in transit and cash in cash dispensers.

For the purposes of the statement of cash flows, cash and cash equivalents comprise: cash balances on hand, cash deposited with National Bank of Moldova, Nostro accounts with banks, placements with NBM and with other banks with less than 90 days original maturity and short-term treasury investments with a maturity of less than 90 days.

2.5.15 Leasing

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

(i) Bank as a lessee

Leases that do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term. Contingent rental payable is recognized as an expense in the period in which they are incurred.

(ii) Bank as a lessor

Leases where the Bank does not transfer substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income.

Contingent rents are recognized as revenue in the period in which they are earned.

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.16 Property and equipment

Property and equipment (including equipment under operating leases where the Bank is the lessor) is stated at cost excluding the costs of day–to–day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Depreciation is calculated using the straight–line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

- Buildings: 40-56 years
- Vehicles: 5-7 years
- Computers: 4-5 years
- Equipment 5-15 years
- Furniture and office equipment: 2.5-15 years

Property and equipment is derecognized on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in Other operating income in the income statement in the year the asset is derecognized.

2.5.17 Intangible assets

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on the basis of the expected useful lives up to 5 years.

Costs associated with maintaining computer software programs are recognized as an expense when incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Bank, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognized as assets are amortized using the straight-line method over their useful lives over 5 years.

Licenses are capitalized on the basis of the costs incurred to acquire the specific license. These costs are amortized on the basis of the license period (5-20 years). Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.18 Financial guarantees

In the ordinary course of business, the Bank gives 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 Bank's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the income statement, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in the income statement in Net impairment loss on financial assets. The premium received is recognized in the income statement in Net fees and commission income on a straight-line basis over the life of the guarantee.

2.5.19 Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's 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 less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount.

A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement.

2.5.20 Employee benefits

The Bank's short-term employment benefits includes wages, bonuses, holiday pay and social security contributions and they are recognized as an expense as incurred.

Obligations for contributions to defined contribution pension plans are recognized as an expense in the income statement as incurred.

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.20 Employee benefits (continued)

The Bank, in the normal course of business makes payments to the National House of Social Insurance and to the National House of Medical Insurance on behalf of its Moldovan employees for pension, health care and unemployment benefit. All employees of the Bank are members and are also legally obliged to make defined contributions (included in the social security contributions) to the Moldovan State pension plan (a State defined contribution plan). All relevant contributions to the Moldovan State pension plan are recognized as an expense in the income statement as incurred. The Bank does not have any further obligations.

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

2.5.21 Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement.

2.5.22 Taxes

(i) Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

(ii) Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.22 Taxes (continued)

- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognized in respect of deductible temporary differences associated with investments in subsidiaries only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognized directly in equity are also recognized in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Since 1 January 2012 the corporate income tax rate is 12%.

Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.23 Own shares

Ordinary shares acquired by the Bank are deducted from equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

2.5.24 Dividends on ordinary shares

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

2.5.25 Equity reserves

The reserves recorded in equity on the Bank's statement of financial position include general and prudential reserves that are required by the legislation.

2.5.26 Earnings per share

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

Notes to the Financial Statements

2 Accounting policies (continued)

2.6 Standards issued but not yet effective and not early adopted

- **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.

The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). The Bank will make use of both exemptions. During 2018, the Bank performed a detailed impact assessment of IFRS 16. The Bank will recognize a right-of-use asset at the date of initial application for leases previously classified as an operating lease applying IAS 17. As permitted by the standard, this amount will be equal to the lease liability, adjusted for any prepayments or accrued lease payments relating to that lease. The lease liability will be measured at an amount equal to the outstanding lease payments at the date of initial application, considering extension and termination options, discounted at the Bank's incremental borrowing rate in the economic environment of the lease. The capitalized right-of-use asset will mainly consist of office property, namely the retail branches.

In summary, the adoption of IFRS 16 is expected to have no impact on retained earnings. The recognized right-of-use asset and lease liability will both equal approximately 75.8 million MDL.

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

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

- **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. Management has made an assessment of the effect of the standard and considers that adoption of it will not have a material impact on financial statements for the period beginning 1 January 2019.

Notes to the Financial Statements

2 Accounting policies (continued)

2.6 Standards issued but not yet effective and not early adopted (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 amendments will not have impact on the financial position or performance of the Bank

- **IFRIC INTERPETATION 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 amendments will not have impact on the financial position or performance of the Bank.

- **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 amendments will not have impact on the financial position or performance of the Bank.

- **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.

Notes to the Financial Statements

2 Accounting policies (continued)

2.6 Standards issued but not yet effective and not early adopted (continued)

- **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 amendments will not have impact on the financial position or performance of the Bank

- **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 amendments will not have impact on the financial position or performance of the Bank.

- 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 amendments will not have impact on the financial position or performance of the Bank

  - ***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.

Notes to the Financial Statements

2 Accounting policies (continued)

2.7 Significant accounting judgements, estimates and assumptions

The preparation of the Bank's financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Bank's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Existing circumstances and assumptions about future developments may change due to circumstances beyond the Bank's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognized in the financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

2.7.1 Going concern

The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

2.7.2 Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Bank based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Bank. Such changes are reflected in the assumptions when they occur.

Notes to the Financial Statements

2 Accounting policies (continued)

2.7 Significant accounting judgements, estimates and assumptions (continued)

2.7.3 Fair value of financial instruments

The fair value of the financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under the current market conditions regardless of whether that price is directly observable or estimated using another valuation technique.

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs such as volatility for longer–dated derivatives and discount rates, prepayment rates and default rate assumptions for asset-backed securities. The valuation of financial instruments is described in more detail in Note 26.

Determination of fair value

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison with similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date. Where a fair value cannot be reliably be estimated, unquoted equity instruments that do not have a quoted market price in an active market are measured at cost and periodically tested for impairment.

Notes to the Financial Statements

2 Accounting policies (continued)

2.7 Significant accounting judgements, estimates and assumptions (continued)

2.7.4 Impairment losses on financial instruments (policy applicable after 1 January 2018)

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit rating model;
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, and the effect on PDs, EADs and LGDs; Selection of forward-looking macroeconomic scenarios.

2.7.5 Impairment losses on financial assets (policy applicable before 1 January 2018)

2.7.5.1 Impairment of loans and advances to customers

In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. 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.

Notes to the Financial Statements

2 Accounting policies (continued)

2.7 Significant accounting judgements, estimates and assumptions (continued)

2.7.5 Impairment losses on financial assets (policy applicable before 1 January 2018) (continued)

For each homogeneous portfolio the risk is assessed based on Loss Given Default (LGD) associated with Probability of Default (PD). Provision rates for collective provisioning are computed based on yearly PD observed during 12 months horizon (average). The LGD collectively evaluated for impairment is estimated based on historical loss or recovery experience observed. The exposure taken into account for the calculation of provision are net of first rate guaranties (cash collaterals, government guaranties, etc) and is considered the current outstanding including off balance sheet commitments.

For the purpose of specific provisions calculated for individually assessed counter-parties that are declared "in default", the bank assess the cash flow that is expected to recover from client's operation (if there is an activity that generates cash flows) or by exercising the guaranties and collaterals. The expected cash flows are spread over the time so that their value is discounted at the time of provisioning closing. The uncovered part of exposure by estimated recoveries is provisioned.

Loans and advances that have been assessed individually (and found not to be impaired) are assessed together with all individually insignificant loans and advances in groups of assets with similar risk characteristics. This is to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident.

2.7.5.2 Impairment of available-for-sale financial investments

The Bank reviews its debt securities classified as available-for-sale investments at each reporting date to assess whether they are impaired. This requires similar judgement as applied to the individual assessment of loans and advances.

The Bank also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

Notes to the Financial Statements

2 Accounting policies (continued)

2.7 Significant accounting judgements, estimates and assumptions (continued)

2.7.6 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in the Statement of financial position.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

2.7.7 Effective Interest Rate (EIR) method

The Bank's EIR method, as explained in Note 2.5.2(i) recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of loans and deposits and recognises the effect of potentially different interest rates charged at various stages and other characteristics of the product life cycle (including prepayments and penalty interest and charges). This estimation, by nature, requires an element of judgement regarding the expected behaviour and life-cycle of the instruments, as well expected changes to Moldova's base rate and other fee income/expense that are integral parts of the instrument.

2.7.8 Provisions and other contingent liabilities

The Bank operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it is involved in various litigation, arbitration and regulatory investigations and proceedings in local jurisdictions, arising in the ordinary course of the Bank's business.

When the Bank can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Bank records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed.

Given the subjectivity and uncertainty of determining the probability and amount of losses, the Bank takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgement is required to conclude on these estimates.

For further details on provisions and other contingencies see Note 24.

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Notes to the Financial Statements

2 Accounting policies (continued)

2.8 Transition disclosures

The following pages set out the impact of adopting IFRS9 on the statement of financial position, and retained earnings including the effect of replacing IAS 39's incurred credit loss calculation with IFRS 9's ECLs.

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of1 January 2018 is, as follows:

(in thousands MDL)		IAS 39 measurement		Reclassification	Remeasurement		IFRS 9	
Financial Assets	**REF**	**Category**	**Amount**		**ECL**	**Other**	**Amount**	**Category**
Cash and balances with Central Bank		L&R[1]	2,341,539	-	-	-	2,341,539	AC[2]
Due from banks	A	L&R	1,771,186	-	(2,451)	-	1,768,735	AC
Loans and advances to customers	B	L&R	4,641,003	-	(33,349)	-	4,607,654	AC
Financial investments – loans and receivable	C	L&R	1,143,937	(1,143,937)	-	-	N/A	AC
To: Debt instruments at amortized cost				(1,143,937)	-			
Debt instruments at amortized cost	D		N/A	1,143,937	(7,462)	-	1,136,475	AC
From: Financial investments – loans and receivables				1,143,937	(7,462)	-	-	
Other assets	E	L&R	33,348	-	(1,615)	-	31,733	AC
		L&R	9,931,013	-	(44,935)	-	9,886,136	AC
Financial investments – AFS	F	AFS[3]	1,031	(1,031)	-	-	N/A	
To: Financial Assets at fair value through profit or loss				(1,031)			N/A	
		AFS	1,031	(1,031)	-	-	N/A	
Financial Assets at fair value through profit or loss			N/A	1,031	-	-	1,031	FVPL[4]
From: Financial investments – AFS				1,031				
		FVPL		1,031	-	-	1,031	FVPL
Total Assets			**9,932,044**		(44,935)		**9,887,167**	43,338

[1]L&R: Loans and receivables
[2]AC: Amortized cost
[3]AFS: Available for sale
[4]FVPL: Fair Value through profit or loss

Notes to the Financial Statements

2 Accounting policies (continued)

2.8 Transition disclosures (continued)

(in thousands MDL)		IAS 39 measurement		Reclassification	Remeasurement		IFRS 9	
Financial Liabilities	**REF**	**Category**	**Amount**		**ECL**	**Other**	**Amount**	**Category**
Due to Central Bank		AC	21	-	-	-	21	AC
Deposits from banks		AC	3,454	-	-	-	3,454	AC
Deposits from customers		AC	7,487,646	-	-	-	7,487,646	AC
Borrowings from IFIs		AC	959,911	-	-	-	959,911	AC
Other liabilities	G	AC	144,189	-	1,597	-	145,786	AC
Total Liabilities			**8,595,221**		**1,597**		**8,596,818**	

A. The Bank calculated ECL on Due from banks according to new provisioning methodology regarding IFRS 9 - previously under IAS 39 there was no impairment.

B. The Bank calculated ECL on Loans and advances to customers according to new provisioning methodology regarding IFRS 9. Mentioned financial assets will be measured further at amortized cost according to business model of the Bank and because they met the SPPI criterion.

C. As of 1 January 2018, the Bank has classified financial investments – loans and receivable as debt instruments at amortized cost according to business model of the Bank and because they met the SPPI criterion.

D. The Bank calculated ECL on debt instruments at amortized cost according to provisioning methodology regarding IFRS 9.

E. Remeasurement for Other assets represents calculating of ECL for other financial assets according to Bank's provisioning methodology regarding IFRS 9.

F. As of 1 January 2018, the Bank has classified its previous AFS portfolio as financial assets at fair value through profit or loss and not at other comprehensive income, thus are held for trading. This position represents equity investments which are described in Note 15.

G. Remeasurement for Other liabilities represents the application of CCF at the calculation of ECL for off-balance sheet items as financial guarantees, letters of credit for customers and other commitments according to Bank's provisioning methodology regarding IFRS 9.

Notes to the Financial Statements

2 Accounting policies (continued)

2.8 Transition disclosures (continued)

The impact of transition to IFRS 9 on reserves and retained earnings is, as follows:

(in thousands MDL)	Reserves and retained earnings
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	**1,082,745**
Recognition of IFRS 9 ECL	(43,280)
Out of which:	
Term placements in banks	(2,451)
Debt instruments at amortized cost	(7,462)
Loans and advances to customers	(33,349)
Receivables and other assets, and payments related to them	(1,615)
Commitments	1,597
Net change in reserves for other assets and commitments under prudential norms	11,717
Opening balance under IFRS 9 (1 January 2018)	**1,051,182**
Prudential reserves	
Closing balance under IAS 39 (31 December 2017)	174,640
Net change in reserves for other assets and commitments under prudential norms	(11,717)
Opening balance under IFRS 9 (1 January 2018)	162,923
Total change in equity due to adopting IFRS 9	**(43,280)**

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Notes to the Financial Statements

2 Accounting policies (continued)

2.8 Transition disclosures (continued)

The following table reconciles the aggregate opening loan loss provision allowances under IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 Provisions Contingent Liabilities and Contingent Assets to the ECL allowances under IFRS 9.

	LLP under IAS 39/IAS 37 at 31 December 2017	Re-measurement	ECLs under IFRS 9 at 1 January 2018
(in thousands MDL)			
Impairment allowance for			
Loans and receivables per IAS 39/ Financial assets at amortized cost under IFRS 9	214,174	33,349	247,524
AFS debt instrument securities per IAS 39/ Debt instruments at amortized cost under IFRS 9	-	7,462	7,462
Due from banks per IAS 39/ Debt instruments at amortized cost under IFRS 9	-	2,451	2,451
Receivables and other assets, and payments related per IAS 39/ Debt instruments at amortized cost under IFRS 9	-	1,615	1,615
	214,174	**44,877**	**259,052**
Financial guarantees	1,985	(990)	995
Letters of credit for customers	157	(84)	73
Other commitments	10,441	(523)	9,918
	12,583	**(1,597)**	**10,986**
	226,757	**43,280**	**270,038**

Notes to the Financial Statements

3 Net interest income

Interest and similar income calculated using the effective interest rate

(in thousands MDL)	2018	2017
Cash and balances with Central Bank	54,633	63,370
Due from banks	9,524	5,040
Financial investments – loans and receivables	69,823	88,994
Loans and advances to customers	489,311	465,513
	623,291	**622,917**

The interest income accrued on impaired (Stage 3) Loans and advances to customers during 2018 amounted to MDL'000 9,674 (2017: MDL'000 10,298).

Interest and similar expense calculated using the effective interest rate

(in thousands MDL)	2018	2017
Due to Central Bank	1	4
Due from customers	152,213	156,515
Borrowed funds from IFI's	24,226	21,909
Due from Banks	4,348	2,780
	180,788	**181,208**

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Notes to the Financial Statements

4 Net fee and commission income

Net fee and commission income includes fees and commission income from various banking services, including income from banking services regarding domestic and international payments, less fees and commission expenses paid for similar services received by the Bank.

Fee and commission income

	Total	31 December 2018	
		Fee income earned from services that are provided over time:	Fee income from providing financial services at a point in time:
(in thousands MDL)			
Payment processing	53,596	-	53,596
Transactions with cards	40,252	-	40,252
Cash transactions	27,842	-	27,842
Current accounts administration	13,085	13,085	
Cash transactions in foreign currency-interbank	7,972		7,972
Changes in loans terms and conditions	6,168		6,168
Guarantees issued	3,729	3,729	
Transfers through international payment systems	2,608	-	2,608
Remote banking	1,840	-	1,840
Letters of credit	1,555	1,555	-
Other	10,955	-	10,955
	169,602	**18,369**	**151,233**

Notes to the Financial Statements

4 Net fee and commission income (continued)

(in thousands MDL)	Total	31 December 2017 Fee income earned from services that are provided over time:	Fee income from providing financial services at a point in time:
Payment processing	51,770	-	51,770
Transactions with cards	34,396	-	34,396
Cash transactions	26,216	-	26,216
Current accounts administration	13,805	-	13,805
Cash transactions in foreign currency-interbank	10,391	10,391	-
Changes in loans terms and conditions	5,781	5,781	-
Guarantees issued	4,586	-	4,586
Transfers through international payment systems	2,502	-	2,502
Remote banking	1,254	-	1,254
Letters of credit	1,225	1,225	-
Other	10,766	-	10,766
	162,692	**17,397**	**145,295**

Fee and commission expense

(in thousands MDL)	2018	2017
Transactions with cards	32,552	29,596
Cash transactions in foreign currency - interbank	8,291	9,890
Commissions on interbank transfers	14,149	13,940
Financial Risk Insurance	359	6,427
Contributions to deposit guarantee fund (1)	7,637	3,097
Contribution to the State financial stability fund	1	-
Other	874	985
	63,863	**63,935**

(1) In accordance with the Law No. 575-XV "On Guaranteeing of Deposits Placed in the Banks" of 26 December 2003 and subsequent "Regulation on Methodology on Calculation and Payment of Contribution in Deposit Guarantee Fund of the Republic of Moldova" of 20 August 2004, the Bank has to transfer to the Deposit Guarantee Fund a contribution equal to 0.25% of total deposits outstanding at the end of each quarter (only for qualified deposits, as stipulated in the law). The Bank prepares the basis for the calculation of contribution based on its database of client deposits and databases on non-guaranteed deposits, approved regularly by the Management of the Bank. The expenditure with "contribution to deposits guarantee fund" is recognized at the date the basis for the calculation is validated by auditors, i.e. 15th of the next month preceding the quarter in scope.

