Annual Report

2019

SUMMARY

WELCOME MESSAGES FROM THE CHAIRMAN OF THE SUPERVISORY BOARD AND PRESIDENT OF THE EXECUTIVE COMMITTEE OF THE BANK

Message from Chairman of The Supervisory Board –

Zoltán MAJOR

In 2019, Mobiasbanca marked the beginning of a radical change, with an accentuated growth vision, but also with a new logo and colorful identity of the bank. The bank became part of a strong financial group, one of the largest independent providers of financial services - OTP Group, a true success story of Central and Eastern Europe which is undergoing an unprecedented expansion.

Business performance associated with outstanding profitability has boosted the acquisitions of several banks in the recent years, OTP Group having a special focus and experience in the South-East Europe region.

This determines us positioning the services of Mobiasbanca - OTP Group at the highest quality level on the market. In 2019, similar to previous years, Mobiasbanca had a dynamic activity on the banking market and recorded a gross profit of MDL 742 million (+ 7.76% vs. 2018), mainly due to the increase in lending activity and the net commission income.

Mobiasbanca continued its dynamic credit growth path. The consolidated loan portfolio increased by + 16% in one year, reaching MDL 6.26 billion. The increase of MDL 864.36 million was mainly due to the dynamic activity of lending to retail businesses (+ 28% compared to 2018) for consumer loans and mortgage loans (+ 44% vs. 2018), both representing 42% of the total credit portfolio of the bank.

The bank is constantly enjoying a strong liquidity: at the end of 2019 the total liquid assets reached MDL 5.7 billion, ensuring a share of 46.6% of assets.

As part of our strategy in the near future, we intend to develop digital channels of customer service, with more emphasis on improving service quality.

Mobiasbanca has demonstrated over the years that it deserves the trust of its customers and the appreciation of its external partners. The remarkable results recorded by Mobiasbanca were possible due to an innovative and responsible team, one characterized by integrity.

The expertise accumulated over 30 years in the banking market, combined with a business strategy aimed at generating value for its customers, shareholders and employees - makes us confident in the bank's evolution.

Powered by a stable and powerful European shareholder, Mobiasbanca - OTP Group will continue to write history in banking sector of the Republic of Moldova.

Message from the President of the Executive Committee – CEO

László DIÓSI

The year 2019 was a milestone for Mobiasbanca, which went through the process of changing the shareholders and joining the OTP Group. The alignment of the processes and the adjustment of the organizational structure to the Group's business model involved the effort of the entire team, the process of full integration and taking over of the best practices in the future activity of Mobiasbanca being successfully completed.

The integration process also resulted with the validation of the bank's development strategy for the next three years, which will be supported by the Group with major investments in technologies and infrastructure, being oriented towards the development of mobile banking and internet banking solutions for legal entities and individuals.

Notwithstanding these major changes, commercial and financial performance is worth appreciating, Mobiasbanca registering a sustainable evolution throughout 2019, consolidating its third position in the top of financial institutions.

These performances were achieved due to the lending activity, which continued to maintain the growth rate, reaching a share of 20.2% in the market of unsecured loans and 18.6% in mortgage loans. Mobiasbanca remains one of the few banks in Moldova that offers a full spectrum of international financing programs with attractive lending facilities and grant component. This advantage brought the Bank into the top 3 lenders in the leasing market.

The next period will be a dynamic one, with ambitious plans but also full of challenges that will require determined actions from Mobiasbanca - OTP Group.

At the same time, our estimates are positive and we are ready for major changes, which we are committed to do step by step, with a team of professional people who share the same values. Our customer orientation, technological development, obsession for excellence in serving and advising our clients, will ensure the achievement of the objectives and the consolidation of the bank's success. As a social actor responsible for the sustainable development of the community in which we are operating, we will continue to support the arts, culture and education of young people, sport and social initiatives.

A REFERENCE BANK – PROFILE

A reference bank – Profile

Mobiasbanca was founded in 1990 with legal status of Limited Liability Company. On January 11, 2007, the French financial group Société Générale became the majority shareholder of Mobiasbanca.

Becoming a part of the international financial corporation, Mobiasbanca took over the model of a universal bank structuring its activity on 3 pillars:

- **Retail bank**, offering credit products, cards, savings accounts, current operations and remote banking 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 may serve corporate clients throughout the country, and corporate consultants offer expertise in various key banking areas;
- **Specialized services** with a full range of specialized financial and treasury services, including financial, operational leasing, consumer loans in markets, titles, insurance products, pensions and other.

In its 30 years of presence on the Moldovan banking market, Mobiasbanca has become a leader in lending to individuals, a supporter of entrepreneurs and the financial advisor of the largest multinational companies, however, being a reputable partner of the International Financial Institutions.

Standing out through a well drawn development strategy, boosted by innovative products and services, supported by strong shareholders, Mobiasbanca has a constant exponential evolution reaching the top 3 of systemic banks in terms of loans portfolio with 20,2% share on the consumer market and 18.6% share for mortgage loans at the end of 2019.

Mobiasbanca - OTP Group is also an important social actor, involved in the community through social projects and programs dedicated to educational, cultural and sports activities.

OTP GROUP

OTP Group

- **12** COUNTRIES
- **35** K EMPLOYEES
- **18,5** MIL CLIENTS

OTP Group as a dominant banking player in Hungary and the Central and Eastern European region provides high quality financial services for its more than 18,5 million private, retail and corporate clients in twelve countries through its 1400 branches, over 4000 ATMs, internet and electronic channels for remote services.

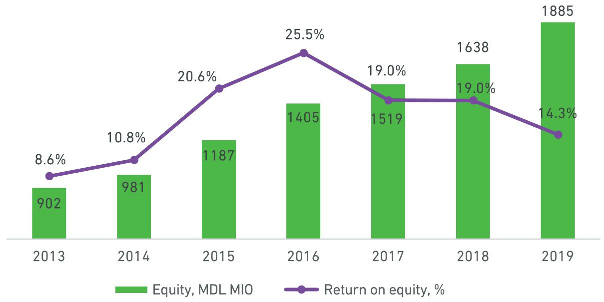
With diversified business lines, OTP Group provides traditional financial services through its subsidiaries, including specialized services - car leasing, investment and insurance products.

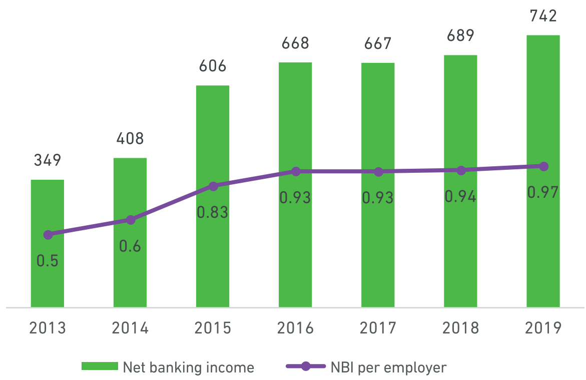
OTP Bank, the Hungarian parent bank of the OTP Group, with a dominant 26% market share in Hungary, has completed several successful acquisitions in recent years, becoming the most active player of the CEE banking market. OTP Group currently operates in 12 countries of the region: Hungary, Albania, Bulgaria, Croatia, Romania, Serbia, Slovenia, Slovakia, Ukraine, Montenegro, Russia and Moldova.
On July 25, 2019, the OTP Group also entered the market of the Republic of Moldova, becoming the majority shareholder of Mobiasbanca, through the acquisition of the majority stake from Société Générale Group.

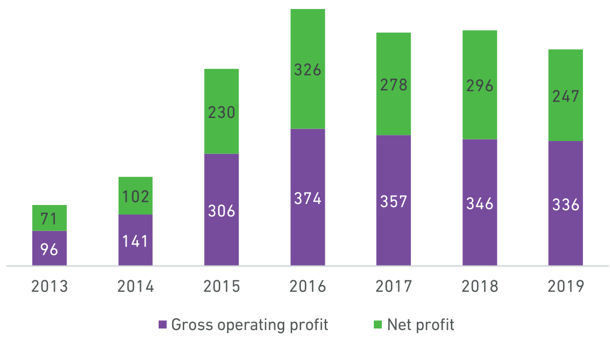
The continuous development and expansion of OTP Bank has contributed significantly to the success and efficient operation of the Group that can offer high quality services to both, retail and institutional clients. In an intense competition environment, OTP Bank's market position is stable in several segments, as well as in terms of profitability the bank belongs to the European frontline.

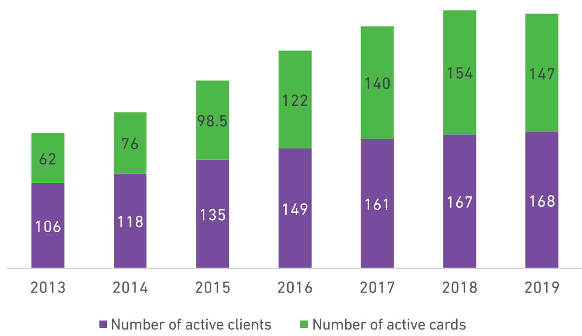
A SOLID BANK - KEY-FIGURES

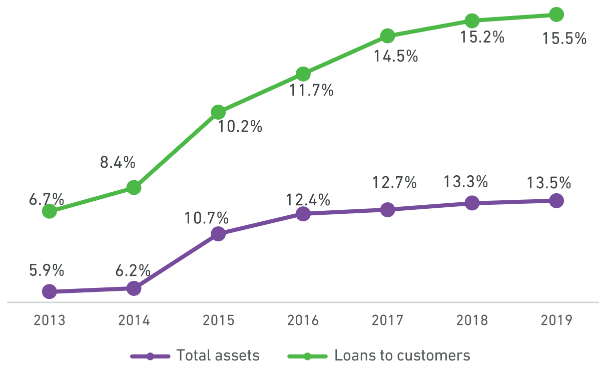
A solid bank - key-figures

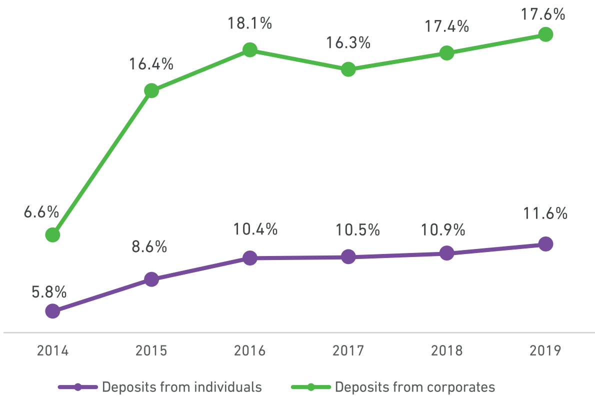












CORPORATE GOVERNANCE

Corporate Governance

2019 was a milestone year for the bank in the field of Corporate Governance.
On July 22, 2019, the majority shareholders of the Bank, Société Générale and BRD - Groupe Société Générale S.A., sold their shares in favor of the Hungarian Bank, OTP Bank Nyrt and, as a result of this transaction, OTP Bank Nyrt became the majority shareholder with 96.69% ownership of the bank's capital. OTP Bank Group is the largest banking institution in Hungary and one of the largest in Central and Eastern Europe.
In the context of the registration of the ownership rights of the new shareholder, the official name of the Bank was modified to Mobiasbanca - OTP Group S.A.. Moreover, the Bank's Article of Association was registered in a new version, the new composition of the Bank's Supervisory Board was approved, closely followed by the approval of the new President of the Executive Committee - CEO.
In order to comply with the requirements of the national legislation, in October 2019 the majority shareholder announced the compulsory tender offer to take over the shares issued by Mobiasbanca - OTP Group S.A. As a result of the transaction carried out, OTP Bank Nyrt held 98.26% of the total shares issued by the Bank.
At the end of 2019, the Bank had 129 shareholders, of which 128 minority shareholders with 1.69% ownership of the Bank's capital. Compared to the same period of 2018, the share of minority shareholders decreased by 1.56% (2018: 3.25%). The shareholders of the Bank have all the rights, obligations and responsibilities defined by the legislation, the Article of Association of the Bank and the internal normative documents of the Bank. The legitimate rights and interests of the Bank's shareholders are guaranteed by the Law, the Article of Association of the Bank and the internal normative documents of the Bank. According to the requirements of the law in force, the shareholders are entitled to request the redemption of the shares belonging to them. The decision to redeem the shares is taken by the General Meeting of Shareholders or by the Bank Council within the limits of the powers established by the legislation in force.
Thus, the composition of the bank's shareholders is as follows:

- OTP Bank Nyrt, Hungary – 98,26%
- Minor shareholders (128) – 1,69%
- Tresury shares - 0.06%

The securities of the Bank are admitted for trading on the regulated market - the Stock Exchange of Moldova.
At the same time, since May 2019, the keeping of the shareholders' records has been taken over entirely by the "Central Securities Depository" S.A.

Corporate Governance

Type and the class of securities	Ordinary shares
Country	Moldova
Code ISIN	MD14MBIS1000
Securities admitted for trading at the regulatory market	Stock Exchange of Moldova 16, Maria Cebotari st., MD-2012, Chisinau, RM Tel: 022-277-592
Registry of Bank's shareholders	Central Securities Depositary 57/1 Mitropolit Gavriil Bănulescu Bodoni st. MD-2005, Chisinau, RM, Tel. 022-999-871
Contact details	Mobiasbanca – OTP Group S.A. Corporate Governance Department Tel: 022-812-431, 022-812-438 of. 319, 81A Stefan cel Mare si Sfînt Blvd, MD 2012, Chisinau, RM

The corporate governance framework determines the distribution of rights and responsibilities between the Bank's management bodies and describes in detail the rules and procedures for corporate decision making. A good corporate governance structure means that a successful system of objectives setting, decision making, including control and monitoring of the execution of decisions and objectives has been established.

Mobiasbanca - OTP Group S.A. publicly discloses the important information about the events that influence the Bank in accordance with the National Legislation, placing them on the Bank's website: https://mobiasbanca.md/information-guvernance and in the Official Information Storage Mechanism.

The most important internal documents, which regulate the corporate governance of the bank, are:

- The Article of Association of the Bank, https://bit.ly/2JEF0wd
- The Corporate Governance Code, https://bit.ly/2UMzHje
- Directive no. 1: The rules of organization and internal functioning of the bank.

The corporate governance framework of the bank is defined in the Corporate Governance Code of the Bank, which sets out in detail the standards for the governance and management of the Bank's bodies.

In accordance with the principles of good corporate governance, the Code establishes the structure of relationships and processes in order to be able to cope efficiently with environmental changes, to create a transparent and understandable Governance system, which will increase the confidence of local and foreign investors, employees, customers, suppliers, supreme governance institutions and society.

Effective corporate governance means that the role and relationships established in team building within the bank are based on ethical behavior, minimizing the conflict of interest.

Mobiasbanaca - OTP Group S.A. Corporate Governance Code can be accessed on the official website of the Bank, within the page that discloses the information on the governance of the bank, together with the Corporate Governance Declaration "Compliance or justification". https://mobiasbanca.md/information-guvernance

A successful corporate governance is based on the principles of accountability, transparency and control of decision-makers.

Directive no. 1 regulates the general aspects regarding the organization and functioning of the Corporate Governance within Mobiasbanca

Corporate Governance

- OTP Group SA, including establishing the individual attributions, competences and responsibilities of the Chairman of the Executive Committee - CEO, the members of the Executive Committee, as well as establishing the organization, functioning and internal competences of the Committee established within the Bank. The purpose of the Directive no. 1 consists of regulating the internal procedures, obligations and responsibilities related to the management of the Bank.

At the same time, during the reporting period, the Bank's management and employees activated in accordance with internal documents, which regulate the corporate governance of the bank, namely, the Bank's Article of Association, the Corporate Governance Code, Directive no. 1, ensuring maximum transparency of the Bank's activity, acting in accordance with the law in force.

The principles of corporate governance have been respected, including the creation of an efficient system for guaranteeing the safety of shareholders' funds and using them effectively, respecting the rights of all shareholders, structuring relationships and processes so that they can cope efficiently with environmental changes. In its interest, the Bank continually examines and develops its corporate governance practices.

The Bank has its own internal control mechanism, which is in accordance with the legal framework, with the normative acts of the National Bank of Moldova and with the accepted general practice in this field, which ensures the efficient management of the bank, the conduct of financial activities in a secure and prudently manner, respecting the provisions of the legislation in force, as well as protecting the interests of depositors.

Internal control within the Bank is a set of tools that allows the Bank's management to ensure that the operations performed, the organization and the procedures put into practice are in compliance with the legal provisions, professional and ethical rules, internal normative documents and the Bank's strategy.

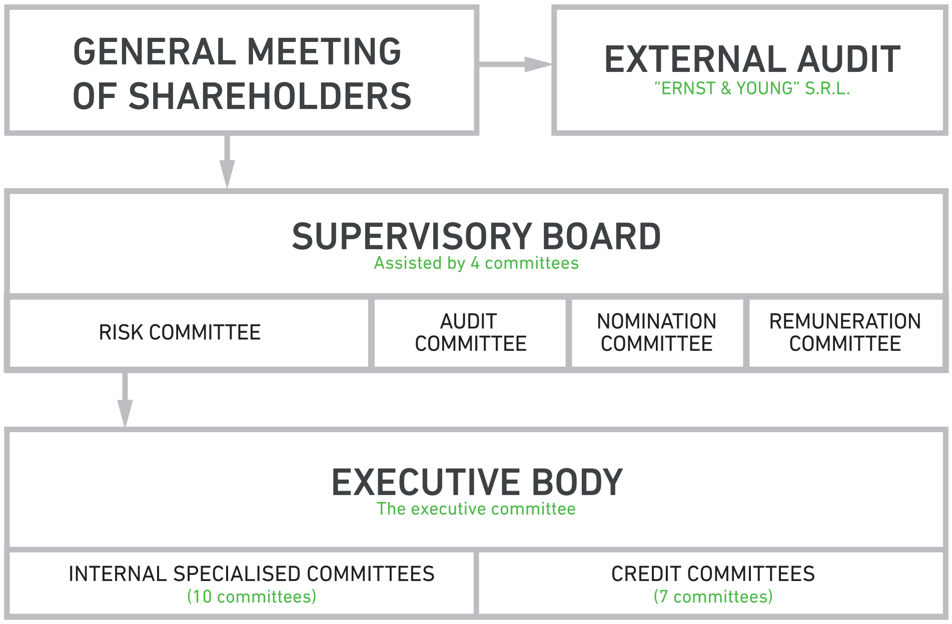
The purpose of internal control includes the prevention of malfunctions, the measurement and exercise of sufficient control over the risks involved, ensuring the adequacy and efficiency of internal processes, detecting irregularities, guaranteeing the reliability, integrity and availability of financial and management information, checking the quality of information and communication systems.

