Banca Comercială Română Chişinău SA

Financial Statements
For the Year Ended 31 December 2018
Prepared in Accordance with
International Financial Reporting Standards

Translation of the Bank's financial statements issued in the Romanian language

CONTENT

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF BANCA COMERCIALĂ ROMÂNĂ CHIŞINĂU SA

Our opinion

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

What we have audited

The Bank's financial statements comprise:

- the statement of financial position as at 31 December 2018;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the Law regarding the audit activity (no. 61-XVI from 16.03.2007). 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

This version of the accompanying documents is a translation from the original, which was prepared in Romanian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in Moldova, including the Law no. 61-XVI from 16.03.2007, and we have fulfilled our other ethical responsibilities in accordance with those requirements and the IESBA Code.

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

Refer to the original signed Romanian version

Paul Facer
Partner, empowered by
Power of attorney dated 29 March 2017,
on behalf of ICS PricewaterhouseCoopers Audit SRL

Constantin Barbaros
Licensed auditor
License: AIF Nr. 0020
issued on 10 October 2013

Chisinau, 10 April 2019

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the Year Ended 31 December 2018

	Notes	2018 MDL'000	2017 MDL'000
Interest and similar income	20	84,820	80,480
Interest and similar expense	20	(24,980)	(18,123)
Net interest income		**59,840**	**62,357**
Provision for impairment of loans and other financial assets	7, 24	348	112
Net interest income after impairment loss		**60,188**	**62,469**
Fee and commission income	21	22,625	19,874
Fee and commission expense	21	(9,182)	(7,580)
Net fee and commission income		**13,443**	**12,294**
Financial income, net	22	19,025	15,788
Other operating income	23	1,101	999
Total non-interest income		**20,126**	**16,787**
Personnel expenses	25	(35,400)	(33,810)
General and administrative expense	26	(32,508)	(31,724)
Contributions to Deposit Guarantee Fund		(336)	(148)
Depreciation and amortization expense	27	(8,640)	(8,398)
Provision for other assets		250	(269)
Total non-interest expense		**(76,634)**	**(74,350)**
Operating profit before tax		**17,123**	**17,201**
Tax expense	18	(2,428)	378
Net profit for the year		**14,695**	**17,579**
Other comprehensive income			
Revaluation of financial assets at fair value through other comprehensive income (FVOCI)		6,285	-
Revaluation of available-for-sale (AFS)		-	(2,225)
Total Other comprehensive income		**6,285**	**(2,225)**
Total comprehensive income for the year		**20,980**	**15,354**

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

The financial statements were authorized for issue on 10 April 2019 by the Executives of the Bank represented by:

President
Juan Luis Martin Ortigosa

Chief Accountant
Victoria Galben

	Notes	31/12/2018 MDL'000	31/12/2017 MDL'000
ASSETS			
Cash on hand	4	77,861	76,690
Balances with National Bank	5	243,899	293,497
Due from banks	6	244,943	115,212
Financial assets at amortized cost - loans and advances to customers	7	730,511	604,686
Financial assets at fair value through other comprehensive income (FVOCI)	8	147,783	-
Financial investments – available-for-sale (AFS)	8	-	122,186
Financial assets at amortized cost – state securities	8	237,940	-
State securities – loans and receivables	8	-	198,488
Property and equipment	9	16,513	16,475
Intangible assets	10	7,369	5,968
Deferred tax assets	18	1,407	1,491
Other assets	11	40,926	17,582
Total assets		**1,749,152**	**1,452,275**
LIABILITIES			
Due to banks	12	19,611	68,398
Other borrowings	13	191,163	189,171
Due to customers	14	1,062,311	709,979
Other liabilities	15	17,609	23,793
Current liabilities on income tax		2,756	892
Deferred tax liabilities		-	29
Total liabilities		**1,293,450**	**992,262**
SHAREHOLDERS' EQUITY			
Share capital	16	728,130	728,130
Reserve capital	17	17,870	16,991
Accumulated deficit		(335,653)	(348,267)
Other reserves		38,858	62,947
Reserve of FV of financial assets at FVOCI		6,497	-
Reserve of available for sale financial investments		-	212
Total shareholders' equity		**455,702**	**460,013**
Total liabilities and shareholders' equity		**1,749,152**	**1,452,275**

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

The financial statements were authorized for issue on 10 April 2019 by the Executives of the Bank represented by:

President
Juan Luis Martin Ortigosa

Chief Accountant
Victoria Galben

2018	Share capital MDL'000	Reserve capital MDL'000	Accumulated deficit MDL'000	Other reserves MDL'000	Other comprehensive income MDL'000	Total MDL'000
Balance as at 1 January	**728,130**	**16,991**	**(348,267)**	**62,947**	**212**	**460,013**
Transition to IFRS 9	-	-	(25,291)	-	5,400	**(19,891)**
Updated balance as at 1 January 2018	**728,130**	**16,991**	**(373,558)**	**62,947**	**5,612**	**440,122**
Net profit for the year	-	-	14,695	-	-	**14,695**
Other comprehensive income	-	-	-	-	885	**885**
Transfers between reserves	-	879	23,210	(24,089)	-	-
Balance as at 31 December	**728,130**	**17,870**	**(335,653)**	**38,858**	**6,497**	**455,702**

2017	Share capital MDL'000	Reserve capital MDL'000	Accumulated deficit MDL'000	Other reserves MDL'000	Reserve of AFS MDL'000	Total MDL'000
Balance as at 1 January	**728,130**	**14,200**	**(333,862)**	**33,754**	**2,437**	**444,659**
Issued ordinary shares	-	-	-	-	-	-
Net profit for the year	-	-	17,579	-	-	**17,579**
Other comprehensive income	-	-	-	-	(2,225)	**(2,225)**
Transfers between reserves	-	2,791	(31,984)	29,193	-	-
Balance as at 31 December	**728,130**	**16,991**	**(348,267)**	**62,947**	**212**	**460,013**

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

Banca Comercială Română Chişinău SA
STATEMENT OF CASH FLOWS
For the Year Ended 31 December 2018

	Note	2018 MDL'000	2017 MDL'000
Cash flows from operating activities			
Interest receipts		104,191	81,144
Interest payments		(26,738)	(14,846)
Net fee and commission receipts		13,442	12,294
Net financial and other operating income receipt		21,355	17,964
Recovery of loans previously written-off		5,240	1,654
Staff costs paid		(31,504)	(31,831)
Payments of general and administrative expenses		(30,356)	(31,500)
Income tax payments		(573)	(528)
Operating profit before working capital changes		**55,057**	**34,351**
(Increase) / decrease in operating assets:			
Loans and advances to customers, net		(157,726)	(219,604)
Other assets		(1,401)	3,259
Increase / (decrease) in operating liabilities			
Due to banks		(48,787)	45,135
Due to customers		350,868	(74,008)
Other liabilities		(21,596)	6,563
Net cash flow from / (used in) operating activities before income tax		**176,415**	**(204,304)**
Purchase of property and equipment and intangible assets		(10,794)	(8,721)
Receipts from maturity of financial investments – available-for-sale		2,807,791	3,105,149
Purchase of financial investments – available-for-sale		(2,833,693)	(2,987,587)
Receipts from maturity of state securities– loans and receivables		1,427,860	100,660
Purchase of financial investments – state securities – loans and receivables		(1,487,848)	(210,615)
Net cash used in investing activities		**(96,684)**	**(1,114)**
Cash flows from financing activities			
Receipts from borrowings		131,157	108,899
Repayments of borrowings		(126,656)	(40,091)
Net cash from financing activities		**4,501**	**68,808**
Foreign currency effect		(1,147)	(252)
Net increase/(decrease) in cash and cash equivalents		83,085	(136,862)
Balance as at 1 January		**485,400**	**622,262**
Balance as at 31 December	19	**569,380**	**485,400**

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

1. Corporate information

Banca Comercială Romana Chisinau SA (hereinafter the Bank) was established in October 1998. The Bank activates as a commercial and savings Bank, offering a large spectrum of services and banking products for all client categories through Front Office, two branches and one agency in Chisinau, one branch in Cahul and one branch in Balti (2017: 4 branches and 1 representative offices).

Banca Comerială Română Chisinau S.A. (BCRC) is 100% subsidiary of Banca Comerciala Romāna S.A., being part of BCR Group. The ultimate parent of the Bank is Erste Group Bank AG.

At year-end 2018 the Bank possessed the license number A MMII nr. 004471, granted by the National Bank of Moldova at 02 December 2008, which allows the Bank to be engaged in all banking activities stipulated in article 26 of Law of financial institutions nr.550 – XIII from 21 July 1995.

The Bank has 93 employees as at 31 December 2018 (88 as at 31 December 2017).

The registered office of the Bank is located at Pushkin Street, 60/2, Chisinau, Republic of Moldova.

As the Bank's operations do not have significantly different risks and returns and the regulatory environment, the nature of its services, the business process, as well as the types of customers for the products and services and the methods used to provide the services are homogenous for all Bank's activities, the Bank operates as a single business segment unit.

2. Accounting policies

2.1 Basis of preparation

The financial year starts on 1 January and ends on 31 December, and includes all operations performed by the Bank during this period.

The financial statements have been prepared on a historical cost basis, except for financial assets at FVOCI (2017: AFS), which have been measured at fair value.

The financial statements are presented in Moldovan lei ("MDL"), the currency of the country in which the Bank operates, and all values are rounded to the nearest thousand Moldovan lei, except when otherwise indicated.

The financial statements are prepared on a going concern basis.

The financial statements are presented to the Executive Committee and Management Board with final approval by General Shareholders Meeting. After approval they cannot be modified.

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

2. Accounting policies (continued)

2.2 New and revised standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Bank as of 1 January 2018:

IFRS 9 "Financial Instruments" (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018).

As permitted by the transitional provisions of IFRS 9, BCR Chisinau elected not to restate comparative amounts for the previous financial year 2017. As a result, the comparative period columns in the 2018 financial statements reflect the structure used in 2017 financial statements.

Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI).
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables. Accounting policies (continued)

2. Accounting policies (continued)

2.2 New and revised standards and interpretations

Below is presented the measurement category of financial assets according to IAS 39 and IFRS 9:

MDL'000	Measurement category accordint to IAS 39	Measurement category accordint to IFRS 9	Book value according to IAS 39	Reclassi-fication	Re-measument	Book value according to IFRS 9
Financial assets						
Cash on hand	Loans and advances	Amortised cost	76,691	-	-	-
Balances with National Bank	Loans and advance	Amortised cost	293,497	-	(1,795)	291,702
Due from banks	Loans and advance	Amortised cost	115,212	-	(3,868)	111,344
Loans and advances to customers	Loans and advance	Amortised cost	604,686	-	(5,210)	599,476
Financial assets at amortized cost – state securities		Amortised cost	-	198,488	(8,847)	189,641
State securities – loans and receivables	Loans and advance	Amortised cost	198,488	(198,488)	-	-
Financial assets at fair value through other comprehensive income (FVOCI)		FVOCI	-	122,186	(5,400)	116,786
Financial investments – available-for-sale (AFS)	AFS		122,186	(122,186)	-	-
Loan commitments and guarantees		Amortised cost	39,640	-	(171)	39,469
Total Financial assets			**1,450,400**	**-**	**(25,291)**	**1,348,418**

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. Application of the new standard had no major impact for the Bank.

Other new standards, applicable from 1 January 2018 but with no major impact or irrelevant for the Bank:

- **Annual Improvements to IFRSs 2014-2016 cycle** - Amendments to IFRS 1 and IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- **IFRIC 22** - Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Transfers of Investment Property - **Amendments to IAS 40** (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

2. Accounting policies (continued)

2.2 New and revised standards and interpretations (continued)

- **IFRS 14**, Postponement Accounts for Regulated Activities (issued on 30 January 2014 and applicable for annual periods beginning on or after 1 January 2016).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - **Amendments to IFRS 10 and IAS 28** (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- **Amendments to IFRS 2**, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- **Applying IFRS 9** Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).

2.3 Significant accounting judgments and estimates

The preparation of financial statements in accordance with International Financial Reporting Standards requires management to make estimates and assumptions that affect the amounts and balances reported in the financial statements and accompanying notes.

Classification of financial assets

The assessment of whether the contractual cash flows of financial assets give rise to cash flows that are solely payments of principal and interest (SPPI) is subject to the application of significant judgements.

These judgements are crucial in the IFRS 9 classification and measurement process as they determine whether the asset must be measured at FVPL or, depending on the business model assessment, at amortised cost or at FVOCI.

When taking into consideration specific features of loans in the business of the Bank, significant areas of judgement are prepayment fees, project financing loans and benchmark test for loans with interest mismatch features.

The assessment whether the prepayment fees applied to loans can be considered as a reasonable compensation for early terminations or prepayments is based on comparing the level of the fees with the economic costs incurred by the Bank upon the early termination.

For these purposes, BCR Chisinau uses a quantitative test where the costs relate to the lost interest margin and the lost interest differential due to a decrease in the interest rates upon early termination or prepayment.

The evaluation is normally performed on a portfolio level. The adequacy of the fees can also be defended on a qualitative basis such as common market practice regarding level of prepayment fees and their acceptance by authorities.

For project financing loans, BCR Group assesses whether they represent basic loan agreements rather than investments in the financed projects. In this respect credit rating, level of collateralisation, existing sponsor guarantees and the extent of equity funding of the financed projects are considered.

Interest mismatches relate mainly to floating rate agreements for which the floating base rate is contractually repriced based on past date price (ex. loans with rate linked to 3-month Euribor and reset frequency of 3 months but the rate is always fixed as of the last day of previous month).

2. Accounting policies (continued)

2.3 Significant accounting judgments and estimates (continued)

For this purpose, BCR Group has developed what is called a 'benchmark test' to assess whether the interest mismatch feature could result in contractual (undiscounted) cash flows that are significantly different from benchmark deal.

Apart from the interest mismatch features, the terms of this benchmark deal correspond to the asset in the test (i.e. if the floating rate reset frequency is 3 months then the floating rate would be the 3-month Euribor and/or no time lag exists in the floating rate fixation).

For assets with interest mismatches resulting only from prior and average rates (i.e. no mismatches resulting from a tenor different from the reset frequency), SPPI compliance is considered to be met based on a qualitative assessment if the time lag between the fixation of the rate and the start of the interest period does not exceed one month.

The quantitative benchmark test is performed at the deal's initial recognition and compares the present value of the original loan with the present value of the benchmark loan.

The quantitative significance threshold is set to 5%. If the significance thresholds is breached, the benchmark test is not passed, and the financial asset must be measured at fair value through profit or loss.

For each SPPI-compliant financial asset at initial recognition, BCR Chisinau must assess whether it is part of a business model where the assets are held in order to collect contractual cash flows, to both collect the contractual cash flows and sell the assets, or they are held in other business models.