Notes to the Financial Statements

5 Net trading income

	2018	2017
(in thousands MDL)		
Foreign exchange result on transactions with:		
Individuals	29,574	45,001
Corporate clients	94,236	85,906
Banks	7,693	1,799
Result from revaluation	(4,937)	(6,255)
	126,566	**126,451**

6 Credit loss expense

	2018	2017
(in thousands MDL)		
Due from banks	(18)	-
Loans and advance to customers	14,141	37,788
Debt instruments at amortized cost	4,113	-
Other assets	847	3,311
Financial guarantee contracts	(2,733)	2,809
	16,350	**43,908**

The table below shows the ECL charges (Note 6) on financial instruments for 31 December 2018 recorded in the income statement under IFRS 9:

	Note	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)						
Due from banks	13	(18)	-	-	-	**(18)**
Loans and advances to customers	14	4,545	2,321	17,103	(9,828)	**14,141**
Debt instruments measured at amortized cost	15	4,113	-	-	-	**4,113**
Other assets	19	136	-	711	-	**847**
Financial guarantees	24	1,556	46	-	-	**1,602**
Loan commitments	24	1,388	(5,663)	(149)	-	**(4,424)**
Letters of credit	24	89	-	-	-	**89**
Total impairment loss		**11,809**	**(3,296)**	**16,396**	**(9,828)**	**16,350**

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Notes to the Financial Statements

6 Credit loss expense (continued)

The table below shows the impairment charges recorded in the income statement under IAS 39 during 2017:

	Total	Non-Retail	Retail
(in thousands MDL)			
Specific allowances for impairment			
At 1 January 2017	142,225	72,721	69,504
Charge for the year	33,001	27,131	5,870
Amounts written off	(2,236)	9	(2,245)
Recoveries	1,381	-	1,381
FCY translation	(10,072)	(5,136)	(4,936)
Transfers between allowances categories (1)	(22,876)	(24,184)	1,308
At 31 December 2017	**141,423**	**70,541**	**70,882**
Collective allowances for impairment			
At 1 January	51,630	32,527	19,103
Charge for the year	10,239	103	10,136
Amounts written off	(12,521)	-	(12,521)
Recoveries	7,924	-	7,924
FCY translation	(7,397)	(2,607)	(4,790)
Transfers between allowances categories (1)	22,876	23,442	(566)
At 31 December 2017	**72,751**	**53,465**	**19,286**
Total impairment allowance at 31 December 2017	**214,174**	**124,006**	**90,168**

(1) Transfers between categories represent the reclassification during the year between classes of individual and collective impairment.

7 Other operating income

	2018	2017
(in thousands MDL)		
Payables write off	13,508	74
Penalties charged to the clients for late payment	122	385
Other operating income	229	99
	13,859	**558**

Payables write off mainly represents the cancelation of payables to SG Group related to corporate service fees following the revision of the above.

Notes to the Financial Statements

8 Personnel expenses

(in thousands MDL)	2018	2017
Wages and salaries	94,744	81,981
Social security costs	26,125	22,652
Bonuses	27,081	21,383
Provision for employee benefits and related contribution	11,786	9,947
Medical insurance contributions	5,691	4,958
Other payments	6,719	2,029
	172,146	**142,950**

The average number of staff employed by the Bank in 2018 was 721 (2017: 704).

9 Other operating expenses

(in thousands MDL)	2018	2017
Rent and utilities	29,087	32,358
Repair and maintenance of fixed assets	16,840	16,917
Maintenance of intangibles	21,286	18,436
Consulting and auditing (1)	17,330	14,987
Telecommunication	9,913	10,138
Advertising and publishing	7,535	6,598
Security costs	7,011	6,989
Consumables and LVA	2,606	2,715
Other provision for operational risk (2)	(3,222)	1,754
Information cost	3,395	3,477
Insurance	3,564	3,688
Training	1,654	1,727
Travel and transportation	1,749	1,990
Result of disposal of fixed assets	216	1,038
Representation expenses	969	1,554
Taxes and duties	1079	696
Charity	1069	536
Other	4,888	3,316
	126,969	**128,914**

Notes to the Financial Statements

9. Other operating expenses (continued)

(1) Consulting and audit costs are analyzed below:

	2018	2017
(in thousands MDL)		
Technical assistance – SG	12,619	10,685
Audit and consulting	2,974	2,941
Legal fees	1,737	1,361
	17,330	**14,987**

Technical assistance provided by Societe Generale ("SG") mainly include cost of man days related to assistance in aligning of processes, procedures and general organization in accordance with SG Group norms.

(2) Other provision for operational risk reversed in 2018 as result of positive resolution received from legal authorities.

10 Income tax expense

	2018	2017
(in thousands MDL)		
Current tax		
Current income tax	36,286	36,023
Deferred tax		
Relating to origination and reversal of temporary differences	(2,417)	(502)
Income tax expense	**33,869**	**35,521**

During 2018 the corporate income tax rate was 12% (2017: 12%).

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Notes to the Financial Statements

10. Income tax expense (continued)

10.1 Reconciliation of the total tax charge

Reconciliation between the tax expense and the accounting profit multiplied by the tax rate enforced in the Republic of Moldova for the years ended 31 December 2018 and 2017 is, as follows:

	2018	2017
(in thousands MDL)		
Accounting profit before tax	328,864	313,200
At statutory income tax rate of 12% (2017: 12%)	39,464	37,584
Adjustment in respect of current income tax of prior years	-	4
Income not subject to tax	(5,315)	(5,598)
Non–deductible expenses	(280)	3,531
Income tax expense reported in the income statement	**33,869**	**35,521**

The effective income tax rate for 2018 is 11% (2017: 11%).

Effective 2018 Impairment losses on loans and advances to customers are deductible based on IFRS rules, resulting in release of related deferred tax liabilities.

Income not subject to tax mainly includes the effect of deductibility of impairment losses based on IFRS rules and interest income on financial investments issued by the Ministry of finance.

Non–deductible expenses mainly include accruals and provisions which do not meet the deductibility requirements based on tax rules.

Notes to the Financial Statements

10. Income tax expense (continued)

10.2 Deferred tax

The following table shows deferred tax recorded on the statement of financial position in other assets and other liabilities and changes recorded in the Income tax expense:

31 December 2018 (in thousands MDL)	**Deferred tax Assets**	**Deferred tax Liabilities**	**NET**	**Charge in Income statement**
Loans and advances to customers	-	-	-	(3,885)
Property and equipment	-	1,659	1,659	(721)
Borrowings from IFI's		-	-	(474)
Other liabilities	(5,810)	-	(5,810)	1,715
	(5,810)	**1,659**	**(4,151)**	**(2,417)**

31 December 2017 (in thousands MDL)	**Deferred tax Assets**	**Deferred tax Liabilities**	**NET**	**Charge in Income statement**
Loans and advances to customers	-	3,885	3,885	743
Property and equipment	-	2,380	2,380	(198)
Borrowings from IFI's	(474)	-	(474)	(86)
Other liabilities	(7,525)	-	(7,525)	(961)
	(7,999)	**6,265**	**(1,734)**	**(502)**

Notes to the Financial Statements

11 Basic earnings per share

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of Bank by the weighted average number of ordinary shares outstanding during the year.

	2018	2017
(in thousands MDL)		
Net profit attributable to ordinary equity holders	295,665	277,679
Weighted average number of ordinary shares	9,994,394	9,994,394
Basic earnings per share (MDL/share)	29,58	27,78
Dividends per share (MDL/share)	13.40	16.33

No diluted earnings per share were calculated as there are no dilutive instruments as at the end of year.

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the completion of these financial statements which would require the restatement of earnings per share.

12 Cash and balances with Central Bank

	31 December 2018	31 December 2017
(in thousands MDL)		
Cash on hand	422,336	406,495
Current account with Central bank	1,892,774	1,407,752
Mandatory reserve deposit held in foreign currency	534,448	527,292
	2,849,558	**2,341,539**

Current account and obligatory reserves

The National Bank of Moldova (NBM) requires commercial banks to maintain for liquidity purposes mandatory reserves calculated at a certain rate of the average funds borrowed by banks during the previous month (period between date 16 of the previous month and date 15 of the current month) including all customer deposits. The NBM decided to facilitate the long term lending to the economy by the commercial banks, applying 0% mandatory reserves rate for long term funding (contractual maturity over 2 years) starting from August 2011.

The Bank maintains its mandatory reserves in a current account opened with the NBM on funds attracted in Moldovan Lei and non-convertible currencies. Mandatory reserves on funds denominated in USD and EUR are held in a special compulsory reserve account with NBM.

As of 31 December 2018 the rate for calculation of the mandatory reserve in local currency was 42,5% (31 December 2017: 40%) and in foreign currencies 14% (31 December 2017: 14%).

As of 31 December 2018 the Bank had to maintain as mandatory reserve in MDL an average of MDL'000 1,889,864 (2017: MDL'000 1,529,455), in USD of USD'000 8,171 (2017: USD'000 10,313) and in EUR of EUR'000 20,203 (2017: EUR'000 17,195). As of 31 December 2018 and 2017 the Bank is in line with the above mentioned limits.

Notes to the Financial Statements

13 Due from banks

(in thousands MDL)	31 December 2018	31 December 2017
Current accounts	1,003,641	855,014
Overnight deposits	459,565	540,454
Term deposits	214,301	375,718
Less: Allowances for impairment losses	(2,336)	-
	1,675,171	**1,771,186**

As of 31 December 2018 and 2017 the major balances on current accounts were held with Societe Generale.

13.1 Impairment allowances for due from banks

The table below shows gross amount, credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification of due to banks:

(in thousands MDL)	31 December 2018	31 December 2017
Term deposits	214,301	375,718
Less: Allowance for impairment losses (1)	(2,336)	-
	211,965	**375,718**

(1) ECL for term deposits is classified according to accounting policy as Stage 1 collective. By internal credit rating system term deposits are neither past due nor impaired.

An analysis of charges in the gross carrying amount and the corresponding ECL allowances in relation to due from banks is, as follows:

(in thousands MDL)	Stage 1 collective
Gross carrying amount as at 1 January 2018	**375,718**
New assets originated or purchased	11,322
Assets derecognized or repaid (excluding write offs)	(158,280)
Changes to contractual cash flows due to modifications not resulting in derecognition	-
Amounts written off	-
Foreign exchange adjustments	(14,459)
Gross carrying amount as at 31 December 2018	**214,301**

Notes to the Financial Statements

13 Due from banks (continued)

13.1 Impairment allowances for due from banks (continued)

	Stage 1 collective
(in thousands MDL)	
ECL allowance as at 1 January 2018 under IFRS 9	**2,451**
New assets originated or purchased	123
Assets derecognized or repaid (excluding write offs)	(1,032)
Changes in models or risk parameters	891
Net ECL Charge	**(18)**
Foreign exchange adjustments	(97)
ECL allowance as at 31 December 2018	**2,336**

14 Loans and advances to customers

The Bank's commercial lending is concentrated on companies and individuals domiciled in Moldova.

	31 December 2018	**31 December 2017**
(in thousands MDL)		
Loans and advances to customers, gross	5,390,999	4,855,177
Less: Allowance for impairment losses	(200,962)	(214,174)
	5,190,037	**4,641,003**

As of 31 December 2018 the outstanding of loans granted to related parties amounted at MDL'000 16,019 (2017: MDL'000 17,913) at an average interest rate of 8.81% per annum (2017: 9.32% per annum) (Note 31).

Segments of loans and advances to customers are described in the table below

	31 December 2018	31 December 2017
(in thousands MDL)		
Corporate and SME	2,773,884	2,666,018
Consumer	1,155,296	963,155
Mortgage	805,536	613,263
PRO/VSB	656,283	612,741
	5,390,999	**4,855,177**
Less: Allowance for ECL/impairment losses	(200,962)	(214,174)
	5,190,037	**4,641,003**

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Notes to the Financial Statements

14 Loans and advances to customers (continued)

14.1 Impairment allowance for loans and advances to customers

14.1.1 Corporate and SME

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 27.1 the policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 27.1.

	31 December 2018					31 December 2017
	Stage 1 Collective	**Stage 2 Collective**	**Stage 3 Collective**	**Stage 3 Individual**	**Total**	**Total**
Probability of Default rates	*2.10%*	*29.20%*	*100%*	*100%*		
(in thousands MDL)						
Internal rating grade						
Neither past due nor impaired	2,420,845	173,030	-	-	2,593,875	2,507,436
Past due but not impaired	52,825	21,258	19,727	-	93,810	54,954
Non-performing	-	-		-	-	11,097
Individually impaired	-	-	-	86,199	86,199	92,531
Total	**2,473,670**	**194,288**	**19,727**	**86,199**	**2,773,884**	**2,666,018**

Notes to the Financial Statements

14 Loans and advances to customers (continued)

14.1 Impairment allowance for loans and advances to customers (continued)

14.1.1 Corporate and SME (continued)

An analysis of charges in the gross carrying amount and the corresponding ECL allowances in relation to Corporate and SME lending is, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
Gross carrying amount as at 1 January 2018	**2,251,185**	**311,205**	**11,097**	**92,531**	**2,666,018**
New assets originated or purchased	1,722,526	-	-	-	**1,722,526**
Assets derecognized or repaid (excluding write offs)	(1,392,727)	(169,281)	(25,394)	(19,872)	**(1,607,274)**
Transfers to S1	31,742	(31,742)	-	-	-
Transfers to S2	(103,876)	103,876	-	-	-
Transfers to S3	(34,423)	(19,769)	34,024	20,168	-
Amounts written off	-	-	-	(6,628)	**(6,628)**
Foreign exchange adjustments	(758)	-	-	-	**(758)**
Gross carrying amount as at 31 December 2018	**2,473,669**	**194,289**	**19,727**	**86,199**	**2,773,884**

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
ECL allowance as at 1 January 2018 under IFRS 9	**14,792**	**42,918**	**6,716**	**70,541**	**134,967**
New assets originated or purchased	57,318	-	-	-	**57,318**
Assets derecognized or repaid (excluding write offs)	(8,700)	(26,448)	(2,633)	(19,226)	**(57,007)**
Transfers to S1	4,390	(4,390)	-	-	-
Transfers to S2	(20,243)	20,243	-	-	-
Transfers to S3	(8,150)	(2,714)	4,067	6,797	-
Changes in models or risk parameters	(11,978)	11,792	882	6,322	**7,018**
Amounts written off	-	-	-	(11,162)	**(11,162)**
Foreign exchange adjustments	(268)	(504)	(266)	(323)	**(1,361)**
Net ECL Charge	**12,369**	**(2,021)**	**2,050**	**(17,592)**	**(5,194)**
ECL allowance as at 31 December 2018	**27,161**	**40,897**	**8,766**	**52,949**	**129,773**

Notes to the Financial Statements

14 Loans and advances to customers (continued)

14.1 Impairment allowance for loans and advances to customers (continued)

14.1.2 Consumer

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 27.1 the policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 27.1.