Before making the decision regarding significant changes or exceptional and significant transactions, the risk management function is involved in assessing the impact of such changes and transactions on the general risk of the Bank; will evaluate how the identified risks may affect the Bank's ability to manages its risk profile, liquidity and capital under normal and unfavorable conditions and will report its findings directly to the management body before making the decision according to the competence.

At the same time, Mobiasbanca has continued the revision of an imposing number of internal normative documents in order to increase the efficiency of the bank and to comply with the requirements of the legislation in force and the best international practices, to ensure an effective internal control. Thus, during 2019, 130 internal normative documents have been updated, which constitutes 25% of the total issued documents.

Corporate Governance

Statutory governing bodies:



General Meeting of Shareholders

The right to participate at the General Meeting have shareholders of the Bank included in the Bank's Register of Shareholders and in the list of shareholders who have the right to participate at the General Meeting. Voting rights are calculated on the basis of all voting shares held, even if the exercise of some or all voting rights is suspended or limited.
During the2019, four General Shareholders' Meetings have been convened and attended. On May 17, 2019, the Annual General Meeting of Shareholders was held by correspondence, during which topics of interest to both, shareholders and the Bank, were examined: the annual reports of the Supervisory Board and the Executive Body were approved, The Article of Association of the Bank in a new redaction was approved, as well as other topics pertaining to its exclusive competence. At the same time, taking into account the priorities of the majority shareholder, as well as the promotion of strategic actions for the Bank's development in the next period, the shareholders of the Bank have decided to reflect the profit obtained according to the results of 2018 as "Non-distributed profit". During the meeting held on July 11, have been examined and approved decisions regarding the modification of the official name of the Bank, the Article of Association of the Bank and the remuneration of the members of the Supervisory Board of the Bank. The name of the bank has been changed to Mobiasbanca - OTP Group S.A.
At the Meeting from 11.10.2019 and 20.12.2019, some amendments to the Article of Association of the Bank were approved, gradually, new candidacies were submitted and approved in the composition of the Bank's Supervisory Board.

Supervisory Board

The Supervisory Board is the Bank's management body, which performs the

Corporate Governance

role of overseeing the bank's performance, approving and monitoring the implementation by the bank's Executive Body of the strategic objectives, governance framework and corporate culture, including bearing overall responsibility for the bank's activity. To this end, the Supervisory Board defines the management framework of the bank's activity, by ensuring the elaboration, approval, implementation, permanent monitoring and periodic review of the primary internal regulations in all areas of the bank's activity, including the separation of responsibilities within the organization and the prevention of conflicts of interests.
The 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 (NBM). Under the direct supervision and responsibility of the Supervisory Board are the functions of Risk Management, Compliance and Internal Audit.
The Supervisory Board of the Bank is made up of 5 members, appointed and suspended by the General Meeting of Shareholders. The identification and recommendation of the candidates to be appointed as members of the Supervisory Board is carried out by the Bank's Nomination Committee based on the proposal of those shareholders, who are holding at least 5% of the total number of voting shares, as well as on its own initiative.
The Supervisory Board members contribute to sound corporate governance within the bank, including through personal behavior, and, in carrying out their duties, take into account the legal interests of the bank, its depositors and shareholders. Board members exercise their duties with honesty, integrity, objectivity and loyalty, dedicating enough time and prudence in their exercise, as well as in strict compliance with the legal provisions and the normative framework.
The members of the Supervisory Board have a four-year mandates. Due to the fact that the majority shareholder of the Bank changed during 2019, changes were made in the composition of the Supervisory Board, being integrated managers with broad banking expertise.
In 2019 the Board met in 18 meetings, out of which 2 - plenary and 16 by correspondence, at which 149 issues were discussed.
The members of the Supervisory Board were reassessed at the collective level on the compliance with the criteria established by art.43 of the Law on banks activity and the collective adequacy of the members in terms of knowledge, skills and experience was reconfirmed.

Executive Committee

The Executive Body of the Bank is a collegial body, called the Executive Committee of the Bank and exercises the management function over all the structural subdivisions, areas and directions of activity of the Bank, except those within the competence of the General Meeting of Shareholders and of the Supervisory Board. The mandate of the members of the Executive Committee is 3 years.
The Executive Committee exercises the current management of the Bank in order to achieve the objectives set in its strategy and business plan. In exercising its powers, the Executive Committee acts in the interests of the Bank, as well as in the interests of the Bank's

Corporate Governance

shareholders, also, being responsible to the Bank's Supervisory Board for the financial performance of the Bank.
To this end, the Executive Committee ensures the proper implementation of the Bank's management framework, elaborates and approves, as the case may be, the secondary internal regulations; knows and understands the organizational structure of the Bank, the risks it generates for ensuring the Bank's activities, in accordance with the strategy, the risk appetite and the Bank's policies approved by the Bank's Supervisory Board.
The Executive Committee reports quarterly to the Supervisory Board on its activity, focusing on the following topics: major changes in the banking system, situations that may influence the strategy and / or management framework of the bank's activity, the financial performance of the bank, the evolution of the balance sheet, the evolution of the loan portfolio , the evolution of the resources, the evolution of the income and expenditure ratio, the compliance with the limits related to the risks or the compliance rules, the deficiencies of the internal control system, etc. As of the 31st of December, 2019, the Executive Committee consisted of 4 persons with diversified experience and competences. The management of the Bank's Executive Committee activity is exercised by the President of the Executive Committee - CEO, Mr. László Diósi.
The Supervisory Board evaluates annually the activity of the Executive Committee on a collective and individual level. In this respect, the members of the Executive Committee correspond at individual and collective level to the criteria established by Article 43 of the Law on banks activity and their adequacy in terms of knowledge, skills and experience was reconfirmed.
During 2019, the Executive Committee met in 44 meetings, at which 247 issues were discussed.

Specialized Committees of the Supervisory Board

Four specialized committees of the Supervisory Board are set up, which are responsible for providing the necessary support to the Supervisory Board for the exercise of its tasks:

- **Risks Committee;**
- **Audit Committee;**
- **Nomination Committee;**
- **Remuneration Committee.**

The specialized committees are subordinated to the Supervisory Board, are independent of the executive body and have an advisory function, submitting proposals and recommendations to the Supervisory Board for these purposes. The committees are made up exclusively of members of the Bank's Board, where the majority of them must be independent according to the criteria established by the legislation in force.

Risks Committee

The Risks Committee advises the Supervisory Board regarding Bank's current and future risk appetite and risk strategy and assists the Supervisory Board in monitoring the implementation of this strategy by the Executive Body. The overall responsibility for the risks remains for the Supervisory Board.

Corporate Governance

The Risks Committee supports the Supervisory Board in establishing the nature, volume, format and frequency of information regarding risks.

In 2019, Risks Committee met in three sessions where the following issues were discussed:

- Banking, economic and political environment
- Credit portfolio analysis
- Recovery of non-performing loans
- Market and country risks
- Structural risks
- Operational risk (including legal risk, banking security, compliance and reputation)
- IT risk management
- Risk appetite dashboard
- Focus areas, etc.

Following the presentations, the current and planned actions were analyzed. It was approved: the implementation of the OTP practice in relation to the credit approval authority system, similar evaluation in the retail sales portfolio, including SMEs, adapting the existing norms to the Group's standards, harmonizing products and processes, use of the products / services of the Credit Bureau to strengthen the credit risk management and to prevent fraud, periodic monitoring and reviewing the limits of Risk Appetite, stress testing, ICAAP contribution; updating the related norms in accordance with the best practices of the OTP Group, etc.

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 2019, the Audit Committee met in three sessions. The presentations were divided into two compartments: the permanent control activity and the periodic control activity. Within the Committee were presented and examined issues related to: Summary of audit activities, Internal audit recommendations, Statistics on external audit recommendations, which included the NBM Action Plan Completion Status and the External Audit Action Plan Completion Status, Risks of non-compliance, combating money laundering, physical security of personnel and equipment, main legal risks, evolution of complaints.

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 2019, the Nomination Committee met in five sessions where the candidates for the vacant positions of the Supervisory Board and the Executive Body have been identified and evaluated, were identified persons holding key functions within the Bank and their evaluation was approved, the re-evaluations of the collective adequacy of the members of the Supervisory Board and Executive Committee were approved.

Corporate Governance

Remuneration Committee

The mission of the Remuneration Committee is to review annually the bank's compensation policy, in particular: proposes the principles of the Bank's compensation policy, analyzes the compensation policy of different categories of staff, proposes decisions to 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 2019, the Remuneration Committee met in one plenary session analyzing the remuneration policy, reported on the labor force's evolution, recruitment and career management, etc.

Internal Specialized Committees

In order to ensure a good level of protection against the risks to which the Bank is exposed, as well as good functioning of the internal system, the following specialized internal committees are set up within the Bank:

1. Monthly Performance Analysis Committee
2. AML Committee
3. Products and Prices Committee
4. Monitoring Committee
5. IT and Investment Committee
6. Operational Risks Committee
7. Assets and Liabilities Committee
8. Crisis Management Committee
9. Work Out Committee
10. Main Credit Committee

Credit Committees

According to the lending policy, the Credit Committees ensure the examination, approval and appropriation of loans and other commitments, within the limits of competences approved by the Bank's Supervisory Board.

Depending on the competences established during 2019, the following committees have activated:

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

Thus, the Bank has an adequate credit risk management framework, which takes into account the risk appetite and risk profile of the Bank, as well as the market and macroeconomic conditions. It also has the credit policy and procedures for identifying, evaluating, monitoring and controlling credit risk, including counterparty credit risk.

In November 2019, the NBM carried out a thematic control in order to verify the fulfillment of the measures prescribed by the Decision of the Executive Committee of the National Bank of Moldova regarding the results of the complex control carried out in 2018 for the period 28.02.2014 - 28.02.2018. In the final conclusion, the National Bank of Moldova found that most of the measures with established implementation deadline by the NBM, were implemented.

COMMERCIAL ACTIVITY AND DEVELOPMENT

Commercial Activity and development

Loans for individuals

As in previous years, Mobiasbanca was active on landing market, with consumer and mortgage loans offers, organizing five promotional campaigns and launching several dedicated offers. In addition, dedicated offers were launched for employees of selected companies within the Mobiabanca salary projects.

The increased demand for mortgage loans, increased the bank's mortgage loan portfolio by 44% compared to the previous year, setting a record level of production at the end of 2019. During the year, Mobiasbanca participated in the exhibitions Real Estate Moldova, highlighting with an innovative offer to compensate the expenses of registration of the Mortgage Contract at the Public Services Agency. In 2019 Mobiasbanca continued active lending through the "First House" State Program. The offer dedicated to employees of companies within the "Moldova IT Park" has been successful, being extended for 2020 year.

New advantages and innovations have been brought to consumer lending. Beginning with 2019, Mobiasbanca customers can get a consumer loan without going to the bank with the income statement. As a result, the approval of consumer loans, only with the presentation of the identity document, considerably reduced the term for issuing a loan. About 50% of credit applications are analyzed in less than one hour. Through these actions, Mobiasbanca's consumer loan portfolio increased by 28% during 2019.

Digital products for individuals

Being concerned with the implementation of innovative technologies in order to improve the quality of service to its customers, Mobiasbanca launched Contactless Debit Mastercard product in 2019. Through this product, Mobiasbanca takes another step towards simplicity and increasing customer satisfaction. Today, the entire range of issued cards is equipped with contactless technology.

During the year, various campaigns were launched to promote bank cards, both, in partnership with the MasterCard® and Visa® companies, as well as internal campaigns, such as the implementation of the ONE CUSTOMER - ONE CARD strategy.

The year 2019 has brought considerable improvements to the SMS Banking service, by launching an updated version, with a number of new possibilities. Among the most appreciated functionalities of the service, by the clients of the bank, are the time optimization of the messages reception by the Client, the modification of the message's structure received by the client, as well as the inclusion of details regarding the performed operation (eg type of transaction / location, where the transaction took place).

During the year, the number of ATMs offering the Cash-In service was increased. By the end of 2019, already 20 of them are equipped with this functionality.

Commercial Activity and development

Large Corporate Activity

Corporate Banking activity has reconfirmed its role as an important contributor for achieving the performance objectives of the bank.
This business line has generated in 2019 a solid profitability, supported by both, lending activities and general banking products and services offered to Large Corporate clients, successfully exploiting cross-selling potential of the bank.
Most important national and multinational companies present in the country form our clientele. Mobiasbanca has maintained the reference bank position for this market segment, enjoying the trust and appreciation of the customers.
The economic sectors that we have financed with priority were food processing industry, telecommunications, transports, agriculture, retail trade and infrastructure development. In addition, we selectively engaged in real estate projects with good risk profile. At the same time, Mobiasbanca is recognized by foreign banks as their local partner, participating together in the most relevant international financing syndicated transactions on the market.
Proactive commercial approach, close to the customer, confirms Large Corporate team's commitment to supporting business ideas designed to stimulate private sector development and global well-being. The principles underlying the sustainable development of this business segment refer to building long-term relationship with the clients, acting with an open attitude in treating their initiatives.

Traditionally, commercial indicators have registered a positive dynamic, while the quality of loan portfolio was preserved at high level, confirming once again the prudency and bank's maturity in managing the lending activity.
Our preoccupation remains the continuous modernization of the range of products and services dedicated to Large Corporate customers, in line with the latest international trends.
The SME department, part of the Corporate Banking Division, is the bank's unit responsible for managing relationships with medium-sized companies. The clients from the managed portfolio operate in various sectors of the national economy: agriculture, trade, services, transport, light industry, being considered a diversified portfolio in terms of sectoral concentration of the national economy.
The objective of 2019 was achieved by offering tailored solutions to customer needs, thanks to the flexibility of the range of banking products and versatile services. However, given the rapid digitization of business, it pays attention to the development of electronic products and remote banking services, which allows adaptation to the needs of everyday banking services to customers.
During 2019, the SME team focused on both, the investment needs and the current needs of the clients, which demonstrates a balanced structure of the loan portfolio in terms of destination and term. A number of ambitious projects were implemented, which boosted the growth of the loan portfolio over the initial estimates. Similarly, most clients have implemented their own development ideas, thanks to the financial support and professionalism of the bank team that has structured the financing correctly. Thus, both

Commercial Activity and development

parties benefited from tangible results following the completion of the projects, and the loan portfolio saw a net increase of about 16%.

Financing facilities for the agricultural sector

This year Mobiasbanca launched the offer dedicated to the agricultural sector. The offer was designed to meet the business needs of the clients from this field. In the frame of the offer, the clients beneficiated of attractive discounts to interest rate for financing the current activity and a wide range of international funds resources with multiple facilities. Participating in the specialized agricultural exhibition in spring, "Moldagrotech spring 2019", between March 13 and 16, 2019, at the exhibition center "Moldexpo", Mobiasbanca allowed new clients acquisition, by offering professional advising regarding the possibilities and conditions of financing the development of the agricultural businesses, but also, by offering vouchers with advantageous discounts for financing of investments.

Offers dedicated to SMEs

Mobiasbanca offers to the entrepreneurs lending solutions in advantageous conditions. So traditionally, in September 2019, Mobiasbanca launched the offer dedicated to the entrepreneurs "Open for your business". Mobiasbanca challenged the entrepreneurs to add another dimension to its business, to develop its ideas and achieve its objectives, beneficiating in this regard from an advantageous offer with guaranteed discounts to interest rate and granting fee.

Additionally, the entrepreneurs also benefited from promotional conditions for day-by-day products (opening and service of the new current account, the remote payment system service, etc.).

In addition, in July 2019, Mobiasbanca launched the Car Leasing Offer to renew the car park of the clients. With Mobiasbanca car leasing, the clients' businesses speeds with attractive interest rate, with a financing term of up to 5 years, without additional collateral. Additionally, by purchasing more cars, the interest rate becomes even more advantageous.

Network contribution to the business

In 2019, Mobiasbanca continued to optimize its network of retail branches, relocating or refurbishing several branches with the aim to sustain a high level of service and comfort for its clients. The number of active clients served in the bank's retail network reached 168,012 active clients at the end of the year. At the end of 2019, Mobiasbanca retail network comprised 53 points of sales, consisting of 51 retail branches, 1 corporate branch and 1 branch dedicated for private banking https://mobiasbanca.md/en/netowrk.

Network development actions realized during 2019:

- Relocation of the branch no. 48 "Rezina" in a new location, located on the central artery of the city, which ensures customers increased accessibility to banking services and an increased level of comfort.
- Relocation of Branch no. 24 "Bogdan Voievod", on a new address Bogdan Voievod 2, involved the merging of the

Commercial Activity and development

branch no. 24 "Soiuz" with branch no. 21 "Moscow" from Rascani sector, being an absolutely necessary action, with the increase of the number of clients, which ensured a more qualitative service for both individuals and legal entities.

- A new branch "Stefan cel Mare" has been inaugurated, following the merger of the branch no. 16 "Central Market" with branch no. 25 "Stefan cel Mare si Sfint". This is the first branch fully set up according to OTP Group standards, providing a complete range of banking services..

At the same time, the ATM network continued to be optimized by installing and relocating existing ATMs, in Chisinau and Anenii Noi cities, aimed to facilitate customers' access to services and allowing them to perform card feed operations through functionality Cash-In. Thus, at the end of 2019, the physical network included 144 ATMs, 20 of which are equipped with Cash-In functionality.