As a consequence, the critical aspect in distinguishing the business models is frequency and significance of sales of assets in the respective business model. Since asset allocation to business models is based on the initial assessment, it may happen that in subsequent periods cash flows are realised differently than originally expected, and a different measurement method may seem to be appropriate.

In accordance with IFRS 9, such subsequent changes do not generally lead to reclassifications or prior period error corrections in respect of existing financial assets.

The new information on how cash flows are realised may, however, indicate that the business model, and thus the measurement method changes for newly acquired or newly originated financial assets. The model is stable, with rare changes and is aligned to BCR Chisinau strategy.

At BCR Chisinau, sales due to increases in credit risk, sales close to assets' maturity, infrequent sales triggered by a non-recurring event (such as changes in regulatory or tax environment, major internal reorganisation or a business combination, severe liquidity crisis, etc.) are considered as not contradicting the held to collect contractual cash flows business model.

Other kinds of sales carried out in the 'held to collect' business model are assessed retrospectively, and if they exceed certain quantitative thresholds, or whenever it is considered necessary with regard to new expectations, BCR Chisinau performs a prospective test.

If the outcome was that the carrying amount of assets expected to be sold over the expected life of the current business model portfolio, for reasons other than the cases above, exceeds 10% of the carrying amount of the portfolio, any new acquisitions or originations of assets would be classified in a different business model.

2. Accounting policies (continued)

2.3 Significant accounting judgments and estimates (continued)

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the balance sheet 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 where observable market data is not available judgment is required to establish fair values. Disclosures for valuation models, the fair value hierarchy, fair values of financial instruments and sensitivity analysis for level 3 financial instruments can be found in Note 29 Fair value of financial assets and liabilities.

Impairment of financial instruments

The expected credit loss impairment model is inherently based on judgement since it requires assessment of significant increases in credit risk and measurement of expected credit losses without providing detailed guidance. In respect of significant increases in credit risk, BCR Chisinau has determined specific assessment rules consisting of qualitative information and quantitative thresholds. Another area of complexity relates to establishing groups of similar assets when credit risk deterioration has to be assessed on a collective basis before specific information is available at individual instrument level. Measurement of expected credit losses involves complex models relying on historical statistics of probabilities of default and loss rates in case of defaults, their extrapolations in case of insufficient observations, individual estimates of credit-adjusted cash flows and probabilities of various scenarios including forward-looking information. In addition, the life of the instruments has to be modelled in respect of prepayment possibilities and in respect of behavioural life of revolving credit facilities.

Under the IAS 39 incurred loss impairment model used for the comparative period, BCR Chisinau reviewed its financial assets not measured at fair value through profit or loss at each balance sheet date to assess whether an impairment loss should be recorded in the statement of income. In particular, this involved determining whether there is objective evidence of impairment as a result of a loss event occurring after initial recognition and estimating the amount and timing of future cash flows when determining an impairment loss.

The impairment loss on loans and advances is disclosed in more detail in Note 24.

3. Significant accounting policies

a. IFRS 9 Financial Instruments

As of 1 January 2018, BCR Chisinau has adopted IFRS 9 'Financial Instruments' as issued by the IASB in July 2014. This resulted in changes in accounting policies for classification and measurement of financial assets and financial liabilities, as well as for impairment of financial assets.

IFRS 9 also significantly amends IFRS 7 'Financial Instruments: Disclosures' due to which disclosures of information on financial instruments have been adapted to the new requirements.

As permitted by the transitional provisions of IFRS 9, BCR Group elected not to restate comparative amounts for the previous financial year 2017. As a result, the comparative period columns in the 2018 financial statements reflect the structure used in 2017 financial statements.

Also, the comparative period disclosures in the notes are based on the original classification and measurement requirements of IAS 39 (as superseded by IFRS 9) and IFRS 7 (before the consequential amendments resulting from IFRS 9).

The financial impact of IFRS 9 adoption is detailed below. Following abbreviations are used in these FS:

3. Significant accounting policies (continued)

a. IFRS 9 Financial Instruments (continued)

AC – amortised cost

AFS – available for sale

FV – fair value

FVOCI – fair value through other comprehensive income

FVTPL – fair value through profit or loss

HTM – held-to-maturity

ECL – expected credit loss

L&R – loans and advances

SOCE – statement of changes in equity

OCI – other comprehensive income

POCI – purchased or originated credit-impaired

CLA – cumulated loss

EIR – effective interest rate

SPPI – solely payment of principal and interest

b. Financial Instruments

A financial instrument is any contract giving rise to a financial asset of one party and a financial liability or equity instrument of another party. In accordance with IFRS 9 (as well as IAS 39), all financial assets and liabilities – which also include derivative financial instruments – have to be recognised on the balance sheet and measured in accordance with their assigned categories.

c. Initial recognition and measurement

i. Initial recognition

Financial instruments are initially recognised when BCR Chisinau becomes a party to the contractual provisions of the instrument. Regular way (spot) purchases and sales of financial assets are recognised at the settlement date, which is the date that an asset is delivered.

ii. Initial measurement

Financial instruments are measured initially at their fair value including transaction costs (except for financial instruments at fair value through profit or loss, for which transaction costs are recognised directly in profit or loss). In most cases, the fair value at initial recognition equals the transaction price, i.e. the price transferred to originate or acquire a financial asset or the price received to issue or incur a financial liability.

d. Classification and subsequent measurement of financial assets under IFRS 9

In accordance with IFRS 9, the classification and subsequent measurement of financial assets depend on the following two criteria:

- The business model for managing the financial assets – the assessment is focused on whether the financial asset is part of a portfolio in which the assets are held in order to collect contractual cash flows, to both collect the contractual cash flows and sell the assets or they are held in other business models.
- The cash flow characteristics of the financial assets – the assessment is focused on whether 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.

3. Significant accounting policies (continued)

d. Classification and subsequent measurement of financial assets under IFRS 9 (continued)

i. Financial assets at amortised cost

Financial assets are measured at amortised cost if they are held in a business model whose objective is to collect contractual cash flows, and their contractual cash flows are SPPI.

On the balance sheet, these assets are carried at amortised cost, i.e. the gross carrying amount net of the credit loss allowance. They are presented under the line 'Financial assets at amortised cost – loans and receivables', 'Financial assets at amortised cost – state securities', 'Other assets' and 'Cash and cash balances'. Cash balances include only claims (deposits) against central banks and credit institutions that are repayable on demand. Repayable on demand means that they may be withdrawn at any time or with a term of notice of only one business day or 24 hours. Mandatory minimum reserves are also shown under this item.

Interest income on these assets is calculated by effective interest method and is included under the line 'Net interest income' in the statement of income. Impairment gains or losses are included in the line 'Impairment result from financial instruments'

At BCR Chisinau, financial assets at amortised cost constitute the largest measurement category, which includes all loans to customers, interbank lending business (including reverse repo transactions), deposits with central banks, amounts in the course of settlement, trade and other receivables. The main items under "other assets" position are represented by factoring assets. Recourse factoring is initially recognized against the Seller at the date when the Bank becomes contractually bound to the terms and conditions of the underlying factoring contract with the seller(typically, the sign-up date of that underlying factoring contract).

In case of non-recourse factoring, the related assets are recognized against the underlying buyers at the dates when the Bank acquires from the seller the right to collect from the underlying buyers the contractual cash-flows of the related underlying invoices (typically, the date of a down-payment required by the seller).

Regarding the timing and amount of revenue recognition, the IFRS 15 requirements are applied in case of all fees related to non-recourse factoring and in case of the fees derived from recourse factoring which are not part of the effective interest rate.

Contractual modifications and related de-recognition triggers are deemed not applicable in case of factoring assets.

Investments in debt securities measured at amortised cost may be acquired with different business objectives (such as fulfilling internal/external liquidity risk requirements and efficient placement of the structural liquidity surplus, strategic positions decided by the board of directors, initiation and fostering of client relationships, substitution of loan business or other yield enhancement activities). Their common attribute is that significant and frequent sales of such securities are not expected.

The EIR is used for recognition of interest income and interest expense. Interest income is calculated in the following way:

- EIR applied to the gross carrying amount for financial assets that are not credit-impaired (Stage 1 and Stage 2, see part 'Impairment of financial instruments');
- EIR applied to the amortised cost for financial assets that are credit-impaired (Stage 3, see 'Impairment of financial instruments'); and
- credit-adjusted EIR applied to the amortised cost for POCI financial assets.

3. Significant accounting policies (continued)

d. Classification and subsequent measurement of financial assets under IFRS 9 (continued)

ii. Financial assets at fair value through other comprehensive income

Debt instrument financial assets are measured at fair value through other comprehensive income (FVOCI) if their contractual cash flows are SPPI-compliant and they are held within a business model whose objective is achieved by both to collect contractual cash flows and sell the assets. On the balance sheet, they are included as 'Debt securities' under the line 'Financial asset at fair value through other comprehensive income'.

Interest income on these assets is calculated using the effective interest method and is included under the line 'Net interest income' in the statement of income. Impairment gains and losses are recognised in profit or loss in the line 'Provision for impairment of loans and other financial assets'. As a result, the measurement impact recognised in profit or loss is the same as for financial assets measured at amortised cost.

The difference between the fair value at which the assets are carried in the balance sheet and the amortised cost component is recognised as accumulated OCI in equity specifically under 'FVOCI revaluation reserve' in the statement of changes in equity. The change for the period is reported as OCI in the statement of comprehensive income in the line 'Debt instruments at fair value through other comprehensive income'.

The debt instruments belonging to this category are subject to the impairment requirements of the standard (IFRS 9.5.5.1) and their respective credit loss allowances are calculated based on the one-year or lifetime expected losses, depending on the particular stage the asset is assigned to. However, the loss allowance is recognised in other comprehensive income and it does not reduce the carrying amount of the financial asset on the balance sheet. The amount of credit loss allowance is recognized in the income statement under the respective positions dedicated to the particular type of instrument. The amount accumulated under the CLA position within OCI determines an increase in the OCI reserve due to the fact that it represents a counter-booking to the amounts already presented in the Income statement. The impairment booking entry between the Income statement and OCI does not constitute reclassification ('recycling') from OCI to profit or loss.

When the debt financial asset is derecognised, the amount previously accumulated in OCI is reclassified to profit or loss and reported under the line 'Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss'.

Debt securities measured at FVOCI are part of 'held to collect and sell' business models. Similarly to debt instruments, assets measured at amortised cost, they relate to various business objectives such as fulfilling internal/external liquidity risk requirements and efficient placement of the structural liquidity surplus, strategic positions decided by the board of directors, initiation and fostering of client relationships, substitution of loan business or other yield-enhancement activities.

The common attribute for investments in debt instruments at FVOCI is that an active yield optimisation via sales is integral to achieving the objectives. The sales are carried out in order to optimise the liquidity position or to realise the fair value gains or losses. As a result, the business objectives are achieved through both collecting contractual cash flows and sales of the securities.

For certain investments in equity instruments that are not held for trading, BCR Chisinau makes use of the option to measure them at FVOCI. This election is only applied at initial recognition, is irrevocable and is considered only for strategic, significant banking business relationship investments. The fair value gains or losses for the period are reported as OCI in the line 'Fair value changes of equity instruments' of the statement of comprehensive income.

3. Significant accounting policies (continued)

d. Classification and subsequent measurement of financial assets under IFRS 9 (continued)

The cumulative gains or losses are included under 'FVOCI revaluation reserve' in the statement of changes in equity. The amount recognised in OCI is never reclassified to profit or loss. Dividends received on these investments are reported under the line 'Dividend income' of the statement of income. On the balance sheet, financial assets measured at fair value through OCI are included as 'Equity instruments' under the line 'Financial asset at fair value through other comprehensive income'.

iii. Financial assets at fair value through profit or loss

There are various reasons for assigning the fair value through profit or loss (FVPL) measurement category to financial assets:

Financial assets whose contractual cash flows are not considered as SPPI are automatically measured at FVPL. In the business of BCR Group, this concerns certain loans to customers and equity instruments.

Other source of FVPL measurement relates to financial assets that are part of residual business models, i.e. they are neither held to collect contractual cash flows nor held to either collect contractual cash flows or sell the assets. These financial assets are generally expected to be sold before their maturity or they are managed and their performance is evaluated on a fair value basis. The Bank does not held any financial assets at FVPL.

e. Classification and subsequent measurement of financial liabilities under IFRS 9

Financial liabilities are classified as measured at amortised cost unless they are measured at fair value through profit or loss.

i. Financial liabilities at amortised cost

For presentation on the balance sheet, financial liabilities are: 'Deposits from banks', 'Deposits from customers', 'Debt securities issued' and 'Other financial liabilities'.

Interest expenses incurred are reported in the line item 'Net interest income' in the statement of income. Gains and losses from derecognition (mainly repurchase) are reported under the line item 'Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss'.

ii. Financial liabilities at fair value through profit or loss

Financial liabilities at FVPL consist of financial liabilities held for trading and financial liabilities designated at FVPL. The Group did not designate any financial liabilities at fair value through profit or loss.

The gains or losses on financial liabilities held for trading are reported in the line 'Net trading result' in the statement of income.

In 2018 and 2017 the Bank had no trading liabilities.

f. Impairment of financial instruments under IFRS 9

BCR Chisinau recognises loss allowances for impairment on its debt instrument financial assets, other than those measured at FVPL, its lease receivables, and its off-balance credit risk exposures arising from financial guarantees and certain loan commitments. The impairment is based on expected credit losses whose measurement reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

3. Significant accounting policies (continued)

f. Impairment of financial instruments under IFRS 9 (continued)

The amount of the impairment loss is recognised as a loss allowance. For the purpose of the measurement of the amount of expected credit loss and recognition of interest income, BCR Chisinau distinguishes between three stages of impairment.

As per IFRS 9 requirements the following definitions of expected credit losses are used:

- lifetime expected credit losses - the expected credit losses that result from all possible default events over the expected life of a financial instrument.
- 12-month expected credit losses - the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

To compute the credit loss allowance, an expected credit loss (ECL) model is applied based on a three stages approach that either leads to a twelve-month ECL or to a lifetime ECL. ECL is discounted product of exposure at default (EAD) that includes as well credit conversion factor in case of off balance sheet exposures, probability of default (PD) and loss given default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per definition of default below), either over next 12 month (1Y PD) or over remaining lifetime (LT PD).
- EAD is based on the amounts the Bank expects to be owed at the time of default, over next 12 months (1Y EAD) or over remaining lifetime (LT EAD). Current balance, expected repayments and expected drawings up to the current contractual limit by the time of default (should it occur) are included in the estimation.
- LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit exposure at the time of default (EAD).

The risk parameters used in the ECL calculation take into account available information at the reporting date about past events, current conditions and forecasts on future economic trends.