	31 December 2018					31 December 2017
	Stage 1 Collective	**Stage 2 Collective**	**Stage 3 Collective**	**Stage 3 Individual**	**Total**	**Total**
Probability of Default rates	1.3%	31.6%	100%	100%		
(in thousands MDL)						
Internal rating grade						
Neither past due nor impaired	1,041,649	7,643	-	-	1,049,292	891,568
Past due but not impaired	72,995	21,513	-	-	94,508	62,125
Non-performing	-	-	11,079	-	11,079	6,294
Individually impaired	-	-	-	417	417	3,168
Total	**1,114,644**	**29,156**	**11,079**	**417**	**1,155,296**	**963,155**

An analysis of charges in the gross carrying amount and the corresponding ECL allowances in relation to consumer lending is, as follows:

	Stage 1 collective	**Stage 2 collective**	**Stage 3 collective**	**Stage 3 individual**	**Total**
(in thousands MDL)					
Gross carrying amount as at 1 January 2018	**943,686**	**10,007**	**6,294**	**3,168**	**963,155**
New assets originated or purchased	730,952	-	-	-	**730,952**
Assets derecognized or repaid (excluding write offs)	(513,662)	(14,289)	(6,308)	(801)	**(535,060)**
Transfers to S1	1,189	(1,106)	(83)	-	-
Transfers to S2	(36,511)	36,525	(14)	-	-
Transfers to S3	(11,009)	(1,981)	12,990	-	-
Amounts written off	-	-	(1,796)	(1,950)	**(3,746)**
Foreign exchange adjustments	(1)	-	(4)	-	**(5)**
Gross carrying amount as at 31 December 2018	**1,114,644**	**29,156**	**11,079**	**417**	**1,155,296**

Notes to the Financial Statements

14 Loans and advances to customers (continued)

14.1 Impairment allowance for loans and advances to customers (continued)

14.1.2 Consumer (continued)

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
ECL allowance as at 1 January 2018 under IFRS 9	**11,033**	**3,015**	**4,926**	**2,971**	**21,945**
New assets originated or purchased	8,145	-	-	-	**8,145**
Assets derecognized or repaid (excluding write offs)	(8,354)	(2,091)	(3,475)	(96)	**(14,016)**
Transfers to S1	347	(333)	(14)	-	-
Transfers to S2	(1,661)	1,669	(8)	-	-
Transfers to S3	(9,795)	(3,536)	13,329	2	-
Changes in models or risk parameters	6,892	5,332	7,795	(6)	**20,013**
Amounts written off	-	-	(15,279)	(2,653)	**(17,932)**
Foreign exchange adjustments	(1)	-	(4)	-	**(5)**
Net ECL Charge	**(4,427)**	**1,041**	**2,344**	**(2,753)**	**(3,795)**
ECL allowance as at 31 December 2018	**6,606**	**4,056**	**7,270**	**218**	**18,150**

Notes to the Financial Statements

14 Loans and advances to customers (continued)

14.1 Impairment allowance for loans and advances to customers (continued)

14.1.3 Mortgage

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 27.1 the policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 27.1.

	31 December 2018					31 December 2017
	Stage 1 Collective	**Stage 2 Collective**	**Stage 3 Collective**	**Stage 3 Individual**	**Total**	**Total**
Probability of Default rates	**0.4%**	**38.5%**	**100%**	**1000%**		
(in thousands MDL)						
Internal rating grade						
Neither past due nor impaired	718,067	4,757	-	-	**722,824**	553,798
Past due but not impaired	52,720	13,551	-	-	**66,271**	43,088
Non-performing	-	-	9,979	-	**9,979**	3,914
Individually impaired	-	-	-	6,462	**6,462**	12,463
Total	**770,787**	**18,308**	**9,979**	**6,462**	**805,536**	**613,263**

An analysis of charges in the gross carrying amount and the corresponding ECL allowances in relation to mortgage lending is, as follows:

	Stage 1 collective	**Stage 2 collective**	**Stage 3 collective**	**Stage 3 individual**	**Total**
(in thousands MDL)					
Gross carrying amount as at 1 January 2018	**591,849**	**5,037**	**3,914**	**12,463**	**613,263**
New assets originated or purchased	350,354	-	-	-	**350,354**
Assets derecognized or repaid (excluding write offs)	(144,832)	(3,978)	(3,253)	(1,893)	**(153,956)**
Transfers to S1	816	(259)	(557)	-	-
Transfers to S2	(18,186)	18,186	-	-	-
Transfers to S3	(9,199)	(681)	9,880	-	-
Amounts written off	-	-	-	(4,108)	**(4,108)**
Foreign exchange adjustments	(15)	3	(5)	-	**(17)**
Gross carrying amount as at 31 December 2018	**770,787**	**18,308**	**9,979**	**6,462**	**805,536**

Notes to the Financial Statements

14 Loans and advances to customers (continued)

14.1 Impairment allowance for loans and advances to customers (continued)

14.1.3 Mortgage (continued)

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
ECL allowance as at 1 January 2018 under IFRS 9	**2,788**	**1,261**	**1,651**	**10,930**	**16,630**
New assets originated or purchased	2,163	-	-	-	**2,163**
Assets derecognized or repaid (excluding write offs)	(2,042)	(679)	(120)	(826)	**(3,667)**
Transfers to S1	259	(64)	(195)	-	-
Transfers to S2	(518)	518	-	-	-
Transfers to S3	(1,169)	(170)	1,339	-	-
Changes in models or risk parameters	(300)	2,022	1,417	1,120	**4,259**
Amounts written off	-	-	-	(6,066)	**(6,066)**
Foreign exchange adjustments	(15)	3	(5)	-	**(17)**
Net ECL Charge	**(1,622)**	**1,630**	**2,436**	**(5,772)**	**(3,328)**
ECL allowance as at 31 December 2018	**1,166**	**2,891**	**4,087**	**5,158**	**13,302**

14.1.4 Professionals and Very Small Business

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 27.1 the policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 27.1.

	31 December 2018					31 December 2017
	Stage 1 Collective	Stage 2 Collective	Stage 3 Collective	Stage 3 Individual	Total	Total
Probability of Default rates	**1.7%**	**38.4%**	**100%**	**100%**		
(in thousands MDL)						
Internal rating grade						
Neither past due nor impaired	542,958	12,764	-	-	**555,722**	490,034
Past due but not impaired	44,700	18,949	-	-	**63,649**	50,486
Non-performing	-	-	13,383	-	**13,383**	10,645
Individually impaired	-	-	-	23,529	**23,529**	61,576
Total	**587,658**	**31,713**	**13,383**	**23,529**	**656,283**	**612,741**

Notes to the Financial Statements

14 Loans and advances to customers (continued)

14.1 Impairment allowance for loans and advances to customers (continued)

14.1.4 Professionals and Very Small Business (continued)

An analysis of charges in the gross carrying amount and the corresponding ECL allowances in relation to Professionals and Very Small Business is, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
Gross carrying amount as at 1 January 2018	**521,819**	**18,701**	**10,645**	**61,576**	**612,741**
New assets originated or purchased	384,163	-	-	-	**384,163**
Assets derecognized or repaid (excluding write offs)	(277,910)	(17,572)	(10,375)	(11,333)	**(317,190)**
Transfers to S1	5,559	(4,735)	(824)	-	-
Transfers to S2	(31,625)	34,115	(2,490)	-	-
Transfers to S3	(14,224)	(2,981)	17,205	-	-
Amounts written off	-	-	-	(22,396)	**(22,396)**
Foreign exchange adjustments	(124)	(133)	(778)	-	**(1,035)**
Gross carrying amount as at 31 December 2018	**587,658**	**27,395**	**13,383**	**27,847**	**656,283**

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
ECL allowance as at 1 January 2018 under IFRS 9	**7,504**	**4,990**	**4,507**	**56,981**	**73,982**
New assets originated or purchased	12,070	-	-	-	**12,070**
Assets derecognized or repaid (excluding write offs)	(5,311)	(3,062)	(2,055)	(1,097)	**(11,525)**
Transfers to S1	2,487	(111)	(217)	(2,159)	-
Transfers to S2	(2,951)	3,574	(623)	-	-
Transfers to S3	(5,804)	(878)	6,088	594	-
Changes in models or risk parameters	(2,771)	1,691	358	2,143	**1,421**
Amounts written off	-	-	(732)	(34,446)	**(35,178)**
Foreign exchange adjustments	(121)	(133)	(240)	(539)	**(1,033)**
Net ECL Charge	**(2,401)**	**1,081**	**2,579**	**(35,504)**	**(34,245)**
ECL allowance as at 31 December 2018	**5,103**	**6,071**	**7,086**	**21,477**	**39,737**

Notes to the Financial Statements

14 Loans and advances to customers (continued)

14.2 Impairment allowance as at 31 December 2017

The table below shows gross balances under IAS 39 as at 31 December 2017 based on the Bank's internal credit rating system, which is described in Note 27.1.1.

The Bank's commercial lending is concentrated on companies and individuals domiciled in Moldova.

	31 December 2017
(in thousands MDL)	
Loans and advances to customers, gross	4,855,177
Less: Allowance for impairment losses	(214,174)
	4,641,003

As of 31 December 2017 the outstanding of loans granted to related parties amounted at MDL'000 17,913 at an average interest rate of 9.32% per annum.

As of 31 December 2017 there were no loans pledged as security under loan agreements with international financial institutions.

A reconciliation of the allowance for impairment losses for loans and advances, by class is presented in Note 6.

Notes to the Financial Statements

14 Loans and advances to customers (continued)

14.2 Credit quality analysis at 31 December 2017 (continued)

(in thousands MDL)	31 December 2017
Loans to individuals	
Consumer loans	847,412
Mortgage loans	613,235
	1,460,647
Less allowance for impairment losses	(23,812)
Net loans to individuals	**1,436,835**
Loans to corporate customers	
Industry and commerce	2,298,536
Agriculture and food industry	508,930
Fuel and energy	41,646
Construction and development	181,873
Overdrafts	8,967
Micro-enterprises	195,232
Other	159,346
	3,394,530
Less allowance for impairment losses	(190,362)
Net loans to corporate customers	**3,204,168**
Total net loans and advances to customers	**4,641,003**

The Bank's lending activities are conducted in Moldova. The ability of borrowers to repay their debt is dependent on a number of factors including the overall financial wealth of the borrower and the Moldovan economy.

Notes to the Financial Statements

15 Financial investments other than those measured at FVPL

	31 December 2018	31 December 2017
(in thousands MDL)		
Loans and receivables		
Treasury bills issued by the Ministry of Finance	-	513,075
State bonds issued by the Ministry of Finance	-	234
NBM certificates	-	630,628
	-	**1,143,937**
Available-for-sale investments		
Equity investments	-	1,031
	-	**1,031**
Debt instruments at amortized cost:		
Treasury bills issued by the Ministry of Finance	486,752	-
State bonds issued by the Ministry of Finance	98,608	-
NBM certificates	465,193	-
Total gross amount of exposure	**1,050,533**	-
Grand Total	**1,050,553**	**1,144,968**

The bank has designated its equity investments previously classified ad available-for-sale as equity instruments at FVPL on the basis that these are neither held for trading nor FVOCI option was elected. For details regarding the nature of equity investments please see Note 16.

Securities issued by the Ministry of Finance

As of 31 December 2018 treasury bills issued by the Ministry of Finance represent fixed rate MDL **treasury bills** issued with discount with original maturity between 91 and 364 days yielding an average interest rate of **4.63%** per annum (31 December 2017: 6.73% per annum).

State bonds issued by the Ministry of Finance bear a revisable interest rate linked to weighted average rate on 6 months treasury bills. The average interest rate as of 31 December 2018 was **5.91%** per annum for two-year period, **6.50%** for 3 years and **6.85% for 5 years** (31 December 2017: 7.36% per annum for 2 years and for 3 years – 7.47%).

As of 31 December 2018 there are no REPO transactions with NBM.

NBM certificates

As of 31 December 2018 NBM certificates represent fixed rate financial instruments issued with discount with original maturity of up to 14 days yielding an average interest rate of **6.50%** per annum (31 December 2017: 7.90% per annum).

Notes to the Financial Statements

15 Financial investments other than those measured at FVPL (continued)

15.1 Impairment losses on financial investments subject to impairment

Debt instruments at amortized cost

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented below are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 27.1.2. By internal credit rating system debt instruments at amortized cost are neither past due nor impaired.:

31 December2018	**Stage 1 collective**
(in thousands MDL)	
Internal rating grade	
Neither past due nor impaired	1,062,128
Treasury bills issued by the Ministry of Finance	492,116
State bonds issued by the Ministry of Finance	99,695
NBM certificates	470,317
Grand Total	**1,062,128**

An analysis of changes in the gross carrying amount and the corresponding ECLs is, as follows:

	Stage 1 collective
(in thousands MDL)	
Gross carrying amount as at 1 January 2018	1,143,937
New assets originated or purchased	16,363,125
Assets derecognized or repaid (excluding write offs)	(16,444,934)
Gross carrying amount as at 31 December 2018	**1,062,128**

	Stage 1 collective
(in thousands MDL)	
ECL allowance as at 1 January 2018 under IFRS 9	**7,462**
New assets originated or purchased	10,727
Assets derecognized or repaid (excluding write offs)	(6,614)
Net ECL Charge	**4,113**
ECL allowance as at 31 December 2018	**11,575**

Notes to the Financial Statements

16 Financial assets measured at FVPL

Financial assets at fair value through profit or loss

	31 December 2018
(in thousands MDL)	
Financial assets at fair value through profit or loss	
Treasury bills issued by the Ministry of Finance	1,168
Equity investments at FVPL	1,031
	2,199

Equity investments at fair value through profit or loss

The Bank has designated its equity investments previously classified as available-for-sale as equity investments at FVPL. Investments include mandatory shares in institutions mentioned below in the table.

All equity investments as of the end of 2018 and 2017 are classified at FVPL as presented below:

	Field of activity	Ownership 2018, %	31 December 2018	31 December 2017
(in thousands MDL)				
Credit Bureau S.R.L.	Research of credit information	6.7%	1,019	1,019
Bursa de Valori a Moldovei	Stock Exchange	2.56%	7	7
IM "Tirex Petrol" S.A.	Downstream	0.01%	4	4
Equity investments in commercial banks (Moldova) (less than 1 % ownership)	Banking		1	1
Carrying amount			**1,031**	**1,031**

All equity investments at FVPL as of 31 December 2018 and 2017 are unquoted and are recorded at fair value..

Notes to the Financial Statements

17 Property and equipment

(in thousands MDL)	Land and buildings	Assets under construction	Vehicles	Computers and equipment	Others	Total
Cost						
At 1 January 2017	**113,805**	**8,991**	**8,340**	**105,111**	**50,578**	**286,825**
Additions	4,670	61,145	-	1,080	564	**67,459**
Disposals	(7,283)	(32,868)	(650)	(2,361)	(1,498)	**(44,660)**
Transfers	6,406	(23,631)	-	13,251	3,974	-
At 31 December 2017	**117,598**	**13,637**	**7,690**	**117,081**	**53,618**	**309,624**
Additions	432	50,602	762	397	628	**52,821**
Disposals	(707)	(33,644)	(514)	(4,261)	(2,432)	**(39,558)**
Transfers	2,545	(7,338)	-	1,637	3,156	-
At 31 December 2018	**119,868**	**23,257**	**7,938**	**114,854**	**54,970**	**322,887**
Depreciation and impairment						
At 1 January 2017	**36,248**	-	**6,329**	**69,554**	**29,690**	**141,821**
Disposals	(2,686)	-	(645)	(2,307)	(593)	**(6,231)**
Depreciation charge for the year	7,140	-	771	11,879	7,323	**27,113**
Balance at 31 December 2017	**40,702**	-	**6,455**	**79,126**	**36,420**	**162,703**
Disposals	(603)	-	(514)	(4,228)	(2,028)	**(7,373)**
Depreciation charge for the year	5,937	-	612	11,754	6,807	**25,110**
Balance at 31 December 2018	**46,036**	-	**6,553**	**86,652**	**41,199**	**180,440**
Carrying amount						
at 1 January 2017	**77,557**	**8,991**	**2,011**	**35,557**	**20,888**	**145,004**
at 31 December 2017	**76,896**	**13,637**	**1,235**	**37,955**	**17,198**	**146,921**
at 31 December 2018	**73,832**	**23,257**	**1,385**	**28,202**	**13,771**	**142,447**

As of 31 December 2018 the cost of fully depreciated assets amounted at MDL'000 99,143 (31 December 2017: MDL'000 81,624).

During 2018 and 2017 the Bank carried capital construction works in the rented premises in line with the network development plan. As of 31 December 2018 the cost of such investments included in "Land and buildings" category amounts to MDL'000 2,977 (2017: MDL'000 5,337) and included in "Assets under construction" category of MDL'000 12,902 (2017: MDL'000 0). These investments are being amortized over the period lower of useful life or rent agreement term starting from date of opening of the point of sale.

FOR IDENTIFICATION PURPOSES
ERNST & YOUNG
Signed..........
Date.....30/04/2019.........