In order to promote the commercial offers of the bank dedicated to different customer segments, as well as to meet, consult the existing clients of the bank, but also the potential ones interested in offers and solutions of the bank, the Mobiasbanca team participated in various events, including:

- The Moldagrotech Spring 2019 exhibition, in March, during which were presented the financing possibilities and conditions for the development of business in the agricultural field.
- Real Estate Moldova 2019, from April and September editions, during which the colleagues from the Mortgage Center offered professional advice in the real estate field and presented the commercial offer valid only during the exhibition.

Also, in December, Mobiasbanca organized several events within the local communities to present the OTP Group on the Moldovan market and the new bank's development strategy:

- The representatives of the bank's management visited the north of Moldova to meet in person the clients from the region. During the event, more than 100 customers from the branches in the northern region participated: Balti, Sîngerei, Falesti, Drochia and Floresti.
- A similar event was organized with the clients from the southern region of the country, in the city of Cahul, where the clients had the opportunity to express their financing needs in the agricultural field, and the bank team additionally presented dedicated offers and credit possibilities for this segment.

At the same time, "Open Doors Day" events were organized in the branches "Bogdan Voievod" and "Stefan cel Mare" to celebrate the relocation of the branches in modern and spacious locations, oriented to meet the needs of the bank's customers.

Due to the high demand, the bank increased its resources and continued to promote the services offered by the Mobiasbanca Mortgage Center. The first mortgage lending consulting center, which offers professional consultations on mortgage transactions, has expanded its range of ancillary services, including property appraisal, document package support, notary verification, real estate insurance and cadastral office registration. At the same time,

Commercial Activity and development

new partnerships with reliable construction companies and real estate agents have been concluded.

The mortgage lending process at Mobiasbanca is fast and certified according to ISO 9001: 2015 standards. Mobiasbanca has continued to optimize the processes related to the key products and services; at the same time, there were initiated adjustments in the sales processes in order to increase the efficiency of the network employees. In particular, the objective was in accelerating the processing of credit applications and facilitating access to banking services for the retail segment.

In pursuit of this long-term objective, optimizations were continued on several additional processes related to lending to individuals, including mortgage lending and over-the-counter operations. During the year, Mobiasbanca wanted to consolidate its position as a leader in the market by fast granting loans to individuals.

Particular attention was paid to sales force training programs on each segment of activity, being differentiated training modules for each position of employees of the network.

New developments and innovations

The implementation of innovative technologies is the main objective for improving the quality of the services offered to customers. Mobiasbanca launched the Debit Mastercard Contactless product in 2019, thus improving the migration strategy to contactless technology. At this moment, the entire range of cards issued by Mobiasbanca is contactless. With this product, Mobiasbanca takes another step towards simplicity and increasing customer satisfaction.

In 2019, new Internet Banking solution has been implemented for legal entities – Business Internet Banking, designed to facilitate online payments and improve customer service.

The project of a new web page developing with a more comfortable interface and new functionalities has been initiated to meet the current demands of the customers. The project for the mobile application for online payments for individuals was drafted. In 2019, ATMs with Cash-In functionalities were introduced, the network is equipped with 20 units, and the project will continue in 2020.

Global Transactions

Relationship with International Financial Institutions

In 2019, Mobiasbanca, in cooperation with IFIs, continued to maintain the increasing trend of the loan portfolio, remaining the reference bank for International Financial Institutions (IFIs) and the European Union in the Republic of Moldova for implementing of new financing programs aimed to improve the competitiveness of companies and the innovative ideas accomplishment, thereby supporting sustainable economic growth. Having an intense and productive relationship with IFI and due to the active promotion of

Commercial Activity and development

the common financing projects, in 2019 Mobiasbanca was able to complete successfully the assimilation of the allocated limit of 30 Mil. EUR provided by the EBRD under the EU4business EBRD Credit Line program, thus supporting the private sector in carrying out investment projects in various sectors of the national economy, remaining the only financial institution in the country that offers financial leasing with Grant component.

Another successful achievement in 2019 was the new obtained limit of 30 Mil. EUR within the guarantee facility "InnovFin", offered by the European Investment Fund following the successful assimilation of the guarantee limit in the amount of 45 Million. EUR previously allocated for carrying out the Research and Innovation projects.

In addition, Mobiasbanca continued actively to promote the IFIs financing programs among Young Entrepreneurs, especially those who develop businesses in rural areas, facilitating them access to funding under special conditions at a reduced price, which was possible by the initiative launched by Ministry of Finance of the Republic of Moldova and the Credit Line Directorate.

In 2019, jointly with the Technical Assistants and the Program Implementation Unit of the "Fruit Garden, EIB", Mobiasbanca as a financial consultant, promoted the facility among companies with agro-industrial profile by participating in a series of seminars having as guests about 600 local entrepreneurs from different branches.

Monetary Market

During 2019, mostly in the first half of the year, FOREX market of the Republic of Moldova marked a volatility. In this market conjuncture, Mobiasbanca succeeded to develop FX trading which determined a volume growth nearly 3% in 2019 vs 2018. It generated a net banking income of 137,5 M MDL that was a growth of 8.7% in comparison with previous year.

Cash Management Section

In 2019, Mobiasbanca has strengthened the commercial offer in digital solutions in respect of treasury management of companies, focusing on digital alternative services. The global solution *International Account Management (IAM)* is a unique product on the Moldavian market and is designed for International Companies for efficient and automated management of treasury' company. Based on the SWIFT platform, this service offers a high level of security due to the strong contractual relations with international banks. In 2019, Mobaisbanca signed one more framework agreement with a first rank international bank. The IAM solution is a part of Cash Management offer, and the Corporates subscribed to this service benefit from treasury management with minimal effort and optimal cost.

For both local and international companies, Mobiasbanca offers local solution *Business Internet banking (BIB)*, based on Internet – Payments flow, successfully launched in February 2019. The new and existing clients subscribed during 2019 benefited from wide

Commercial Activity and development

range of based services (local and international payments) as well as specific services, which are optimizing the communication with bank, based on-line platform.
Because of these actions, it was possible that in a dynamic environment of change to meet expectations and digital necessities of our clients, and our banking services to be instant accessible from companies' office without need to visit the bank.

Trade Finance

Mobiasbanca is commitment to supporting international and intra-regional trade in line with highest standards by offering to its clients a full range of Trade Finance products on risk mitigation instruments, as Letters of Credit, Forfaiting, International Guarantees or Stand-By Letters of Credit and financing through Letter of Credit disounting and Forfaiting.
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 forth consecutive year is named "The Most Active Issuing Bank in Moldova in 2019" by the Trade Facilitation Program (TFP) EBRD (London).

The budget execution of Trade Finance NBI was 113%, this result is 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.

Leasing activity

The 2019 year was for Mobiasbanca a fruitful one, a year that generated good results, as increasing of the leasing portfolio and ranked the Bank into the top 3 financing entities in this segment. Last year the Bank leased asset in total amount of 10.2 million EUR, of which 55% - vehicles, 33% - equipment and 10% - agricultural equipment.
One of the best performances the Bank has achieved under the Leasing product of the EU4business EBRD Credit Line program, under which has disbursed 3.3 million EUR. Within this program, the Bank has leased new equipment and vehicles that meet the European Standards and are eligible for grant of 10% from financed amount.
Among the success stories of the Bank in 2019 recorded by Mobiasbanca within leasing activity are listed: the purchase of the most modern equipment for the label printing industry and packaging; equipping the winemaking plant with the grape harvesting combine machine;

Commercial Activity and development

upgrade of the car fleet for some of the largest local manufacturers.

The agro segment Bank entered in 2018 through partnership programs, brought good results to the Bank in 2019 too, for both: leasing segment (was leased agro equipment in amount of 1 million EUR) and loan segment (was financed agro equipment in amount of 1,4 million EUR) and has strengthened the Bank's strategy within this market. At the same time, Mobiasbanca has participated at Moldagrotech exhibition and National Conference of the Fruits' Business for products' promoting designed for agro and related segments.

The end of the year culminated with the approval of the strategic development plan for the following years within the OTP integration process, regarding the creation of the Leasing Center and of the Agro Department in order to have a more efficient approach on the indicated markets.

Correspondent banks

Mobiasbanca proves to be a strong and reliable partner in supporting international trade and commerce via its accounts held in 10 foreign banks and a wide network of correspondent connections through RMA (SWIFT keys). Clients have possibility to process payments in more than 80 currencies that enable them to trade across the world. Mobiasbanca is constantly active in development and optimization of its correspondent network, establishing correspondent relationships with first-class foreign banks.

Change of shareholder in 2019 did not affect the correspondent network, in this context, being closed one account according to policy of the previous shareholder, but this did not affect the clearing process. As well, in 2019 has been initiated opening of two Nostro accounts with well known 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.

RISK MANAGEMENT AND COMPLIANCE

Risk management and Compliance

Risk management enhances banks capacity to achieve its goals. Hereby, the control system has a key role in bank's performance. An efficient internal control system is essential and represents an important competitive advantage.

The Bank is assuming various risks within the activity carried out and pursues to refrain, measure and control them at any time.

Internal policies regulating the correct management of all significant risks for the bank (including credit, currency, interest rate, liquidity, concentration, operational, reputational, compliance, strategic), ensures a global profile of low risk, in the context of assuming properly evaluated exposures.

The overall objectives of risk management activity are the following:

- Establishing a set of fundamental standards for risk management within the Bank, maximizing potential gains and protecting depositor's interests;
- Supporting the Bank's business strategy, by ensuring the pursuit of commercial objectives in a prudent manner, in order to maintain the stability of revenues and to cover against unexpected losses;
- Supporting Bank's decision-making process, by providing a global view of the risks to which the Bank is exposed;
- Ensuring compliance with best practices in risk management and conformity with the requirements of current legislation;
- Promoting a risk culture, integrated at all bank's levels, based on a full understanding of the risks faced by the bank and the way they are managed, taking into account the bank's risk tolerance / appetite.
- Ensure adequate capital levels, as required by normative requirements.

Internal control of the bank is organized in 3 defensive levels:

- Level 1, or operational control (on-line), is intended to ensure that transactions are executed correctly. These controls are performed by the staff of the business subdivisions and the operational management of the Bank, at the front-office and back-office levels, and are incorporated into the Bank's internal regulatory documents.
- Level 2, control of risk management functions, performed by Finance, Compliance, Risk Management, Operational Risk, Information Security, Legal, whose responsibilities are distinct and independent from those of the Bank's business subdivisions. These units are responsible for the following functions:
  - Compliance function,
  - Risk Management function,
  - Finance function.
- Level 3, controls performed by the Internal Audit of the Bank, which periodically evaluates and verifies the sufficiency, functionality and efficiency of the Bank's internal control system. The Internal Audit function is independent from other 2 levels.

Over the past year, Mobiasbanca has strengthened its risk management model in several key areas such as:

Risk management and Compliance

- Optimization of the competences delegation process linked with the credit approval transactions;
- Reorganization of the division according to the Group's requirements and visions;
- Internal governance, risk and capital adequacy framework (ICAAP);
- Industrialization of the lending process of individuals by introducing SFS interpellations;
- Consolidation of IFRS 9 methodology concerning the economic scenarios;
- Implementation of the new rules related to large exposures;

The risk management activity is periodically reported to the Risks Committee, attended by the members of the Supervisory Board. In order to ensure a proper risk management and a control over this area at the executive level, additional reporting is carried out.

Conformity

In 2019 Mobiasbanca became part of the OTP Group, one of the largest independent financial services providers in Central and Eastern Europe with full range of banking services for private individuals and corporate clients.
The purpose of Mobiasbanca - OTP Group S.A is to create for our customers the opportunities and solutions for development, as well as personal and business needs. With this purpose comes the responsibility to protect our customers and the integrity of the Bank.
In this regard, Mobiasbanca - OTP Group S.A, based on the trust of its customers, achievements and experience accumulated during decades of success on the national market, has launched a comprehensive program to strengthen and develop the prudential framework of activity, including by strengthening the protection mechanisms, security and internal control.
A crucial role in this regard is the independent compliance function provided by the Banking Compliance and Security Department, which is responsible, among other, for the prevention, mitigation and management of the compliance risks to which the Bank may be subject.
Thus, the Department is responsible for the following areas of strategic importance for the Bank's activity and sustainable development:

- Code of conduct and ethics compliance;
- Preventing and combating money laundering and terrorist financing, including activities related to customer knowledge (Know Your Customer);
- Ensuring physical and information security;
- Preventing and combating corruption / banking fraud;
- Prevention and management of conflicts of interest;
- FATCA;
- International sanctions;
- Alert system;
- Management of the area related to personal data;
- Ensuring legislative and normative compliance;

Other activities required to ensure compliance within the Bank.
On the other hand, ensuring an exhaustive and complex approach to managing compliance risk involves the responsibility and involvement of all business and support subdivisions.
Being independent of the business lines and invested with the rights of direct reporting to the Bank's management body, the compliance function monitors and ensures impartial control

Risk management and Compliance

of banking operations, products and services, paying special attention to their compliance with their legislative and regulatory requirements.
These compliance risks refer to the activity of the business lines, financial products and services, customer relations and interaction, the activities of the Bank's employees, which must comply with and respect the applicable legal and regulatory framework.
For example, compliance risk includes preventing and combating money laundering, customer knowledge (KYC), compliance with legal requirements applicable to banking services and products.
The Bank uses a wide range of risk monitoring tools and mechanisms. This approach defines systems of governance, risk appetite and offers a unique view on the most significant and important risks and their control mechanisms. It also incorporates the active risk management system based on OTP Group standards.
During 2019, measures have been successfully implemented to strengthen and integrate the risk appetite framework, the complex risk assessment processes and the control mechanisms. In the next period, the Bank will continue to strengthen and further develop the control framework and manage non-financial risks.
The Bank shares the highest ethical standards and promotes zero tolerance for corruption and bribery considered outside banking ethics and good governance.
Compliance with the legislative requirements for preventing and combating bribery and corruption is mandatory. In this context, Mobiasbanca has a Policy on preventing and combating bribery and corruption, which provides the most important elements and principles to be followed.
The Bank's technological and training systems are in constant motion and continuous development.
In 2019, the Bank's employees, who carry out activities with high risk of corruption / bribery, participated in training and evaluation courses.
In order to ensure the protection and integrity of Bank's and Client's assets, the Bank has invested heavily and continues to invest in mechanisms for detecting and preventing financial fraud.
The Bank has discontinued a range of products and has terminated business relationships with a number of customers, that were exposing the Bank to risks that cannot be adequately managed.
Mobiasbanca works closely with the relevant authorities to ensure mutually advantageous interests in compliance field.
These measures enhance the Bank's ability to more effectively reduce the risk of financial fraud.
The Bank has the Code of Conduct. Bank employees are trained and sign the Declaration of Personal Commitment. New employees participate in the training course that include AML/CFT, KYC, Code of Ethics and other compliance relevant domains shortly after joining the Bank team.
Through the Code of Ethics, the Bank requires its employees to constantly adopt an integral behavior in their daily activities and offers principles and a model of conduct towards clients, shareholders and colleagues.
The Code obliges the employees to report any violation or suspicion of violation of the ethical principles promoted by the Bank, of the internal normative documents or of the applicable legislation.
It also requires employees to report illegal actions or those that undermine and violate the Bank's ethical principles carried out by other employees, customers, third parties or business partners. The code prohibits any repercussions on the integrity warning.
Employees can report, including anonymously, any violation or suspicion of violation of the Code through the alert system.

HUMAN RESOURCES

Human resources

In 2019, the Human Resources Department continued to implement projects and actions related to career management, people development, competitive benefits and reward.

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.
During the year a series of training programs were organized, through different learning methods. In total, 24 496 hours of training were provided, with an average of 33 hours per employee. The main directions of employee development are:

- **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

Human resources

Program 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.

Mobiasbanca has a defined policy regarding the health and safety of employees at the workplace, in accordance with the law in force. The bank pays special attention to working conditions and hygiene in order to ensure the right conditions for both, employees and customers.

The staff of the bank regularly undergoes mandatory training in order to train the occupational safety and health skills. The Bank also provides a plan for the bank's activity in various situations.

The informing process of the employees is a permanent exercise, through various communication channels, facilitating dialog in both directions, by e-mail, collective messages, discussions with managers and by conducting internal surveys.

CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility

Mobiasbanca - OTP Group S.A. is a financial institution responsible through its sound management system, responsible management of the workforce, active participation in the community life, ethical conduct towards stakeholders and reducing the impact on the environment, as well as contributing to the improvement and development of the social-economic environment of the country.
The bank's strategy in the field of Corporate Social Responsibility (CSR) comprises three priority directions, taken over from OTP Bank, namely: responsible service provider, responsible employer and CSR.

Responsible service provider

As a responsible service provider, the Bank ensures: maintaining financial stability; prudent risk management and complete security; transparency in all actions of the bank; ethical provision of services and fair business practices, including marketing; continuous improvement of service quality; encouraging responsible and sustainable consumption.
We are developing a sustainable business model, built on solid foundations and the experience of the OTP Group. Our commitment and openness to our customers, with the best products and services, have determined the extent of trusting and long-term relationships. We analyze the satisfaction of the customers' needs throughout the period of service provision - including after the sale, offering support and advice.
Due to the concern to provide equal opportunities for information and access in the bank's branches, most of them have access ramp for people with disabilities, while ATMs are equipped with the Braille alphabet on the active area and sound alerts for use by the poor viewers.

Responsible employer

Our priority is to have high performance employees, well trained and satisfied with their job. For this purpose, the Bank assumes responsibility for its employees, assuring them with equal rights, job security, training, and information, involvement in the bank's activities, fair remuneration and career opportunities. The bank seeks to ensure, as basic requirement for employees, a healthy, non-discriminatory and comfortable work environment. The employees of the bank benefit from preventive medical investigations for maintaining and improving health and sports facilities.