Parameters are determined to reflect the risk as a "point-in-time" measure and with consideration of forward-looking information ("FLI"), which resulted in introducing a baseline forecast and a number of alternative scenarios for selected macroeconomic variables. These are derived, together with their probabilities of occurrence, as a deviation from baseline forecasts, where the baseline forecasts are, with a few exceptions, internally determined by BCR. Given multiple scenarios, the "neutral" PDs (and also LGDs, with a few exceptions) are adjusted through macro models which link relevant macroeconomic variables with risk drivers. Forward looking information is incorporated for first three years of ECL measurement. Measurement of the remaining life time returns back to through the cycle observations in the year four immediately.

Thus, the unbiased, probability-weighted ECL is derived with the weights representing the occurrence probabilities of each macroeconomic scenario. Typical macroeconomic variables may include real gross domestic product, unemployment rate, inflation rate, production index as well as market interest rates. The selection of variables also depends on the availability of reliable forecasts for the given local market. Nevertheless, main indication of the estimated economic development can be predicted through GDP development.

In the local calculation of 1Y LGD for Corporate clients and Banks, BCRC uses the forward-looking information determined by BCR.

3. Significant accounting policies (continued)

f. Impairment of financial instruments under IFRS 9 (continued)

The three stages approach applies to financial instruments in the scope of the impairment requirements of IFRS 9 and which are not categorised as purchased or originated credit-impaired financial assets (POCI), which form a category on their own. Depending on the impairment status and the assessment of the development of credit risk, these financial instruments are assigned to one of three stages.

Stage 1 relates to financial instruments for which no significant increase in credit risk has been recorded since their initial recognition. The impairment is measured in the amount of the 12-month expected credit loss. Interest income is recognised by effective interest rate applied to the gross carrying amount of the financial asset.

If a significant increase in credit risk (SICR) since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired. Instruments in Stage 2 have their ECL measured based on expected credit losses on a lifetime (LT) basis. Interest income is recognised by effective interest rate applied to the gross carrying amount of the financial asset.

Financial assets in Stage 3 are credit impaired. In respect of applying the 'credit impaired' concept of IFRS 9, BCR Group generally adopted the approach of aligning it with the regulatory concept of 'default' for lending exposures. In principle, a financial instrument becomes credit-impaired when the customer defaults. The default definition applied in BCRC has been developed in accordance with BCR Group definition. The definition specifies the rules for default contagion across groups of connected clients and clarifies the concept of technical default. BCR Chisinau generally applies a customer view in applying the default definition, which leads to an impairment of all claims even if the customer defaults only on one of several transactions ("pulling effect"). On the other side, an upgrade to a non-defaulted rating grade implies that the total exposure ceases to be impaired. In stage 3, the credit loss allowances are calculated as lifetime ECL. The impairment for such financial assets is measured in the amount of lifetime expected credit loss. Interest income is recognised by EIR applied to the amortised cost (i.e. the net carrying amount) of the financial asset.

From a balance sheet perspective, interest is accrued based on the financial assets' gross carrying amount. The difference between the interest accrued on the assets and the interest income recognised is reflected through the allowance account (without impacting the impairment loss).

The loss allowances decrease the value of the assets, i.e. for financial assets measured at amortised cost, the net carrying amount of the financial asset presented on the balance sheet is the difference between the gross carrying amount and the cumulative loss allowance. However, for financial assets measured at FVOCI, the loss allowance is recognised in accumulated OCI, specifically under 'FVOCI revaluation reserve' in the statement of changes in equity and it does not reduce the carrying amount of the financial asset on the balance sheet.

For financial assets that are credit-impaired at initial recognition (purchased or originated credit-impaired – POCI – financial assets) lifetime expected credit losses are initially reflected in the credit-adjusted effective interest rate. As a result, no loss allowance is recognised at inception.

Subsequently, only adverse changes in lifetime expected credit losses after the initial recognition are recognised as loss allowance, whilst favourable changes are recognised as impairment gains increasing the gross carrying amount of the POCI financial assets.

Loss allowances for loan commitments and financial guarantees are presented under the balance sheet line item 'Provisions'. Measurement of ECL for credit lines and other facilities with undrawn component is done separately for the undrawn component.

In the statement of income, impairment losses and their reversals (gains) on all categories of financial instruments are presented in the line item 'Provision for impairment of loans and other financial assets'. Disclosures concerning impairment of financial assets are in Note 24.

3. Significant accounting policies (continued)

g. Derecognition of financial instruments including treatment of contractual modifications

i. Derecognition of financial assets

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the contractual rights to receive cash flows from the asset have expired; or
- BCR Chisinau has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement;
- and either:
- it has transferred substantially all risks and rewards connected with ownership of the asset, or
- has neither transferred nor retained substantially all risks and rewards connected with ownership of the asset but has transferred control of the asset.

The difference between the carrying amount of the derecognised asset and the consideration received is presented in the statement of income in the line 'Gains/losses from derecognition of financial assets measured at amortised cost' or, for debt financial assets at FVOCI, in the line 'Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss'.

For financial assets measured at FVPL the derecognition gains or losses are recognised together with the measurement result in the lines 'Net trading result' or 'Gains/losses from financial instruments measured at fair value through profit or loss'.

ii. Derecognition criteria with respect to contractual modifications of financial assets

In the normal course of running its lending business and in agreement with the respective debtors, BCR Chisinau may renegotiate or otherwise modify some terms or conditions of the underlying contracts. This can involve either market-driven commercial renegotiations or contractual changes aimed at alleviating or preventing borrower's financial difficulty.

For the purpose of capturing the economic substance and financial effect of such contractual modifications, BCR Chisinau has developed a set of criteria to assess whether or not the modified terms are substantially different from the original terms.

While having been partly applied under IAS 39, these criteria have been further adapted to concepts brought by IFRS 9, e.g. modification of contractual cash flows.

Substantial modifications lead to derecognition of the original financial asset and initial recognition of the modified financial asset as a new financial instrument. They include the following events:

- change of the contractual counterparty (unless this is a formal change such as changes in legal name);
- change in the currency of the contract (unless the change results from exercising an embedded option in the original contract with pre-agreed conditions of the change, or if the new currency is pegged to the original currency);
- introduction of a non-SPPI contractual feature (unless it is intended to improve recoveries from debtors by granting concessions supporting them to recover from financial difficulties); and
- removal of a non-SPPI contractual feature.

3. Significant accounting policies (continued)

g. Derecognition of financial instruments including treatment of contractual modifications (continued)

Some derecognition criteria distinguish whether contractual modifications are applied to debtors facing financial difficulties. Application of certain modifications to debtors in financial difficulties is not considered as substantial since they are aimed at improving the prospects of the bank to recover the claims by tailoring the repayment schedules to specific financial conditions of those debtors.

On the other hand, such contractual modifications applied to performing debtors may be considered as substantial enough to warrant the derecognition, as further detailed below.

From this perspective, the following criteria lead to derecognition unless they are considered as forbearance measures, they are applied to customers in default or they trigger default:

- repayment schedule changed in a way that the weighted remaining maturity of the assets is modified by more than 100% and not less than two years compared to the original asset;
- change in timing/amount of contractual cash flows resulting in the present value of the modified cash flows (discounted at pre-modification effective interest rate) being different by more than 10% of the gross carrying amount of the asset immediately before the modification (cumulative assessment considering all modifications occurring over the last twelve months); or
- commercial renegotiations initiated by a debtor seeking better terms as an alternative to re-financing while a prepayment/early termination option and a sufficiently competitive refinancing market exist . This derecognition trigger rarely applies to loan assets in Stage 2 and never in Stage 3.

If contractual modifications that qualify as forbearance measures are applied to customers in default or trigger default are so significant that they are qualitatively assessed as an extinguishment of original contractual rights, they result in derecognition. Examples of such modifications are:

- a new agreement with materially different terms signed up as part of distressed restructuring following a standstill agreement suspending the rights of the original assets;
- consolidation of multiple original loans into one with substantially different terms; or
- transformation of a revolving loan into non-revolving.

Contractual modifications leading to derecognition of the related original assets result in the initial recognition of new financial assets. If the debtor is in default or the significant modification leads to the default, then the new asset will be treated as POCI. The difference between the carrying amount of the derecognised asset and initial fair value of the new POCI asset is presented in the statement of income in the line 'Provision for impairment of loans and other financial assets'.

If the debtor is not in default or the significant modification does not lead to default, the new asset recognised after derecognition of the original asset will be in Stage 1. For loans measured at amortised cost, the unamortized balance of the origination fees/transaction costs considered in the effective interest rate is presented in the line 'Net interest income' at the derecognition date.

The release of the credit loss allowance attached to the original asset at the date of that significant modification as well as the credit loss allowance recognised for the new asset are presented in the line 'Provision for impairment of loans and other financial assets'.

For financial assets measured at FVPL, irrespective of whether they are in default, the derecognition gains and losses are included in the same line items of the statement of income as their measurement result, i.e. in 'Gains/losses from financial instruments measured at fair value through profit or loss'. For debt instrument assets not measured at FVPL that are subject to contractual modifications that do not result in derecognition, the gross carrying amount of the asset is adjusted against recognising a modification gain or loss in profit or loss.

3. Significant accounting policies (continued)

g. Derecognition of financial instruments including treatment of contractual modifications (continued)

The modification gain or loss equals the difference between the gross carrying amount before the modification and the present value of the cash flows based on the modified terms discounted with the original effective interest rate.

In the statement of income, the modification gain or loss is presented in the line 'Net interest income' if the modification relates to financial assets in Stage 1. For financial assets in Stage 2 and 3 and POCI financial assets, the modification gain or loss is presented in the line 'Provision for impairment of loans and other financial assets'.

iii. Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. This normally occurs when the liability is repaid or repurchased.

In the statement of income, the difference between the carrying amount of the derecognised financial liability and the consideration paid is presented in the line 'Other gains/losses from financial instruments not measured at fair value through profit or loss' (in the comparative period, 'Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net'), 'Gains/losses from financial instruments measured at fair value through profit or loss' and 'Net trading result' depending on the measurement category of the derecognised financial liability.

h. Foreign currency translation

Foreign currency transactions are recorded at the rate of exchange on the date of the transaction. At the date, monetary assets and liabilities denominated in foreign currencies are reported using the closing exchange rate established by NBM.

The year end and average rates for the period were:

	2017		2016	
	USD	**Euro**	**USD**	**Euro**
Average for the period	18.4902	20.8282	19.9238	22.0548
Year end	17.1002	20.4099	19.9814	20.8895

Exchange differences arising on the settlement of the transactions at rates different from those at the date of the transaction, and unrealized foreign exchange differences on unsettled foreign currency monetary assets and liabilities are recognized in the income statement.

i. Due from banks

These are stated at amortized cost, less any provisions for impairment

j. Interest income on impaired financial assets (Unwinding)

Unwinding is calculated as the difference between net present value, calculated for two consecutive times of estimated cash flows. To calculate net present value for two different times, the main assumption is that cash flow estimates remain unchanged.

At the date of recognition of the provision for an off-balance sheet exposure, its value is lower than the nominal amount of expected net loss as a result of the application of an appropriate discount rate for the time slots to the estimated cash flow data, of the cash outflow related to the materialization of the off-balance sheet exposure by conversion into the balance sheet receivable and the subsequent expected recoveries of that receivable.

3. Significant accounting policies (continued)

j. Interest income on impaired financial assets (Unwinding) (continued)

Subsequently, during the period to the estimated time of conversion into the balance sheet receivable, the present value of the liability thus formed will be adjusted systematically by recording a financial expense as the present value of the obligation increases as the estimated date of materialization by cash outflow and conversion into the receivable.

k. Renegotiated loans

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

l. Loans and advances to customers

Loans originated by the Bank represent loans where money is provided directly to the borrower and are recognized when the cash is advanced to borrowers. They are initially recorded at the fair value of the cash disbursed, and are subsequently measured at amortized cost using the effective interest rate method.

The Bank presents the information regarding its loan portfolio and the provision for impairment based on the following classification of clients:

- corporate lending
- microenterprise lending
- consumer lending uncollaterilized
- consumer lending collaterilized
- residential mortgages

m. Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment loss.

Expenses for repairs and maintenance are charged to operating expenses as incurred. Subsequent expenditure on property and equipment is only recognized as an asset when the expenditures improve the condition of the asset beyond the originally assessed standard of performance.

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

Depreciation is computed on a straight-line basis over the estimated useful life of the asset, as stated below:

Fixed assets	Rate per annum (%)
Buildings	3%
Furniture and equipment	20-33%
Vehicles	20%

3. Significant accounting policies (continued)

n. Intangibles

Intangible assets are accounted at cost less accumulated depreciation. Subsequent expenses are capitalized, when it will increase the useful life or the future economic benefits inflow associated with these assets. Other expenditures are expensed as incurred.

Amortization is calculated using the straight line method according to the useful life of intangible assets. The approved amortization rates are presented below:

Intangible assets	**Rate per annum (%)**
Licenses	10-20%
Software	20-100%

o. Leasing contracts

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

Bank as a lessee

Leases which do not transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognized as an expense in the profit or loss on a straight line basis over the lease term. Contingent rental payables are recognized as an expense in the period in which they are incurred.

Bank as a lessor

Finance leases, where the Bank transfers substantially all the risk and benefits incidental to ownership of the leased item to the lessee, are included in the statement of financial position in 'Loans and receivable to customers'. A receivable is recognized over the leasing period of an amount equalling the present value of the lease payments using the implicit rate of interest and including any guaranteed residual value. All income resulting from the receivable is included in 'Net interest income' in the statement of comprehensive income.

The lessor in the case of a finance lease reports a receivable from the lessee under the line item 'Loans and receivables to customers' or 'Loans and advances to credit institutions'. The receivable is equal to the present value of the contractually agreed payments taking into account any residual value. Interest income on the receivable is reported in the income statement under the line item 'Net interest income'.

In the case of operating leases, the leased asset is reported by the lessor in 'Property and equipment' or in 'Investment properties' and is depreciated in accordance with the principles applicable to the assets involved. Lease income is recognized on a straight-line basis over the lease term in the income statement under the line item 'Rental income from investment properties and other operating leases'.

Lease agreements in which the Bank is the lessor comprise both finance and operational lease.

p. Borrowings

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

3. Significant accounting policies (continued)

q. Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle or realize on a net basis or realize the asset and settle the liability simultaneously.

r. Income and expenses recognition

Incomes are recognized to the extent that it is probable that the economic benefits will be generated for the bank and the income can be measured reliably. Prior to recognizing income, the specific recognition criteria described below should be met.

Interest income and expense

For all financial instruments measured at amortized cost and interest-bearing financial assets classified as available for sale, interest income or expense is recorded using the effective interest method (EIR). EIR is the rate that accurately updates payments and future cash receipts over the expected life of the financial instrument or, where appropriate, for a shorter period, to the net book value of the financial asset or financial liability. The calculation takes into account the contractual terms of the financial instrument (eg prepayment options) and includes all incremental charges or costs that are directly attributable to the instrument and are an integral part of the EIR but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the bank reviews its estimates of payments or receipts. The adjusted book value is calculated on the basis of the original EIR and the change in the carrying amount is recorded as interest income on financial assets and interest expense for financial liabilities.