Notes to the Financial Statements

18 Intangible assets

(in thousands MDL)	Informational System development costs	Software	Licenses	Other	Total
Cost					
At 1 January 2017	**114,044**	**10,492**	**7,207**	**17,364**	**149,107**
Additions	57,132	2,137	2,702	315	**62,286**
Disposals	(43,483)	-	-	-	**(43,483)**
Balance at 31 December 2017	**127,693**	**12,629**	**9,909**	**17,679**	**167,910**
Additions	57,421	3,480	4,470	9	**65,380**
Disposals	(52,042)	(1,637)	(1,583)	(444)	**(55,706)**
Balance at 31 December 2018	**133,072**	**14,472**	**12,796**	**17,244**	**177,583**
Amortization and impairment					
Balance at 1 January 2017	**102,960**	**7,579**	**4,987**	**5,325**	**120,851**
Disposals	-	-	-	-	-
Amortization charge for the year	4,529	2,300	987	3,574	**11,390**
Balance at 31 December 2017	**107,489**	**9,879**	**5,974**	**8,899**	**132,241**
Disposals	(813)	(1,490)	(1,582)	(442)	**(4,327)**
Amortization charge for the year	6,605	2,473	1,393	8,087	**18,558**
Balance at 31 December 2018	**113,281**	**10,862**	**5,785**	**16,544**	**146,471**
Carrying amount					
at 1 January 2017	**11,084**	**2,913**	**2,220**	**12,039**	**28,256**
at 31 December 2017	**20,204**	**2,750**	**3,935**	**8,780**	**35,669**
at 31 December 2018	**19,791**	**3,610**	**7,011**	**700**	**31,112**

As of 31 December 2018 the cost of fully amortized intangible assets amounts at MDL'000 43,974 and mainly represents the cost of Cards Module (which represent MDL'000 12,315).

Notes to the Financial Statements

19 Other assets

(in thousands MDL)	31 December 2018	31 December 2017
Other Financial Assets		
Clearing and transit amounts (1)	6,724	8,103
Operations with payment cards (Master Card and VISA)	13,070	5,686
Commission fees receivable	4,822	5,293
Other receivables	438	572
Due from employees	1,493	408
Total Other Financial Assets	**26,547**	**20,062**
Less allowance for ECL (2)	(6,393)	(3,931)
Other Financial Assets Net	**20,154**	**16,131**
Other Assets		
Repossessed assets (3)	6,146	6,146
Income and other taxes receivable	8,335	3,179
Other prepayments	4,258	4,510
Prepaid insurance	1,302	1,504
Consumables and LVA	1,248	1,342
Prepaid rent fees	719	687
Total Other Assets	**22,008**	**17,638**
Less allowance for impairment losses (4)	(2,095)	(2,095)
Other Assets Net	**19,913**	**15,273**
Total Other Assets	**40,069**	**31,404**

(1) Clearing and transit amounts represent transactions through international payment systems as of 31 December 2018 amounting MDL'000 3,653 (as of 31 December 2017 MDL'000 5,535) and the remaining amount relates to operations with cards.

(2) Allowance for impairment losses relates to non-recoverable commission fees receivable amounting MDL'000 4,797 (as of 31 December 2017 MDL'000 3,931), and ECL Stage 1 under IFRS 9 for other assets measured at amortized cost MDL'000 1,596.

Notes to the Financial Statements

19 Other assets (continued)

(3) Repossessed assets represent: two commercial spaces received as repayment for none-performing loans. As of 31 December 2018 amounting MDL'000 945 and MDL'000 5,200 (as of 31 December 2017 MDL'000 945 and MDL '000 5,200).

(4) Repossessed assets amounting MDL'000 2,095 (as of 31 December 2017 MDL'000 2,095).

	31 December 2018			31 December 2017
	Stage 1 collective	Stage 3 collective	Total	Total
(in thousands MDL)				
Internal rating grade				
Neither past due nor impaired	20,655	-	20,655	14,571
Past due but not impaired	-	-	-	-
Non-performing	-	-	-	-
Individually impaired	-	5,892	5,892	5,491
Grand Total	**20,655**	**5,892**	**26,547**	**20,062**

An analysis of changes in the gross carrying amount and the corresponding ECLs is, as follows:

	Stage 1 collective	Stage 3 collective	Total
(in thousands MDL)			
Gross carrying amount as at 1 January 2018	14,571	5,491	20,062
New assets originated or purchased	6,485	0	6,485
Assets derecognized or repaid (excluding write offs)	(89)		(89)
Transfers to S3	(714)	714	-
Foreign exchange adjustments	402	(313)	89
Gross carrying amount as at 31 December 2018	**20,655**	**5,892**	**26,547**

	Stage 1 collective	Stage 3 collective	Total
(in thousands MDL)			
ECL allowance as at 1 January 2018 under IFRS 9	**113**	**5,491**	**5,604**
New assets originated or purchased	853		**853**
Assets derecognized or repaid (excluding write offs)	(1)		**(1)**
Transfers to S3	(714)	714	-
Changes in models or risk parameters	(5)		**(5)**
Foreign exchange adjustments	2	(60)	**(58)**
Net ECL Charge	**135**	**654**	**789**
ECL allowance as at 31 December 2018	**248**	**6,145**	**6,393**

Notes to the Financial Statements

20 Due to banks

(in thousands MDL)	31 December 2018	31 December 2017
Current accounts	1,343	3,393
Term deposits	33	61
	1,376	**3,454**

21 Due to customers

(in thousands MDL)	31 December 2018	31 December 2017
Retail customers		
Current/savings accounts	2,420,331	2,035,680
Term deposits	2,215,559	2,150,335
	4,635,890	**4,186,015**
Corporate customers		
Current/savings accounts	3,214,586	2,743,889
Term deposits	426,475	557,742
	3,641,061	**3,301,631**
	8,276,951	**7,487,646**

Included in Due to customers were deposits of MDL'000 44,492 (2017: MDL'000 38,367) held as collateral for loans and guarantees.

Notes to the Financial Statements

22 Borrowed funds from IFI's

	31 December 2018	31 December 2017
(in thousands MDL)		
European Bank for Reconstruction and Development (EBRD)	225,505	219,419
Nederlandse Financierings - Maatschappij Voor Ontwikkelingslanden N.V. (FMO)	-	-
International Development Association (IDA)	80,720	142,014
International Fund for Agricultural Development (FIDA)	20,380	17,490
European Investment Bank (EIB)	370,675	393,805
Millennium Challenge Account Moldova (MCA)	551	1,286
"Filere du Vin" (UCIP - EIB)	219,164	185,897
	916,995	**959,911**

Below are the descriptions of the main financing lines:

Loans from EBRD

	Maturity	Security	31 December 2018	31 December 2017
(in thousands MDL)				
Multicurrency (USD/EUR) revolving loan dated July 2003 (1)	Uncommitted	Unsecured	-	-
Multicurrency (USD/EUR) loan (MoREEFF) (2)	Jun-2021	SG Guarantee	-	23,905
Multicurrency (USD/EUR) loan (MSME_BERD 2013) (3)	Dec-2018	SG Guarantee	-	20,104
Multicurrency (USD/EUR/MDL) loan dated December 2015 (4)	Mar-2021	SG Guarantee	-	88,561
Multicurrency (USD/EUR/MDL) loan dated December 2016 (5) (DCFTA)	Dec-2019	SG Guarantee	129,717	89,706
Multicurrency (USD/EUR/MDL) loan dated December 2017 (6) (DCFTA)	Dec-2022	SG Guarantee	95,789	(2,857)
			225,505	**219,419**

The loans are secured with the right to collect receivables under sub-loans granted by the Bank.

Notes to the Financial Statements

22. Borrowed funds from IFI's (continued)

(1) On 26 September 2002 and on July 2003 it was signed Trade Finance Guarantee facility and Multicurrency revolving loan and Amended, and Restated in Issuing Bank Agreement dated 1st October 2013. By this facility EBRD, make available a non-committed trade finance to the Bank pursuant to which EBRD may from time to time and its sole discretion, issue EBRD Guarantees in favor of confirming bank in support of the payment obligations of the Issuing bank in connection with exports from and import operations. The facility is uncommitted with no final date of maturity. Either party may terminate this Agreement by giving written notice.

(2) On 20 May 2013 it was signed the Moldovan Residential Energy Efficiency Financing Facility (MoREEFF) in amount of EUR 2 million. The facility has been used for on-lending individuals for energy efficiency purposes. By 31 December 2018, the facility has been fully prepaid to EBRD. The loan was secured by financial guarantee issued by Societe Generale.

(3) On 18 September 2013 the Bank signed the Micro, Small and Medium Sized Enterprises – MSME facility in amount of EUR5 million. The maturity of the loan falls on December 2018. The purpose of Loan is on-lending SME and Microenterprises financing. By 31 December 2018 the loan is fully paid to EBRD. The loan was secured by financial guarantee issued by Societe Generale.

On February 6th, 2014 the Bank signed with EBRD *Framework Agreement for Unfunded Risk Sharing Facility* (MCFF) in amount of EUR 10 million. The purpose of facility is to increase the flow of loans to large companies based on which EBRD will share up to 50 per cent of credit risk.

(4) On 27 December 2015 the Bank signed the third Moldovan Sustainable Energy Financing Facility (MoSEFF) in amount of EUR 5,5 million. The facility has been used for on-lending SME and corporate clients for energy efficiency purposes. The loan was secured by financial guarantee issued by Societe Generale. By 31 December 2018 the loan has been fully paid to EBRD.

(5) On 8 December 2016 the Bank signed the EU4BUSINESSEBRD Credit Line (DCFTA Programme) in amount of EUR 10.0 million. The maturity of the loan falls on December 2019. The purpose of facility is strengthening MSME capacity and meets the EU standards. By 31 December 2018 the Bank disbursed full amount. The loan is secured by financial guarantee issued by Societe Generale.

(6) On 15 December 2017 the Bank signed the EU4BUSINESSEBRD Credit Line (DCFTA Programme) in amount of EUR 20.0 million. The maturity of the loan falls on December 2022. The purpose of facility is strengthening MSME capacity and meets the EU standards. By 31 December 2018 the Bank disbursed first tranche in total amount 5.0 M EUR. The loan is secured by financial guarantee issued by Societe Generale.

Loan from EIB

On 18 November 2013 the Bank signed a Loan Agreement with EIB in amount of EUR 20 million for on-lending Small, Medium and Mid Cap Sized Enterprises. The tranches to be disbursed under the Loan Agreement may take up 10 years. By 31 December 2018 the loan is fully disbursed and the outstanding in under amortization. The loan is secured by financial guarantee issued by Societe Generale.

Notes to the Financial Statements

22. Borrowed funds from IFI's (continued)

Loans from UCIP – EIB

On December 2011 and July 2016 the Bank signed the Framework Agreements with the Ministry of Finance and became the Participant Bank in "Filiere du Vin" and, respectively, "Orchard of Moldova" facilities. The total amount of Framework Agreements on "Filiere du Vin" is EUR 75.0 million and is directed for stimulation of wine industry and connected industries. The total amount of Framework Agreement "Orchard of Moldova" a facility is EUR 120.0 million and is directed for stimulation fruit-growers, as well as, in connected industries. The purpose of facilities are financing investments and working capital denominated in EUR. The Ministry of Finance acts as a representative of the Republic of Moldova under the loan agreements signed with EIB.

Loans from IDA

Starting with November 2004 the Bank joined the programs (RISP 1 and RISP 2) launched by International Development Association (IDA). The facilities are available for finance of entrepreneurs, SME in rural area as well as agribusiness. The Ministry of Finance, which acts as a representative of the Republic of Moldova under the loan agreements signed with IDA, granted to the Bank sub-loans denominated in local currency, USD and EUR.

On November 2014 the Bank became the partner bank of the Competitiveness Enhancement Project (CEP II) launched by World Bank (WB). The purpose of facility is financing of investment and working capital needs of exporters and economic activity related to generation of exports revenue. The sub-loans may be denominated in local currency, USD and EUR. The loan is unsecured.

Loans from IFAD

On December 2014 the Bank signed a long-term Loan Agreement with the Ministry of Finance, which acts as a representative of the Republic of Moldova under the loan agreement signed with International Fund for Agricultural Development (IFAD). The facility was targeting to finance small and medium agricultural enterprises, as well as for young entrepreneurs, program which includes a grant-component. In 2018 the limit of grant component was fully assimilated by local banks. The facility (IFAD VI) is in the final stage and the Implementation Unit is in process under implementation of next facility IFAD VII.

Loan from MCA Moldova

In October 2011 the Bank signed a loan agreement with the Millennium Challenge Account Moldova (MCA Moldova), which acts as a representative of the Republic of Moldova and ensure implementation of the Compact Agreement signed between the United States of America and Moldovan Government. The total amount of loan agreement (USD 12.0 million) is directed for stimulation of private investment in post-harvest infrastructure. The assimilation period matured on August 31st, 2015. Currently, the outstanding with MCA Moldova is under amortization.

Notes to the Financial Statements

22. Borrowed funds from IFI's (continued)

Loan from FMO

The Bank signed a long-term loan agreement with FMO in October 2006 for the total amount of EUR 4 million. The loan was directed to finance mortgage sub-loans in local currency. The loan was converted into Moldovan Lei at the date of disbursement and is further denominated in MDL. The loan was unsecured and matured in October 2017.

23 Other liabilities

	31 December 2018	31 December 2017
(in thousands MDL)		
Money transfers pending execution (1)	29,099	20,411
Other liabilities	26,323	9,399
Documentary transactions	21,986	20,410
Due to related party – SG	13,121	32,094
Other accruals	10,521	7,894
Due to related party – BRD GSG SA	3,601	2,870
Accrued audit and consulting fees	1,545	1,832
Due to state budget	1,501	5,829
Dividends payable	501	455
Due to international payment systems	486	223
Due to suppliers of property and equipment	317	175
Settlements on FCY swap transaction	271	294
	109,272	**101,886**

(1) Money transfers pending execution as of 31 December 2018 mainly comprises card transactions amounting MDL'000 16,725 (as of 31 December 2017 MDL'000 14,305) and the remaining amount refer to transfers through international payment systems. Subsequently, these amounts are reclassified to appropriate position after identification These are classified as financial liabilities at amortized cost.

Notes to the Financial Statements

24 Provisions

	31 December 2018	31 December 2017
(in thousands MDL)		
Accruals for bonuses to employees	24,331	15,105
Accrual for unused vacation	9,743	9,870
Obligations under financial guarantees	8,076	12,583
Provision for litigation	1,239	4,480
Other provisions	-	145
	43,389	**42,183**

24.1 Financial guarantees, letters of credit and other undrawn commitments

To the financial needs of customers, the Bank enters into various commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other commitments to lend. Even though these obligations may not be recognized on the statement of financial position, they contain credit risk and therefore, form part of the overall risk of the Bank.

At any time, the Bank has outstanding commitments to extend credit. These commitments take the form of approved loans and credit lines.

The Bank provides letters of guarantee and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for up to one year. The guarantees are secured with cession of money agreements and other type of security.

The amounts reflected in the table of guarantees and letters of credit represent the maximum loss that would be recognized at the balance sheet date if counterparties failed completely to perform as contracted and no guarantees are provided to the Bank. The credit risk amounts are minimized by the quality of security (deposits, real estate, etc).

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for commitments assume that amount is fully advanced.

	31 December 2018	31 December 2017
(in thousands MDL)		
Commitments to grant loans	906,418	980,930
Financial guarantees	466,013	295,419
Letters of credit	28,993	22,425
	1,401,424	**1,298,774**

Notes to the Financial Statements

24 Provisions (continued)

24.1 Financial guarantees, letters of credit and other undrawn commitments (continued)

These commitments and contingent liabilities have off-balance-sheet risk because only organization fees and accruals for probable losses are recognized in the balance sheet until the commitments are fulfilled or expire. Many of the contingent liabilities and commitments will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows. The policy of the Bank provides that only fully secured letters of credit are issued, i.e. all letters of credit are secured with a blocked deposit on the clients' accounts and other types of security.

As of 31 December 2018 the Bank issued counter-guarantees in favor of SG Group banks under the commercial guarantee transactions in the total amount of MDL'000 56,092 (31 December 2017: MDL'000 57,227).