Corporate Social Responsibility

The Bank progressively incorporates social and environmental principles into various practical activities, such as promoting responsible economic development by developing policies, products and services that directly or indirectly contribute to environmental protection or social development in response to the growing concerns of customers and opportunities offered on the market. To this end, the bank launches and supports projects to promote art and culture, sport and healthy living, environmental protection, financial education and human resources development, joint projects with local authorities.
We encourage young entrepreneurs to join the Dreamups Community - an accelerator

Corporate social responsibility

and facilitator of start-ups, to learn how to grow their own business, how to be inspired by innovative ideas and find teammates in the entrepreneurship area.

Under the "Road of money", pupils and students who visited the bank had the opportunity to see the activities from inside. Traditionally, students from educational institutions of the Republic of Moldova and from abroad benefited from internships at Mobiasbanca. Also, graduates with remarkable results from the Academy of Economic Studies of Moldova and the Center of Excellence in Informatics and Information Technologies, were congratulated and awarded by Mobiasbanca, these being the future specialists for the financial-banking system.

Art and culture

Mobiasbanca OTP - Group was nominated at the "Gala of Music Excellence 2019" for supporting and promoting excellence in music, an event organized by the Union of Musicians of the Republic of Moldova and the National Philharmonic "Serghei Lunchevici".

Mobiasbanca OTP - Group is the main partner of the National Museum of Art, which in 2019 celebrated 80 years since its founding. As part of this partnership, we had the opportunity to offer the general public unique emotions in the events "Museum Night", the International Painting Biennale and other events with the participation of established artists in the country and abroad.

We are honored to be the partner of the National Philharmonic "Serghei Lunchevici" in extraordinary cultural events, among which the concert "Treasure of romance" organized in collaboration with the Cultural Center for UNESCO "Cetatea Română" Târgoviște. We discover and promote young talents through the International Academic Song Contest "Alexei Stârcea". In February, we danced on alert rhythms with Tanea Cergă, Andrei Glavan, Elena Karafizi and Andy Oncea in a "Double Trouble" music concert.

Sports

We support the Special Olympics Association of Moldova in its efforts of inclusion children with intellectual disabilities through sports and the participation of young athletes in various sports competitions in the country and abroad. Moldavian team participated at the Special Olympics Summer Games in Abu Dhabi - the biggest sporting event for people with intellectual disabilities, which takes place every 4 years after the model of the Olympics. We are proud of the performances of the 11 Moldovan athletes who participated in three sports competitions: football, swimming and boccia, coming home with 4 medals: two gold medals, one silver and one bronze.

Charity

Children are the future and they need our care. Continuing the charitable actions in this direction, Mobiasbanca donated medicines necessary for the treatment of severe burns to the Resuscitation and Intensive Care Section of the "Emilian Coțaga" Children Clinic of the Mother and Child Institute. Also, together with the bank's clients, we renovated and offered the necessary furniture for the Admission Department, where over 6000 children are

Corporate social responsibility

examined annually. Additionally, the painting of the hall with bright colors brought warmth and love for children.

Volunteering

The bank's employees are involved in voluntary and charitable activities, multiplying the bank's actions in the field of CSR. Joined by the passion for sports and civic spirit, our team of marathoners participated in the 5th edition of the Chisinau International Marathon 2019. We continued to support the Hospice of Hope Moldova public association - raising funds for children and adults suffering of incurable diseases, through active participation in the cycling race or the football tournament.
We went to the north of the country at the Festival "Bunica and Bunelul Fest 2019" to promote the intergenerational dialogue and gratitude towards our grandparents.
On the eve of the winter holidays, we give a small part of our heart to the Charity Fair - "Winter Charity Bazar", organized by the International Women's Club. We bring smiles and cheerful gifts to children with Down syndrome, autism and other disabilities in dedicated events, along with Santa Claus.

Mobiasbanca - OTP Group S.A.

Financial Statements
31 December 2019

Prepared in accordance with
International Financial Reporting
Standards

FOR IDENTIFICATION PURPOSES
ERNST & YOUNG
Signed..............................
Date 13/03/20

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Mobiasbanca - OTP Group SA

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Mobiasbanca - OTP Group SA (the Bank), which comprise the statement of financial position as at December 31, 2019, statement of comprehensive income, 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, 2019, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards.

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 Code of Ethics for Professional Accountants (including International Independence Standards) as issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements that are relevant to the 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

Management's assessment of impairment indications and determination of Expected Credit Loss (ECL) for loans and advances to customers is a complex process and involves significant judgement. Such an assessment is inherently uncertain, involving forecasting of future macroeconomic conditions in a number of scenarios as well as assessment of Risk of Default, Loss Given Default and Exposure at Default by employing models based on series of historical data and quantitative techniques. Very important are the definition and likelihood of Pessimistic as well as Optimistic economic scenarios and their impact on ECL.

The potential effect of the above items is a high degree of estimation uncertainty, with a potential range of reasonable outcomes, significantly different than the existing estimated impairment allowance.

Notes 2.5.4 and 2.5.8 to the financial statements present more information on the estimation of impairment allowance for loans and advances to customers.

Due to the significance of loans and advances to customers (representing 49.3% of total Bank's assets) and the related estimation uncertainty, we consider this 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 and determination of expected credit losses, including governance over key judgements. This included the determination of macroeconomic scenarios and their weight, staging criteria and the credit risk parameters models like Probability of Default, Loss Given Default and Exposure at Default.

We assessed the design and evaluated the operating effectiveness of internal controls over the monitoring of loans and over expected credit loss calculation, including the quality of underlying data and relevant systems.

We examined management's review regarding the macroeconomic scenarios and assessed the reasonability of the scenarios and weights.

For the loss allowance of impaired loans assessed on an individual basis, our evaluation was focused on the loans with the most significant potential impact on the financial statements and considered the key assumptions underlying the impairment identification and quantification such as estimated future cash flows, including the realizable value of collaterals and estimates of recovery on default. Our internal valuation experts were involved, as appropriate, in performing our audit procedures.

For expected credit losses for loans assessed collectively either in stage 1, 2 or stage 3 we tested the key risk parameters' models by involving our credit risk specialists, re-performed staging and re-calculated expected credit losses.

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We further assessed the adequacy of the Bank's disclosures in the 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 related general and application controls over the capture, storage and processing of data. An important component of this internal control system involves the 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. Given the level of automation of the processes relevant for financial reporting and given 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 represents a key audit matter.

How our audit addressed the key audit matter

We focused our audit procedures on those IT systems and related 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 to assist us in performing the audit procedures.

Our audit 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 importance of the system for the financial reporting;
- 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 tested the operating effectiveness of controls around the development and changes of applications to determine whether these are appropriately authorized, tested and implemented;
- 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

The other information comprises the Management Report which includes the Non Financial declaration, but does not include the financial statements and our auditors' report thereon. Management is responsible for the other information.

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

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

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 the International Financial Reporting Standards 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 auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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Report on Other Legal and Regulatory Requirements

Reporting on Information Other than the Financial Statements and Our Auditors' Report Thereon

In addition to our reporting responsibilities according to ISAs described in section "Other information", with respect to the Management' Report, we have read the Management' Report and report that:

a) in the Management' Report we have not identified information which is not consistent, in all material respects, with the information presented in the accompanying financial statements as at December 31, 2019;
b) the Management' Report identified above includes, in all material respects, the required information according to the provisions of the Law on accounting and financial reporting nr. 287 dated 15.12.2017 article 23;
c) based on our knowledge and understanding concerning the Bank and its environment gained during our audit of the financial statements as at December 31, 2019, we have not identified information included in the Management' Report that contains a material misstatement of fact.

On behalf of

ICS Ernst & Young SRL
51 Alexandru cel Bun street, Chisinau, Republic of Moldova

Raisa Gonta
Licensed Auditor

Series AG, Nr.000096 dated 14.04.2006, issued by the Ministry of Finance of Moldova

Chisinau, Republic of Moldova

Series AIF 0009 dated 19.01.2010 issued by the National Bank of Moldova

13 March 2020

English translation only for information purposes. The translation of the report should be read with the financial statements, as a whole. In all matters of interpretations of information, views or opinions, the original Romanian language version of our report takes precedence over this translation.

Statement of Comprehensive Income for the year ended 31 December 2019

(in thousands MDL)	Note	2019	2018
Interest income	3	672,704	623,291
Interest expense	3	(191,262)	(180,788)
Net interest income		**481,442**	**442,503**
Fee and commission income	4	195,163	169,602
Fee and commission expense	4	(77,011)	(63,863)
Net fee and commission income		**118,152**	**105,739**
Net trading income	5	137,509	126,566
Credit loss expense on financial assets	6	(55,940)	(16,350)
Other operating income	7	5,022	13,859
Net operating income		**686,185**	**672,317**
Personnel expenses	8	(203,470)	(172,146)
Depreciation of property, equipment and right-of-use assets	17	(58,734)	(25,110)
Amortization of intangible assets	18	(9,017)	(18,558)
Other operating expenses	9	(134,656)	(126,969)
Profit before tax		**280,308**	**329,534**
Income tax expense	10	(33,471)	(33,869)
Profit for the year		**246,837**	**295,665**
Basic and diluted earnings per share (in MDL)	11	**24,70**	**29,58**

The accounting policies and Notes on pages 6 to 124 form part of, and should be read in conjunction with, these financial statements.

László Diósi
President of the Executive Committee – CEO
Mobiasbanca OTP Group S.A.

REPUBLICA MOLDOVA mun. CHIȘINĂU Mobiasbanca-OTP Group S.A.
mobiasbanca
IDNO 1002600006

13 March 2020

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Date.....13/03/20

Statement of Financial Position as at 31 December 2019

(in thousands MDL)	Note	31 December 2019	31 December 2018
Assets			
Cash and balances with Central Bank	12	3,427,252	2,849,558
Due from banks	13	1,790,757	1,675,171
Derivative financial instruments		29	(218)
Financial assets at fair value through profit or loss	16	3,257	2,199
Loans and advances to customers	14	6,018,994	5,190,037
Debt instruments at amortized cost	15	685,146	1,050,553
Other assets	19	52,522	40,069
Property and equipment	17	192,581	142,447
Deferred tax assets	10	3,802	4,151
Intangible assets	18	24,413	31,112
Total assets		**12,198,753**	**10,985,079**
Liabilities			
Due to banks	20	715	1,376
Derivative financial instruments		75	(777)
Due to customers	21	9,410,606	8,276,951
Borrowed funds from IFIs	22	719,910	916,995
Other liabilities	23	135,159	109,272
Provisions	24	47,578	43,389
Total liabilities		**10,314,043**	**9,347,206**
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		139,498	162,923
Retained earnings		1,483,184	1,212,922
Total equity		**1,884,710**	**1,637,873**
Total liabilities and equity		**12,198,753**	**10,985,079**

The accounting policies and Notes on pages 6 to 124 form part of, and should be read in conjunction with, these financial statements.

László Diósi
President of the Executive Committee – CEO
Mobiasbanca OTP Group S.A.

13 March 2020

REPUBLICA MOLDOVA mun. CHIȘINĂU Mobiasbanca-OTP Group S.A. mobiasbanca IDNO 1002600006089

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Statement of Changes in Equity for the year ended 31 December 2019

	Issued capital	Treasury shares	Share premium	General reserve	Prudential reserve	Retained earnings	**Total**
(in thousands MDL)							
At 1 January 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**
Profit	-	-	-	-	-	246,837	**246,837**
Prudential reserves allocation	-	-	-	-	(23,425)	23,425	-
At 31 December 2019	**100,000**	**(56)**	**151,410**	**10,674**	**139,498**	**1,483,184**	**1,884,710**

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 124 form an integral part of the financial statements.

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Date 13/03/20

Statement of Cash Flows for the year ended 31 December 2019

	Note	2019	2018
(in thousands MDL)			
Cash flows from operating activities			
Profit before tax		280,308	329,534
Adjustments for:			
Depreciation and amortization	15,16	67,751	43,667
Loss on disposal of property and equipment	8	2,570	216
Net impairment gain on financial assets	6	(55,939)	(12,255)
Foreign exchange loss/(gain)		(4,876)	25,284
Interest income		(672,704)	(623,291)
Interest expenses		191,262	180,788
Tax expense	9	(33,471)	(33,869)
Changes in:			
Mandatory reserves		(308,665)	(367,565)
Due from Banks		(300)	3,393
Loans and advances to customers		(779,921)	(590,672)
Other assets		(5,184)	(9,796)
Deposits from banks		(417)	(2,078)
Deposits from customers		1,130,831	789,889
Other liabilities		33,961	3,392
Cash received/(used) in operating activities before interest		**(154,794)**	**(263,363)**
Interest paid		(190,231)	(177,662)
Interest received		673,948	636,893
Income tax paid		(5,100)	1,196
Cash received in operating activities		**323,823**	**197,064**
Investing activities			
Purchase of property and equipment		(110,685)	(20,352)
Purchase of intangible assets		(2,318)	(14,001)
Proceeds from sale of property and equipment		(436)	(182)
Purchase of securities		(11,399,011)	(16,353,664)
Proceeds from securities		11,503,842	16,283,455
Cash received/(used) from investing activities		**(8,608)**	**(104,744)**
Financing activities			
Proceeds from loans from banks and IFI's		396,671	229,112
Repayment of loans from banks and IFI's		(587,087)	(301,043)
Dividends paid		-	(133,925)
Cash received/(used) from financing activities		**(190,416)**	**(205,856)**
Increase in cash and cash equivalents		**124,799**	**(113,536)**
Cash and cash equivalents at 1 January	29	**2,573,069**	**2,686,605**
Cash and cash equivalents at 31 December	29	**2,697,868**	**2,573,069**

The accounting policies and Notes on pages 6 to 124 form part of, and should be read in conjunction with, these financial statements.

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Date.... 13/03/20

Notes to the Financial Statements

1 Corporate information

Commercial Bank Mobiasbanca – OTP Group 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 2019 the bank has 51 points of sale, out of which 49 universal points of sale, 1 VIP branch and 1 specialized (2018: 53 points of sale: 51 universal points of sale, 1 VIP branch and 1 specialized).

The year 2019 was a milestone year for the bank in the field of Corporate Governance. Significant changes have taken place involving the change of the majority shareholder and the launch of the integration process within the OTP Group.

On July 22, 2019, the majority shareholders of the bank Société Générale, BRD - Groupe Société Générale S.A. and BERD sold its shares in favor of the Hungarian Bank OTP Bank Nyrt and, as a result of this transaction, OTP Bank Nyrt became the majority shareholder with 96.69% of the bank's capital. Its head office is located on Nádor Street 16, Budapest, Hungary H-1051.

In order to comply with the requirements of the national legislation in October 2019, the majority shareholder announced the Offer to take over the shares issued by Mobiasbanca - OTP Group S.A. Follow-up of the transaction carried out by OTP Bank Nyrt. It became the holder of 98.26% of the total shares issued by the Bank

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). 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).

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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

2.4.1.1 IFRS 16: Leases

In these financial statements, the Bank has applied IFRS 16 Leases for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard are described in Note 2.8 below.

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 have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged.

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration

➢ **Bank as a lessee**

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term. The right-of-use assets are presented within Note 17 Property, equipment and right-of-use assets and are subject to impairment in line with the Bank's policy as described in Note 2.5.16 Impairment of non-financial assets.

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Notes to the Financial Statements

2 Accounting policies (continued)

2.4 Changes in accounting policies and disclosures

2.4.1.1 IFRS 16: Leases (continued)

Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.
Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Bank is the lessor.

The Bank adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Bank elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 1 January 2019.
The Bank has lease contracts for various branches. Before the adoption of IFRS 16, the Bank classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease.
Based on the above, as at 1 January 2019:

- Right-of-use assets of 64,141 KMDL were recognised and presented in the statement of financial position.within “Property, plant and right-of-use assets”.
- Additional lease liabilities of 64,141 KMDL (included in “Other liabilities”) were recognised.
- The adoption of IFRS 16 had no impact on the Bank’s retained earnings and no material impact on its CET1 ratio.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

Assets	in thousands MDL
Operating lease commitments as at 31 December 2018	**68,802**
Weighted average incremental borrowing rate as at 1 January 2019	1.35%
Discounted operating lease commitments as at 1 January 2019	**66,529**
Less:	
Commitments relating to short-term leases	(929)
Commitments relating to leases of low-value assets	(1,459)
Add:	
Lease liabilities as at 1 January 2019	**64,141**

Notes to the Financial Statements

2 Accounting policies (continued)

2.4 Changes in accounting policies and disclosures

2.4.1.1 IFRS 16: Leases (continued)

➢ **Bank as a lessor**

Leases in which the Bank does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised 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.

The Bank may choose not to apply the provisions of this standard to:

(a) short-term leasing contracts; and
(b) leasing contracts with support asset valued under 5000 EUR

2.4.1.2 IFRS 9: Prepayment features with negative compensation (Amendment)

The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. The amendments did not have impact on the financial position or performance of the Bank.

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

The Amendments relate to whether the measurement, in particular impairment requirements, of long-term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. The amendments did not have impact on the financial position or performance of the Bank.

2.4.1.4 IFRIC INTERPETATION 23: Uncertainty over Income Tax Treatments

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 did not have impact on the financial position or performance of the Bank

2.4.1.5 IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)

The Amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The Amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. The amendments will 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)

2.4.1.6 Annual Improvements to IFRSs 2015 – 2017 Cycle

The IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle, which is a collection of amendments to IFRSs.

- ***IFRS 3 Business Combinations and IFRS 11 Joint Arrangements:*** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- ***IAS 12 Income Taxes:*** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.
- ***IAS 23 Borrowing Costs:*** The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

2.4.2 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 2.5.1.2.

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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 2019	31 December 2018
(in Moldovan Lei per unit of foreign currency)		
US dollar	17.2093	17.1427
Russian Rouble	0.2780	0.2469
Euro	19.2605	19.5212

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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 IFRS 9, 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. 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 2.5.9 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 2.5.9) 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. The disclosures of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided in Note 2.7.9.