Fees and commissions directly related to the generation of the asset or financial liability (both income and expense) are recognized in the financial performance report as part of the effective interest rate calculation. Loan commitments for loans that are likely to be used gradually are deferred with related direct costs and are recognized as part of the effective interest rate on the loan.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to the impairment loss, interest income continues to be accounted for using the interest rate used to update the future cash flows for the purpose of measuring the impairment loss.

Fees and commissions

Income from fees and commissions is generated during financial services provided by the Bank, card fees, cash management services, etc.

Income from fees and commissions that are incurred in the course of the Bank's financial services include cash management services and are recognized in the financial performance report using the year-end method when the related service is provided.

Other charges related to fees and commissions are largely related to transaction and service charges and are recognized as an expense when the service is rendered.

Dividend income

Income from dividends received is recognized by the Bank when the right to receive dividends is settled, which usually coincides with the moment when the dividends are approved by the shareholders for payment.

Net trading income

Net trading income includes all changes in the fair value of derivatives, income less losses from foreign exchange transactions and net income on securities held for sale.

3. Significant accounting policies (continued)

s. Cash and cash equivalents

Cash and cash equivalents include cash in hand, money in transit, and money in ATMs.

For the purpose of the cash flow statement, cash and cash equivalents comprise cash in hand, placements in National Bank of Moldova, current accounts and short-term placements at other banks with less than 90 days maturity from the date of acquisition.

t. Provisions

The Bank recognizes provisions when:

- it has a present legal or constructive obligation to transfer economic benefits as a result of past events
- it is likely that an outflow of resources will be required to settle the obligation; and
- a reasonable estimate of the obligation can be made.

If there are a number of similar obligations, the probability that an outflow of resources will be required in a settlement is determined by considering the obligation group as a whole. Provisions for which resource outflow is known are valued at the present value of the expense if the flow does not occur within one year. The Bank recognizes provisions for unused vacations, loan commitments, legal provisions, etc.

u. Pension costs and employees' benefits

The Bank makes contributions to the funds set up by the State of Moldova for pensions, health care and unemployment benefits calculated on the basis of salaries of all employees of the Bank. The Bank does not operate any other retirement plan and has no obligation to provide further benefits to current or former employees.

v. Repossessed assets

Repossessed assets include foreclosed collateral on non-performing loans. They are initially recognized at fair value and are subsequently measured at the lower of carrying amount and fair value less costs to sell. Repossessed assets are disclosed in the Note 11 "Other assets".

It is the Bank's policy to dispose of repossessed assets 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.

w. Contributions to the deposit guarantee fund

Contributions to the Deposit Guarantee Fund are recognized as liabilities when the obligatory event giving rise to the payment occurs, triggering the obligation to pay it. If a contribution is paid before the mandatory event, it is recognized as a prepayment.

x. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Related party transactions represent a transfer of resources or obligations between related parties, regardless of whether a price is charged.

y. Taxation

Current income tax

Current income tax receivables and payables for the current period of the previous years are measured at the amount that is expected to be recovered from or paid to the tax authorities. The tax and tax rates used to calculate the amounts are those adopted or largely adopted at the reporting date.

3. Significant accounting policies (continued)

y. Taxation (continued)

Deferred tax

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

Where the deferred tax liability arises from the initial recognition of goodwill or an asset or net liability in a transaction is not a business combination and, at the date of the transaction, does not affect either the accounting profit or taxable profit and loss;

Regarding the taxable temporary differences in subsidiaries, associates and interests in joint ventures, unless the moment of resumption of temporary differences can be controlled and it is probable that temporary differences will be restated in the foreseeable future.

Deferred tax assets are recognized for all deductible differences, for the deferral of unused tax credits and any unused tax losses in which it is probable that taxable profit will be available against which deductible temporary differences can be utilized and deferred unused tax credits and any losses unused tax expense unless the deferred tax asset related to deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the date of the transaction, does not affect the accounting profit, nor the taxable profit or loss.

In the case of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets should be recognized only to the extent that there is a likelihood that the temporary differences will resume in the near future and there will be taxable profit against which temporary differences may be used.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is unlikely that sufficient taxable profit is available to allow the benefit of a portion of the deferred tax asset or of its total. Unrecognized deferred tax assets are revalued at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the recovery of the deferred tax asset.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applicable for the period in which the asset is incurred or the liability is settled on the basis of the tax rates (and tax laws) that were adopted or largely adopted up to reporting date.

Current and deferred income tax on items recognized directly in equity are also recognized in equity and not in profit or loss.

Deferred tax assets and liabilities are offset if there is a legal right to offset current tax receivables from current tax and deferred tax liabilities of the same taxable entity and the same tax authority.

Starting January 1, 2012, the corporate tax rate is 12%.

z. Recognition and de-recognition of financial instruments

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

A financial asset is derecognized where:

- The rights to receive cash flows from the asset have expired;

3. Significant accounting policies (continued)

z. Recognition and de-recognition of financial instruments (continued)

- The Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- The Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. 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 that the Bank could be required to repay.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired.

aa. Standards issued but not yet effective and not early adopted

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2019 or later, and which the Bank has not early adopted.

IFRS 16 'Leases' (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019).

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise:

(a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and

(b) depreciation of lease assets separately from interest on lease liabilities in the income statement.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Bank decided that it will apply the standard using the modified retrospective method, without restatement of comparatives. The Bank recognised a right of use asset of MDL 25,903 thousands against a corresponding lease liability on 1 January 2019:

IFRIC 23 'Uncertainty over Income Tax Treatments' (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).

IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the

3. Significant accounting policies (continued)

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

interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation.

Amendments to IAS 28 'Long-term Interests in Associates and Joint Ventures' (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).

The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in ordinary shares.

Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).

The narrow scope amendments impact four standards. IFRS 3 was clarified that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business. Conversely, IFRS 11 now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control of a joint operation, similarly to the existing requirements when an associate becomes a joint venture and vice versa. The amended IAS 12 explains that an entity recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, eg in profit or loss or in other comprehensive income. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits. The revised IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalisation only until the specific asset is substantially complete.

Prepayment Features with Negative Compensation - Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).

The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in an gain or loss in profit or loss. Reporting entities will thus in most cases not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification.

Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

4. Cash on hand

	31/12/2018 MDL'000	31/12/2017 MDL'000
Cash	61,512	63,906
Cash in ATMs	16,347	12,781
Other	2	3
Total	**77,861**	**76,690**

5. Balances with National Bank

		31/12/2018 MDL'000	31/12/2017 MDL'000
Current accounts	**19**	156,040	156,049
Overnight		87,859	97,448
Compulsory reserves	**19**	-	40,000
Total		**243,899**	**293,497**

Current account and compulsory reserves

The National Bank of Moldova (NBM) requires commercial banks to maintain for liquidity purposes minimum reserves calculated at a certain rate of the average funds borrowed by banks during the previous month (period between the date of 8 of the previous month and 7 of current month) including all customer deposits. Based on the decision Nr. 85 of the Administrative Council of NBM dated 15 April 2004, the method for calculation and maintaining the compulsory reserves changed. Funds attracted in Moldovan Lei (MDL) as well as non-convertible currencies are reserved in MDL. Funds attracted in convertible currencies are reserved in US Dollars (USD) and/or EURO (EUR). As of 31 December 2018 the rate for calculation of the minimum compulsory reserve in MDL was 42.5% and for foreign currencies was 14% (31 December 2017: the rate for calculation of the minimum compulsory reserve in MDL was 40% and for foreign currencies was 14%).

The Bank maintains its compulsory reserves on a current account opened with the NBM in amount of 42.5% of funds attracted in Moldovan Lei and non-convertible currencies. 14% reserves on funds denominated in USD and EUR are held in a special compulsory reserve account with NBM.

The minimum average balance for the period 16 December 2018 – 15 January 2019 was calculated in amount of MDL'000 168,350 (31 December 2017: MDL'000 132,786). This balance included compulsory reserve on funds attracted in Moldovan Lei and non-convertible currencies. The balance reserved on USD and EUR compulsory reserve accounts amounted to USD'000 1,183 and EUR'000 3,857 respectively (31 December 2017 – USD'000 1,173 and EUR'000 3,328).

The interest received from by NBM on the compulsory reserves during 2018 varied between 0.29% and 0.47% per annum for reserves in foreign currency and 3.5% for reserves in MDL (2017: between 0.23% and 0.66% p. a. in foreign currency (FCY) and between 3.56% and 6.0% in MDL). The compulsory reserves held in the current account at NBM are available for use in the Bank's day to day operations.

6. Due from banks

		31/12/2018 MDL'000	31/12/2017 MDL'000
Current accounts		218,470	53,644
Overnight placements		29,150	61,568
	19	**247,620**	**115,212**
Provision for impairment (IFRS 9)		(2,677)	-
Total		**244,943**	**115,212**

There no overdue or impaired current accounts and deposists with banks, and the Bank does not hold any collateral for these amounts. In Note 32 is presented the rating for banks.

Starting with 1 January 2018 the Bank calculates value adjustments for current accounts and depozits in bank in accordance with IFRS 9 requirements.

7. Loans and advances to customers

Gross value of loans and advances as at 31.12.208 was 784,787 th. MDL, increasing by 12.0% (86,010 th. MDL) compared with the same period of previous year.

	31/12/2018			31/12/2017		
	Gross value MDL'000	Provision MDL'000	Net value MDL'000	Gross value MDL'000	Provision MDL'000	Net value MDL'000
Corporate lending	690,690	51,404	639,286	587,239	83,951	503,288
Microenterprise lending	345	345	-	2,209	2,208	1
Consumer lending uncollateralized	3,192	510	2,682	1,940	901	1,039
Consumer lending collateralized	316	2	314	496	24	472
Residential mortgages	90,254	2,025	88,229	106,903	7,017	99,886
Total	**784,797**	**54,286**	**730,511**	**698,787**	**94,101**	**604,686**

Loan portfolio analysis by industries is presented below:

	31/12/2018			31/12/2017		
	Gross value MDL'000	Provision MDL'000	Net value MDL'000	Gross value MDL'000	Provision MDL'000	Net value MDL'000
Manufacturing	104,851	1,889	102,962	116,650	31,572	85,078
Trade	416,464	3,581	412,883	275,043	3,101	271,942
Services	166,921	46,180	120,741	195,659	51,368	144,291
Individuals	93,762	2,537	91,225	109,339	7,942	101,397
Construction	51	28	23	51	51	0
Agricultural and food industry	2,748	71	2,677	2,045	67	1,978
Total	**784,797**	**54,286**	**730,511**	**698,787**	**94,101**	**604,686**

The average interest rate for the year on loans granted in EUR 3.95% (2017: 4.02%), in USD 4.02% (2017: 4.11%) and in MDL - 8.49% (2017: 10.75%).

7. Loans and advances to customers (continued)

The movements in provision for impairment of loans by classification of clients during the years 2018 and 2017 are presented below:

Change in provision due to stages:

	2018 MDL'000					
	Corporate lending	**Micro-enterprise lending**	**Consumer lending uncollateralized**	**Consumer lending collateralized**	**Residential mortgages**	**Total**
At 1 January	88,589	1,809	30	8	7,104	97,540
Recoveries	(39,115)	(1,925)	(53)	-	(5,551)	(46,644)
Decrease in provision	10,532	5	2	7	840	11,386
- due to change in stage	-	-	-	*12*	*164*	176
Increase in provision	(7,033)	(49)	(32)	(1)	(1,299)	(8,414)
due to change in stage	*(2,202)*		*(18)*		*(110)*	(2,330)
FX difference	(1,569)	505	563	(12)	931	418
At 31 December	**51,404**	**345**	**510**	**2**	**2,025**	**54,286**
Individual Impairment	42,889	-	-	-	1,634	44,523
Collective Impairment	8,515	345	510	2	391	9,763
At 31 December	**51,404**	**345**	**510**	**2**	**2,025**	**54,286**

	2017 MDL'000					
	Corporate lending	**Micro-enterprise lending**	**Consumer lending uncollateralized**	**Consumer lending collateralized**	**Residential mortgages**	**Total**
At 1 January	86,204	3,103	5,097	4	6,540	**100,948**
Recoveries	-	(1,039)	-	-	(2,577)	**(3,616)**
Decrease in provision	(2,161)	(846)	(116)	-	(3,174)	**(6,297)**
Increase in provision	4,658	996	139	22	2,024	**7,839**
Charge for the year	(4,750)	(6)	(4,219)	(2)	4,204	**(4,773)**
At 31 December	**83,951**	**2,208**	**901**	**24**	**7,017**	**94,101**
Individual Impairment	82,028	2,147	882	24	6,434	**91,515**
Collective Impairment	1,923	61	19	-	583	**2,586**
At 31 December	**83,951**	**2,208**	**901**	**24**	**7,017**	**94,101**

7. Loans and advances to customers (continued)

Loans and advances are presented below:

2018
MDL'000

	Total 2018	Corporate lending	Micro-enterprise lending	Consumer lending uncollatera-lized	Consumer lending collatera-lized	Residential mortgages
Gross Value of loans and advances, not impaired, Stage 1	**602,107**	**514,116**	**-**	**2,686**	**316**	**84,989**
0 days	597,594	514,116		2,617	316	80,545
1-30 days	4,513	-	-	69	-	4,444
Gross Value of loans and advances, not impaired, Stage 2	**109,109**	**109,107**	**-**	**2**	**-**	**-**
0 days	109,107	109,107	-	-	-	-
181-360 days	2	-	-	2	-	-
Gross Value of loans and advances, impaired, Stage 3	**73,581**	**67,467**	**345**	**504**	**-**	**5,265**
0 days	2,162	-	-	-	-	2,162
1-30 days	11,079	9,972	-	-	-	1,107
31-60 days	836	-	-	-	-	836
61-90 days	816	-	-	2	-	814
91-180 days	2	-	-	-	-	2
180-360 days	344	-	-	-	-	344
>360 days	58,342	57,495	345	502	-	-
Total Gross Value	**784,797**	**690,690**	**345**	**3,192**	**316**	**90,254**
Provision for impairment (IFRS 9)	**54,286**	**51,404**	**345**	**510**	**2**	**2,025**
Total Net Value	**730,511**	**639,286**	**-**	**2,682**	**314**	**88,229**

8. Financial investments

Financia assets at AC - State securities

Starting with 1 January 2018 State securities - loans and receivables were reclassified, according to IFRS 9, in position **Financial assets at amortised cost (AC)**.

	31/12/2018 MDL'000	31/12/2017 MDL'000
State securities	249,062	-
Total	**249,062**	-
Value adjustment	(11,122)	
Total	**237,940**	

State securities - loans and receivables

	31/12/2018 MDL'000	31/12/2017 MDL'000
NBM Certificates	-	60,000
State securities	-	138,488
Total	**-**	**198,488**

Financial assets at FVOCI

Starting with 1 January 2018 Financial investments-available-for-sale were reclassified, according to IFRS 9, in position **Financial assets FVOCI**.