24.1.1 Impairment losses on guarantees and other commitments

An analysis of changes in the gross carrying amount and the corresponding allowance for impairment losses in relation to guarantees and other commitments is, as follows:

(i) Commitments to grant loans

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. Details of the Bank's internal grading system are explained in Note 27.1 and policies on whether ECLs are calculated on an individual or collective basis are set out in Note 27.1:

	31 December 2018					31 December 2017
	Stage 1 Collective	**Stage 2 Collective**	**Stage 3 Collective**	**Stage 3 Individual**	**Total**	**Total**
(in thousands MDL)						
Internal rating grade						
Neither past due nor impaired	894,357	6,951	-	-	**901,308**	975,797
Past due but not impaired	4,322	609	-	-	**4,931**	4,812
Non-performing	-	-	180	-	**180**	321
Individually impaired	-	-	-	-	-	-
Total	**898,679**	**7,560**	**180**	-	**906,419**	**980,930**

Notes to the Financial Statements

24 Provisions (continued)

24.1 Financial guarantees, letters of credit and other undrawn commitments (continued)

24.1.1 Impairment losses on guarantees and other commitments (continued)

An analysis of charges in the gross carrying amount and the corresponding ECL allowances in relation to Commitments to grant loans is, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
Gross carrying amount as at 1 January 2018	**886,331**	**94,278**	**321**	**-**	**980,930**
New assets originated or purchased	714,836	-	-	-	**714,836**
Assets derecognized or repaid (excluding write offs)	(685,334)	(103,394)	(474)	-	**(789,202)**
Transfers to S1	115	(99)	(16)	-	-
Transfers to S2	(16,862)	16,862	-	-	-
Transfers to S3	(408)	(87)	495	-	-
Amounts written off	-	-	(146)	-	**(146)**
Foreign exchange adjustments	1	-	-	-	**1**
Gross carrying amount as at 31 December 2018	**898,679**	**7,560**	**180**	**-**	**906,419**

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
ECL allowance as at 1 January 2018 under IFRS 9	**3,243**	**6,509**	**166**	**-**	**9,918**
New assets originated or purchased	4,389	-	-	-	**4,389**
Assets derecognized or repaid (excluding write offs)	(2,402)	(6,404)	(152)	-	**(8,958)**
Transfers to S1	15	(15)	-	-	-
Transfers to S2	(674)	674	-	-	-
Transfers to S3	(2)	(7)	9	-	-
Changes in models or risk parameters	(11)	160	(4)	-	**145**
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	43	(183)	(5)	-	**(145)**
Net NCR Charge	1,358	(5,775)	(152)	-	**(4,569)**
ECL allowance as at 31 December 2018	**4,601**	**734**	**14**	**-**	**5,349**

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Notes to the Financial Statements

24 Provisions (continued)

24.1 Financial guarantees, letters of credit and other undrawn commitments (continued)

24.1.1 Impairment losses on guarantees and other commitments (continued)

(ii) Guarantees issued

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. Details of the Bank's internal grading system are explained in Note 27.1 and policies on whether ECLs are calculated on an individual or collective basis are set out in Note 27.1:

	31 December 2018					31 December 2017
	Stage 1 Collective	**Stage 2 Collective**	**Stage 3 Collective**	**Stage 3 Individual**	**Total**	**Total**
(in thousands MDL)						
Internal rating grade						
Neither past due nor impaired	465,572	441	-	-	**466,013**	295,419
Past due but not impaired	-	-	-	-	-	-
Non-performing	-	-	-	-	-	-
Individually impaired	-	-	-	-	-	-
Total	**465,572**	**441**	**-**	**-**	**466,013**	**295,419**

An analysis of charges in the gross carrying amount and the corresponding ECL allowances in relation to guarantees issued is, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
Gross carrying amount as at 1 January 2018	**295,419**	-	-	-	**295,419**
New assets originated or purchased	232,185	-	-	-	**232,185**
Assets derecognized or repaid (excluding write offs)	(61,590)	-	-	-	**(61,590)**
Transfers to S1	-	-	-	-	-
Transfers to S2	(441)	441	-	-	-
Transfers to S3	-	-	-	-	-
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	(1)	-	-	-	**(1)**
Gross carrying amount as at 31 December 2018	**465,572**	**441**	-	-	**466,013**

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Notes to the Financial Statements

24 Provisions (continued)

24.1 Financial guarantees, letters of credit and other undrawn commitments (continued)

24.1.1 Impairment losses on guarantees and other commitments (continued)

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
ECL allowance as at 1 January 2018 under IFRS 9	**995**	-	-	-	**995**
New assets originated or purchased	1,302	-	-	-	**1,302**
Assets derecognized or repaid (excluding write offs)	271	-	-	-	**271**
Transfers to S1	-	-	-	-	-
Transfers to S2	(46)	46	-	-	-
Transfers to S3	-	-	-	-	-
Changes in models or risk parameters	29	1	-	-	**30**
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	(28)	(1)	-	-	**(29)**
Net NCR Charge	1,528	46	-	-	**1,574**
ECL allowance as at 31 December 2018	**2,523**	**46**	-	-	**2,569**

(iii) Letters of credit

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. Details of the Bank's internal grading system are explained in Note 27.1 and policies on whether ECLs are calculated on an individual or collective basis are set out in Note 27.1:

	31 December 2018					31 December 2017
	Stage 1 Collective	Stage 2 Collective	Stage 3 Collective	Stage 3 Individual	Total	Total
(in thousands MDL)						
Internal rating grade						
Neither past due nor impaired	28,993	-	-	-	**28,993**	22,425
Past due but not impaired	-	-	-	-	-	-
Non-performing	-	-	-	-	-	-
Individually impaired	-	-	-	-	-	-
Total	**28,993**	-	-	-	**28,993**	**22,425**

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Notes to the Financial Statements

24 Provisions (continued)

24.1 Financial guarantees, letters of credit and other undrawn commitments (continued)

24.1.1 Impairment losses on guarantees and other commitments (continued)

An analysis of charges in the gross carrying amount and the corresponding ECL allowances in relation to letters of credit is, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
Gross carrying amount as at 1 January 2018	22,425	-	-	-	**22,425**
New assets originated or purchased	18,079	-	-	-	**18,079**
Assets derecognized or repaid (excluding write offs)	(11,511)	-	-	-	**(11,511)**
Transfers to S1	-	-	-	-	-
Transfers to S2	-	-	-	-	-
Transfers to S3	-	-	-	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-			-
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	-				-
Gross carrying amount as at 31 December 2018	**28,993**	-	-	-	**28,995**

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
ECL allowance as at 1 January 2018 under IFRS 9	73				**73**
New assets originated or purchased	99				**99**
Assets derecognized or repaid (excluding write offs)	(37)				**(37)**
Transfers to S1	-				-
Transfers to S2					-
Transfers to S3					-
Changes in models or risk parameters	24				**24**
Amounts written off					-
Foreign exchange adjustments	(4)				(4)
Net NCR Charge	85				85
ECL allowance as at 31 December 2018	**158**	-	-	-	**158**

Notes to the Financial Statements

24 Provisions (continued)

24.2 Other provisions and contingent liabilities

Contingent liabilities

As of 31 December 2018, and 2017 the Bank acts as plaintiff in a number of litigation cases.

Legal claims

Litigation is a common occurrence in the Banking industry due to the nature of the business undertaken.

The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year-end, the Bank had several unresolved legal claims, for which provisions has been made in these financial statements. The two most significant ones being in respect of a claim on disputed unauthorized withdrawal of means from a third party current account, disputed penalties due to tax authorities and another related to claims from a third party on removal of sequester from its' debtors account. The possible outflow which could result from such litigation, based on the current status of the legal proceeding, is estimated to be MDL'000 1,239 (2017: MDL'000 4,480) (Note 21) while the timing of the outflow is uncertain.

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Notes to the Financial Statements

25 Issued capital

The list of major shareholders as of 31 December 2018 and 2017 is presented below:

	2018			2017		
(in thousands MDL)	Shareholding	Number of shares '000	Value	Shareholding	Number of shares '000	Value
Authorized and paid in share capital (nominal value)						
Societe Generale	67.85%	6,785	67,850	67.85%	6,785	67,850
"BRD – Group Societe Generale" SA	20.00%	2,000	20,000	20.00%	2,000	20,000
EBRD	8.84%	884	8,842	8.84%	884	8,842
Other legal entities (<10%)	0.20%	19	201	0.20%	20	201
Other individuals (<10%)	3.05%	306	3,051	3.05%	305	3,051
Treasury shares	0.06%	6	56	0.06%	6	56
	100.00%	**10,000**	**100,000**	**100.00%**	**10,000**	**100,000**
Less: Treasury shares			(56)			(56)
Issued capital			**99,944**			**99,944**

As of 31 December 2018 all shares are ordinary and have a nominal value of MDL 10 (31 December 2017: MDL 10). As of 31 December 2018 the total authorized share capital in amount of 10 million of ordinary shares was fully paid in.

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Notes to the Financial Statements

26 Fair value of financial instruments

26.1 Fair value estimations

The following is a description of how fair values are determined for financial instruments using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

***Placement with Central Bank and other banks*:** These include inter-bank placements and items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. Fixed interest-bearing deposits mature in less than three months and it is assumed that their fair value is not significantly different from its carrying value because these instruments have short maturity terms and are convertible into cash or are settled without significant transaction costs.

***Loans and advances to customers*:** These are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. To determine the fair value the expected cash flows are discounted at rates available in industry publications and other industry materials published by the National Bank of Moldova. For loans and advances to customers maturing within one-year it is assumed that their fair value is not significantly different from carrying value.

***Financial investments*:** Fair value for financial investments classified as loans and receivable is based on prices obtained from new issue market and are included in the Level 2 fair value hierarchy. The National Bank Certificates and State Securities above 1year are generally highly liquid, but not actively traded in active markets, thus the Bank considered that the fair value of these instruments are presumed to be equal to the carrying amount.

***Deposits from banks and customers*:** For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the balance sheet date. The estimated fair value of fixed-maturity deposits is based on discounted cash flows using rates available in industry publications and other industry materials.

***Loans from banks, IFI and companies*:** Loans from banks and companies are carried at cost which approximates their fair value because these instruments have short maturity terms or bear a floating interest rate to reflect the market changes. The estimated fair value of borrowings from IFI's represents the discounted amount of future cash flows expected to be paid. The discounted rate represents average interest rate of deposits with maturity up to 1 year which is published by National Bank of Moldova.

26.2 Determination of fair value and fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data. In arriving at fair value for the items in this hierarchy the Bank is using industry publications and other industry materials with relevant data on pricing. The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

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Notes to the Financial Statements

26 Fair value of financial instruments (continued)

26.2 Determination of fair value and fair value hierarchy (continued)

(in thousands MDL)	Level 1	Level 2	Level 3	Total
31 December 2018				
Financial assets				
Assets measured at fair value on a recurring basis				
Treasury bills issued by the Ministry of Finance	-	1,168	-	**1,168**
Equity investments at FVPL	-	-	1,031	**1,031**
Other financial assets not measured at Fair Value on a recurring basis				
Placements with Central Bank	-	-	2,427,222	**2,427,222**
Due from banks	-	-	1,675,171	**1,675,171**
Debt instruments at amortized cost	-	1,032,951	-	**1,032,951**
Loans and advances to customers	-	-	5,369,084	**5,369,084**
	-	**1,034,119**	**9,472,508**	**10,506,627**
Financial liabilities				
Due to Central Bank	-	-	-	-
Deposits from banks	-	-	1,376	**1,376**
Borrowings from IFI's	-	-	914,948	**914,948**
Deposits from customers	-	-	8,321,640	**8,321,640**
	-	-	**9,237,964**	**9,237,964**
31 December 2017				
Financial assets				
Assets measured at fair value on a recurring basis				
Available-for-sale investments equity investments	-	-	1,031	1,031
Other financial assets not measured at Fair Value on a recurring basis				
Placements with Central Bank	-	-	1,935,045	**1,935,045**
Due from banks	-	-	1,771,186	**1,771,186**
Financial investments-Loans and receivables	-	1,157,347	-	**1,157,347**
Loans and advances to customers	-	-	4,707,720	**4,707,720**
	-	**1,157,347**	**8,414,982**	**9,572,329**
Financial liabilities				
Due to Central Bank	-	-	21	**21**
Deposits from banks	-	-	3,454	**3,454**
Borrowings from IFI's	-	-	960,257	**960,257**
Deposits from customers	-	-	7,503,610	**7,503,610**
	-	-	**8,467,342**	**8,467,342**

Notes to the Financial Statements

26 Fair value of financial instruments (continued)

26.2 Determination of fair value and fair value hierarchy (continued)

The table below sets out the Bank's classification of each class of financial assets and liabilities, and their fair values:

	2018		2017	
	Total carrying amount	**Fair value**	**Total carrying amount**	**Fair value**
(in thousands MDL)				
Financial assets				
Placements with Central Bank	2,427,222	2,427,222	1,935,044	1,935,044
Due from banks	1,675,171	1,675,171	1,771,186	1,771,186
Financial investments – loans and receivables	N/A	N/A	1,143,937	1,157,347
Debt instruments at amortized cost	1,050,553	1,032,951	-	-
Loans and advances to customers	5,190,037	5,369,084	4,641,003	4,707,720
	10,342,983	**10,504,428**	**9,491,171**	**9,571,298**
Financial liabilities				
Due to Central Bank	-	-	21	21
Due to banks	1,376	1,376	3,454	3,454
Borrowed funds from IFIs	916,995	914,948	959,911	960,257
Deposits from customers	8,276,951	8,321,640	7,487,646	7,503,610
	9,195,322	**9,237,964**	**8,451,032**	**8,467,342**

There were no reclassifications between financial assets and liabilities categories done in 2018 and 2017.

Notes to the Financial Statements

27 Risk management

Introduction and overview

The Bank has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Interest rate risk
- Operational risks
- Currency risk

This note present information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Business environment and country risk

The Bank's operations are subject to country risk being the economic, political, and social risks inherent in doing business in the Republic of Moldova. These risks include matters arising out of the policies of the government, economic conditions, imposition of or changes to taxes and regulations, foreign exchange fluctuations and the enforceability of contract rights. The accompanying financial statements reflect management's assessment of the impact of the Moldovan business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment. The impact of such differences on the operations and financial position of the Bank may be hard to estimate.

Risk management framework

The Executive Board has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Bank's Assets and Liabilities, Credit and Operational Risk Committees and Audit Committees, which are responsible for developing and monitoring Group risk management policies in their specified areas. All committees report regularly to the Executive Board on their activities.

The Bank's risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures set up at the SG Group level, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

27.1 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances customers and other banks and investment securities. Also, the Bank exposes itself to a credit risk in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees.
The Bank Risk Department manages and controls credit risk having a complex matrix of individual competencies, monitoring the evolution of risk indicators per market segments and products, by setting limits on the share of portfolio per industry concentrations, and by monitoring exposures in relation to such limits.

Notes to the Financial Statements

27 Risk management (continued)

27.1 Credit risk (continued)

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty level risk are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process aims to allow the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

27.1.1 Impairment assessment (Policy applicable before 1 January 2018)

For accounting purposes, the Bank uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognized when objective evidence of a specific loss event has been observed. Triggering events include the following:

- A breach of contract such as a default of payment
- Where the Bank grants the customer a concession due to the customer experiencing financial difficulty
- It becomes probable that the customer will enter bankruptcy or other financial reorganization
- Other observable data that suggests that there is a decrease in the estimated future cash flows from the loans

This approach differs from the expected loss model used for regulatory capital purposes in accordance with Basel II.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis, taking into account any overdue payments of interests, credit rating downgrades, or infringement of the original terms of the contract. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance if it is in a financial difficulty, projected receipts and the expected payout should bankruptcy ensue, the availability of other financial support, the realizable value of collateral and the timing of the expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans (including credit cards, residential mortgages, unsecured consumer lending) and for individually significant exposures excluding impaired (nonperforming) exposures.

Notes to the Financial Statements

27 Risk management (continued)

27.1 Credit risk (continued)

27.1.1 Impairment assessment (Policy applicable before 1 January 2018) (continued)

Collateral

The collateral type and value depends on assessment of the credit risk of the counterparty.

Existing guidelines are covering the acceptability and valuation criteria of each type of collateral.

The main types of collateral obtained are as follows: real estate premises (residential, commercial, land), stock of goods and materials, trade receivables, securities, cash and other types (if object can be identified, evaluated and pledged).

The Bank also obtains guarantees from parent companies for loans to their subsidiaries. The Bank monitors the market value of collateral and request additional collateral in accordance with the underlying agreement.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

Impaired loans and securities

Impaired loans and securities are loans and securities, for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities arrangements.

Past due but not impaired loans

Loans that are "past due but not impaired" are those for which contractual interest or principle payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security or collateral and/or the stage of collection of amounts owed to the Banks.

Neither past due nor impaired loans

This category included loans and securities which are not past due and not impaired (healthy loans/ securities granted to individuals and corporate).

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured it remains in the corresponding risk category based on the risk assessment at the moment of renegotiation, independent of satisfactory performance after restructuring.

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Notes to the Financial Statements

27 Risk management (continued)

27.1 Credit risk (continued)

27.1.1 Impairment assessment (Policy applicable before 1 January 2018) (continued)

Impaired loans and securities

Impaired loans and securities are loans classified in S3.

Past due but not impaired loans

Loans that are "past due but not impaired" are performing loans with days past due (1 – 90).

Neither past due nor impaired loans

This category included performing loans and securities with 0 days past due.

Forborne loans

Loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured it remains in the corresponding risk category based on the risk assessment at the moment of restructuration, independent of satisfactory performance after restructuring.

Allowances for impairment

The Bank establishes an allowance for calculated ECL. The main components of this allowance are a specific loss component that relates to individually assessed exposures and the collective loss related to groups of homogeneous assets.

Write off policy

The Bank writes off a loan / security balance (and any related allowance for impairment losses) when the Bank determines that the loans / securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such that the borrower / issuer can no longer pay the obligation and that proceeds from collateral will not be sufficient to pay back the entire exposure. Exposures with no collateral coverage (consumer unsecured loans) are written off after 180 days past due. Exposures covered by real collateral are written off provided all the recovery actions were done and there is a basis to conclude that exposure cannot be recovered. The write off can be conditioned by the following events: the borrower may not recover the debt through sell of pledge; the collateral is depleted or impaired; the exposure is in default for more than 5 years.