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 2.5.6.4 and 2.5.6.5. Financial instruments are initially measured at their fair value (as defined in Note 2,7,3), 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

According to IFRS 9, 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 2.5.6.1
- FVPL, as explained in Note 26

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.

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

According to IFRS 9, 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.

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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 are part of a group of financial liabilities, 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 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 IFRS 9 – an ECL provision as set out in Note 2.5.1.9.

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. Based on IFRS 9, 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 27.3. 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.

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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

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.

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.

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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

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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.

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Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.8 Impairment of financial assets

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

The adoption of IFRS 9 has fundamentally changed the Bank's loan loss impairment method by introducing 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.

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), 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 and 24.

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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 probability-weighted scenarios 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

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), 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%.

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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 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 2.5.9(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 2020-2022 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); - Ministry of Finance & internal budgetary 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 country (2020-2022) and from internal budgetary 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.

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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 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 24.

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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 Division. 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. 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.

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Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.13 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.

2.5.14 Property, equipment and right-of-use assets

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. Right-of-use assets are presented together with property and equipment in the statement of financial position – refer to the accounting policy in Note 2.4.1.1. Right-of-use assets are depreciated on a straight-line basis over the lease term.

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.

2.5.15 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)

2.5.16 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.

2.5.17 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.

2.5.18 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.

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Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.18 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.

2.5.19 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.

2.5.20 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

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Notes to the Financial Statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.21 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)

2.5.21 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.

2.5.22 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.

2.5.23 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.

2.5.24 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.

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Notes to the Financial Statements

2 Accounting policies (continued)

2.6 Standards issued but not yet effective and not early adopted

- **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.

- **Conceptual Framework in IFRS standards**

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

- **IFRS 3: Business Combinations (Amendments)**

The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. These Amendments have not yet been endorsed by the EU. The amendments will not have impact on the financial position or performance of the Bank.

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Notes to the Financial Statements

2 Accounting policies (continued)

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

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

- **Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)**

The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Earlier application is permitted. In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. Phase two will focus on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provided temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. The amendments will not have impact on the financial position or performance of the Bank.

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)**

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. 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.

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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 23.

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.

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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

The measurement of impairment losses under IFRS 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. For more details refer to Note 14.

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.

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Notes to the Financial Statements

2 Accounting policies (continued)

2.7 Significant accounting judgements, estimates and assumptions (continued)

2.7.5 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.

2.7.6 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.

Notes to the Financial Statements

3 Net interest income

Interest and similar income calculated using the effective interest rate

(in thousands MDL)	2019	2018
Cash and balances with Central Bank	69,405	54,633
Due from banks	11,564	9,524
Financial investments – loans and receivables	59,973	69,823
Loans and advances to customers	531,762	489,311
	672,704	**623,291**

The interest income accrued on impaired (Stage 3) Loans and advances to customers during 2019 amounted to MDL'000 9,353 (2018: MDL'000 9,674).

Interest and similar expense calculated using the effective interest rate

(in thousands MDL)	2019	2018
Due to Central Bank	172	56
Due to customers	165,763	152,212
Borrowed funds from IFI's	18,428	24,172
Due to banks	5,779	4,348
Interest-related expenses on operating lease from customers	823	-
REPO with NBM	297	-
	191,262	**180,788**

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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 2019	
		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	59,274	-	59,274
Transactions with cards	46,355	-	46,355
Cash transactions	28,715	-	28,715
Current accounts administration	12,374	12,374	-
Cash transactions in foreign currency-interbank	11,560	-	11,560
Changes in loans terms and conditions	7,594	-	7,594
Broker fees	6,453	-	6,453
Transfers through international payment systems	4,030	4,030	-
Remote banking	2,497	-	2,497
Cash transactions in foreign currency-interbank	1,868	-	1,868
Letters of credit	1,337	-	1,337
Commissions from services rendering on finance lease	656	-	656
Other	12,450	-	12,450
	195,163	**16,404**	**178,759**

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Notes to the Financial Statements

4 Net fee and commission income (continued)

(in thousands MDL)	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:
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**

Fee and commission expense

(in thousands MDL)	2019	2018
Transactions with cards	43,091	32,552
Commissions on interbank transfers	14,226	14,149
Cash transactions in foreign currency - interbank	9,138	8,291
Contributions to deposit guarantee fund (1)	8,270	7,637
Financial Risk Insurance	941	359
Leasing services	157	-
Other	1,188	875
	77,011	**63,863**

(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 recognised at the date the basis for the calculation is validated by auditors, i.e. 15th day of the next month from the reported quarter.

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Notes to the Financial Statements

5 Net trading income

	2019	2018
(in thousands MDL)		
Foreign exchange result on transactions with:		
Corporate clients	109,505	94,236
Individuals	30,495	29,574
Banks	8,972	7,693
Result from revaluation	(11,463)	(4,937)
	137,509	**126,566**

6 Credit loss expense

	2019	2018
(in thousands MDL)		
Loans and advance to customers	54,302	14,141
Financial guarantee contracts	3,348	(2,733)
Other assets	2,070	847
Due from banks	244	(18)
Debt instruments at amortized cost	(4,024)	4,113
	55,940	**16,350**

The table below shows the ECL charges (Note 6) on financial instruments for 31 December 2019 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	244	-	-	-	**244**
Loans and advances to customers	14	17,139	24,275	23,837	(10,949)	**54,302**
Debt instruments measured at amortized cost	15	(4,024)	-	-	-	**(4,024)**
Other assets	19	851	-	1,219	-	**2,070**
Financial guarantees	24	50	1,040	-	-	**1,090**
Loan commitments	24	1,138	1,158	26	-	**2,322**
Letters of credit	24	(64)	-	-	-	**(64)**
Total impairment loss		**15,334**	**26,473**	**25,082**	**(10,949)**	**55,940**

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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 during 2018:

	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)**	**17,665**	**(9,828)**	**16,350**

7 Other operating income

	2019	2018
(in thousands MDL)		
Payables write off	2,551	13,508
Penalties charged to the clients for late payment	189	170
Other operating income	2,282	181
Total other operating income	**5,022**	**13,859**

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

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Notes to the Financial Statements

8 Personnel expenses

(in thousands MDL)	2019	2018
Wages and salaries	109,799	94,744
Bonuses	34,230	27,081
Social security costs	25,988	26,125
Provision for employee benefits and related contribution	15,859	11,786
Meal tickets	7,325	4,346
Medical insurance contributions	6,666	5,691
Other payments	3,603	2,373
	203,470	**172,146**

The average number of staff employed by the Bank in 2019 was 730 (2018: 721).

9 Other operating expenses

(in thousands MDL)	2019	2018
Maintenance of intangibles	30,350	21,286
Repair and maintenance of fixed assets	17,366	16,840
Consulting and auditing (1)	18,313	17,330
Telecommunication	11,335	9,913
Rent and utilities	9,207	29,087
Advertising and publishing	8,754	7,535
Security costs	8,114	7,011
Insurance	5,243	3,564
Consumables and LVA	3,844	2,606
Guarantee fee from EIF	3,722	1,902
Information cost	3,695	3,395
Taxes and duties	3,343	1,079
Training	2,877	1,654
Result of disposal of fixed assets	2,570	216
Travel and transportation	1,834	1,749
Representation expenses	1,108	969
Charity	657	1,069
Other provision for operational risk (2)	(1,000)	(3,222)
Other	3,324	2,986
	134,656	**126,969**

Notes to the Financial Statements

9. Other operating expenses (continued)

(1) Consulting and audit costs are analyzed below:

(in thousands MDL)	2019	2018
Technical assistance	10,685	12,619
Audit and consulting	6,267	2,974
Legal fees	1,361	1,737
	18,313	**17,330**

Technical assistance provided by previous shareholder, mainly include cost of man days related to assistance in IT, corporate and other services.

(2) Other provision for operational risk reversed in 2018 and in 2019 as result of winning law suit.

10 Income tax expense

(in thousands MDL)	2019	2018
Current tax		
Current income tax	33,122	36,286
Deferred tax		
Relating to origination and reversal of temporary differences	349	(2,417)
Income tax expense	**33,471**	**33,869**

During 2019 the corporate income tax rate was 12% (2018: 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 2019 and 2018 is, as follows:

	2019	2018
(in thousands MDL)		
Accounting profit before tax	280,308	329,534
At statutory income tax rate of 12% (2018: 12%)	33,637	39,544
Adjustment in respect of current income tax of prior years	217	
Income not subject to tax	(2,878)	(5,478)
Non–deductible expenses	2,495	20
Income tax expense reported in the income statement	**33,471**	**34,086**

The effective income tax rate for 2019 is 12% (2018: 11%).

Effective 2019 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.

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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 2019	**Deferred tax Assets**	**Deferred tax Liabilities**	**NET**	**Charge in Income statement**
(in thousands MDL)				
Loans and advances to customers	-	-	-	-
Property and equipment	-	1,026	1,026	(633)
Borrowings from IFI's	-	-	-	-
Other liabilities	(4,828)	-	(4,828)	982
	(4,828)	**1,026**	**(3,802)**	**349**

31 December 2018	**Deferred tax Assets**	**Deferred tax Liabilities**	**NET**	**Charge in Income statement**
(in thousands MDL)				
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)**	**(3,365)**

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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.

	2019	2018
(in thousands MDL)		
Net profit attributable to ordinary equity holders	246,837	295,665
Weighted average number of ordinary shares	9,994,394	9,994,394
Basic earnings per share (MDL/share)	24,70	29,58
Dividends per share (MDL/share)	-	13.40

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 2019	31 December 2018
(in thousands MDL)		
Cash on hand	474,635	422,336
Current account with Central bank	2,232,777	1,892,774
Mandatory reserve deposit held in foreign currency	719,840	534,448
	3,427,252	**2,849,558**

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 2019 the rate for calculation of the mandatory reserve in local currency was 42,5% (31 December 2018: 42,5%) and in foreign currencies 17% (31 December 2018: 14%).

As of 31 December 2019 the Bank had to maintain as mandatory reserve in MDL an average of MDL'000 2,043,138 (2018: MDL'000 1,889,864), in USD of USD'000 10,340 (2018: USD'000 8,171) and in EUR of EUR'000 28,135 (2018: EUR'000 20,203). As of 31 December 2019 and 2018 the Bank is in line with the above mentioned limits.

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Notes to the Financial Statements

13 Due from banks

(in thousands MDL)	31 December 2019	31 December 2018
Current accounts	1,194,969	1,003,641
Overnight deposits	364,837	459,565
Term deposits	233,496	214,301
Less: Allowances for impairment losses	(2,545)	(2,336)
	1,790,757	**1,675,171**

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 2019	31 December 2018
Term deposits (1)	233,496	214,301
Less: Allowance for impairment losses (2)	(2,545)	(2,336)
	230,951	**211,965**

(1) Term deposits include short-term and long-term placements in SG, including accrued interest.

(2) 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 in relation to due from banks is for the year ended 31 December 2019, as follows:

(in thousands MDL)	Stage 1 collective
Gross carrying amount as at 1 January 2019	**214,301**
New assets originated or purchased	22,342
Assets derecognized or repaid (excluding write offs)	(287)
Changes to contractual cash flows due to modifications not resulting in derecognition	-
Amounts written off	-
Foreign exchange adjustments	(2,860)
Gross carrying amount as at 31 December 2019	**233,496**

Notes to the Financial Statements

13 Due from banks (continued)

13.1 Impairment allowances for due from banks (continued)

An analysis of charges in the gross carrying amount in relation to due from banks is for the year ended 31 December 2018, 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**

An analysis of charges in the corresponding ECL allowances in relation to due from banks is for the year ended 31 December 2019, as follows:

(in thousands MDL)	Stage 1 collective
ECL allowance as at 1 January 2019 under IFRS 9	**2,336**
New assets originated or purchased	240
Assets derecognized or repaid (excluding write offs)	-
Net ECL Charge	**244**
Foreign exchange adjustments	(71)
ECL allowance as at 31 December 2019	**2,545**

An analysis of charges in the corresponding ECL allowances in relation to due from banks is for the year ended 31 December 2018, as follows:

(in thousands MDL)	Stage 1 collective
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**

Notes to the Financial Statements

14 Loans and advances to customers

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

(in thousands MDL)	31 December 2019	31 December 2018
Loans and advances to customers, gross	6,255,355	5,390,999
Less: Allowance for impairment losses	(236,361)	(200,962)
	6,018,994	**5,190,037**

As of 31 December 2019 the outstanding of loans granted to related parties amounted at MDL'000 1,825 (2018: MDL'000 16,019) at an average interest rate of 6.86% per annum (2018: 8.81% per annum) (Note 28).

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

(in thousands MDL)	31 December 2019	31 December 2018
Corporate and SME	2,867,686	2,773,884
Consumer	1,482,566	1,155,296
Mortgage	1,156,703	805,536
PRO/VSB	748,400	656,283
	6,255,355	**5,390,999**
Less: Allowance for ECL/impairment losses	(236,361)	(200,962)
	6,018,994	**5,190,037**

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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 the policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 27.

	31 December 2019				
	Stage 1 Collective	**Stage 2 Collective**	**Stage 3 Collective**	**Stage 3 Individual**	**Total**
Probability of Default rates	**2.1%**	**29.2%**	**100%**	**100%**	
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	2,449,465	247,664	-	-	**2,697,129**
Past due but not impaired	58,181	3,677	-	-	**61,858**
Non-performing	-	-	27,172	-	**27,172**
Individually impaired	-	-	-	81,527	**81,527**
Total	**2,507,646**	**251,341**	**27,172**	**81,527**	**2,867,686**

	31 December 2018				
	Stage 1 Collective	**Stage 2 Collective**	**Stage 3 Collective**	**Stage 3 Individual**	**Total**
Probability of Default rates	**2.1%**	**29.2%**	**100%**	**100%**	
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	2,420,845	173,030	-	-	**2,593,875**
Past due but not impaired	52,825	21,258	19,727	-	**93,810**
Non-performing	-	-		-	-
Individually impaired	-	-	-	86,199	**86,199**
Total	**2,473,670**	**194,288**	**19,727**	**86,199**	**2,773,884**

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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 (continued)

14.1.1 Corporate and SME (continued)

An analysis of charges in the gross carrying amount in relation to Corporate and SME lending is for the year ended 31 December 2019, as follows:

(in thousands MDL)	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
Gross carrying amount as at 1 January 2019	**2,473,669**	**194,289**	**19,727**	**86,199**	**2,773,884**
New assets originated or purchased	1,780,167	-	-	-	**1,780,167**
Assets derecognized or repaid (excluding write offs)	(1,439,579)	(149,647)	(16,895)	(50,308)	**(1,656,429)**
Transfers to S1	16,890	(15,064)	-	(1,826)	-
Transfers to S2	(234,530)	238,525	51	(4,046)	-
Transfers to S3	(73,700)	(6,229)	28,405	51,524	-
Impact on ECL of transfers	(6,637)	(9,455)	(3,961)	-	**(20,053)**
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	(8,635)	(1,078)	(154)	(16)	**(9,883)**
Gross carrying amount as at 31 December 2019	**2,507,645**	**251,341**	**27,173**	**81,527**	**2,867,686**

An analysis of charges in the gross carrying amount in relation to Corporate and SME lending is for the year ended 31 December 2018, as follows:

(in thousands MDL)	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
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**

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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 (continued)

14.1.1 Corporate and SME (continued)

An analysis of charges in the corresponding ECL allowances in relation to Corporate and SME lending is for the year ended 31 December 2019, as follows:

(in thousands MDL)	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
ECL allowance as at 1 January 2019 under IFRS 9	**27,160**	**40,898**	**8,766**	**52,948**	**129,772**
New assets originated or purchased	69,035	-	-	-	**69,035**
Assets derecognized or repaid (excluding write offs)	(15,797)	(31,474)	(7,503)	(24,232)	**(79,006)**
Transfers to S1	3,644	(3,182)	-	(462)	-
Transfers to S2	(36,031)	38,686	25	(2,680)	-
Transfers to S3	(16,837)	(1,316)	(1,968)	20,121	-
Impact on ECL of transfers	(3,506)	9,408	12,822	-	**18,724**
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	(114)	(58)	(16)	73	**(115)**
Net ECL Charge	394	12,064	3,360	(7,180)	**8,638**
ECL allowance as at 31 December 2019	**27,554**	**52,962**	**12,126**	**45,768**	**138,410**

An analysis of charges in the corresponding ECL allowances in relation to Corporate and SME lending is for the year ended 31 December 2018, as follows:

(in thousands MDL)	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
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**

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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 (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 the policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 27.

	31 December 2019				
	Stage 1 Collective	Stage 2 Collective	Stage 3 Collective	Stage 3 Individual	Total
Probability of Default rates	**1.8%**	**34.3%**	**100%**	**100%**	
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	1,368,306	15,259	-	-	**1,383,565**
Past due but not impaired	60,258	22,466	-	-	**82,724**
Non-performing	-	-	15,778	-	**15,778**
Individually impaired	-	-	-	499	**499**
Total	**1,428,564**	**37,725**	**15,778**	**499**	**1,482,566**

	31 December 2018				
	Stage 1 Collective	Stage 2 Collective	Stage 3 Collective	Stage 3 Individual	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**
Past due but not impaired	72,995	21,513	-	-	**94,508**
Non-performing	-	-	11,079	-	**11,079**
Individually impaired	-	-	-	417	**417**
Total	**1,114,644**	**29,156**	**11,079**	**417**	**1,155,296**

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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 (continued)

14.1.2 Consumer

An analysis of charges in the gross carrying amount in relation to consumer lending is for the year ended 31 December 2019, 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 2019	**1,114,644**	**29,156**	**11,079**	**417**	**1,155,296**
New assets originated or purchased	978,634				**978,634**
Assets derecognized or repaid (excluding write offs)	(611,790)	(18,435)	21,315	(10)	**(608,920)**
Transfers to S1	4,396	(4,129)	(267)	-	-
Transfers to S2	(42,085)	42,223	(138)	-	-
Transfers to S3	(13,844)	(1,866)	15,618	92	-
Impact on ECL of transfers	(1,358)	(9,224)	(2,951)	-	**(13,533)**
Amounts written off	-	-	(28,878)	-	**(28,878)**
Foreign exchange adjustments	(33)	-	-	-	**(33)**
Gross carrying amount as at 31 December 2019	**1,428,564**	**37,725**	**15,778**	**499**	**1,482,566**

An analysis of charges in the gross carrying amount in relation to consumer lending is for the year ended 31 December 2018, 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)

An analysis of charges in the corresponding ECL allowances in relation to consumer lending is for the year ended 31 December 2019, as follows:

(in thousands MDL)	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
ECL allowance as at 1 January 2019 under IFRS 9	**6,606**	**4,056**	**7,270**	**218**	**18,150**
New assets originated or purchased	20,821	-	-	-	**20,821**
Assets derecognized or repaid (excluding write offs)	548	(2,150)	24,699	(3)	**23,094**
Transfers to S1	693	(574)	(119)	-	-
Transfers to S2	(2,821)	2,883	(62)	-	-
Transfers to S3	(3,882)	(260)	4,116	26	-
Impact on ECL of transfers	(648)	4,598	5,230	-	**9,180**
Amounts written off	-	-	(28,878)	-	**(28,878)**
Foreign exchange adjustments	-	-	1	-	**1**
Net ECL Charge	**14,711**	**4,497**	**4,987**	**23**	**24,218**
ECL allowance as at 31 December 2019	**21,317**	**8,553**	**12,257**	**241**	**42,368**

An analysis of charges in the corresponding ECL allowances in relation to consumer lending is for the year ended 31 December 2018, as follows:

(in thousands MDL)	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
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 the policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 27.