		31/12/2018 MDL'000	31/12/2017 MDL'000
State securities		146,765	-
Total	**19**	**146,765**	**-**
Change in fair value		(6,554)	-
Total		**146,765**	-
Share capital in SRL „Biroul de Credit"		1,018	-
Total		**147,783**	-

8. Financial investments

Financial investments-available-for-sale

		31/12/2018 MDL'000	31/12/2017 MDL'000
State securities		-	121,168
Total	**19**	**-**	**121,168**
Share capital in SRL „Biroul de Credit"		-	1,018
Total		**-**	**122,186**

Investments in state securities and certificates issued by NBM

Investments in state securities as at 31 December 2018 represent MDL treasury bonds and treasury bills of 91 to 731 days maturity issued by the Ministry of Finance of the Republic of Moldova with an interest rate between 4.05% and 8.35% p.a. (2017: 3.20% and 11.00% p.a.)

Investments in securities are presented below:

	Domain of activity	Participation quote	31/12/2018 MDL'000
SRL „Biroul de Credit"	Credit service	6.70%	1,018
Total			**1,018**

	Domain of activity	Participation quote	31/12/2017 MDL'000
SRL „Biroul de Credit"	Credit service	6.70%	1,018
Total			**1,018**

8. Financial investments (continued)

The movement in Financial assets at FVOCI (until 2017: available-for-sale securities) is presented below:

	31/12/2018 MDL'000	31/12/2017 MDL'000
Carrying amount at January 1	122,186	242,276
Fair value gains less losses	6,248	(2,528)
Interest income accrued	8,813	20,854
Interest income received	(8,813)	(20,854)
Purchases	2,827,445	2,987,587
Disposals	(2,808,096)	(3,105,149)
Total	**147,783**	**122,186**

Moodys' country rating for Moldova is B3.

Provision for impairment determined according to IFRS 9:

	31/12/2018 MDL'000	31/12/2017 MDL'000
Financial assets at AC	11,122	-
Financial assets at FVOCI	6,554	-
Total	**17,676**	**-**

9. Property and equipment

	Land and buildings MDL'000	Furniture and equipment MDL'000	Motor vehicles MDL'000	Improvements of leased assets MDL'000	Assets under construction MDL'000	Total MDL'000
Cost						
Balance as at 1 January 2018	2,364	42,900	2,606	9,918	-	57,788
Additions	-	292	-	1,920	3,820	6,032
Transfers	-	3,498	254	-	(3,752)	-
Disposals	-	-	-	(535)	(59)	(594)
Balance as at 31 December 2018	2,364	46,690	2,860	11,303	9	63,226
Accumulated depreciation						
Balance as at 1 January 2018	472	36,330	1,257	3,254	-	41,313
Annual charge	52	2,691	297	2,895	-	5,935
Disposals	-	-	-	(535)	-	(535)
Balance as at 31 December 2018	524	39,021	1,554	5,614	-	46,713
Net book value						
At 31 December 2018	**1,840**	**7,669**	**1,306**	**5,689**	**9**	**16,513**
At 31 December 2017	**1,892**	**6,570**	**1,349**	**6,664**	**-**	**16,475**

As at 31 December 2018 the cost of fully depreciated property and equipment used by the Bank amounted at MDL'000 33,599 (as at 31 December 2017 – MDL'000 23,031). In 2018 were made inmprovements of leased assets at the Head Office, were aquired 2 ATMs and other tangible assets (UPS, servers, etc).

9. Property and equipment (continued)

	Land and buildings MDL'000	Furniture and equipment MDL'000	Motor vehicles MDL'000	Improvements of leased assets MDL'000	Assets under construction MDL'000	Total MDL'000
Cost						
Balance as at 1 January 2017	2,364	38,610	2,339	9,230	267	52.810
Additions	-	2,170	-	747	2,978	5,895
Transfers	-	2,239	267	739	(3,245)	-
Disposals	-	(119)	-	(798)	-	(917)
Balance as at 31 December 2017	2,364	42,900	2,606	9,918	-	57,788
Accumulated depreciation						
Balance as at 1 January 2017	420	33,481	966	1,193	-	36,060
Annual charge	52	2,964	291	2,859	-	6,166
Disposals	-	(115)	-	(798)	-	(913)
Balance as at 31 December 2017	472	36,330	1,257	3,254	-	41,313
Net book value						
At 31 December 2017	**1,892**	**6,570**	**1,349**	**6,664**	-	**16,475**
At 31 December 2016	**1,944**	**5,129**	**1,373**	**8,037**	**267**	**16,750**

10. Intangible assets

Movement in intangible assets during the year ended 31 December 2018 is presented in the table below:

	Software	Other intangible assets	Intangible assets in progress	Total
Cost	**MDL'000**	**MDL'000**	**MDL'000**	**MDL'000**
Balance as at 1 January 2018	16,243	3,492	-	19,735
Additions	1,846	330	1,930	4,106
Transfers	1,599	-	(1,599)	-
Disposals	-	-	-	-
Balance as at 31 December 2018	19,688	3,822	331	23,841
Accumulated amortization				
Balance as at 1 January 2018	11,477	2,290	-	13,767
Annual charge	2,488	217	-	2,705
Balance as at 31 December 2018	13,965	2,507		16,472
Net book value				
As at 31 December 2018	**5,723**	**1,315**	**331**	**7,369**
As at 31 December 2017	**4,766**	**1,202**	**-**	**5,968**

In 2018 were aquired software for money laundring and security modules, etc.

Movement in intangible assets during the year ended 31 December 2017 is presented in the table below:

	Software	Other intangible assets	Intangible assets in progress	Total
Cost	**MDL'000**	**MDL'000**	**MDL'000**	**MDL'000**
Balance as at 1 January 2017	15,276	2,864	259	18,399
Additions	321	233	790	1,344
Transfers	646	403	(1,049)	-
Disposals	-	(8)	-	(8)
Balance as at 31 December 2017	16,243	3,492	-	19,735
Accumulated amortization				
Balance as at 1 January 2017	9,373	2,162	-	11,535
Annual charge	2,104	128	-	2,232
Balance as at 31 December 2017	11,477	2,290	-	13,767
Net book value				
As at 31 December 2017	**4,766**	**1,202**	**-**	**5,968**
As at 31 December 2016	**5,903**	**702**	**259**	**6,864**

As at 31 December 2018 the cost of fully depreciated intangible assets used by the Bank amounted at MDL'000 3,355 (as at 31 December 2017 – MDL'000 8,024).

11. Other assets

	Note	31/12/2018 MDL'000	31/12/2017 MDL'000
Non-financial assets			
Repossessed assets		7,712	8,127
Other prepaid expenses		1,670	2,910
Other assets		79	1,809
Other materials and goods		393	624
Total non-financial assets		**9,854**	**13,470**
Financial assets			
Non-recourse factoring		25,454	-
Operations with bank cards	32	1,997	1,646
Receivables on rent		845	847
Receivables on capital investments		-	715
Receivables on collection services		545	545
Settlements with clients		727	340
State tax		1,485	-
Settlements through payment systems	32	19	19
Total financial assets		**31,072**	**4,112**
Total		**40,926**	**17,582**

The structure of real estate retained into possession is the following:

	31/12/2018 MDL'000	31/12/2017 MDL'000
Real estate	13,779	13,779
Impairment	(6,067)	(5,652)
Total	**7,712**	**8,127**

Below is presented the net book value of the real estate retained into possession for 2018:

	Gross value MDL'000	Impairment MDL'000	NBV MDL'000
Moldconinvest SRL	6,284	(2,272)	4,012
SC RG - AGRO PLUS SRL	7,495	(3,795)	3,700
Total	**13,779**	**(6,067)**	**7,712**

The impairment loss of MDL'000 6,067 was recognised based on market value of repossessed assets arising from the revaluation made by independent valuators.

11. Other assets

The Bank plans to sell the repossessed assets in the next years. The sales of repossessed assets is promoted by the Bank's employees responsible for the management of loans under supervision of Work Out Department, as well as by specialized companies with which the Bank has concluded cooperation agreements. Goods are placed on the website of the Bank and on specialized websites. Most of repossessed assets were commercialized by the Bank in the past which is an indicator of actively looking for potential customers.

Below is presented the movement in the real estate retained into possession for 2018 and 2017:

	31/12/2018 MDL'000	31/12/2017 MDL'000
Cost		
Balance as at 1 January	13,779	17,931
Additions	-	-
Transfers	-	(4,152)
Balance as at 31 December	13,779	13,779
Impairment		
Balance as at 1 January	5,652	7,243
Increase/(decrease)	415	(102)
Disposals	-	(1,489)
Balance as at 31 December	6,067	5,652
Net book value	**7,712**	**8,127**

Major part of financial assets represent receivables on non-recource factoring. Untill 2017 this amount was included in loan portfolio. Movement in receivables on non-recource factoring for 2018 is presented below:

	31/12/2018 MDL'000	31/12/2017 MDL'000
Receivables on non-recource factoring	25,494	-
Provision for impairment	(40)	-
Total	**25,454**	-

12. Due to banks

	31/12/2018 MDL'000	31/12/2017 MDL'000
Citibank Europe PLC, Dublin - Sucursala Romania	20	1,223
Erste Group Bank AG	9,027	61,089
B.C. Procredit Bank SA	3,458	1,199
BCR Romania	1,611	3,401
B.C. Energbank S.A.	328	483
B.C. Victoriabank S.A.	44	967
B.C. Fincombank S.A.	797	2
B.C. EUROCREDITBANK S.A.	4,326	33
Interstate Bank	-	1
Total	**19,611**	**68,398**

13. Other borrowings

	31/12/2018 MDL'000	31/12/2017 MDL'000
BCR Romania	191,163	189,171
Total	191,163	189,171

The funds attracted from BCR Romania represent borrowings in USD and EUR with 12 months maturity with an average interest rate of 8.13% for contracts in USD (2017: 7.46%) and 5.60% for contracts in EUR (2017: 5.91%).

At 31 December 2018 and 2017there are no specific financial indicators required under the Loan Agreement.

Below is presented the movement in attracted funds:

	31/12/2018 MDL'000	31/12/2017 MDL'000
Balance as at 1 January	189,171	129,913
Increase/(decrease)	92,219	108,899
Disposals	(121,180)	(40,091)
Foreign currency difference	30,953	(9,550)
Net book value	**191,163**	**189,171**

14. Due to customers

	31/12/2018 MDL'000	31/12/2017 MDL'000
Due to individuals		
Current accounts	138,617	79,612
Term deposits	297,784	122,117
Total due to individuals	**436,401**	**201,729**
Due to legal entities		
Current accounts	458,872	363,483
Term deposits	167,039	144,767
Total due to legal entities	**625,911**	**508,250**
Total	**1,062,312**	**709,979**

As at 31 December 2018 current accounts of legal entities include restricted deposits through collateral agreements in total amount of MDL'000 6,486 (31 December 2017: MDL'000 6,831).

The annual interest rates paid by the Bank for the MDL and FCY deposits of individuals and companies ranged as follows:

	2018						2017					
	MDL			FCY			MDL			FCY		
	%		%			%	%		%			%
Legal entities												
Demand deposits	1.83	-	4.74	0.20	-	1.50	1.65	-	1.85	0.26	-	0.68
Term deposits up to 3 months	2.20	-	4.69	0.25	-	1.50	2.50	-	4.15	0.10	-	0.25
Term deposits >3 months < 1 year	3.02	-	4.93	0.29	-	1.97	3.00	-	7.00	0.15	-	1.41
Term deposits over 1 year	3.00	-	5.40	1.50	-	2.50	-	-	-	2.50	-	2.50
Individuals												
Demand deposits	1.32	-	2.59	0.02	-	0.06	2.43	-	3.09	0.20	-	0.20
Term deposits up to 3 months	2.64	-	3.63	0.08	-	0.28	1.00	-	2.00	0.25	-	0.50
Term deposits >3 months < 1 year	3.53	-	5.63	0.47	-	1.23	3.53	-	6.90	0.50	-	1.38
Term deposits over 1 year	5.09	-	7.37	0.98	-	2.31	4.95	-	7.50	0.83	-	3.00

15. Other liabilities

	Note	31/12/2018 MDL'000	31/12/2017 MDL'000
Financial liabilities			
Escrow contracts		289	9,173
Factoring operations		2,849	2,744
Amounts to be settled		2,393	1,709
Items pending instructions from customers		125	-
Total financial liabilities		**5,656**	**13,626**
Non-financial liabilities			
Accrual for bonuses and related contributions		5,633	5,121
Accrual for unused vacations		1,791	2,043
Other liabilities		2,767	1,478
Accrual for audit costs		553	551
Accrual for litigation		165	199
Accrual for contingent liabilities		778	681
Other deferred income		266	94
Total non-financial liabilities		**11,953**	**10,167**
Total		**17,609**	**23,793**

16. Share capital

As at 31 December 2018 share capital constituted 72,813 ordinary authorized shares issued in circulation with the nominal value of MDL 10,000 (2017: 72,813 shares).

Structure of Bank shareholders

Name of shareholder	31/12/2018 Shareholding MDL'000	%	31/12/2017 Shareholding MDL'000	%
Banca Comerciala Romana S.A.	728,130	100%	728,130	100%
Total	**728,130**	**100%**	**728,130**	**100%**

17. Statutory reserves and common risk reserves

In accordance with the local legislation, at least 5% of the net profit of the Bank is required to be transferred to a non-distributable statutory reserve until such time as this represents at least 10% of the share capital of the Bank. General reserve cannot be distributed among the shareholders. Statutory reserve is disclosed under line "Reserve capital".

According to National Bank regulations, a common risk reserve should be created using a part of Bank's net profit in the end of financial year, which represents a difference between loans and assets depreciation (by IFRS) and prudential off-balance risk reserves (by NBM rules). Common risk reserve is disclosed under line "Other reserves".

18. Taxation

	2018 MDL'000	2017 MDL'000
Current income tax expenses		
Current income tax expenses	2,337	(41)
Deferred income tax		
Related to origination and reversal of temporary differences	91	(337)
Income tax expenses/(credit) for the period	**2,428**	**(378)**

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

The reconciliation between income tax expense reflected in the financial statements and the amounts calculated at the standard tax rate of 12% (2017: 12%) is as follows:

	2018 MDL'000	2017 MDL'000
Accounting profit before tax	**17,123**	**17,201**
At Moldovan statutory income tax rate of 12% (2017 – 12%)	2,055	2,064
Adjustment of prior year income tax	1,168	(594)
Non-deductible expenses (at 12% tax rate)	922	1,779
Income not subject to tax (at 12% tax rate)	(1,717)	(3,627)
Total	**2,428**	**(378)**
Effective income tax	**14%**	**-2%**

Income not subject to tax represents interest income from State Securities and income from recoveries on written off loans.