Notes to the Financial Statements

27 Risk management (continued)

27.1 Credit risk (continued)

27.1.2 Impairment assessment (Policy applicable starting 1 January 2018)

The references below show where the Bank's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the Summary of significant accounting policies.

- The Bank's definition and assessment of default and cure (Note 27.1.2.1).
- An explanation of the Bank's internal grading system (Note 27.1.2.2)
- How the Bank defines, calculates and monitors the probability of default, exposure at default and loss given default) (Notes 27.1.2.3 and 27.1.2.4)
- When the Bank considers there has been a significant increase in credit risk of an exposure (Note 27.1.2.5)
- The Bank's policy of segmenting financial assets where ECL is assessed on a collective basis (Note: 17.1.2.6)
- The details of the ECL calculations for Stage 1, Stage 2 and Stage 3 assets (Note: 2.5.1.9.1(i))

For accounting purposes, the Bank uses an expected credit loss model for the recognition of losses on financial assets (Note 2.5.1.9 (ii)).

Depending on the factors below, the Bank calculates ECLs either on a collective or an individual basis.

Notes to the Financial Statements

27 Risk management (continued)

27.1 Credit risk (continued)

27.1.2.1 Definition of default and cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) in all cases when the borrower become 90 past due on its contractual payments.

As part of quality assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the events should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL or whether Stage 2 is appropriate. Such events include:

- Identifying a risk event that is likely to result in partial or total non-recovery of amounts due by the counterparty under the initial contract (irrespective of the sufficiency of the Guarantees or the existence of a Guarantor / Fiduciary), the cause being the significant deterioration of the debtor's financial situation; the exceeding of limits established for financial indicators mentioned below can be used as trigger for transferring into default, however the bank will not rely only on the value of those indicators and an individual analysis will be performed in order to assess the counterparty' financial situation and the necessity to transfer it in S3
- Recording credit delays (principal, interest, commissions) of at least 90 days (3 months). The occurrence of this incident will lead to the classification of the exposure to "Default", except for special circumstances that indicate that late payments result from causes unrelated to the debtor's situation
- The counterparty is the subject of legal proceedings in connection with the company's administrative difficulties (appointment of special administrator, seizure, winding-up by court order, summons to an international court, etc.) or an equivalent procedure under the law applicable in the debtor's country
- Identify a situation requiring a restructuring agreement for a forborne credit (any situation / event that results in credit restructuring) (except in cases of "commercial renegotiation": credits for performing (healthy) clients for which the bank for commercial reasons agrees to modify the conditions stipulated in the Initial Loan Agreement) generates the customer's inevitable reclassification in the default category)
- The occurrence of any situation that is defined in the credit agreement as a Non-Execution Event such as a covenant breach not waived by the Bank
- The loan is put for selling at a material credit related economic loss;
- Other triggers that can be considered as default event (based on expert assessment): information from public sources, breach of important covenants for other borrowing facilities not originated by the Bank, registered default in other banking/financial institution etc.

It is the Bank's policy to consider a financial instrument/exposure as "cured" and therefore re-classified out of Stage 3 when they no longer meet any of the above conditions, which means in particular that all late payments will be paid. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of cure, and whether this there has been a significant increase in credit risk compared to initial recognition. The healing period for "forborne" loans is 12 months after any grace periods granted after restructuring event. he Bank is in continuous monitoring of any specific industry/BASEL/EBA/SG Group requirements regarding classification of loans in risk categories to apply best market practice. EBA methodology, that is applicable starting from 2021, recommend using a probation period of up to 3 months after any "non-forborne" restructuring.

Notes to the Financial Statements

27 Risk management (continued)

27.1 Credit risk (continued)

27.1.2.2 The bank's internal rating and PD estimation process

The Bank's independent Credit Risk Department operates its internal rating models. The Bank runs separate models for its key portfolios in which its customers are rated. Following key portfolios are monitored:

NON-RETAIL:

Corporate and SME

This category includes loans granted to Corporate clients with turnover more that 75 million MDL and transnational companies and Small and Medium Enterprises with turnover between 20 and 75 million MDL, Banks and Sovereign, including State Securities portfolio.

For Corporate and SME the borrowers are assessed by specialize credit risk employees of the Bank. The credit risk assessment is based on a credit scoring model that takes into account various quantitative and qualitative factors regarding historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client: realized and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports or press releases and articles.
- Presence of legal cases, their status at assessment date
- Whether the loan is secured or unsecured
- Existence of indicator of forborne/non-forborne
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance: insolvency process.

Classification of NON-RETAIL loans in risk stages

Stage 1 – exposure of the counterparties that are not in S2 or S3, on regular basis have a maximum of days past due of 30 days. Under internal rating these exposures have the rating of:

- S1 Neither past due nor impaired – when the DPD is 0 days
- S1 Past due but not impaired – when the DPD is up to 30 days

Notes to the Financial Statements

27 Risk management (continued)

27.1 Credit risk (continued)

27.1.2.2 The bank's internal rating and PD estimation process (continued)

Stage 2 – exposures presenting signs of significant deterioration of credit risk since origination. Generally speaking this is determined by presence in Watch List. Other triggers considered by the Bank to show deterioration of credit risk for a counterparty to be moved from S1 to S2 are:

- Overdue payments of more than 30 days;
- Restructured loans under probation period (the ones migrated from S3 to S2);
- Other qualitative factors are taken into account such as deterioration of financial situation, breach of covenants etc.;

Under internal rating these exposures have the rating of S2 Past due but not impaired– when the DPD is more than 30 days but less than 90 days

Stage 3 – exposures that are in "default" as detailed in Note 27.1.2.1. Under internal rating these exposures have the rating of "impaired loans and securities".

RETAIL:

Consumer

Consumer lending comprise personal loans, credit cards and overdrafts and less complex small business lending. These products are rated for ECL calculation purposes using less complex indicators, the main one being driven by days past due.

Mortgage

Mortgage loans includes loans granted to individuals for financing a mortgage. These products are rated for ECL calculation purposes using less complex indicators, the main one being driven by days past due.

Professionals and Very Small Business

Professionals and Very Small Business complies loans granted to less complex small business lending. These products are rated using similar risk indicators and for corporate and SME.

Classification of RETAIL loans in risk stages

Stage 1 – exposure of the counterparties that are not in S2 or S3, on regular basis have a maximum of days past due of 30 days. Under internal rating these exposures have the rating of:

- S1 Neither past due nor impaired – when the DPD is 0 days
- S1 Past due but not impaired – when the DPD is up to 30 days

Notes to the Financial Statements

27 Risk management (continued)

27.1 Credit risk (continued)

27.1.2.2 The bank's internal rating and PD estimation process (continued)

Stage 2 – exposures presenting signs of significant deterioration of credit risk since origination. Other triggers considered by the Bank to show deterioration of credit risk for a counterparty to be moved from S1 to S2 are:

- Overdue payments of more than 30 days;
- Restructured loans under probation period (the ones migrated from S3 to S2);
- Overdue payments of more than 30 days at least once in the last 12 months.

Under internal rating these exposures have the rating of S2 Past due but not impaired– when the DPD is more than 30 days but less than 90 days

Stage 3 – exposures that are in "default" as detailed in Note 27.1.2.1. Under internal rating these exposures have the rating of "impaired loans and securities". Specifically, the following indicators of default are monitored:

- Overdue payments of more than 90 days
- Restructured loans
- The hard recovery procedures started,
- Death of the debtor
- Fraud events identified

Notes to the Financial Statements

27 Risk management (continued)

27.1 Credit risk (continued)

27.1.2.3 Exposure at default

Exposure at Default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation and is equal to the current exposure including drawn part (corresponding to principal accounted in on balance sheet) and undrawn part (corresponding to the off-balance sheet adjusted with CCF) to which adjustment coefficients may be applied depending on the residual maturity (integrated into the provisioning rate).

To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. However, if a Stage 1 loan that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2 and Stage 3 the exposure at default is considered for events over the lifetime of the instruments.

The Bank determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Bank's models.

PD models are based on a two-step approach:

- Construction of the marginal curve of the TTC PD(through-the-cycle PD) for each homogenous group;
- Adjusting the TTC PD curve taking into consideration the current situation and the impact of the forward-looking information.

PD at 12m is applied for 12mECL; life time PD is applied for LTECL.

27.1.2.4 Loss given default

The LGDs used for ECL calculation in the context of IFRS9 are based on internal LGD model using historic recoveries.

27.1.2.5 Significant increase in credit risk

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition.

The Bank applies quantitative and qualitative methods for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne. In certain cases, the Bank may also consider that events explained in Note 27.1.2.2 are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

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Notes to the Financial Statements

27 Risk management (continued)

27.1 Credit risk (continued)

27.1.2.6 Grouping financial assets measured on a collective basis

As explained in Note 27.1.2 and 2.5.8 dependant on the factors below the Bank calculates ECLs either on a collective or an individual basis.

Impairment assessment on individual basis

Asset classes where the Bank calculates ECL on an individual basis include Stage 3 assets, excepting unsecured portfolios and collectively assessed secured loans.

Impairment assessment on collective basis

Asset classes where the Bank calculates ECL on a collective basis include:

- Performing assets (Stage 1 and 2) from all segments;
- S3 assets from unsecured portfolios;
- S3 assets from secured portfolio (usually forborne loans or not significant exposures).

27.1.3 Analysis of collectively impaired assets

(i) Analysis of inputs to the ECL under multiple economic scenarios (Policy applicable starting 1 January 2018)

Under the regular stress testing exercises, the Bank assessed the sensitivity of its loss experience to changes in its key risk parameters as of 31 December 2018. Two adverse scenarios, stress and worst, characterized by a progressive deterioration of the macroeconomic context both at a national and international level were used to assess the impact, amongst other elements, on the default rate and recovery rate pertaining to credit portfolio.

The Bank elaborated four scenarios for sensitivity analysis, two are based on increasing/decreasing of PD by 5 basis points while LGD remains the same, and the last two are based on increasing/decreasing of LGD by 10 basis points while PD remains the same.

Change in PD by 5%:

(in thousands MDL)	Total Provision 2018 Real Booked	Change in basis points of PD	Total Provision Simulation	Increase/Decrease in Total Stock of Provision, MDL	Increase/Decrease in Total Stock of Provision, %
Retail	71,827	+ 5%	130,370	58,543	82%
		- 5%	69,309	(2,518)	-4%
Non-Retail	137,211	+ 5%	190,339	53,127	39%
		- 5%	112,029	(25,183)	-18%
	209,038				

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Notes to the Financial Statements

27 Risk management (continued)

27.1 Credit risk (continued)

2.7.1.3 Analysis of collectively impaired assets (continued)

Change in LGD by 10%:

(in thousands MDL)	Total Provision 2018 Real Booked	Change in basis points of PD	Total Provision Simulation	Increase/Decrease in Total Stock of Provision, MDL	Increase/Decrease in Total Stock of Provision, %
Retail	71,827	+ 10%	80,517	8,690	12%
		-10%	63,070	(8,756)	-12%
Non-Retail	137,211	+ 10%	131,268	(5,943)	-4%
		- 10%	102,462	(34,749)	-25%
	209,038				

(ii) Analysis of inputs to the loan loss provision under multiple economic scenarios (Policy applicable before 1 January 2018)

Under the regular stress testing exercises, the Bank assessed the sensitivity of its loss experience to changes in its key risk parameters as of 31 December 2017. Two adverse scenarios, stress and worst, characterized by a progressive deterioration of the macroeconomic context both at a national and international level were used to assess the impact, amongst other elements, on the default rate and recovery rate pertaining to credit portfolio.

The Bank elaborated four scenarios for sensitivity analysis, two are based on increasing/decreasing of PD by 5 basis points while LGD remains the same, and the last two are based on increasing/decreasing of LGD by 10 basis points while PD remains the same.

Change in PD by 5%:

(in thousands MDL)	Total Provision 2017 Real Booked	Change in basis points of PD	Total Provision Simulation	Increase/Decrease in Total Stock of Provision, MDL	Increase/Decrease in Total Stock of Provision, %
Retail	95,718	+ 5%	140,962	45,244	47%
		- 5%	95,170	(548)	-1%
Non-Retail	118,456	+ 5%	195,085	76,629	65%
		- 5%	110,268	(8,188)	-7%
	214,174				

Notes to the Financial Statements

27 Risk management (continued)

27.1 Credit risk (continued)

2.7.1.3 Analysis of collectively impaired assets (continued)

Change in LGD by 10%:

(in thousands MDL)	Total Provision 2017 Real Booked	Change in basis points of LGD	Total Provision Simulation	Increase/Decrease in Total Stock of Provision, MDL	Increase/Decrease in Total Stock of Provision, %
Retail	95,718	+ 10%	103,495	7,777	8%
		-10%	93,121	(2,597)	-3%
Non-Retail	118,156	+ 10%	154,503	36,048	30%
		- 10%	128,673	10,217	9%
	214,174				

27.1.4 Overview of modified and forborne loans

The table below shows the gross carrying amount of previously modified financial assets for which loss allowance has changed to 12mECL measurement during the eriod:

	as at 31 December 2017		as at 31 December 2018	
	Gross carrying amount	**Corresponding ECL**	**Gross carrying amount**	**Corresponding ECL**
Facilities that have cured since modification and are now measured using 12mECLs (Stage 1)	23,997	7,105	5,697	48
Facilities that reverted to (Stage 2/3) LTECLs having once cured	4,427	2,159	16,681	7,401

Notes to the Financial Statements

27 Risk management (continued)

27.1 Credit risk (continued)

27.1.5 Analysis of risk concentration

Carrying amount by class of financial assets has been renegotiated as of 31 December 2018 and 2017 is analyzed below:

(in thousands MDL)	31 December 2018	31 December 2017
Loans and advances to customers		
Corporate and SME	43,619	5,883
Consumer	115	126
Mortgage	3,473	1,495
PRO/VSB	8,429	13,032
	55,636	**20,536**

The major concentrations of credit risk arise by location and type of customer in relation to the Bank investments, loans and advances and guarantees issued. The Bank has no significant exposure to any individual customer or counterparty. The Bank's lending activities are conducted in the Republic of Moldova. The ability of borrowers to repay their debt is dependent on a number of factors including the overall financial wealth of the borrower and the Moldovan economy. The loan portfolio comprises loans to approximately 1,415 legal entities (2017: 1,261) and 65,694 individuals (2017: 60,420).

The maximum credit exposure to any client or counterparty as of 31 December 2018 was at MDL'000 146,671 (2017: MDL'000 126,692).

As at 31 December 2018 ten major net exposures have a total outstanding balance of MDL'000 865,288 (31 December 2017: MDL'000 874,331).