	31 December 2019				
	Stage 1 Collective	Stage 2 Collective	Stage 3 Collective	Stage 3 Individual	Total
Probability of Default rates	**0.4%**	**43.0%**	**100%**	**100%**	
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	1,074,223	11,136	-	-	**1,085,359**
Past due but not impaired	36,153	26,597	-	-	**62,750**
Non-performing	-	-	2,493	-	**2,493**
Individually impaired	-	-	-	6,101	**6,101**
Total	**1,110,376**	**37,733**	**2,493**	**6,101**	**1,156,703**

	31 December 2018				
	Stage 1 Collective	Stage 2 Collective	Stage 3 Collective	Stage 3 Individual	Total
Probability of Default rates	**0.4%**	**38.5%**	**100%**	**100%**	
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	718,067	4,757	-	-	**722,824**
Past due but not impaired	52,720	13,551	-	-	**66,271**
Non-performing	-	-	9,979	-	**9,979**
Individually impaired	-	-	-	6,462	**6,462**
Total	**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

An analysis of charges in the gross carrying amount in relation to mortgage lending is for the year ended 31 December 2019, 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 2019	**770,787**	**18,308**	**9,979**	**6,462**	**805,536**
New assets originated or purchased	551,843	-	-	-	**551,843**
Assets derecognized or repaid (excluding write offs)	(182,518)	(4,450)	(5,503)	(1,046)	**(193,517)**
Transfers to S1	5,124	(3,653)	(1328)	(143)	-
Transfers to S2	(31,270)	33,714	(2444)	-	-
Transfers to S3	(1,940)	(983)	2,095	828	-
Impact on ECL of transfers	(698)	(5,192)	(232)	-	**(6,121)**
Amounts written off	-	-	(74)	-	**(74)**
Foreign exchange adjustments	(951)	(12)	-	-	**(964)**
Gross carrying amount as at 31 December 2019	**1,110,377**	**37,732**	**2,493**	**6,101**	**1,156,703**

An analysis of charges in the gross carrying amount in relation to mortgage lending is for the year ended 31 December 2018, 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**

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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 (continued)

14.1.3 Mortgage

An analysis of charges in the corresponding ECL allowances in relation to mortgage lending is for the year ended 31 December 2019, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
ECL allowance as at 1 January 2019 under IFRS 9	**1,166**	**2,891**	**4,087**	**5,158**	**13,302**
New assets originated or purchased	3,110	-	-	-	**3,110**
Assets derecognized or repaid (excluding write offs)	(277)	(411)	(2,220)	(512)	**(3,420)**
Transfers to S1	1,167	(578)	(544)	(45)	-
Transfers to S2	(1,423)	2,427	(1,004)	-	-
Transfers to S3	(905)	(156)	225	836	-
Impact on ECL of transfers	(1,161)	5,267	494	-	**4,600**
Amounts written off	-	-	(74)	-	**(74)**
Foreign exchange adjustments	(1)	-	-	-	**(1)**
Net ECL Charge	**510**	**6,549**	**(3,123)**	**279**	**4,215**
ECL allowance as at 31 December 2019	**1,676**	**9,440**	**964**	**5,437**	**17,517**

An analysis of charges in the corresponding ECL allowances in relation to mortgage lending is for the year ended 31 December 2018, as follows:

	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**

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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

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 the policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 27.

	31 December 2019				
	Stage 1 Collective	Stage 2 Collective	Stage 3 Collective	Stage 3 Individual	Total
Probability of Default rates	1.7%	38.4%	100%	100%	
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	657,893	11,233	-	-	669,126
Past due but not impaired	31,537	17,829	-	-	49,366
Non-performing	-	-	10,074	-	10,074
Individually impaired	-	-	-	19,834	19,834
Total	**689,430**	**29,062**	**10,074**	**19,834**	**748,400**

	31 December 2018				
	Stage 1 Collective	Stage 2 Collective	Stage 3 Collective	Stage 3 Individual	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
Past due but not impaired	44,700	18,949	-	-	63,649
Non-performing	-	-	13,383	-	13,383
Individually impaired	-	-	-	23,529	23,529
Total	**587,658**	**31,713**	**13,383**	**23,529**	**656,283**

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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 (continued)

14.1.4 Professionals and Very Small Business (continued)

An analysis of charges in the gross carrying amount in relation to Professionals and Very Small Business lending is for the year ended 31 December 2019, 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 2019	**587,658**	**27,395**	**13,383**	**27,847**	**656,283**
New assets originated or purchased	427,563	-	-	-	**427,563**
Assets derecognized or repaid (excluding write offs)	(294,836)	(15,385)	(4,949)	(2,980)	**(318,150)**
Transfers to S1	15,014	(9,729)	(4,703)	(582)	-
Transfers to S2	(32,505)	33,677	(1,172)	-	-
Transfers to S3	(5,414)	(2,462)	7,876	-	-
Impact on ECL of transfers	(5,553)	(8,649)	126	-	**(14,076)**
Amounts written off	-	-	(491)	-	**(491)**
Foreign exchange adjustments	(2,498)	(102)	4	(133)	**(2,729)**
Gross carrying amount as at 31 December 2019	**689,429**	**24,745**	**10,074**	**24,152**	**748,400**

An analysis of charges in the gross carrying amount in relation to Professionals and Very Small Business lending is for the year ended 31 December 2018, 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**

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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 (continued)

14.1.4 Professionals and Very Small Business (continued)

An analysis of charges in the corresponding ECL allowances in relation to Professionals and Very Small Business lending is for the year ended 31 December 2019, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
ECL allowance as at 1 January 2019 under IFRS 9	**5,103**	**6,071**	**7,086**	**21,477**	**39,737**
New assets originated or purchased	8,052	-	-	-	**8,052**
Assets derecognized or repaid (excluding write offs)	(2,321)	(2,701)	(2,298)	(2,514)	**(9,834)**
Transfers to S1	4,415	(1,872)	(2,324)	(219)	-
Transfers to S2	(2,239)	2,826	(587)	-	-
Transfers to S3	(2,056)	(469)	2,525	-	-
Impact on ECL of transfers	(4,261)	3,388	1,681	-	**808**
Amounts written off	-	-	(491)	-	**(491)**
Foreign exchange adjustments	(67)	(6)	2	(134)	**(205)**
Net ECL Charge	**1,523**	**1,166**	**(1,492)**	**(2,867)**	**(1,670)**
ECL allowance as at 31 December 2019	**6,626**	**7,237**	**5,594**	**18,610**	**38,067**

An analysis of charges in the corresponding ECL allowances in relation to Professionals and Very Small Business lending is for the year ended 31 December 2018, as follows:

	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**

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Notes to the Financial Statements

15 Debt instruments measured at amortized cost

	31 December 2019	31 December 2018
(in thousands MDL)		
Debt instruments at amortized cost:		
Treasury bills issued by the Ministry of Finance	382,774	492,116
State bonds issued by the Ministry of Finance	99,630	99,695
NBM certificates	210,292	470,317
Total gross amount of exposure	**692,696**	**1,062,128**
Less: Allowance for ECL/impairment losses	(7,550)	(11,575)
	685,146	**1,050,553**

The bank has designated its equity investments previously classified as 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 2019 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 **6.19%** per annum (31 December 2018: **4.63%**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 2019 was **6.34%** per annum for two-year period, **6.72%** for 3 years and **7.05%** for 5 years (31 December 2018: **5.91%** per annum for 2 years, **6.50%** per annum for 3 years and **6.85%** per annum for 5 years).

As of 31 December 2019 there are no REPO transactions with NBM. During the year there was only 1 transaction with interest rate **7.75%** per annum.

NBM certificates

As of 31 December 2019 NBM certificates represent fixed rate financial instruments issued with discount with original maturity of up to 14 days yielding an average interest rate of **5.50%** per annum (31 December 2018: **6.50%** per annum).

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15 Debt instruments measured at amortized cost

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 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:

An analysis of changes in the gross carrying amount for the year ended 31 December 2019 is, as follows:

(in thousands MDL)	**Stage 1 collective**
Gross carrying amount as at 1 January 2019	**1,062,128**
New assets originated or purchased	11,342,129
Assets derecognized or repaid (excluding write offs)	(11,765,748)
Accrued interest	54,187
Gross carrying amount as at 31 December 2019	**692,696**

An analysis of changes in the gross carrying amount for the year ended 31 December 2018 is, as follows:

(in thousands MDL)	**Stage 1 collective**
Gross carrying amount as at 1 January 2018	**1,143,937**
New assets originated or purchased	11,399,011
Assets derecognized or repaid (excluding write offs)	(11,667,849)
Gross carrying amount as at 31 December 2018	**1,062,128**

An analysis of changes in the corresponding ECLs for the year ended 31 December 2019 is, as follows:

(in thousands MDL)	**Stage 1 collective**
ECL allowance as at 1 January 2019	**11,575**
New assets originated or purchased	14,197
Assets derecognized or repaid (excluding write offs)	(18,222)
Net ECL Charge	**(4,024)**
ECL allowance as at 31 December 2019	**7,550**

An analysis of changes in the corresponding ECLs for the year ended 31 December 2018 is, as follows:

(in thousands MDL)	**Stage 1 collective**
ECL allowance as at 1 January 2018	**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 2019	31 December 2018
(in thousands MDL)		
Financial assets at fair value through profit or loss		
Treasury bills issued by the Ministry of Finance	2,226	1,168
Equity investments at FVPL	1,031	1,031
	3,257	**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 2019 and 2018 are classified at FVPL as presented below:

	Field of activity	Ownership 2019, %	31 December 2019	31 December 2018
(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 2019 and 2018 are unquoted and are recorded at fair value.

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17 Property, equipment and right-of-use assets

(in thousands MDL)	Land and buildings	Assets under construction	Vehicles	Computers and equipment	Others	Right-of-use Assets	Total
Cost							
At 1 January 2018	**117,598**	**13,637**	7,690	**117,081**	**53,618**	-	**309,624**
Additions	432	50,602	762	397	628	-	**52,821**
Disposals	(707)	(31,644)	(514)	(4,261)	(2,432)	-	**(41,558)**
Transfers	2,545	(7,338)	-	1,637	3,156	-	-
At 31 December 2018	**119,868**	**25,257**	**7,938**	**114,854**	**54,970**	-	**322,887**
Effect of adoption of IFRS 16 as at 1 January 2019	-	-	-	-	-	**64,141**	**64,141**
Additions	15,110	-	1,863	14,512	11,031	19,934	**62,450**
Disposals	(2,082)	(13,945)	(1,376)	(6,816)	-	(6,778)	**(35,153)**
Transfers	1,926	(4,931)	901	835	(4,156)	-	-
At 31 December 2019	**134,822**	**6,381**	**9,326**	**123,385**	**61,845**	**77,297**	**414,325**
Depreciation and impairment							
At 1 January 2018	**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**
Disposals	5,550		733	20,940	4,571	17,449	**49,243**
Depreciation charge for the year	(1,826)		(1,376)	(6,799)	(3,951)	(1,899)	**(15,851)**
Impairment	7,912						**7,912**
Balance at 31 December 2019	**57,672**	-	**5,910**	**100,793**	**41,819**	**15,550**	**221,744**
Carrying amount							
at 1 January 2018	**76,896**	**13,637**	**1,235**	**37,955**	**17,198**	-	**146,921**
at 31 December 2018	**73,832**	**25,257**	**1,385**	**28,202**	**13,771**	-	**142,447**
at 31 December 2019	**77,150**	**6,381**	**3,416**	**22,592**	**20,026**	**61,747**	**192,581**

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17 Property and equipment

As of 31 December 2019 the cost of fully depreciated assets amounted at MDL'000 129,315 (31 December 2018: MDL'000 99,143).

During 2019 and 2018 the Bank carried capital construction works in the rented premises in line with the network development plan. As of 31 December 2019 the cost of such investments included in "Land and buildings" category amounts to MDL'000 13,143 (2018: MDL'000 2,977) and included in "Assets under construction" category of MDL'000 3,040 (2018: MDL'000 12,902). 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.

Right-Of-Use assets includes only one category of assets - the branches that the bank leases.

Set out below are the carrying amounts of lease liabilities (included under 'Other liabilities' in Note 23) and the movements during the period:

	Note	2019
(in thousands MDL)		
As at 1 January – effect of adoption of IFRS 16	17	**64,141**
Additions	17	19,934
Payments		(23,256)
As at 31 December 2019	23	**60,819**

The Bank had total cash outflows for leases of MDL'000 23,256. The initial application of IFRS 16 resulted in noncash additions to right-of-use assets and lease liabilities of MDL'000 64,141 million at 1 January 2019. Accretion of interest on lease liability amounted MDL'000 824 as shown in Note 3.

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18 Intangible assets

(in thousands MDL)	Informational System development costs	Software	Licenses	Other	Total
Cost					
At 1 January 2018	**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**	**177,584**
Additions	784	5,856	2,979	271	**9,890**
Disposals	(3,374)	(2,729)	(1,359)		**(7,462)**
Balance at 31 December 2019	**130,482**	**17,599**	**14,416**	**17,515**	**180,012**
Amortization and impairment					
Balance at 1 January 2018	**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	8,086	**18,557**
Balance at 31 December 2018	**113,281**	**10,862**	**5,785**	**16,543**	**146,471**
Disposals	-	(759)	(709)	-	**(1,468)**
Amortization charge for the year	3,902	2,472	2,224	419	**9,017**
Impairment	1,579				**1,579**
Balance at 31 December 2019	**118,762**	**12,575**	**7,300**	**16,962**	**155,599**
Carrying amount					
at 1 January 2018	**20,204**	**2,750**	**3,935**	**8,780**	**35,669**
at 31 December 2018	**19,791**	**3,610**	**7,011**	**700**	**31,112**
at 31 December 2019	**11,720**	**5,024**	**7,116**	**553**	**24,413**

As of 31 December 2019 the cost of fully amortized intangible assets amounts at MDL'000 143,914 and mainly represents the cost of CBS - iBank (which represent MDL'000 97,630).

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19 Other assets

(in thousands MDL)	31 December 2019	31 December 2018
Other Financial Assets		
Clearing and transit amounts (1)	3,652	6,724
Operations with payment cards (Master Card and VISA)	9,495	13,070
Commission fees receivable	5,216	4,822
Other receivables	7,054	438
Due from employees	1,119	1,493
Total Other Assets	**26,536**	**26,547**
Less allowance for ECL (2)	(6,324)	(6,393)
Total Other Assets Net	**20,212**	**20,154**
Other Assets		
Repossessed assets (3)	6,146	6,146
Income and other taxes receivable	19,889	8,335
Other prepayments	3,391	4,258
Prepaid insurance	3,876	1,302
Consumables and LVA	1,101	1,248
Prepaid rent fees	2	719
Total Other Financial Assets	**34,405**	**22,008**
Less allowance for impairment losses (4)	(2,095)	(2,095)
Total Other Financial Assets Net	**32,310**	**19,913**
Total Other and Other Financial Assets	**52,522**	**40,069**

(1) Clearing and transit amounts represent transactions through international payment systems as of 31 December 2019 amounting MDL'000 2,734 (as of 31 December 2018 MDL'000 3,653) and the remaining amount relates to operations with cards.

(2) Allowance for impairment losses relates to non-recoverable commission fees receivable amounting MDL'000 5,204 (as of 31 December 2018 MDL'000 4,797), and ECL Stage 1 under IFRS 9 for other assets measured at amortized cost MDL'000 1,083 (as of 31 December 2018 MDL'000 1,596).

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19 Other assets (continued)

(3) Repossessed assets represent: two commercial spaces received as repayment for none-performing loans. As of 31 December 2019 amounting MDL'000 945 and MDL'000 5,200 (as of 31 December 2018 MDL'000 945 and MDL '000 5,200).

(4) Impairment for repossessed assets amounting MDL'000 2,095 (as of 31 December 2018 MDL'000 2,095).