Non-deductible expenses represent:

- Depreciation expenses on Bank's appartment and equipment;
- Maintenance expenses on buildings retained into possession;
- Expenses on risk insurance premium;
- Expenses related to obtaining the income not subject to tax (interest expenses for resourses used for placements in State Securities);
- Provision expenses for unused vacation, legal costs, audit services, etc.

Deferred tax was calculated by applying the 2018 standard tax rate of 12% (2017: standard tax rate of 12%).

	2018 MDL'000	2017 MDL'000
Balance as at 1 January	1,461	556
Income statement (credit)/charge	(91)	602
Temporary difference through OCI	37	303
Income tax paid	-	-
Balance as at 31 December	**1,407**	**1,461**

18. Taxation (Continued)

Deferred income tax as of 31 December 2018 and 2017 relates to the following:

2018	***Receivables / (payables) on deferred income tax January 1***	***Income statement***	***Other comprehensive income***	***Receivables / (payables) on deferred income tax December 31***
	MDL'000	**MDL'000**	**MDL'000**	**MDL'000**
Revaluation of financial assets FVOCI	(29)	-	37	8
Accrual for unused vacation	245	(30)	-	215
Accrual for legal expenses	42	(19)	-	23
Accrual for audit services	82	(17)	-	65
Accrual for bonus	615	61	-	676
Tangible assets	386	(48)	-	338
Amortization of commissions for loans	120	(38)	-	82
Net deferred tax asset/(liability)	**1,461**	**(91)**	**37**	**1,407**

2017	***Receivables / (payables) on deferred income tax January 1***	***Income statement***	***Other comprehensive income***	***Receivables / (payables) on deferred income tax December 31***
	MDL'000	**MDL'000**	**MDL'000**	**MDL'000**
Revaluation of AFS	(332)	-	303	(29)
Accrual for unused vacation	184	61	-	245
Accrual for legal expenses	6	36	-	42
Accrual for audit services	70	12	-	82
Accrual for bonus	98	517	-	615
Tangible assets	374	12	-	386
Amortization of commissions for loans	156	(36)	-	120
Net deferred tax asset/(liability)	**556**	**602**	**303**	**1,461**

19. Cash and cash equivalents

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

	Notes	31/12/2018 MDL'000	31/12/2017 MDL'000
Cash on hand	4	77,861	76,691
Due from banks	6	247,620	115,212
Balances with National Bank	5	243,899	293,497
Total		**569,380**	**485,400**

20. Net interest income

	2018 MDL'000	2017 MDL'000
Interest income		
Due from NBM and other banks	8,400	6,174
Financial investments	24,139	29,465
Loans and advances	52,427	50,654
Unwinding	(146)	(72)
Total interest income	**84,820**	**80,480**
Interest expense		
Deposits and borrowings from banks	(10,878)	(10,147)
Deposits from customers-individuals	(7,366)	(3,686)
Deposits from customers-companies	(6,736)	(4,290)
Total interest expense	**(24,980)**	**(18,123)**
Net interest income	**59,840**	**62,357**

Interest income on impaired assets recognised during the year 2018 is MDL'000 8,660 (2017: MDL'000 4,778).

21. Net fee and commission income

	2018 MDL'000	2017 MDL'000
Fee and commission income		
Commission on cash operations	7,391	6,883
Commissions on guarantees issued	1,580	1,123
Income from cards transactions	9,805	8,292
Commission on clients' accounts servicing	1,751	1,441
Commission on loans issuance	406	616
Other bank commissions	1,692	1,519
Total fee and commission income	**22,625**	**19,874**
Fee and commission expense		
Commissions on guarantees, foreign currency transactions and other bank fees and commissions	(3,159)	(2,563)
Expenses with cards transactions	(6,023)	(5,017)
Total fee and commission expense	**(9,182)**	**(7,580)**
Net fee and commission income	**13,443**	**12,294**

22. Financial Income, net

	2018 MDL'000	2017 MDL'000
Net result from exchange transactions	20,172	16,040
Net foreign currency translation result	(1,147)	(252)
Net financial income	**19,025**	**15,788**

23. Other operating income

	2018 MDL'000	2017 MDL'000
Fees, penalties and other received sanctions	142	581
Income from disposal of long-term assets	181	37
Other operational income	778	381
Total other operating income	**1,101**	**999**

24. Provision charge / release for impairment of loans and other financial assets

	Note	2018 MDL'000	2017 MDL'000
Financial assest AC – loans and advances	7	761	112
Financial assest AC – state securities	8	(2,275)	-
Current accounts and deposits in banks	5,6	3,016	-
Financial assest at FVOCI	8	(1,154)	-
Total		**348**	**112**

Below is presented the change in provision for impairment of loans and advances:

	Note	2018 MDL'000	2017 MDL'000
Increase in impairment of loans	7	(16,483)	(7,839)
Reduction in impairment	7	11,922	6,297
Income from loans written off in previous years		5,322	1,654
Total		**761**	**112**

25. Personnel expenses

	2018 MDL'000	2017 MDL'000
Salary	28,081	26,083
Social insurance contributions	5,325	6,128
Medical contribution	1,459	1,599
Meal tickets	535	-
Total	**35,400**	**33,810**

Salary expenses for management are presented in Note 30.

26. General and administrative expense

	2018 MDL'000	2017 MDL'000
Utilities and rent	9,342	9,758
Risk insurance premium	2,860	4,692
Other expenses	3,376	2,991
Repair and maintenance of fixed assets	3,321	3,175
Postage and telecommunication expenses	2,550	1,944
Maintenance for intangible assets	3,097	1,765
Safeguarding of assets and insurance costs	1,856	1,467
Professional fees	1,066	1,262
Net result related to sale of repossessed property	345	822
Taxes	662	789
Travel	462	763
Advertising and sponsorship expenses	1,900	672
Cash collection	830	573
Legal expenses	25	451
Expenses with office supplies	309	246
Training costs	362	176
Salary calculation	129	158
Transportation	16	21
Total	**32,508**	**31,725**

27. Depreciation and amortization expense

	2018 MDL'000	2017 MDL'000
Depreciation	5,935	6,166
Amortization	2,705	2,232
Total	**8,640**	**8,398**

28. Guarantees and other financial commitments

The aggregate amounts of outstanding guarantees, commitments, and other off balance sheet items as of 31 December 2018 and 2017 are:

	2018 MDL'000	2017 MDL'000
Guarantees	1,545	36,820
Financing commitments and other	38,095	17,863
Total	**39,640**	**54,683**

28. Guarantees and other financial commitments (continued)

Financing commitments do not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The Bank has entered into commercial leases on premises. These leases have an average life of between three and five years with no renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum lease payments under non-cancellable operating leases as at 31 December are as follows:

2018	Less than 1 year MDL'000	1 to 5 years MDL'000	Over 5 years MDL'000	Total MDL'000
Premises	7,760	20,214	-	**27,974**
Premises for ATM's	692	37	-	**729**
Total	**8,452**	**20,251**	**-**	**28,703**

2017	Less than 1 year MDL'000	1 to 5 years MDL'000	Over 5 years MDL'000	Total MDL'000
Premises	7,483	9,999	-	**17,482**
Premises for ATM's	1,153	-	-	**1,153**
Total	**8,636**	**9,999**	**-**	**18,635**

29. Fair value of financial instruments

a) Recurrent values of fair value

2018

	Total	(Level 1) MDL'000	(Level 2) MDL'000	(Level 3) MDL'000
Financial investments at FVOCI	**146,765**	-	146,765	-

2017

	Total	(Level 1) MDL'000	(Level 2) MDL'000	(Level 3) MDL'000
Financial investments AFS	**121,168**	-	121,18	-

29. Fair value of financial instruments (continued)

Financial assets FVOCI are financial assets whose market value is determined by tracking the latest quotation of securities issued by the Ministry of Finance through the National Bank of Moldova. The model involves the application of last available published quotations for Treasury bills, bonds and bank certificates.

The Bank uses the following hierarchy for determining and disclosing fair values of financial instruments:

Level 1: Quoted prices in active markets for the same instrument (i.e. without changes or mixing);

Level 2: Quoted prices in active markets for similar assets or liabilities or other valuation techniques where all inputs are based on observable market data; and

Level 3: valuation techniques in which all input data are not based on observable market data.

b) Financial assets not held at fair value

The following table summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's balance sheet at their fair value.

	Carrying value 2017 MDL'000	Fair value 2017 MDL'000	Hierarchic level	Carrying value 2016 MDL'000	Fair value 2016 MDL'000	Hierarchic level
Financial assets						
Cash on hand	77,861	77,861	2	76,690	76,690	2
Placements with NBM	243,899	243,899	2	293,497	293,497	2
Placements with banks	244,943	244,943	2	115,212	115,212	2
Financial assets AC -loans and advances to customers	730,511	743,851	3	604,686	616,413	3
Financial assets AC -state securities	237,940	237,873	2	198,488	198,439	2
Other assets	31,072	31,072	3	4,112	4,112	3
Financial liabilities						
Due to banks	19,611	19,611	2	68,398	68,398	2
Other borrowings	191,163	191,163	2	189,171	189,171	2
Due to customers	1,062,311	1,060,539	2	709,979	707,811	2
Other liabilities	5,656	5,656	3	13,626	13,626	3

Financial assets AC -loans and advances to customers and Due to customers are financial instruments whose fair value is determined by applying the market rate for similar instruments available near to the reporting date. These rates are available on BNM's website.

For other financial assets and liabilities there is no an active market. In these circumstances the Bank believes that these financial instruments due to the nature and the short term, the fair value approximates the carrying value.

29. Fair value of financial instruments (continued)

(i) Financial assets AC -loans and advances to customers

Financial assets AC -loans and advances to customers are net of provisions for impairment. The estimated fair value of Financial assets AC -loans and advances to customers represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(ii) Financial assets AC -state securities

Carrying amount Financial assets AC -state securities is presented at amortized cost. Fair value for Financial assets AC -state securities is based on market prices.

(iii) Borrowings, including due to other banks and due to customers

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

c) Presentation of financial instruments according to measurement category

31 December 2018	**Financial assets at AC**	**Financial assets At FVOCI**	**FinancialAssets at FVTPL**	**Total**
	MDL'000	**MDL'000**	**MDL'000**	**MDL'000**
Financial assets				
Cash on hand	77,861	-	-	**77,861**
Placements with NBM	243,899	-	-	**243,899**
Placements with banks	244,943	-	-	**244,943**
Financial assets at AC -Loans and advances to customers				
Corporate lending	690,690	-	-	**690,690**
Microenterprise lending	345	-	-	**345**
Consumer lending uncollateralized	3,192	-	-	**3,192**
Consumer lending collateralized	316	-	-	**316**
Residential mortgages	90,254	-	-	**90,254**
	784,797	-	-	**784,797**
Financial assets at FVOCI	-	147,783	-	**147,783**
Financial assets at AC - State securities	237,940	-	-	**237,940**
Other assets	31,072	-	-	**31,072**
	1,620,512	**147,783**	-	**1,768,295**

29. Fair value of financial instruments (continued)

c) Presentation of financial instruments according to measurement category

31 December 2017	Loans and advances	Financial assets – available for sales	Financial assets held for traiding	Assets at FVTPL	Held to maturity	Total
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Financial assets						
Cash on hand	76,690	-	-	-	-	**76,690**
Placements with NBM	293,497	-	-	-	-	**293,497**
Placements with banks	115,212	-	-	-	-	**115,212**
Loans and advances to customers						
Corporate lending	587,239	-	-	-	-	**587,239**
Microenterprise lending	2,209	-	-	-	-	**2,209**
Consumer lending uncollateralized	1,940	-	-	-	-	**1,940**
Consumer lending collateralized	496	-	-	-	-	**496**
Residential mortgages	106,903	-	-	-	-	**106,903**
	698,787	-	-	-	-	**698,787**
Financial assets – available for sales	-	122,186	-	-	-	**122,186**
State securities – loans and receivables	-	-	-	-	198,488	**198,488**
Other assets	4,112	-	-	-	-	**4,112**
	1,188,298	**122,186**	-	-	**198,488**	**1,508,972**

30. Related parties

During the year, a number of banking and non-banking transactions were entered into with related parties in the normal course of business. These include loans granting, deposit taking, trade finance, payment settlement, foreign currency transactions and acquisition of services and goods from related parties. Loans to employees were granted at market rates. Below are presented the balances and transactions with related parties during the current year:

Related party		Nostro acc. and placements in banks MDL'000	Loan loss provision MDL'000	Deposits at the year end MDL'000	Borrowings MDL'000	Interest and commission income MDL'000	Interest and commission expenses MDL'000	Non-interest expenses /costs MDL'000
Shareholders (BCR) and their related parties:	2018	232,884	(236)	10,638	191,163	476	12,078	2,860
Erste Group		215,218	(202)	9,027	-	476	1,674	2,860
BCR		17,666	(34)	1,611	191,163	-	10,404	-
Shareholders (BCR) and their related parties:	2017	106,952	-	64,547	189,171	570	10,348	4,692
Erste Group		100,453	-	61,089	-	558	858	4,692
BCR		6,499	-	3,401	189,171	12	9,490	-
Bank administrators members of credit committee (CC) and their related parties	2018	-	-	6,205	-	4	2	3,214*
Bank administrators members of CC and their related parties	2017	-	-	7,034	-	21	83	4,034*
Total	**2018**	**232,884**	**(236)**	**16,843**	**191,163**	**480**	**12,080**	**6,074**
Total	**2017**	**106,952**	**-**	**71,524**	**189,171**	**591**	**10,431**	**8,726**

*Amounts include salary expenses.

30. Related parties (continued)

In 2018 Banca Comercială Română S.A. has prolonged the subordinated loan with the Bank in the maximum limit of EUR 9,000 and USD'000 5,000 up to 31 March 2019. As at 31 December 2018, the balance of the subordinated loan was EUR'000 7,370 and USD'000 2,700 (2017: EUR'000 5,900 and USD'000 3,815). Contract interest rate was of 3 months EURIBOR plus margin of 5.60% p.a. for loan in EUR and 3 months LIBOR plus margin of 5.73% p.a. for loan in USD (2017: 3 months EURIBOR plus margin of 5.91% p.a. for loan in EUR and 3 months LIBOR plus margin of 6.14% p.a. for loan in USD.

For each Guarantee issued under the contract, BCR Chisinau pays quarterly to BCR, for the entire period of Guarantee validity, a fee: (i) Guarantee issuance fee and (ii) risk commission.

In 2018 BCR Chisinau SA paid BCR the amount of EUR 126,015 that represents the payment to BCR of Risk Insurance Premium issued by Omniasig – Viena Insurance Group SA. under Operational risk insurance Program - „Bankers Blanket Bond Insurance Program", at which BCR Chisinau SA is insured.