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk for the components of the balance sheet. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

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Notes to the Financial Statements

27 Risk management (continued)

27.1 Credit risk (continued)

2.7.1.5 Analysis of risk concentration (continued)

(in thousands MDL)	Note	31 December 2018	31 December 2017
Placements with Central Bank	12	2,427,222	1,935,044
Due from banks	13	1,675,171	1,771,186
Debt instruments at amortized cost	15	1,050,553	-
Investment securities	15	-	1,143,937
Loans and advances to customers	14	5,390,999	4,855,177
Other assets		40,069	29,298
Total		**10,584,014**	**9,734,642**
Commitments		1,401,424	1,298,774
Total credit risk exposure		**11,985,439**	**11,033,417**

Industry analysis

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

An analysis of concentrations of credit risk as of 31 December 2018, shown below:

(in thousands MDL)	Loans and advances to customers	Due from banks	Debt instruments at amortized cost	Financial assets at FV through PL
Concentration by sector				
Sovereign	-	-	1,050,553	-
Central Bank	-	2,427,222	-	-
Commercial banks	-	1,675,171	-	1
Individuals	1,997,494	-	-	-
Corporate customers	3,191,878	-	-	1,030
Off balance sheet items:				
Individuals	96,225	-	-	-
Corporate customers	1,297,123	-	-	-
	6,582,720	**4,102,393**	**1,050,553**	**1,031**
Concentration by location				
Moldova	6,252,145	2,427,222	1,050,553	1,031
CIS	1,417	7,303	-	-
EU	320,915	1,650,419	-	-
USA	-	17,449	-	-
Other	8,243	-	-	-
	5,927,194	**4,102,393**	**1,050,553**	**1,031**

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Notes to the Financial Statements

27 Risk management (continued)

27.1 Credit risk (continued)

2.7.1.5 Analysis of risk concentration (continued)

An analysis of concentrations of credit risk as of 31 December 2017, shown below:

(in thousands MDL)	Loans and advances to customers	Loans and advances to banks	Investment securities
Concentration by sector			
Sovereign	-	-	1,143,937
Central Bank	-	1,935,045	-
Commercial banks	-	1,771,186	1
Individuals	1,662,225	-	-
Corporate customers	2,978,778	-	1,030
Off balance sheet items:		-	-
Individuals	99,369	-	-
Corporate customers	1,186,822	-	-
	5,927,194	**3,706,231**	**1,144,968**
Concentration by location			
Moldova	5,763,666	1,935,045	1,144,968
CIS	2,315	5,431	-
EU	153,875	1,751,230	-
USA	-	14,525	-
Other	7,338	-	-
	5,927,194	**3,706,231**	**1,144,968**

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Notes to the Financial Statements

27 Risk management (continued)

27.1 Credit risk (continued)

2.7.1.5 Analysis of risk concentration (continued)

Ageing analysis of loans by class of financial assets as of 31 December 2018 and 2017 is presented below:

(in thousands MDL)	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and advances to customers					
31 December 2018					
Corporate and SME	2,731,242	8,476	4,557	29,610	**2,773,885**
Consumer	1,131,507	9,784	4,487	9,518	**1,155,296**
Mortgage	790,023	8,032	956	6,524	**805,535**
PRO/VSB	620,918	7,650	3,591	2,4124	**656,283**
	5,273,690	**33,942**	**13,591**	**69,776**	**5,390,999**
31 December 2017					
Corporate and SME	2,609,178	6033	4,214	46,594	**2,666,019**
Consumer	946,347	6,139	2,362	8,307	**963,155**
Mortgage	596,494	3,093	1,101	12,574	**613,262**
PRO/VSB	539,953	13,312	1,695	57,781	**612,741**
	4,691,972	**28,577**	**9,372**	**125,256**	**4,855,177**

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Notes to the Financial Statements

27 Risk management (continued)

27.1 Credit risk (continued)

2.7.1.5 Analysis of risk concentration (continued)

An analysis of loans and advances to customers by customer type and industry as of 31 December 2018 and 2017 is presented below:

(in thousands MDL)	31 December 2018	31 December 2017
Loans to individuals		
Consumer loans	1,043,455	847,412
Mortgage loans	805,539	613,235
	1,848,994	**1,460,647**
Less allowance for impairment losses	(27,329)	(23,812)
Net loans to individuals	**1,821,665**	**1,436,835**
Loans to corporate customers		
Industry and commerce	2,515,329	2,298,536
Agriculture and food industry	444,375	508,930
Fuel and energy	10,481	41,646
Construction and development	247,455	181,873
Overdrafts	9,621	8,967
Micro-enterprises	166,988	195,232
Other	147,756	159,346
	3,542,005	**3,394,530**
Less allowance for impairment losses	(173,633)	(190,362)
Net loans to corporate customers	**3,368,372**	**3,204,168**
Total net loans and advances to customers	**5,190,037**	**4,641,003**

The Bank's lending activities are conducted in Moldova. The ability of borrowers to repay their debt is dependent on a number of factors including the overall financial wealth of the borrower and the Moldovan economy.

Notes to the Financial Statements

27 Risk management (continued)

27.1 Credit risk (continued)

27.1.6 Collateral and other enhancements

Existing guidelines are covering the acceptability and valuation criteria of each type of collateral.

The main types of collateral obtained are as follows: real estate premises (residential, commercial, land), stock of goods and materials, trade receivables, securities, cash and other types (if object can be identified, evaluated and pledged).

The Bank also obtains guarantees from parent companies for loans to their subsidiaries. The Bank monitors the market value of collateral and request additional collateral in accordance with the underlying agreement.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use. The Bank uses 3 ways of trading goods in its possession:

- by publishing advertisements in the media
- by auction, namely by contracting services for the organization of auctions
- through real estate companies

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, stock of materials and equipment as well as corporate guarantees and cash deposits. The fair value of collateral placed against individually impaired loans as of 31 December 2018 is estimated at MDL'000 36,807 (31 December 2017: MDL'000 28,315). The fair value of collateral placed against past due but not impaired loans as of 31 December 2018 is estimated at MDL'000 283,777 (31 December 2017: MDL'000 210,564).

Collateral generally is held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held as of 31 December 2018 and 2017.

Collateral and other credit enhancements. The tables on the following pages show the maximum exposure to credit risk by class of financial assets.

Notes to the Financial Statements

27 Risk management (continued)

27.1 Credit risk (continued)

2.7.1.6 Collateral and other enhancements (continued)

(in thousands MDL)	Maximum exposure to credit risk	Cash	Securities	3rd party guarantees	Property	Other	Surplus of collateral	Total collateral	Net exposure	Associated ECLs
31 December 2018										
Corporate and SME	2,644,112	49,572	37,497	477,778	2,133,760	2,056,741	(2,464,429)	2,290,919	353,193	129,772
Consumer	1,137,147	2,744	-	-	77,112	10,921	(46,426)	44,350	1,092,797	18,149
Mortgage	792,234	19,213	-	8,788	1,227,842	1,458	(469,907)	787,394	4,840	13,302
PRO/VSB	616,545	3,908	-	37,538	699,904	287,839	(458,229)	570,960	45,585	39,738
Commitments to grant loans	901,069	820	3	6,217	170,693	73,811	(35,304)	216,240	684,829	5,349
Financial guarantees	463,444	9,638	-	13,847	100,518	106,180	(87,666)	142,517	320,927	2,569
Letters of credit	28,835	-	-	9,039	14,911	19,565	(15,038)	28,478	357	158
Total	**6,583,386**	**85,895**	**37,500**	**553,207**	**4,424,740**	**2,556,515**	**(3,576,999)**	**4,080,858**	**2,502,528**	**209,037**
31 December 2017										
Corporate and SME	2,547,562	93,471	1,305	396,152	2,199,411	1,872,025	(2,367,470)	2,194,894	352,668	118,456
Consumer	949,105	1,531	-	-	82,420	3,303	(50,981)	36,273	912,832	14,050
Mortgage	600,234	21,128	-	-	1,020,281	1,294	(447,346)	595,357	4,877	13,029
PRO/VSB	544,102	7,053	-	37,991	651,888	174,536	(403,304)	468,164	75,938	68,639
Commitments to grant loans	970,489	786	-	3,904	120,515	132,102	(41,571)	215,736	754,753	10,441
Financial guarantees	293,434	9,492	-	14,822	91,386	68,949	(58,582)	126,067	167,367	1,985
Letters of credit	22,268	-	-	2,171	13,449	6,983	(2,127)	20,476	1,792	157
Total	**5,927,194**	**133,461**	**1,305**	**455,040**	**4,179,350**	**2,259,192**	**(3,371,381)**	**3,656,967**	**2,270,227**	**226,757**

Notes to the Financial Statements

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27 Risk management (continued)

27.1 Credit risk (continued)

2.7.1.6 Collateral and other enhancements (continued)

The below tables provide an analysis of the current fair values of collateral held and credit enhancements for stage 3 assets

(in thousands MDL)	Maximum exposure to credit risk	Cash	Property	Other	Surplus of collateral	Total collateral	Net exposure	Associated ECLs
31 December 2018								
Corporate and SME	44,212	-	115,167	438,896	(509,611)	554,063	-	61,714
Consumer	4,009	-	1,381	249	(1,086)	1,630	2,379	7,487
Mortgage	7,197	-	30,538	-	(23,420)	30,538	-	9,244
PRO/VSB	8,349	90	46,918	12,796	(51,554)	59,804	-	28,563
Commitments to grant loans	166	-	-	-	-	-	166	14
Total	**63,933**	**90**	**194,004**	**451,941**	**(585,671)**	**646,035**	**2,545**	**107,022**
31 December 2017								
Corporate and SME	26,932	-	84,502	440,332	(497,647)	524,833	-	76,695
Consumer	2,595	-	2,389	-	(2,123)	2,389	206	6,867
Mortgage	5,153	-	17,028	-	(11,868)	17,028	-	11,225
PRO/VSB	9,450	-	59,430	12,075	(62,146)	71,505	-	62,771
Commitments to grant loans	182	-	-	-	-	-	182	139
Total	**44,312**	**-**	**163,349**	**452,407**	**(573,784)**	**615,755**	**388**	**157,697**

Notes to the Financial Statements

27 Risk management (continued)

27.2 Liquidity risk and funding management

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities.

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

On a short term basis the liquidity is managed by the Treasury based on received information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short term liquid assets, largely made up of short term liquid investment securities, loans and advance to banks and other interbank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

On a medium to long term basis the liquidity is managed through ALM function reporting to ALCO on the funding needs in the future.

The table below summarizes the maturity profile of the Bank's financial liabilities at 31 December 2018 and 2017 based on contractual undiscounted repayment obligations.

	Total	Less 1 month	Between 1 month and 1 year	Between 1 and 5 years	More than 5 years
(in thousands MDL)					
As at 31 December 2018					
Due to banks and to customers	**8,287,531**	582,042	3,835,300	2,560,733	1,309,456
Debt issued and other borrowings	**923,783**	75,717	511,287	334,320	2,459
Total financial liabilities	**9,211,314**	**657,759**	**4,346,587**	**2,895,053**	**1,311,915**
As at 31 December 2017					
Due to banks and to customers	**7,499,451**	1,947,806	3,016,467	2,449,266	85,912
Debt issued and other borrowings	**967,016**	64,121	445,954	456,941	-
Total financial liabilities	**8,466,467**	**2,011,927**	**3,462,421**	**2,906,207**	**85,912**

Notes to the Financial Statements

27 Risk management (continued)

27.3 Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads will affect the Bank's or the value of its holdings of financial instruments. The objective of the market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

As of the end of 2018 did hold a small trading portfolio of State Securities (1.2 million MDL). This portfolio was constituted considering the regulatory requirements imposed by NBM. In Q3 2018, NBM updated its Regulation related to placement, trading and redemption of state securities, within which new requirements for primary dealers (the Bank has the license of primary dealer) have been established, including the minimum obligation for daily listing/quotation of State Securities. The obligation of daily listing provides 2 conditions to be respected:

- mandatory daily listing of State Securities bought in last 2 auctions (auctions are organized twice per month for treasury bills and once per month for government bonds with fixed rate and for government bonds with variable rate);
- minimum portfolio to be listed is 100 K MDL (at notional value).

Considering the amount of portfolio and the nature of financial instruments, the related market risk is considered as not significant.

27.3.1 Interest rate risk

The Bank's operations are subject to risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature at different times or in different amounts. Risk management activities are aimed at optimizing net interest income, given market interest rate levels consistent with the Bank's business strategies.

The sensitivity on net interest income of the Bank is analyzed separately for variable rates (as effect of interest rate changes for variable rate assets and liabilities) and fixed rates (by revaluing fixed rate financial assets for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve). According to financial market evolution, the Bank estimates a fluctuation of +/- 10 basis points for its assets and liabilities, and determines the impact of this fluctuation on the net interest income.

Additional to that the Bank calculates 2 non-parallel stressed interest rate shocks (NIRUP – non-parallel interest rate up and NIRDW – non-parallel interest rate down) that represent two scenarios of directional risk, with a global increase/decrease of interest rates.

For the NIRUP /NIRDW the calibration has been defined as follow:

- in all currencies the level proposed is a multiplier applied to the 100bp shocks computation.
- the multiplier is defined as 50% of the maximum of the stressed shocks for NIRUP and for NIRDW observed on any of the currencies of SG Group.

So, for NIRUP the multiplier is set at 994bp and for NIRDW the multiplier is set at 338bp.

For each of the currencies on which a limit is defined for MBSG: MDL and EUR, the level proposed is a multiplier applied to the 100bp shocks computation. The multiplier is defined as the maximum of the stressed shocks for NIRUP and for NIRDW observed on each of these framed currencies.

Notes to the Financial Statements

27 Risk management (continued)

27.3 Market risk (continued)

27.3.1 Interest rate risk (continued)

(in thousands MDL)	Change in basis points	Threshold set for profit or loss	Limit set for profit or loss	Sensitivity of profit or loss: 6 months to 1 year	Sensitivity of profit or loss: 1 to 5 years	Sensitivity of profit or loss: > 5 years	Sensitivity of equity	31 December 2018 Total
MDL	+10	1,171	195	(164)	1,369	6,842	6,446	**8,046**
EUR	+10	1,952	1,757	294	657	3,921	-	**4,872**
Other	+10	-	-	52	317	1167	-	**1,536**
Total		**3,904**	**2,733**	**182**	**2,343**	**11,930**	-	**14,454**
MDL	-10	(8,589)	(9,565)	164	(1,375)	(6,897)	(6,488)	**(8,108)**
EUR	-10	(3,904)	(4,099)	(294)	(660)	(3,969)	-	**(4,923)**
Other	-10	-	-	(52)	(317)	(-1181)	-	**(1,550)**
Total		**(11,908)**	**(12,884)**	**(182)**	**(2,352)**	**(12,047)**	-	**(14,581)**

(in thousands MDL)	Change in basis points	Sensitivity related to variable rates	Sensitivity related to fixed rates 31 December 2017: 0-to 6 months	6 months to 1 year	1 to 5 years	> 5 years	Total
MDL	+100	(8,302)	(2,162)	(2,424)	10,853	49,822	**56,089**
EUR	+100	(5,490)	(728)	336	(1,144)	23,507	**21,971**
USD	+100	(4,618)	(288)	(572)	1,320	8,417	**8,877**
Total		**(18,410)**	**(3,178)**	**(2,660)**	**11,029**	**81,746**	**86,937**
MDL	-100	8,302	2,188	2,464	(11,336)	(53,909)	**(60,593)**
EUR	-100	5,490	737	(342)	1,207	(26,384)	**(24,782)**
USD	-100	4,618	291	582	(1,382)	(9,397)	**(9,906)**
Total		**18,410**	**3,216**	**2,704**	**(11,511)**	**(89,690)**	**(95,279)**

Notes to the Financial Statements

27 Risk management (continued)

27.3 Market risk (continued)

27.3.1 Interest rate risk (continued)

The following table provide an analysis of the Bank's interest rate risk exposure on non-trading financial assets and liabilities. The bank assets and liabilities are included at carrying amount and categorized by the earlier of contractual repricing or maturity dates.

	Carrying amount	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing
(in thousands MDL)						
As at 31 December 2018						
Assets						
Cash and Balances with Central Bank	**2,849,558**	1,057,013	364,840	651,214	354,155	422,336
Due from Banks	**1,675,171**	1,116,577	63,541	495,054	-	-
Financial assets at fair value through profit and loss	**2,199**	1,168	-	-	-	1,031
Loans and advances to customers	**5,190,037**	4,041,903	365,783	751,649	30,702	-
Debt instruments at amortized cost	**1,050,553**	695,471	355,082	-	-	-
	10,767,518	**6,912,132**	**1,149,246**	**1,897,917**	**384,857**	**423,367**
Liabilities						
Due to Banks	**1,376**	1,376	-	-	-	-
Due to Customers	**8,276,951**	3,979,503	1,147,045	2,001,101	1,149,301	-
Debt issued and other borrowed funds	**916,995**	900,825	6,550	9,620	-	-
	9,195,322	**4,881,704**	**1,153,595**	**2,010,721**	**1,149,301**	-
Total interest sensitivity gap	**1,572,196**	**2,030,428**	**(4,349)**	**(112,804)**	**(764,444)**	**423,367**
Derivative used for risk management	-	-	-	-	-	-
Total interest sensitivity gap after risk management	**1,572,196**	**2,030,428**	**(4,349)**	**(112,804)**	**(764,444)**	**423,367**

Notes to the Financial Statements

27 Risk management (continued)

27.3 Market risk (continued)

27.3.1 Interest rate risk (continued)

(in thousands MDL)	Carrying amount	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing
As at 31 December 2017						
Assets						
Cash and Balances with Central Bank	**2,341,539**	1,935,045	-	-	-	406,494
Due from Banks	**1,771,186**	1,058,458	224,253	488,474	-	-
Financial assets at fair value through profit and loss	**1,031**	-	-	-	-	1,031
Loans and advances to customers	**4,641,003**	1,932,190	1,406,878	1,175,667	126,268	-
Debt instruments at amortized cost	**1,143,937**	747,271	394,948	74	1,644	-
	9,898,696	**5,672,964**	**2,026,079**	**1,664,215**	**127,912**	**407,525**
Liabilities						
Due to Central Banks	**21**	21	-	-	-	-
Due to Banks	**3,475**	3,463	12	-	-	-
Due to Customers	**7,487,646**	4,288,788	1,012,371	1,447,496	738,990	-
Debt issued and other borrowed funds	**959,911**	942,096	5,755	11,261	800	-
	8,451,053	**5,234,368**	**1,018,138**	**1,458,757**	**739,790**	-
Total interest sensitivity gap	**1,447,643**	**438,596**	**1,007,941**	**205,458**	**(611,878)**	**407,525**
Derivative used for risk management	-	-	-	-	-	-
Total interest sensitivity gap after risk management	**1,447,643**	**438,596**	**1,007,941**	**205,458**	**(611,878)**	**407,525**

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Notes to the Financial Statements

27 Risk management (continued)

27.3 Market risk (continued)

27.3.2 Currency risk

As of the end of 2018, the Bank has an overshoot of EUR and Global NPV sensitivity. The main issue comes from long term EUR NPV sensitivity. This represent the result of implementation, at Societe Generale level, of a new schedule for Sight and Saving accounts. Thus, the maturity increased from 48 months to 240 months, increasing at the same time the duration from 1.62 years to 3.05 years. Also sight and savings accounts are deemed to be considered as fixed rate in the model, though are variable or rate free based on contractual terms, by which management believes that the interest rate risk is remote, due to the ability of the Bank to adjust the variable rate when needed.