	31 December 2019		
	Stage 1 collective	**Stage 3 collective**	**Total**
(in thousands MDL)			
Internal rating grade			
Neither past due nor impaired	20,483	-	**20,483**
Past due but not impaired	-	-	**-**
Non-performing	-	-	**-**
Individually impaired	-	6,053	**6,053**
		-	**-**
Grand Total	**20,483**	**6,053**	**26,536**

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

An analysis of changes in the gross carrying amount for the year ending 31 December 2019 is, as follows:

	Stage 1 collective	**Stage 3 collective**	**Total**
(in thousands MDL)			
Gross carrying amount as at 1 January 2019	**20,655**	**5,892**	**26,547**
New assets originated or purchased	12,804	548	**13,352**
Assets derecongnized or repaid (exluding write off)	(12,723)	(640)	**(13,363)**
Gross carrying amount as at 31 December 2019	**20,736**	**5,800**	**26,536**

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19 Other assets (continued)

An analysis of changes in the gross carrying amount or the year ending 31 December 2018 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	-	**6,485**
Assets derecongnized or repaid (exluding write off)	(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**

An analysis of changes in the corresponding ECLs or the year ending 31 December 2019 is, as follows:

	Stage 1 collective	Stage 3 collective	Total
(in thousands MDL)			
ECL allowance as at 1 January 2019 under IFRS 9	**248**	**6,145**	**6,393**
New assets originated or purchased	168	548	**716**
Assets derecongnized or repaid (exluding write off)	(144)	(640)	**(784)**
Net ECL Charge	23	(92)	**(69)**
ECL allowance as at 31 December 2019	**271**	**6,053**	**6,324**

An analysis of changes in corresponding ECLs or the year ending 31 December 2018 is, as follows:

	Stage 1 collective	Stage 3 collective	Total
(in thousands MDL)			
ECL allowance as at 1 January 2018 under IFRS 9	**113**	**5,491**	**5,603**
New assets originated or purchased	853	-	**853**
Assets derecongnized or repaid (exluding write off)	(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**

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Notes to the Financial Statements

20 Due to banks

(in thousands MDL)	31 December 2019	31 December 2018
Current accounts	626	1,343
Term deposits	89	33
	715	**1,376**

21 Due to customers

(in thousands MDL)	31 December 2019	31 December 2018
Retail customers		
Current/savings accounts	2,707,192	2,420,331
Term deposits	2,708,891	2,215,559
	5,416,083	**4,635,890**
Corporate customers		
Current/savings accounts	3,681,265	3,214,586
Term deposits	313,258	426,475
	3,994,523	**3,641,061**
	9,410,606	**8,276,951**

Included in Due to customers were deposits of MDL'000 52,013 (2018: MDL'000 44,492) held as collateral for loans and guarantees.

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Notes to the Financial Statements

22 Borrowed funds from IFI's

	31 December 2019	31 December 2018
(in thousands MDL)		
European Bank for Reconstruction and Development (EBRD)	378,400	225,505
"Filere du Vin" and "Fruit of garden" (UCIP - EIB)	232,361	219,164
International Development Association (IDA)	90,692	80,720
International Fund for Agricultural Development (FIDA)	19,027	20,380
Millennium Challenge Account Moldova (MCA)	130	551
European Investment Bank (EIB)	(700)	370,675
	719,910	**916,995**

Below are the descriptions of the main financing lines:

Loans from EBRD

	Maturity	Security	31 December 2019	31 December 2018
(in thousands MDL)				
Multicurrency (USD/EUR/MDL) loan dated December 2016 (DCFTA) (1.1)	Dec-2020	Unsecured	42,600	129,717
Multicurrency (USD/EUR/MDL) loan dated December 2017 (DCFTA) (1.2)	Dec-2020	Unsecured	335,800	95,789
			378,400	**225,505**

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

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Notes to the Financial Statements

22. Borrowed funds from IFI's (continued)

(1.1) 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 2020. The purpose of facility is strengthening MSME capacity and meets the EU standards. By 31 December 2018 the Bank disbursed full amount. The loan was secured by financial guarantee issued by Societe Generale but by 25.07.2019 following the change of controlling shareholder and prospective integration of Mobiasbanca in OTP Group, Societe Generale has released its issued guarantee.

(1.2) 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 2020. The purpose of facility is strengthening MSME capacity and meets the EU standards. By 31 December 2019 the Bank disbursed full amount.. The loan was secured by financial guarantee issued by Societe Generale but by 25.07.2019 following the change of controlling shareholder and prospective integration of Mobiasbanca in OTP Group, Societe Generale has released its issued guarantee.

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 01 August 2019 the Bank reimbursed full amount. The loan was secured by financial guarantee issued by Societe Generale.

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. By 04.10.2018 EIB closed "Filiere du Vin" program and extended the "Orchard of Moldova" program with the purposes afferent to winemakers.

Loans from IDA

Starting with November 2004 the Bank joined the programs (RISP 1 and RISP 2) launched by International Development Association (IDA). 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. The facilities were available for finance of entrepreneurs, SME in rural area as well as agribusiness. By 23.12.2019 the Council of Credit Line Directorate decided to close the programs RISP 1, RISP 2 and Competitiveness Enhancement Project (CEP I).

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.

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Notes to the Financial Statements

22. Borrowed funds from IFI's (continued)

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 in 2019 has implemented the new 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.

23 Other liabilities

	Note	31 December 2019	31 December 2018
(in thousands MDL)			
Lease liability	17	60,819	-
Other liabilities on financial leasing		17,547	9,595
Money transfers pending execution (1)		14,908	27,210
Other accruals		11,524	10,521
Amount pending execution (2)		8,235	-
Accrued audit and consulting fees		4,170	1,545
IT maintenance (3)		3,687	16,722
Due to budget		2,194	1,501
Guarantees for safe deposits		1,997	1,889
Settlements on FCY swap transaction		768	271
Dividends payable		467	501
Due to international payment systems		245	486
Due to suppliers of property and equipment		181	317
Documentary transactions		155	21,986
Other liabilities (4)		8,262	16,728
		135,159	**109,272**

(1) Money transfers pending execution as of 31 December 2019 mainly comprises card transactions amounting MDL'000 13,114 (as of 31 December 2018 MDL'000 16,725) 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.

(2) Amount pending execution represents transfers which are above a certain limit, under investigation. After the investigation the clients receive their transfers in case if they are not declined.

(3) Represents payables to previous shareholder in relation to maintenance of applications and is applicable to the year ending 31 December 2019.

Notes to the Financial Statements

23 Other liabilities (continued)

(4)- Other liabilities represents mainly payables through an intermediary account for broker services for clients.

24 Provisions

(in thousands MDL)	31 December 2019	31 December 2018
Provisions for bonuses to employees	22,406	24,331
Accrual for unused vacation	13,702	9,743
Obligations under financial guarantees	11,231	8,076
Provision for litigation	239	1,239
	47,578	**43,389**

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.

(in thousands MDL)	31 December 2019	31 December 2018
Commitments to grant loans	1,058,780	906,418
Financial guarantees	483,395	466,013
Letters of credit	17,289	28,993
	1,559,464	**1,401,424**

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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.

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 and policies on whether ECLs are calculated on an individual or collective basis are set out in Note 27:

	31 December 2019				
	Stage 1 Collective	Stage 2 Collective	Stage 3 Collective	Stage 3 Individual	Total
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	1,039,823	15,279	-	-	**1,055,102**
Past due but not impaired	2,930	505	-	-	**3,435**
Non-performing	-	-	243	-	**243**
Individually impaired	-	-	-	-	-
Total	**1,042,753**	**15,784**	**243**	**-**	**1,058,780**

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

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 in relation to Commitments to grant loans is for the year ended 31 December 2019, 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 2019	**898,679**	**7,560**	**180**	**-**	**906,419**
New assets originated or purchased	903,910	-	-	-	**903,910**
Assets derecognized or repaid (excluding write offs)	(734,237)	(6,147)	(57)	-	**(740,441)**
Transfers to S1	649	(645)	(4)	-	**-**
Transfers to S2	(25,839)	25,839	-	-	**-**
Transfers to S3	(304)	(22)	326	-	**-**
Impact on ECL of transfers	269	(10,771)	(202)	-	**(10,704)**
Amounts written off	-	-	-	-	**-**
Foreign exchange adjustments	(373)	(31)	-	-	**(404)**
Gross carrying amount as at 31 December 2019	**1,042,754**	**15,783**	**243**	**-**	**1,058,780**

An analysis of charges in the gross carrying amount in relation to Commitments to grant loans is for the year ended 31 December 2018, 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**

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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 corresponding ECL allowances in relation to Commitments to grant loans is for the year ended 31 December 2019, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
ECL allowance as at 1 January 2019 under IFRS 9	**4,601**	**734**	**14**	-	**5,349**
New assets originated or purchased	6,031	-	-	-	**6,031**
Assets derecognized or repaid (excluding write offs)	(3,577)	(605)	(11)	-	**(4,193)**
Transfers to S1	46	(45)	(1)		-
Transfers to S2	(1,319)	1,319	-		-
Transfers to S3	(1)	(2)	3		-
Impact on ECL of transfers	(39)	288	34		**283**
Foreign exchange adjustments	(3)	(1)	1	-	**(3)**
Net NCR Charge	**1,138**	**954**	**26**	-	**2,118**
ECL allowance as at 31 December 2019	**5,739**	**1,688**	**40**	-	**7,467**

An analysis of charges in the corresponding ECL allowances in relation to Commitments to grant loans is for the year ended 31 December 2018, as follows:

	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 and policies on whether ECLs are calculated on an individual or collective basis are set out in Note 27:

	31 December 2019				
(in thousands MDL)	Stage 1 Collective	Stage 2 Collective	Stage 3 Collective	Stage 3 Individual	Total
Internal rating grade					
Neither past due nor impaired	473,034	10,361	-	-	**483,395**
Past due but not impaired	-	-	-	-	-
Non-performing	-	-	-	-	-
Individually impaired	-	-	-	-	-
Total	**473,034**	**10,361**	-	-	**483,395**

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

An analysis of charges in the gross carrying amount in relation to guarantees issued is for the year ended 31 December 2019, 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 2019	465,572	441	-	-	**466,013**
New assets originated or purchased	93,230	-	-	-	**93,230**
Assets derecognized or repaid (excluding write offs)	(71,766)	(441)	-	-	**(72,207)**
Transfers to S1	-	-	-	-	-
Transfers to S2	(10,345)	10,345	-	-	-
Transfers to S3	-	-	-	-	-
Impact on ECL of transfers	-	-	-	-	-
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	(3,657)	16	-	-	**(3,641)**
Gross carrying amount as at 31 December 2019	**473,034**	**10,361**	-	-	**483,395**

An analysis of charges in the gross carrying amount in relation to guarantees issued is for the year ended 31 December 2018, 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)

An analysis of charges in the corresponding ECL allowances in relation to guarantees issued is for the year ended 31 December 2019, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
ECL allowance as at 1 January 2019 under IFRS 9	**2,523**	**46**	-	-	**2,569**
New assets originated or purchased	1,124	-	-	-	**1,124**
Assets derecognized or repaid (excluding write offs)	(379)	(46)	-	-	**(425)**
Transfers to S1	-	-	-	-	-
Transfers to S2	(675)	675	-	-	-
Transfers to S3	-	-	-	-	-
Impact on ECL of transfers	-	410	-	-	**410**
Foreign exchange adjustments	(21)	1	-	-	**(20)**
Net NCR Charge	49	1,040	-	-	**1,089**
ECL allowance as at 31 December 2019	**2,572**	**1,086**	-	-	**3,658**

An analysis of charges in the corresponding ECL allowances in relation to guarantees issued is for the year ended 31 December 2018, as follows:

	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**

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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)

(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 and policies on whether ECLs are calculated on an individual or collective basis are set out in Note 27:

	31 December 2019				
	Stage 1 Collective	**Stage 2 Collective**	**Stage 3 Collective**	**Stage 3 Individual**	**Total**
(in thousands MDL)					
Internal rating grade					
Neither past due nor impaired	17,289	-	-	-	**17,289**
Past due but not impaired	-	-	-	-	-
Non-performing	-	-	-	-	-
Individually impaired	-	-	-	-	-
Total	**17,289**	**-**	**-**	**-**	**17,289**

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

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 in relation to letters of credit is for the year ended 31 December 2019, 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 2019	**28,993**				**28,993**
New assets originated or purchased	6,373	-	-	-	**6,373**
Assets derecognized or repaid (excluding write offs)	(18,079)	-	-	-	**(18,079)**
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	2	-	-	-	2
Gross carrying amount as at 31 December 2019	**17,289**	**-**	**-**	**-**	**17,289**

An analysis of charges in the gross carrying amount in relation to letters of credit is for the year ended 31 December 2018, 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**	**-**	**-**	**-**	**28,993**

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 corresponding ECL allowances in relation to letters of credit is for the year ended 31 December 2019, as follows:

	Stage 1 collective	Stage 2 collective	Stage 3 collective	Stage 3 individual	Total
(in thousands MDL)					
ECL allowance as at 1 January 2019 under IFRS 9	**158**				**158**
New assets originated or purchased	35	-	-	-	35
Assets derecognized or repaid (excluding write offs)	(99)	-	-	-	(99)
Transfers to S1	-	-	-	-	-
Transfers to S2	-	-	-	-	-
Transfers to S3	-	-	-	-	-
Foreign exchange adjustments	-	-	-	-	-
Net NCR Charge	**(64)**	-	-	-	**(64)**
ECL allowance as at 31 December 2019	94	-	-	-	94

An analysis of charges in the corresponding ECL allowances in relation to letters of credit is for the year ended 31 December 2018, as follows:

	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

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Notes to the Financial Statements

24 Provisions (continued)

24.2 Other provisions and contingent liabilities

Contingent liabilities

As of 31 December 2019, and 2018 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 have 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'000 239 (2018: MDL'000 1,239) (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 2019 is presented below:

	2019		
	Shareholding	Number of shares '000	Value
(in thousands MDL)			
OTP BANK NYRT, Hungary	98.26%	9,826	98,258
Other legal entities (<10%)	0.10%	9	98
Other individuals (<10%)	1.58%	159	1,588
Treasury shares	0.06%	6	56
	100.00%	**10,000**	**100,000**
Less: Treasury shares			(56)
Issued capital			**99,944**

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

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

As of 31 December 2019 all shares are ordinary and have a nominal value of MDL 10 (31 December 2018: MDL 10). As of 31 December 2019 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.

***Debt instruments at amortized cost*:** 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.

***Borrowings from IFI's*:** 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:

Notes to the Financial Statements

26 Fair value of financial instruments (continued)

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

	Level 1	Level 2	Level 3	Total
(in thousands MDL)				
31 December 2019				
Financial assets				
Assets measured at fair value on a recurring basis				
Treasury bills issued by the Ministry of Finance	-	2,214	-	**2,214**
Equity investments at FVPL	-	-	1,031	**1,031**
Other financial assets not measured at Fair Value on a recurring basis				
Placements with Central Bank	-	-	2,957,362	**2,957,362**
Due from banks	-	-	1,786,012	**1,786,012**
Debt instruments at amortized cost	-	686,662	-	**686,662**
Loans and advances to customers	-	-	6,125,305	**6,125,305**
	-	**688,876**	**10,869,710**	**11,558,586**
Financial liabilities				
Deposits from banks	-	-	715	**715**
Borrowings from IFI's	-	-	715,984	**715,984**
Deposits from customers	-	-	9,413,777	**9,413,777**
	-	-	**10,130,476**	**10,130,476**

	Level 1	Level 2	Level 3	Total
(in thousands MDL)				
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				
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**

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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)

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

	2019		2018	
	Total carrying amount	Fair value	Total carrying amount	Fair value
(in thousands MDL)				
Financial assets				
Placements with Central Bank	2,952,617	2,952,617	2,427,222	2,427,222
Due from banks	1,790,757	1,790,757	1,675,171	1,675,171
Debt instruments at amortized cost	687,360	688,876	1,050,553	1,032,951
Loans and advances to customers	6,018,994	6,125,305	5,190,037	5,369,084
	11,449,728	**11,557,555**	**10,342,983**	**10,504,428**
Financial liabilities				
Due to banks	715	715	1,376	1,376
Borrowed funds from IFIs	719,910	715,984	916,995	914,948
Deposits from customers	9,410,606	9,413,777	8,276,951	8,321,640
	10,131,231	**10,130,476**	**9,195,322**	**9,237,964**

There were no reclassifications between financial assets and liabilities categories done in 2019 and 2018.

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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 OTP 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 Division 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

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 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.

The Bank is in continuous monitoring of any specific industry/BASEL/EBA/OTP 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)

27.1.3 The bank's internal rating and PD estimation process

The Bank's independent Credit Underwriting 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 100 million MDL and transnational companies and Small and Medium Enterprises with turnover between 20 and 100 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 PDP is up to 30 days

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Notes to the Financial Statements

27 Risk management (continued)

27.1 Credit risk (continued)

27.1.3 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 PDP is up to 30 days

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Notes to the Financial Statements

27 Risk management (continued)

27.1 Credit risk (continued)

27.1.3 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)

27.1.4 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 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.

27.1.5 Loss given default

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

27.1.6 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)

27.1.7 Grouping financial assets measured on a collective basis

As explained in Note 27.1.2 and 2.5.1.9.1 (i) dependent 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).

27.1.8 Analysis of collectively impaired assets

(i) Analysis of inputs to the ECL under multiple economic scenarios

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 2019. 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.

(in thousands MDL)	Total Provision 2019 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	99,361	+ 5%	173,119	73,759	74%
		- 5%	83,297	(16,064)	-16%
Non-Retail	148,231	+ 5%	199,529	51,298	35%
		- 5%	116,003	(32,229)	-22%
	247,592				

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Notes to the Financial Statements

27 Risk management (continued)

27.1 Credit risk (continued)

27.1.8 Analysis of collectively impaired assets (continued)

	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, %
(in thousands MDL)					
Retail	99,361	+ 10%	96,918	(2,443)	-2%
		- 10%	76,054	(23,307)	-23%
Non-Retail	148,231	+ 10%	139,749	(8,482)	-6%
		- 10%	105,183	(43,049)	-29%
	247,592				

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%:

	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, %
(in thousands MDL)					
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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27 Risk management (continued)

27.1 Credit risk (continued)

27.1.8 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				

27.1.9 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 period:

	as at 31 December 2019		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)	4,084	39	5,697	48
Facilities that reverted to (Stage 2/3) LTECLs having once cured	-	-	16,681	7,401

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Notes to the Financial Statements

27 Risk management (continued)

27.1 Credit risk (continued)

27.1.10 Analysis of risk concentration

Carrying amount by class of financial assets has been renegotiated as of 31 December 2019 and 2018 is analyzed below:

(in thousands MDL)	31 December 2019	31 December 2018
Loans and advances to customers		
Corporate and SME	14,764	43,619
Consumer	405	115
Mortgage	1,257	3,473
PRO/VSB	6,124	8,429
	22,550	**55,636**

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 2,725 legal entities (2018: 1,415) and 74,262 individuals (2018: 65,694).