Directors' remuneration

The executive management received remuneration in amount of MDL'000 8,134 (2017 – MDL'000 7,703), the social insurance contribution amounted to MDL'000 445 (2017 – MDL'000 388), the medical insurance contribution amounted to MDL'000 343 (2017 – MDL'000 315). The non-executive members of the Bank Council didn't receive any fees in 2018 and 2017.

31. Capital adequacy

The table below presents the computation of capital adequacy, in accordance with BASEL III regulations that come into force in 2018:

	Nominal amount	**Risk weighted amount**
	2018	**2018**
	MDL'000	**MDL'000**
Risk-weighted amounts for exposures of credit risk, counterparty credit risk and incomplete transactions	**666,956**	***420,869***
Standardized approach (SA)	***666,956***	***420,869***
Banks	66,695	21,873
Investment companies	397,653	322,547
Retail	8,062	
Exposures secured by mortgages on real estate	158,779	59,058
Other elements	35,767	17,391
Total amount of risk exposure for operational risk (OpR)	**155,628**	-
The basic approach to operational risk (BIA)	***155,628***	-
Total	**822,584**	**420,869**

31. Capital adequacy (continued)

The table below presents the computation of capital adequacy starting from IFRS figures, in accordance with the guidelines (July 1988) of the Bank for International Settlements for capital adequacy computation:

	Nominal amount 2017 MDL'000		Risk weighted amount 2017 MDL'000
Balance sheet assets (net of reserves)			
Cash on hand	76,690	0%	-
Balances with National Bank	293,497	0%	-
Due from banks	115,212	20%	23,042
Loans from customers, with mortgage	271,401	50%	135,701
Loans from customers, without mortgage	333,285	100%	333,285
State securities – loans and receivables	198,488	0%	-
Financial investments – available-for-sale	121,168	0%	-
Financial investments – available-for-sale	1,018	100%	1,018
Property and equipment	16,475	100%	16,475
Intangible assets	5,968	100%	5,968
Deferred tax assets	1,491	0%	-
Other assets	1,800	0%	-
Other assets	15,782	100%	15,782
Total balance sheet items	**1,452,275**		**531,271**
Off-balance sheet items			
Guarantees issued	36,820	100%	36,820
Commitments to lend funds	17,863	50%	8,932
Total off-balance sheet position	**54,683**		**45,752**
Total	**1,506,958**		**577,023**

31. Capital adequacy (continued)

	2017 MDL'000
Tier 1 capital	
Share capital, nominal	728,130
Statutory reserves	16,991
Retained earnings	(285,320)
Less provision difference	(38,859)
Less intangible assets	(5,969)
Total tier 1 capital	**414,973**
Tier 2 capital	
Other reserves	-
Total tier 2 capital	
Total regulatory capital	**414,973**
Tier 1 ratio	71.92%
Tier 1 and 2 ratio	71.92%

Capital adequacy and the use of regulatory capital are monitored by the Bank's management.

During the 2018 and 2017, the Bank had complied in full with all its externally imposed capital requirements. According to NBM requirements the minimum Tier 1 capital is 200 million lei and capital adequacy index is 16%.

32. Risk management

Introduction

Risk is inherent in the Bank's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk. It is also subject to various operational risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. The Bank's policy is to monitor those business risks through the Bank's strategic planning process.

The **Supervisory Board (SB)** is responsible for granting approval in all cases in which loans and exposures reach an amount exceeding the approval authority of the Credit committee according to the credit risk approval authority regulations. In addition, it is responsible for supervising the risk management of BCRC and approves and periodic review of the main strategic documents related to risks and/or the transactions pre-approved by the Management Board. The Supervisory Board meets regularly. As the central risk control body, the Board is regularly briefed on the risk status across all risk types.

The **Audit, Compliance and Risk Administration Committee (ACRAC)** has an advisory role, assisting the Supervisory Board in exercising its responsibilities in relation to internal control, compliance, audit, risk management, legal issues.

32. Risk management (continued)

The **Management Board** (MB) is responsible for the adequate implementation of internal control mechanism and risk management systems, constantly assessing the risks that might have an impact on fulfilling the Bank's objectives and taking measures related to any changes in the conditions under which the Bank operates. It ensures that risk management policies and processes are adequate from the perspective of Bank's risk profile and activity plan and that these are efficiently implemented within the process of risk management policies and strategies review.

The **Credit Committee (CC)** is the operative decision-making body for approvals of credit risks according to the valid credit risk approval authority regulations. Based on the advice of Credit Committee, decisions of significant exposures and extended risks are decided by the Supervisory Board. It also analyses and takes decisions on the action plan applicable to the clients with early warning signals (EWS) and also on costs of credit products.

The **Arrears Committee** is responsible for the development and approval of debt collection strategy, maximization of recoveries, reduction of non-performing portfolio and aims to avoid the reputational risk.

The **Asset/Liability Committee (ALCO)** manages the Bank's balance sheet, focusing on all affected balance sheet risks (interest rate, exchange rate and liquidity risks). In addition, it examines proposals, statements and opinions of ALM, risk management, controlling and accounting functions.

The **Operational Liquidity Committee (OLC)** is responsible for the day-to-day management of the global liquidity position of the Bank. It analyses the liquidity situation of BCRC on a regular basis and reports directly to the ALCO. It also proposes measures to the ALCO within the scope of the management policies and principles laid down in the Liquidity Risk Management Rule Book. Furthermore, members of the OLC are points of contact for other departments for liquidity-related matters.

The **Risk Management Unit** is responsible for implementing and maintaining risk related procedures to ensure an independent control process is maintained, for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

The new organisational model of RMD is based on 3 main activities: credit underwriting, risk management (including reporting) and workout, as follows:

I. Credit underwriting comprises functions related to analysis of credit applications and issuing credit risk opinions; development/implementation of lending policies and procedures along the credit process; monitoring of early warning signals; collateral management, including principles for credit collateral evaluation and revaluation; identification and monitoring of related clients groups.

II. Risk management covers:
   - the definition, development and implementation of ICAAP framework (risk strategy, risk appetite and tolerance framework, recovery plan, stress tests, risk materiality assessment, capital adequacy, governance and execution of risk concentration analysis and others);
   - risk portfolio monitoring, analysis and reporting; calculation, monitoring and reporting of credit risk indicators, including within budgeting exercises; RWA calculation; technical implementation of new reporting requirements;
   - counterparty, market, liquidity and operational risks measurement, controlling and reporting, including setting and monitoring the corresponding limits.

III. Workout activity refers to: workout clients monitoring and recovery, collateral selling process (including repossessed assets), development and implementation of workout procedures; initiating legal procedures.

32. Risk management (continued)

Bank Treasury

Bank Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

Risk and capital management

Enterprise wide Risk Management (ERM) includes as its fundamental component the Internal Capital Adequacy Assessment Process (ICAAP) required under Pillar 2 of the Basel framework.

The ERM framework is designed to support the bank's management in managing the risk portfolios as well as the coverage potential
to ensure that the bank holds at all times adequate capital for the nature and magnitude of the bank's risk profile. The framework is
tailored to the Bank's business and risk profile and reflects the strategic goal of protecting shareholders and senior debt holders while ensuring the sustainability of the organisation.

ERM framework is a modular and comprehensive management and steering system within BCRC and is an essential part of the overall steering and management instruments. The ERM components necessary to ensure all aspects, in particular to fulfil group and regulatory requirements and to provide an effective internal steering tool, can be clustered as follows:

- Risk Appetite Statement (RAS), limits and risk strategy;
- portfolio and risk analytics including Risk Materiality Assessment (RMA), concentration risk management, and stress testing;
- Risk-bearing Capacity Calculation (RCC);
- planning of key risk indicators;
- recovery and resolution planning.

In addition to the ICAAP's ultimate goal of assuring capital adequacy and sustainability at all times, the ERM components serve to support the bank's management in pursuing its strategy.

Risk limitation

The Bank actively uses collateral to reduce its credit risks.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

32. Risk management (continued)

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for industry concentrations, and by monitoring exposures in relation to such limits.

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 limits 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.

Credit quality by class of financial assets

The credit quality of financial assets is managed by the Bank using the regulatory credit ratings. The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Bank's rating system. The amounts presented are gross of impairment allowances.

		31/12/2017			
	Notes	Neither past due nor impaired	Past due but not impaired	Individually impaired	Total
		MDL'000	MDL'000	MDL'000	MDL'000
Balances with National Bank	5	293,497	-	-	**293,497**
Due from banks	6	115,212	-	-	**115,212**
Loans and advances to customers	7	561,794	3,248	133,745	**698,787**
State securities – loans and receivables	8	198,488	-	-	**198,488**
Financial assets available-for-sale	8	122,186	-	-	**122,186**
Other financial assets	11	4,112	-	-	**4,112**
Total		**1,295,289**	**3,248**	**133,745**	**1,432,282**

32. Risk management (continued)

Credit risk (continued)

31/12/2018
MDL'000

	Total 2018	Balances with National Bank	Due from banks	Financial assets at AC – loans and advances	Financial assets at AC – other assets	Financial assets at AC – state securities	Financial assets at FVOCI
Gross Value of loans and advances, not impaired, Stage 1	**1,504,491**	**243,899**	**236,155**	**602,108**	**25,494**	**249,052**	**147,783**
0 days	**1,499,978**	243,899	236,155	597,595	25,494	249.052	147,783
1-30 days	**4,513**	-	-	4,513	-	-	-
Gross Value of loans and advances, not impaired, Stage 2	**120,584**	-	**11,465**	**109,109**	-	**10**	-
0 days	**120,582**	-	11,465	109,107	-	10	-
181-360 days	**2**	-	-	2	-	-	-
Gross Value of loans and advances, impaired, Stage 3	**73,580**	-	-	**73,580**	-	-	-
0 days	**2,162**	-	-	2,162	-	-	-
1-30 days	**11,079**	-	-	11,079	-	-	-
31-60 days	**836**	-	-	836	-	-	-
61-90 days	**815**	-	-	815	-	-	-
91-180 days	**2**	-	-	2	-	-	-
180-360 days	**344**	-	-	344	-	-	-
>360 days	**58,342**	-	-	58,342	-	-	-
Total Gross Value	**1,698,655**	**243,899**	**247,620**	**784,797**	**25,494**	**249,062**	**147,783**
Provision for impairment (IFRS 9)	**(68,125)**	-	**(2,677)**	**(54,286)**	**(40)**	**(11,122)**	-
Total Net Value	**1,630,530**	**243,899**	**244,943**	**730,511**	**25,454**	**237,940**	**147,783**

32. Risk management (continued)

Credit risk (continued)

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Bank to similar risks to loans and are mitigated by the same control processes and policies.

Risk concentrations: maximum exposure to credit risk without taking account of any collateral and other credit enhancements

Maximum exposure to credit risk

	Note	31/12/2018 MDL'000	31/12/2017 MDL'000
Balances with National Bank of Moldova	5	243,899	293,497
Due from banks	6	247,620	115,212
Financial assets at AC – loans and advances	7	784,797	-
Loans and advances to customers	7	-	698,787
Financial assets at AC – state securities	8	249,062	-
State securities – loans and receivables	8	-	198,488
Financial assets at FVOCI	8	147,783	-
Financial assets available-for-sale	8	-	122,186
Other assets	11	25,494	4,112
Total		**1,698,655**	**1,432,282**
Warranties	28	1,545	36,820
Future credit commitments	28	38,095	17,863
Total		**39,640**	**54,683**
Maximum exposure to credit risk		**1,738,295**	**1,486,965**

The Bank's concentrations of risk are managed by client/counterparty and by industry sector.

Major debtors

Concentration of exposure for current accounts and deposits with other banks:

	2018 MDL'000	2017 MDL'000
ERSTE GROUP BANK AG	215,016	100,453
B.C. VICTORIABANK S.A.	9,029	7,066
UNICREDIT BANK, MOSCOW, MOSCOW	3,265	1,194
BCR ROMANIA	17,633	6,499
	244,943	**115,212**

32. Risk management (continued)

Credit risk (continued)

Major debtors

Concentration of net exposure as at 31 December 2018 for first biggest debtor clients, presented in groups or individually:

	31/12/2018 MDL'000	**31/12/2018** in % for statutory capital – **455,711 MDL'000**
S.C. TDS & CO S.R.L.	28,187	6.19%
Total	**28,187**	**6.19%**

Concentration of net exposure as at 31 December 2017 for first biggest debtor clients, presented in groups or individually:

	31/12/2017 MDL'000	**31/12/2017** in % for statutory capital – **460,013 MDL'000**
S.C. GREEN VALLEY REALTY S.R.L.	34,746	7.55%
Total	**34,746**	**7.55%**

Concentration of the above exposure includes only principal.

The following table shows the maximum exposure to credit risk for the components of the balance sheet by industry before the effect of mitigation through the use of master netting and collateral agreements. Where financial instruments are recorded at fair value, the amounts shown represent the current credit risk exposure gross of impairment allowances.

32. Risk management (continued)

Credit risk (continued)

Industry analysis

31 decembrie 2018	Financial Services	Government	Manufacturing	Trade	Services	Construction	Agriculture	Consumers	Total
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Financial assets									
Balances with National Bank	243,899	-	-	-	-	-	-	-	243,899
Due from banks	247,620	-	-	-	-	-	-	-	247,620
Financial assets at AC –loans and advances									
Corporate lending	-	-	104,653	416,450	166,839	51	2,697	-	690,690
Microenterprise lending	-	-	198	14	82	-	51	-	345
Consumer lending uncollateralized	-	-	-	-	-	-	-	3,192	3,192
Consumer lending collateralized	-	-	-	-	-	-	-	316	316
Residential mortgages	-	-	-	-	-	-	-	90,254	90,254
Total loans	-	-	**104,851**	**416,464**	**166,921**	**51**	**2,748**	**93,762**	**784,797**
Financial assets at FVOCI	90,971	56,812	-	-	-	-	-	-	147,783
Financial assets at AC – State securities	-	249,062	-	-	-	-	-	-	249,062
Other assets	-	-	13,155	12,339	-	-	-	-	25,494
Total	**582,490**	**305,874**	**118,006**	**428,803**	**166,921**	**51**	**2,748**	**93,762**	**1,698,655**
Provision for impairment (IFRS 9)	**(2,677)**	**(11,122)**	**(1,904)**	**(3,606)**	**(46,180)**	**(28)**	**(71)**	**(2,537)**	**(68,125)**
Net accounting value	**579,813**	**294,752**	**116,102**	**425,197**	**120,741**	**23**	**2,677**	**91,225**	**1,630,530**

32. Risk management (continued)

Credit risk (continued)

Industry analysis

31 December 2017	Financial Services	Government	Manufacturing	Trade	Services	Construction	Agriculture	Consumers	Total
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Financial assets									
Balances with National Bank	293,497	-	-	-	-	-	-	-	**293,497**
Due from banks	115,212	-	-	-	-	-	-	-	**115,212**
Loans and advances to customers									
Corporate lending	-	-	116,453	273,583	195,159	50	1,994	-	**587,239**
Microenterprise lending	-	-	198	1,460	500	1	51	-	**2,210**
Consumer lending uncollateralized	-	-	-	-	-	-	-	1,939	**1,939**
Consumer lending collateralized	-	-	-	-	-	-	-	496	**496**
Residential mortgages	-	-	-	-	-	-	-	106,903	**106,903**
Total loans	-	-	**116,651**	**275,043**	**195,659**	**51**	**2,045**	**109,338**	**698,787**
Financial investments – available-for-sale	1,018	121,168	-	-	-	-	-	-	**122,186**
State securities – loans and receivables	60,000	138,488	-	-	-	-	-	-	**198,488**
Other assets	4,112	-	-	-	-	-	-	-	**4,112**
Total	**473,839**	**259,656**	**116,651**	**275,043**	**195,659**	**51**	**2,045**	**109,338**	**1,432,282**

32. Risk management (continued)

Credit risk (continued)

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, inventory and trade receivables.
- For retail lending, mortgages over residential properties.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

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 plans to sell the repossessed assets in the coming years. The sales of repossessed assets is promoted by the Bank's employees responsible for the management of loans under supervision of Work-Out Department, as well as by specialized companies with which the Bank has concluded cooperation agreements. Goods are placed on the website of the Bank and on specialised websites. Most of repossessed assets were commercialized by the Bank in the past which is an indicator of actively looking for potential customers.