Due to local environment, which doesn't have available instruments allowing investments on long term period (above 5 years). These changes generated an increase of NPV sensitivity.

An action plan was elaborated and validated to invest in German Bonds at the SG Group level, however the implementation was postponed and the derogation was issued by SG Group in this regard.

The results of non-parallel stressed interest rate shocks (NIRUP and NIRDW) at 31 December 2018 can be analyzed as follows:

(in thousands MDL)	**MDL**	**EUR**	**Total**
NIRUP	294,309	24,205	**327,515**
Threshold	(207,315)	6,247	**(207,706)**
Limit	(302,579)	4,295	**(272.321)**
NIRDW	(204,849)	(18,761)	**(231,197)**
Threshold	(254,361)	(15,617)	**(306,483)**
Limit	(286,376)	(16,788)	**(305,897)**

The Bank is exposed to currency risk through transactions in foreign currencies against MDL. There is also a balance sheet risk that the net monetary assets/liabilities in foreign currencies will take a lower/higher value when translated into MDL as a result of currency movements.

The Bank is analyzing permanently the structure of assets and liabilities in different currencies. The principal foreign currencies held by the Bank are EUR, USD and RUB. The Bank carries out operations in both the local currency and hard currencies and monitors its foreign currency exposure on a daily basis and close out its positions within individually defined limits set up by NBM for each and all currencies together. It is the Bank's policy to minimize its exposure to currency risk by maintaining an open currency position at a minimum level.

The Bank's transactional exposures give rise to foreign currency gains and losses that are recognized in the income statement. These exposures comprise the monetary assets and monetary liabilities of the Bank that are not denominated in the measurement currency of the Bank.

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Notes to the Financial Statements

27 Risk management (continued)

27.3 Market risk (continued)

27.3.2 Currency risk (continued)

The table below provides the information on the effect to profit before tax and effect in equity of the change in foreign currency rates against MDL:

(in thousand MDL)	FCY gap	Possible rate increase	Income / (loss) effect	Effect in equity	Possible rate decrease	Income / (loss) effect	Effect in equity
31 December 2018							
EUR	(18,129)	+10%	(1,813)	(1,595)	-10%	1,813	1,595
US Dollars	(6,408)	+10%	(641)	(564)	-10%	641	564
31 December 2017							
EUR	3,907	+10%	391	344	-10%	(391)	(344)
US Dollars	77,014	+10%	7,701	6,777	-10%	(7,701)	(6,777)

The amounts of assets and liabilities held in MDL and in foreign currencies at 31 December 2018 can be analyzed as follows:

31 December 2018 (in thousand MDL)	Euro	US dollar	MDL	Other	Total
Assets					
Cash and balances with Central Bank	518,265	164,143	2,133,300	33,850	**2,849,558**
Due from banks	1,156,273	481,883	-	37,015	**1,675,171**
Debt instruments at amortized cost	-	-	1,050,553	-	**1,050,553**
Financial assets at FVPL	-	-	2,199	-	**2,199**
Loans and advances to customers, net	1,531,561	587,417	3,071,059	-	**5,190,037**
Other assets	11,689	3,520	23,846	796	**39,851**
Property and equipment	-	-	142,447	-	**142,447**
Deferred tax assets	-	-	4,151	-	**4,151**
Intangible assets	-	-	31,112	-	**31,112**
Total assets	**3,217,788**	**1,236,963**	**6,458,667**	**71,661**	**10,985,079**
Liabilities					
Due to Central Bank					
Due to banks	33	-	1,343	-	**1,376**
Due to customers	2,620,051	1,007,298	4,614,428	35,174	**8,276,951**
Borrowed funds from IFI's	569,525	244,837	102,633	-	**916,995**
EUR/RUB, USD/RUB, USD/RON swaps	-	-	-	36,594	**36,594**
Other liabilities	58,392	3,909	46,084	110	**108,495**
Provisions	-	-	43,389	-	**43,389**
Total liabilities	**3,248,001**	**1,256,044**	**4,807,877**	**71,878**	**9,383,800**
Net position 31 December 2018	**(30,213)**	**(19,081)**	**1,650,790**	**(217)**	**1,601,279**

Notes to the Financial Statements

27 Risk management (continued)

27.3 Market risk (continued)

27.3.2 Currency risk (continued)

The amounts of assets and liabilities held in MDL and in foreign currencies at 31 December 2017 can be analyzed as follows:

31 December 2017	**Euro**	**US dollar**	**MDL**	**Other**	**Total**
(in thousand MDL)					
Assets					
Cash and balances with Central Bank	446,215	203,549	1,605,072	86,703	**2,341,539**
Due from banks	1,131,914	557,123	-	82,149	**1,771,186**
Financial investments - Loans and receivables	-	-	1,143,937	-	**1,143,937**
Financial investments - available for sale	-	-	1,031	-	**1,031**
Loans and advances to customers, net	1,207,034	612,537	2,821,432	-	**4,641,003**
Other assets	6,623	4,704	8,228	1,395	**20,950**
Total assets	**2,791,786**	**1,377,913**	**5,579,700**	**170,247**	**9,919,646**
Liabilities					
Due to Central Bank	-	-	21	-	**21**
Due to banks	983	972	1,499	-	**3,454**
Due to customers	2,221,859	1,071,649	4,115,301	78,837	**7,487,646**
Borrowings from IFI's	563,765	242,054	156,949	-	**962,768**
EUR/USD, EUR/RUB swaps	14,287	-	-	103,078	**117,365**
Other liabilities	76,458	3,527	64,146	58	**144,189**
Total liabilities	**2,877,352**	**1,318,202**	**4,337,916**	**181,973**	**8,715,443**
Net position 31 December 2017	**(85,566)**	**59,711**	**1,241,784**	**(11,726)**	**1,204,203**

Notes to the Financial Statements

27 Risk management (continued)

27.4 Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risk such those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Bank's operations and are faced by all business entities.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties including the independent authorization of transactions
- Requirements for the reconciliation and monitoring of transactions
- Compliance with regulatory and other legal requirements
- Documentation of controls and procedures
- Requirements for the periodic assessment of operational risk faced and the adequacy of controls and procedures to address the risks identified
- Requirements for the reporting of operational losses and proposed remedial action
- Development of contingency plans
- Training and professional development
- Ethical and business standards
- Risk mitigation including insurance where this is effective

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Notes to the Financial Statements

28 Capital management

The Bank's objectives when managing capital are to safeguard the Bank's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In the context of the NBM strategy of Basel III implementation in the Republic of Moldova in terms of European legislative framework (CDR IV/ CRR package), in May 2018, the National Bank of Moldova approved the Regulation on bank's own funds and capital requirements.

The National Bank of Moldova requires each bank to maintain a ratio of total regulatory capital to the risk-weighted asset at minimum of 13.75 % of which 3.75% are linked to the Capital Conservation Buffer, 1% to the Systemic Risk Buffer and 0.25% to the Other Systemically Important Institutions Buffer.

(in thousands MDL)	31 December 2018
Total Capital	**1,230,905,332**
Tier1 Capital	**1,230,906,058**
Tier 1 Base Capital	1,230,906,058
Equity instruments eligible for Tier 1 Base Capital	**251,353,859**
Paid capital instruments	99,943,940
Of which: Capital instruments subscribed by public authorities in emergency situations	99,943,940
Share premium	**151,409,919**
Retained Earnings	**1,027,748,879**
Retained Earnings from previous years	940,716,709
Current year results	87,032,170
Profit or loss attributable to owners of the parent's equity	301,124,776
(-) Part of the interim or end-of-year financial results that are not eligible	(214,092,606)
Other reserves	**150,136,517**
Adjustments to core Tier 1 own funds due to prudential reserves	**(162,922,939)**
(-) The positive difference between asset write-downs and contingent liabilities and the amount of write-downs for impairment losses and provisions for losses	(162,922,939)
(-) Goodwill	**(31,112,389)**
(-) Goodwill accounted for as intangible assets	(31,112,389)
(-) Deferred tax assets that are based on future profitability and do not arise from temporary differences from which associated deferred tax liabilities are deducted	(4,297,869)
Tier 2 Capital	**(726)**
(-) Equity investments Tier 2 into entities from financial sector where the Bank does not have a significant share of investment	(726)
Capital adequacy ratio	**21,54%**

Notes to the Financial Statements

28 Capital management (continued)

In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. No changes were made in the objectives, policies and processes from the previous years.

Capital adequacy and the use of regulatory capital are monitored by the Bank's management, employing techniques based on the guidelines developed by the National Bank of Moldova.

The National Bank of Moldova requires each bank to hold the minimum level of the regulatory capital as at 31 December 2017 (MDL'000 200,000), and maintain a ratio of total regulatory capital to the risk-weighted asset at minimum of 16%.

During the past year, the Bank had complied in full with all its externally imposed capital requirements.

(in thousands MDL)	31 December 2017
Tier I capital	**1,309,931**
Ordinary shares	99,944
Non-cumulative preferred shares, issued with unlimited term	-
Capital surplus	151,410
Undistributed profit and formed reserves from profit	1,268,059
Calculated amount but unreserved of the allowances for impairment losses on asset and conditional commitments	174,640
Net intangible assets	34,842
Total tier II capital	-
Cumulative and partially cumulative preferred shares with unfixed maturity	-
Surplus of capital related to cumulative and partially cumulative preferred shares	-
Subordinated debts with unfixed maturity	-
Subordinated debts with maturity and preferred shares with limited term	-
Revaluation of securities of certain issuers	-
Amount of Tier II capital exceeding the amount of Tier I capital	-
Total Tier I capital and Tier II capital	**1,309,931**
Shareholdings in the bank's capital	1
Total regulatory capital	**1,309,930**
Capital adequacy ratio	**25,55%**

Notes to the Financial Statements

29 Cash and cash equivalents

	Note	31 December 2018	31 December 2017
(in thousands MDL)			
Cash and balances with Central Bank	12	425,245	284,791
Due from banks	13	1,677,507	1,771,186
Debt instruments at amortized cost	15	470,317	-
Financial Investments -loans and receivables	15	N/A	630,628
		2,573,069	**2,686,605**

The placement with the Central Bank which represent mandatory reserves requirements are not available to finance the Bank's day–to–day operations and, therefore, are not part of cash and cash equivalents. This includes the balance of current accounts with Central bank disclosed in Note 12 amounting MDL'000 1,892,774 reduced by the level of mandatory reserves held in MDL (MDL'000 1,667,527).
Financial investments – loans and receivables are NBM certificates and represents short-term, investments that are up to two weeks, which are subject to an insignificant risk of changes in value.

30 Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled.

31 December 2018	**Within 12 months**	**After 12 months**	**Total**
(in thousand MDL)			
Assets			
Cash and balances with Central Bank	1,404,095	1,445,463	**2,849,558**
Due from banks	1,519,001	156,170	**1,675,171**
Debt instruments at amortized cost	952,561	97,993	**1,050,553**
Financial assets at fair value through profit or loss	2,199	-	**2,199**
Loans and advances to customers, net	1,638,146	3,551,891	**5,190,037**
Other assets	39,851	-	**39,851**
Property and equipment	51,755	90,692	**142,447**
Deferred tax assets	4,151	-	**4,151**
Intangible assets	23,933	7,179	**31,112**
Total assets	**5,635,692**	**5,349,388**	**10,985,079**
Liabilities			
Due to Central Bank	-	-	-
Due to banks	1,376	-	**1,376**
Due to customers	4,406,764	3,870,187	**8,276,951**
Borrowed funds from IFI's	580,216	336,778	**916,995**
Other liabilities	109,272	-	**109,272**
Provisions	43,389	-	**43,389**
Total liabilities	**5,141,017**	**4,206,965**	**9,347,983**
Net	**494,675**	**1,142,423**	**1,637,096**

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30 Maturity analysis of assets and liabilities (continued)

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled.

31 December 2017	Within 12 months	After 12 months	Total
(in thousand MDL)			
Assets			
Cash and balances with Central Bank	1,684,402	657,137	**2,341,539**
Due from banks	1,607,907	163,279	**1,771,186**
Financial Investments – loans and receivables	1,143,937	-	**1,143,937**
Financial Investments – available for sale	-	1,031	**1,031**
Loans and advances to customers, net	2,457,193	2,183,810	**4,641,003**
Other assets	33,348	-	**33,348**
Total assets	**6,926,787**	**3,005,257**	**9,932,044**
Liabilities			
Due to Central Bank	21	-	**21**
Deposits from banks	3,454	-	**3,454**
Due to customers	4,952,470	2,535,176	**7,487,646**
Borrowings from IFI's	502,970	456,941	**959,911**
Other liabilities	144,189	-	**144,189**
Total liabilities	**5,603,104**	**2,992,117**	**8,595,221**
Net	**1,323,683**	**13,140**	**1,336,823**

FOR IDENTIFICATION PURPOSES
ERNST & YOUNG
Signed...
Date... 30/04/2019

Notes to the Financial Statements

31 Related party transactions

The list of related parties, with whom the Bank entered into transactions during 2017 were as follows:

- Societe Generale (companies within the group, including major shareholder)
- "BRD Group Societe Generale" SA (major shareholder, significant influence)
- EBRD (major shareholder, significant influence)
- Key management including Executive Board and Supervisory Board members (significant influence)
- Other categories include: parties related to those above, affiliates to bank through the function of administrator and their affiliates.

During 2018 a number of banking transactions were entered into with related parties in the normal course of business. The results of the transactions are presented in the table below:

	Total 2018	SG	BRD GSG	EBRD	Key management	Other
(in thousands MDL)						
Balance sheet items as of 31 December 2018						
Due from banks	**1,666,673**	1,640,474	5,705	-	-	20,494
Loans and advances to customers, net	**16,019**	-	-	-	1,306	14,713
Other assets (Note 17)	**201**	199	-	-	-	2
Due to banks	**1,343**	-	911	432	-	-
Due to clients	**22,802**	-	-	231	5,357	17,214
Borrowings (Note 20)	**225,539**	33	-	225,506	-	-
Other liabilities	**16,496**	12,893	3,601	-	-	2
*Out of which accrual	**16,335**	12,734	3,601	-	-	-
Result from transactions during 2018						
Interest and similar income	**10,647**	9,493	-	-	78	1,076
Interest and similar expense	**13,647**	5,387	22	7,726	47	465
Personnel costs	**32,778**	-	-	-	12,618	20,160
Other non-interest expenses	**12,436**	10,177	63	859	850	487
*Out of which commissions on interbank transactions	**10,382**	9,875	124	-	-	383
Off balance sheet items						
Guarantee under EIB line (Note 20)	**429,466**	-	-	-	-	429,466
Counter guarantees	**350,939**	57,213	0	292,818	100	808

Notes to the Financial Statements

31 Related party transactions (continued)

	Total 2017	SG	BRD GSG	EBRD	Key management	Other
(in thousands MDL)						
Balance sheet items as of 31 December 2017						
Due from banks	**1,759,880**	1,739,084	5,597	-	-	15,199
Loans and advances to customers, net	**17,913**	-	-	-	1,596	16,317
Other assets (Note 17)	**337**	331	-	-	-	6
Due to banks	**1,498**	-	918	580	-	-
Due to clients	**26,098**	-	-	76	1,881	24,141
Borrowings (Note 20)	**219,358**	(61)	-	219,419	-	-
Other liabilities	**36,026**	32,981	2,932	111	-	2
*Out of which accrual	**35,612**	32,631	2,870	111	-	-
Result from transactions during 2017						
Interest and similar income	**6,281**	5,039	-	-	136	1,106
Interest and similar expense	**14,409**	4,150	11	9,440	56	752
Personnel costs	**30,383**	-	-	-	11,110	19,273
Other non-interest expenses	**22,380**	9,508	11,328	178	850	516
*Out of which commissions on interbank transactions	**10,182**	9,517	134	178	-	353
Off balance sheet items						
Guarantee under EIB line (Note 20)	**408,198**	-	-	-	-	408,198
Counter guarantees	**760,890**	209,615	12,312	510,248	174	28,541

32 Post reporting date events

On 5th February 2019 a Share Purchase Agreement (SPA) was signed between Societe Generale (Seller) and OTP Bank (Purchaser) by which the Purchaser has expressed an interest in acquiring SG Shares (67.85003%), EBRD shares (8.84151%), acquired by Seller prior to Closing and BRD shares (20%). The completion of the purchase and sale of the shares (Closing) shall be subject to the satisfaction or waiver of the conditions precedent indicated in SPA.