The maximum credit exposure to any client or counterparty as of 31 December 2019 was at MDL'000 182,866 (2018: MDL'000 146,671).

As at 31 December 2019 ten major net exposures have a total outstanding balance of MDL'000 974,774 (31 December 2018: MDL'000 865,288).

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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27 Risk management (continued)

27.1 Credit risk (continued)

27.1.10 Analysis of risk concentration (continued)

(in thousands MDL)	Note	31 December 2019	31 December 2018
Placements with Central Bank	12	2,952,617	2,427,222
Due from banks	13	1,790,757	1,675,171
Debt instruments at amortized cost	15	685,146	1,050,553
Investment securities	15	-	-
Loans and advances to customers	14	6,255,355	5,390,999
Other assets		52,522	40,069
Total		**11,736,397**	**10,584,014**
Commitments	27.3	1,559,464	1,401,424
Total credit risk exposure		**13,295,861**	**11,985,438**

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 2019, 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	-	-	685,146	-
Central Bank	-	2,952,617	-	-
Commercial banks	-	1,790,757	-	1
Individuals	2,615,830	-	-	-
Corporate customers	3,403,164	-	-	1,030
Off balance sheet items:				
Individuals	98,712	-	-	-
Corporate customers	1,449,532	-	-	-
	7,567,238	**4,743,374**	**685,146**	**1,031**
Concentration by location				
Moldova	6,011,909	2,950,072	685,146	1,031
CIS	2,026	19,463	-	-
EU	251	1,669,295	-	-
USA	0	8,242	-	-
Other	4,808	96,302	-	-
	6,018,994	**4,743,374**	**685,146**	**1,031**

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27 Risk management (continued)

27.1 Credit risk (continued)

27.1.10 Analysis of risk concentration (continued)

An analysis of concentrations of credit risk as of 31 December 2018, shown below:

	Loans and advances to customers	Due from banks	Debt instruments at amortized cost	Financial assets at FV through PL
(in thousands MDL)				
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:	0	-	-	-
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**

Ageing analysis of loans by class of financial assets as of 31 December 2019 and 2018 is presented below:

	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
(in thousands MDL)					
Loans and advances to customers					
31 December 2019					
Corporate and SME	2,782,721	32,088	14,584	38,293	**2,867,686**
Consumer	1,457,680	8,573	3,844	12,469	**1,482,566**
Mortgage	1,138,689	8,003	4,577	5,434	**1,156,703**
PRO/VSB	719,185	3,760	2,112	23,343	**748,400**
	6,098,275	**52,424**	**25,117**	**79,539**	**6,255,355**
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**

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27 Risk management (continued)

27.1 Credit risk (continued)

27.1.10 Analysis of risk concentration (continued)

An analysis of loans and advances to customers by customer type and industry as of 31 December 2019 and 2018 is presented below:

(in thousands MDL)	31 December 2019	31 December 2018
Loans to individuals		
Consumer loans	1,382,046	1,043,455
Mortgage loans	1,156,654	805,539
	2,538,700	**1,848,994**
Less allowance for impairment losses	(53,770)	(27,329)
Net loans to individuals	**2,484,930**	**1,821,665**
Loans to corporate customers		
Industry and commerce	2,606,153	2,515,329
Agriculture and food industry	526,341	444,375
Fuel and energy	9,198	10,481
Construction and development	282,601	247,455
Overdrafts	10,381	9,621
Micro-enterprises	148,123	166,988
Other	133,858	147,756
	3,716,655	**3,542,005**
Less allowance for impairment losses	(182,591)	(173,633)
Net loans to corporate customers	**3,534,064**	**3,368,372**
Total net loans and advances to customers	**6,018,994**	**5,190,037**

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.

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14 Loans and advances to customers (continued)

27.1.11 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 2019 is estimated at MDL'000 37,907 (31 December 2018: MDL'000 36,807). The fair value of collateral placed against past due but not impaired loans as of 31 December 2019 is estimated at MDL'000 237,835 (31 December 2018: MDL'000 283,777).

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 2019 and 2018.

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)

27.1.11 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 2019										
Corporate and SME	2,729,277	51,810	39,448	539,758	2,048,291	2,148,583	(2,021,051)	4,827,890		138,410
Consumer	1,440,199	7,408	-	-	106,295	9,417	(51,990)	123,120	1,317,079.00	42,367
Mortgage	1,139,186	17,465	-	63,564	1,584,808	2,287	(497,648)	1,668,124		17,517
PRO/VSB	710,333	5,685	-	53,923	758,923	399,111	(540,125)	1,217,642		38,067
Commitments to grant loans	1,051,312	1,523	-	4,131	101,823	233,264	(338,322)	340,741	710,571.00	7,467
Financial guarantees	479,737	25,289	-	25,402	110,376	75,689	(234,260)	236,756	242,981.00	3,658
Letters of credit	17,195	-	-	1,490	9,533	7,712	(18,735)	18,735		94
Total	**7,567,239**	**109,180**	**39,448**	**688,268**	**4,720,049**	**2,876,063**	**(3,702,131)**	**8,433,008**	**2,270,631**	**247,580**
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**	**553,206**	**4,424,739**	**2,556,516**	**(3,576,999)**	**4,080,858**	**2,502,528**	**209,037**

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Notes to the Financial Statements

27 Risk management (continued)

27.1 Credit risk (continued)

27.1.11 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	Securities	3rd party guarantees	Property	Other	Surplus of collateral	Total collateral	Net exposure	Associated ECLs
31 December 2019										
Corporate and SME	50,806	-	-	25,935	94,021	466,528	(122,088)	586,484		57,894
Consumer	3,779	-	-	-	2,085	449	(1,376)	2,534	1,245	12,498
Mortgage	2,196	-	-	-	16,863	-	(14,367)	16,863		6,398
PRO/VSB	5,704	-	-	-	31,935	11,466	(36,139)	43,401		24,204
Commitments to grant loans	203	-	-	-	-	-	-	-	203	40
Financial guarantees	-	-	-	-	-	-	-	-	-	-
Letters of credit	-	-	-	-	-	-	-	-	-	-
Total	**62,688**	-	-	**25,935**	**144,904**	**478,443**	**(173,970)**	**649,282**	**1,448**	**101,034**
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
Financial guarantees	-	-	-	-	-	-	-	-	-	-
Letters of credit	-	-	-	-	-	-	-	-	-	-
Total	**63,932**	**90**	-	-	**194,005**	**451,940**	**(585,672)**	**646,035**	**2,545**	**107,023**

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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 2019 and 2018 based on contractual undiscounted repayment obligations.

(in thousands MDL)	Total	Less 1 month	Between 1 month and 1 year	Between 1 and 5 years	More than 5 years
As at 31 December 2019					
Due to banks and to customers	**9,429,857**	809,252	4,150,886	3,011,220	1,458,499
Debt issued and other borrowings	**719,951**	72,561	499,900	145,142	2,348
Total financial liabilities	**10,149,808**	**881,813**	**4,650,786**	**3,156,362**	**1,460,847**
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**

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 2019 did hold a small trading portfolio of State Securities (2.3 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 MB: 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.

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27 Risk management (continued)

27.3 Market risk (continued)

27.3.1 Interest rate risk (continued)

	Change in basis points	Threshold set for profit or loss	Limit set for profit or loss	Sensitivity of profit or loss			Sensitivity of equity	31 December 2019
(in thousands MDL)				6 months to 1 year	1 to 5 years	> 5 years		Total
MDL	+10	1,156	193	(302)	380	4,687	7,524	**4,765**
EUR	+10	1,926	1,733	315	632	4,064	-	**5,011**
Other	+10	-	-	77	95	908	-	**1,080**
Total		**3,852**	**2,696**	**90**	**1,107**	**9,659**	-	**10,856**
MDL	-10	(8,475)	(9,438)	303	(384)	(4,724)	(7,572)	**(4,805)**
EUR	-10	(3,852)	(4,045)	(316)	(635)	(4,119)	-	**(5,070)**
Other	-10	-	-	(77)	(96)	(-920)	-	**(1,093)**
Total		**(11,749)**	**(12,712)**	**(90)**	**(1,115)**	**(9,763)**	-	**(10,968)**

	Change in basis points	Threshold set for profit or loss	Limit set for profit or loss	Sensitivity of profit or loss			Sensitivity of equity	31 December 2018
(in thousands MDL)				6 months to 1 year	1 to 5 years	> 5 years		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)**

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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 2019						
Assets						
Cash and Balances with Central Bank	**3,427,252**	676,203	1,027,462	858,792	390,160	474,635
Due from Banks	**1,790,757**	1,339,854	71,195	379,708	-	-
Financial assets at fair value through profit and loss	**3,257**	2,226	-	-	-	1,031
Loans and advances to customers	**6,018,994**	1,589,646	1,429,564	2,561,502	438,2822	-
Debt instruments at amortized cost	**685,146**	469,773	215,361	12	-	-
	11,925,406	**4,077,701**	**2,743,582**	**3,800,014**	**828,442**	**475,666**
Liabilities						
Due to Banks	**715**	715	-	-	-	-
Due to Customers	**9,410,606**	2,210,804	3,136,365	2,757,373	1,306,064	-
Debt issued and other borrowed funds	**719,910**	505,986	208,140	5,784	-	-
	10,131,231	**2,717,505**	**3,344,505**	**2,763,157**	**1,306,064**	-
Total interest sensitivity gap	**1,794,175**	**1,360,196**	**(600,923)**	**1,036,858**	**(477,623)**	**475,666**
Derivative used for risk management	-	-	-	-	-	-
Total interest sensitivity gap after risk management	**1,794,175**	**1,360,196**	**(600,923)**	**1,036,858**	**(477,623)**	**475,666**

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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 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**	**1,149,245**	**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	**1,572,197**	**2,030,427**	**(4,350)**	**(112,804)**	**(764,444)**	**423,367**
Derivative used for risk management	-	-	-	-	-	-
Total interest sensitivity gap after risk management	**1,572,197**	**2,030,427**	**(4,350)**	**(112,804)**	**(764,444)**	**423,367**

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27 Risk management (continued)

27.3 Market risk (continued)

27.3.2 Interest rate risk (continued)

As of the end of 2019, 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 of a new schedule for Sight and Saving accounts, according to Basel III and best practices. 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 at ALCO to invest in German Bonds and US Bonds, however the implementation was postponed in context of acquirement by OTP Group and a derogation was issued in this regard.

The results of non-parallel stressed interest rate shocks (NIRUP and NIRDW) at 31 December 2019 can be analyzed as follows:

(in thousands MDL)	MDL	EUR	Other	Total
NIRUP	155,931	24,233	5,054	**185,218**
Threshold	46,803	6,163	-	**(204,932)**
Limit	15,601	4,237	-	**(302.390)**
NIRDW	(121,133)	(18,944)	(4,851)	**(144,928)**
Threshold	(168,915)	(15,408)	-	**(268,684)**
Limit	(179,893)	(16,564)	-	**(301,812)**

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	Other	Total
NIRUP	294,309	24,205	9,001	**327,515**
Threshold	(207,315)	6,247		**(207,706)**
Limit	(302,579)	4,295		**(272.321)**
NIRDW	(204,849)	(18,761)	(7,587)	**(231,197)**
Threshold	(254,361)	(15,617)		**(306,483)**
Limit	(286,376)	(16,788)		**(305,897)**

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Notes to the Financial Statements

27 Risk management (continued)

27.3 Market risk (continued)

27.3.3 Currency risk

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 curren9+cies 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.

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 2019							
EUR	13,579	+10%	1,358	1,195	-10%	(1,358)	(1,195)
US Dollars	17,121	+10%	1,712	1,507	-10%	(1,712)	(1,507)
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

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27 Risk management (continued)

27.3 Market risk (continued)

27.3.3 Currency risk (continued)

The amounts of assets and liabilities held in MDL and in foreign currencies at 31 December 2019 can be analyzed as follows:

31 December 2019	Euro	US dollar	MDL	Other	Total
(in thousand MDL)					
Assets					
Cash and balances with Central Bank	655,986	202,242	2,485,312	83,712	**3,427,252**
Due from banks	1,353,646	375,564	-	61,547	**1,790,757**
Derivative financial instruments	-	-	29		**29**
Debt instruments at amortized cost	-	-	685,146	-	**685,146**
Financial assets at FVPL	-	-	3,257	-	**3,257**
Loans and advances to customers, net	1,692,816	430,965	3,895,213	-	**6,018,994**
Other assets	7,199	1,172	43,764	387	**52,522**
Property and equipment	-	-	192,581	-	**192,581**
Deferred tax assets	-	-	3,802	-	**3,802**
Intangible assets	-	-	24,413	-	**24,413**
Total assets	**3,709,647**	**1,009,943**	**7,333,517**	**145,646**	**12,198,753**
Liabilities					
Derivative financial instruments	-	-	75	-	**75**
Due to banks	89	-	626	-	**715**
Due to customers	3,067,557	1,066,955	5,257,943	18,151	**9,410,606**
Borrowed funds from IFI's	583,509	-	136,401	-	**719,910**
EUR/RUB, USD/RUB, USD/RON swaps	5,778	-	-	118,980	**124,758**
Other liabilities	77,832	4,622	52,679	26	**135,159**
Provisions	3,677	3,698	40,197	6	**47,578**
Total liabilities	**3,738,442**	**1,075,275**	**5,487,921**	**137,163**	**10,438,801**
Net position 31 December 2019	**(28,795)**	**(65,332)**	**1,845,596**	**8,483**	**1,759,952**

Notes to the Financial Statements

27 Risk management (continued)

27.3 Market risk (continued)

27.3.3 Currency risk (continued)

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**

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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. The Bank was compliant with all the regulatory limits throughout the year.

(in thousands MDL)	**31 December 2019**
Total Capital	**1,476,050,951**
Tier1 Capital	**1,476,051,677**
Tier 1 Base Capital	1,476,051,677
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	**1,236,346,565**
Retained Earnings from previous years	1,236,346,565
Current year results	-
Profit or loss attributable to owners of the parent's equity	255,343,730
(-) Part of the interim or end-of-year financial results that are not eligible	(255,343,730)
Other reserves	**150,171,284**
Adjustments to core Tier 1 own funds due to prudential reserves	(132,090,645)
(-) The positive difference between asset write-downs and contingent liabilities and the amount of write-downs for impairment losses and provisions for losses	(132,090,645)
(-) Goodwill	(26,267,433)
(-) Goodwill accounted for as intangible assets	(26,267,433)
(-) Deferred tax assets that are based on future profitability and do not arise from temporary differences from which associated deferred tax liabilities are deducted	(3,461,953)
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	**20.17%**

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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.

	31 December 2018
(in thousands MDL)	
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%**

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29 Cash and cash equivalents

	Note	31 December 2019	31 December 2018
(in thousands MDL)			
Cash and balances with Central Bank	12	694,274	425,245
Due from banks	13	1,793,302	1,677,507
Debt instruments at amortized cost	15	210,292	470,317
		2,697,868	**2,573,069**

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 11 amounting MDL'000 2,232,777 reduced by the level of mandatory reserves held in MDL (MDL'000 1,762,463). 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 2019	Within 12 months	After 12 months	**Total**
(in thousand MDL)			
Assets			
Cash and balances with Central Bank	1,707,896	1,719,356	**3,427,252**
Due from banks	1,790,747	-	**1,790,757**
Debt instruments at amortized cost	685,134	12	**685,146**
Financial assets at fair value through profit or loss	2,226	1,031	**3,257**
Loans and advances to customers, net	1,779,885	4,239,109	**6,018,994**
Other assets	52,551	-	**52,551**
Property and equipment	50,507	142,074	**192,581**
Deferred tax assets	3,802	-	**3,802**
Intangible assets	19,711	4,702	**24,413**
Total assets	**6,092,459**	**6,106,284**	**12,198,753**
Liabilities			
Due to Central Bank	-	-	-
Due to banks	715	-	**715**
Due to customers	4,942,654	4,467,953	**9,410,606**
Borrowed funds from IFI's	572,439	147,471	**719,910**
Other liabilities	135,234	-	**135,234**
Provisions	47,578	-	**47,578**
Total liabilities	**5,698,620**	**4,615,424**	**10,314,043**
Net	**393,839**	**1,490,860**	**1,884,710**

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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 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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31 Related party transactions

The list of related parties, with whom the Bank entered into transactions during 2019 were as follows:

- OTP Bank NYRT (companies within the group, including major shareholder)
- 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 2019 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:

(in thousands MDL)	**Total 2019**	OTP BANK NYRT	Key management	Other
Balance sheet items as of 31 December 2019				
Due from banks	**96,303**	96,303	-	-
Loans and advances to customers, net	**1,825**	-	1,427	398
Other assets (Note 17)	**773**	772	-	1
Due to clients	**7,627**	-	1,597	6,030
Other liabilities	**732**	730	2	-
Result from transactions during 2019				
Interest and similar income	**164**	-	129	35
Interest and similar expense	**1,183**	929	163	91
Personnel costs	**21,036**	-	21,036	-
Other non-interest expenses	**85**	73	12	-
Off balance sheet items				
Counter guarantees	**221,199**	220,890	188	121

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31 Related party transactions (continued)

The list of related parties, with whom the Bank entered into transactions during 2018 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 manage-ment	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

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32 Post reporting date events

Subsequent to 31 December 2019, an epidemic emerged in large number of countries around the globe including Romania and Moldova. There is a broad range of reasonable scenarios that can be considered, in some of them it is expected an impact on the ability of banks' clients to repay the debts. As well, there are implications and risks for business continuity and bank's business in 2020 onwards.

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