Credit quality by class of financial assets according to internal rating

Internal rating models and risk parameters are developed at Erste Group level. The Bank has aligned its internal policies to the Group ones.

For the disclosure of asset quality, BCRC assigns each customer to one of the following four risk categories, based on the internal rating of the client:

Low risk. Typically regional customers with well-established and rather long-standing relationships with BCRC or large internationally recognised customers. Very good to satisfactory financial position and low likelihood of financial difficulties relative to the respective market in which the customers operate. Retail clients having long relationships with the bank, or clients with a wide product pool use. No relevant late payments currently or in the most recent 12 months. New business is generally with clients in this risk category.

Management attention. Vulnerable non-retail clients, which may have overdue payments or defaults in their credit history or may encounter debt repayment difficulties in the medium term. Retail clients with possible payment problems in the past triggering early collection reminders. These clients typically have a good recent payment history.

Substandard. The borrower is vulnerable to short term negative financial and economic developments and shows an elevated probability of failure. In some cases, restructuring measures are possible or already in place.

Non-performing. One or more of the default criteria under Article 178 of the CRR are met: among others, full repayment unlikely, interest or principal payments on a material exposure more than 90 days past due, restructuring resulting in a loss to the lender, realisation of a loan loss, or initiation of bankruptcy proceedings. BCRC applies the customer view for all customer segments, including retail clients; if an obligor defaults on one deal then the customer's performing transactions are classified as non-performing as well. Furthermore, non-performing exposures also comprise non-performing forborne transactions even in cases where the client has not defaulted.

32. Risk management (continued)

Credit risk (continued)

Credit quality by class of financial assets according to internal rating (continued)

The table below shows the credit quality by class of asset according to internal rating for all financial assets exposed to credit risk.

31/12/2018	Low risk	Management attention	Substandard	Non-performing	Total
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Balances with National Bank	-	243,899	-	-	243,899
Due from banks	236,155	11,465	-	-	247,620
Financial assets at AC –loans and advances					
Corporate lending	480,803	134,462	7,958	67,467	690,690
Microenterprise lending	-	-	-	345	345
Consumer lending uncollateralized	2,687		2	503	3,192
Consumer lending collateralized	316	-	-	-	316
Residential mortgages	84,988	-	-	5,266	90,254
Total loans	**568,794**	**134,462**	**7,960**	**73,581**	**784,797**
Financial assets at FVOCI	-	147,783	-	-	147,783
Financial assets at AC – State securities	-	249,062	-	-	249,062
Other assets	12,339	13,155	-	-	25,494
Total	**817,288**	**799,826**	**7,960**	**73,581**	**1,698,655**
Provision for impairment SIRF 9	**(4,079)**	**(15,951)**	**(2,384)**	**(45,711)**	**(68,125)**
Net value	**813,209**	**783,875**	**5,576**	**27,870**	**1,630,530**

Credit quality by class of financial assets according to NBM

The credit quality of financial assets is managed by the Bank using National Bank of Moldova grade scale, according to which assets are classified into one of 5 categories:

Standard: Unless none of the definitions expressed below applies, the asset/commitment shall be considered standard, if it is on term, all terms of the contract are observed and there is no reason to consider that the bank presently or in the future will be subject to the loss risk.

Watch: The asset/commitment in which potential weaknesses exist with regard to the counterparty's financial position and in case of credit, also, with regard to its collateral. Such asset/commitment requires management's close attention, as, if left unsolved, these problems may result in the asset/commitment impairment and a lower probability to further meet the bank's claims regarding the respective asset/commitment.

Substandard: There is a greater than normal loss risk due to one of the following factors:

a) the counterparty's financial position is unfavourable or is deteriorating;

b) the collateral (if any) is insufficient or is deteriorating;

c) other adverse factors rising concern regarding the counterparty's ability to meet the bank's claims in compliance with the existing terms.

Such asset/commitment requires bank management's special attention, as there is the possibility that the bank incurs losses if the deficiencies are not remedied.

32. Risk management (continued)

Credit risk (continued)

Credit quality by class of financial assets according to NBM (continued)

Doubtful: There are weaknesses that make payment of bank's full volume current/future claims regarding the asset/commitment questionable and less probable based upon the existent circumstances and conditions, as well as the market value of collateral, if the asset is collateralized.

The possibility of loss occurrence is extremely high, but there are certain important, concrete and well-grounded factors that will soon be realized and may contribute to partial or full payment of the bank's current/future claims regarding the asset/commitment. Classification of this asset/commitment as loss shall be deferred until the status of the given asset/commitment is more precisely determined.

Loss: At the time of asset/commitment classification the bank's current/future claims regarding the respective asset/contingent engagement may not be met.

If the Counterparty is rated by one of the Standard & Poor's, Moody's and Fitch-IBCA International Rating Agencies, the Classification of Contingent Assets / Contingent Liabilities is made in accordance with the counterparty's rating and is included in one of the following categories:

Standard - for counterparties to which ratings from AAA / Aaa to A- / A3 are assigned by one of the Standard & Poor's, Moody's and Fitch-IBCA rating agencies.
Supervised - in the case of counterparties that are rated by one of the Standard & Poor's, Moody's and Fitch-IBCA rating agencies from BBB + / Baa1 to BBB- / Baa3 inclusive.
Substandard - for counterparties that are rated by one of the Standard & Poor's, Moody's and Fitch-IBCA rating agencies from BB + / Ba1 to BB- / Ba3 inclusive.
Dubious - in the case of counterparties that are rated by B & B / B1 to CCC- / Caa3 / C including one of the Standard & Poor's, Moody's and Fitch-IBCA international rating agencies.
Compromise - In the case of counterparties that are rated by CC / Ca / DDD up to R / C / D including one of the Standard & Poor's, Moody's and Fitch-IBCA rating agencies.

The table below shows the credit quality by class of asset for all financial assets exposed to credit risk. The amount presented are gross of impairment allowances.

31/12/2018	**Standard**	**Watch**	**Substandard**	**Doubtful**	**Loss**	**Total**
	MDL'000	**MDL'000**	**MDL'000**	**MDL'000**	**MDL'000**	**MDL'000**
Balances with National Bank	243,899	-	-	-	-	243,899
Due from banks	224,046	17,633	3,264	-	-	244,943
Financial assets at AC –loans and advances	**563,480**	**133,361**	**18,124**	**894**	**14,652**	**730,511**
Corporate lending	492,243	122,493	9,972	-	14,578	639,286
Microenterprise lending	-	-	-	-	-	-
Consumer lending uncollateralized	2,423	257	-	-	2	2,682
Consumer lending collateralized	117	197	-	-	-	314
Residential mortgages	68,697	10,414	8,152	894	72	88,229
Total loans						
Financial assets at FVOCI	147,783	-	-	-	-	147,783
Financial assets at AC – State securities	237,940	-	-	-	-	237,940
Other assets	17,084	8,370	-	-	-	25,454
Total	**1,434,232**	**159,364**	**21,388**	**894**	**14,652**	**1,630,530**

32. Risk management (continued)

Credit risk (continued)

Credit quality by class of financial assets according to NBM (continued)

31/12/2017	Standard	Watch	Substandard	Doubtful	Loss	Total
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Balances with National Bank	76,690	-	-	-	-	76,690
Due from banks	7,067	106,951	1,194	-	-	115,212
Loans and advances to customers						-
Corporate lending	457,620	11,363	20,527	-	97,729	587,239
Microenterprise lending	-	-	-	-	2,209	2,209
Consumer lending uncollateralized	709	332	1	-	898	1,940
Consumer lending collateralized	-	496	-	-	-	496
Residential mortgages	74,593	12,639	13,271	958	5,442	106,903
	532,922	24,830	33,799	958	106,278	698,787
Financial investments – available-for-sale	122,186	-	-	-	-	122,186
State securities – loans and receivables	198,488	-	-	-	-	198,488
Other assets	4,112	-	-	-	-	4,112
Total	941,465	131,781	34,993	958	106,278	1,215,475

The rating assigned by one of the international rating agencies.

Country	Bank name	Rating Moody's	Rating S&P's	Rating Fitch	Local classification
		31/12/2018			
Austria	ERSTE GROUP BANK AG	A2	A	A-	Standard
Moldova	B.C. VICTORIABANK S.A.	N/A	N/A	N/A	Standard
Romania	BCR ROMANIA	Baa3	N/A	BBB+	Watch
Rusia	AO UNICREDIT BANK		BBB-	BBB-	Substandard
		31/12/2017			
Austria	ERSTE GROUP BANK AG	A3	A	A-	Watch
Moldova	B.C. VICTORIABANK S.A.	N/A	N/A	N/A	Standard
Romania	BCR ROMANIA	Baa3	N/A	BBB+	Watch
Russia	AO UNICREDIT BANK		BB+	BBB-	Watch

The NBM has not assigned a rating set by an ECAI so it is rated at country B3 ratings established by Moody's.
The amount of collateralization of loans and advances to customers

31-Dec-18	Over-collaterised loans		Under-collaterised loans	
	Gross exposure	Market value	Gross exposure	Market value
Corporate lending	358,331	598,512	332,359	242,761
Microenterprise lending	-	-	345	-
Consumer lending uncollateralized	-	-	3,192	-
Consumer lending collateralized	316	708	-	-
Residential mortgages	83,304	135,702	6,950	6,352
Total	441,951	734,922	342,846	249,113

32. Risk management (continued)

Credit risk (continued)

Credit quality by class of financial assets (continued)

31-Dec-17	Over-collaterised loans		Under-collaterised loans	
	Gross exposure	Market value	Gross exposure	Market value
Corporate lending	342,940	648,520	244,299	193,435
Microenterprise lending	434	1,261	1,775	878
Consumer lending uncollateralized	-	-	1,940	-
Consumer lending collateralized	496	1,108	-	-
Residential mortgages	97,862	153,914	9,041	6,550
Total	**441,732**	**804,803**	**257,055**	**200,863**

Carrying amount by class of financial assets whose terms have been renegotiated

In 2018 and 2017 there were no renegotiation of financial assets.

	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stag1 and stage 3	
	To stage 2 from stage 1	To stage 1 from stage 2	To stage 3 from stage 2	To stage 2 from stage 3	To stage 3 from stage 1	To stage 1 from stage 3
Corporate lending	108,742	-	-	-	-	-
Microenterprise lending	-	-	-	-	-	-
Consumer lending uncollateralized	-	-	-	-	-	-
Consumer lending collateralized	-	-	-	-	-	84
Residential mortgages	-	377	-	-	216	693
Total gross	**108,742**	**377**	**-**	**-**	**216**	**777**
Value adjustment	**(3,621)**	**-**	**-**	**-**	**(54)**	**(1)**
Total net	**105,121**	**377**	**-**	**-**	**162**	**776**

Liquidity risk and funding management

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its deposit base, and adopted a policy of managing assets with liquidity in mind and of monitoring future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains mandatory reserves with the National Bank of Moldova equal to 17.5% of its liabilities. In accordance with the Bank's policy, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in

32. Risk management (continued)

Credit risk (continued)

general and specifically to the Bank. The most important of these is to maintain limits on the ratio of liquid assets to total assets. Liquid assets consist of cash, Nostro accounts, short-term bank deposits and liquid debt securities, less deposits for banks and other issued securities and borrowings due to mature within the next month. The ratios during the year were as follows:

Liquidity ratios		2018	2017
	Year-end	54.25%	54.48%
	Maximum	64.40%	65.75%
	Minimum	54.25%	47.55%
	Average	59.50%	58.77%

32. Risk management (continued)

Liquidity risk and funding management (continued)

Maturity structure

The maturity structure of the Bank's assets presented at carrying amount and liabilities presented based on future undiscounted cash flow split by expected remaining maturity as of 31 December 2018 and 31 December 2017 is as follows:

As at 31 December 2018	Total MDL'000	Less than 1 month MDL'000	From 1 month to 3 months MDL'000	From 3 months to 1 year MDL'000	From 1 to 5 years MDL'000	More than 5 years MDL'000	Undefined maturity MDL'000
Financial assets							
Cash on hand	77,861	77,861	-	-	-	-	-
Balances with National Bank	243,899	243,899	-	-	-	-	-
Due from banks	244,943	244,943	-	-	-	-	-
Financial assets at AC – Loans and advances to customers	877,392	25,823	52,324	282,141	420,540	96,564	-
Financial assets at AC – State securities	241,780	21,912	93,358	125,974	536	-	-
Financial assets at FVOCI	148,335	102,312	40,288	4,717	-	-	1,018
Other assets	31,072	19,365	1,399	5,598	4,710	-	-
Total financial assets	**1,865,282**	**736,115**	**187,369**	**418,430**	**425,786**	**96,564**	**1,018**
Financial liabilities							
Due to banks	19,611	19,611	-	-	-	-	-
Other borrowings	194,020	2,019	192,001	-	-	-	-
Due to customers	1,082,790	617,030	35,073	211,473	219,214	-	-
Other liabilities	5,656	5,656	-	-	-	-	-
Total financial liabilities	**1,302,077**	**644,316**	**227,074**	**211,473**	**219,214**	**-**	**-**
Guarantees issued	38,095	38,095	-	-	-	-	-
Commitments to lend funds	1,545	1,545	-	-	-	-	-
	39,640	**39,640**	**-**	**-**	**-**	**-**	**-**
Liquidity gap	**523,565**	**52,159**	**(39,705)**	**206,957**	**206,572**	**96,564**	**1,018**
Liquidity gap, cumulative		**52,159**	**12,454**	**219,411**	**425,983**	**522,547**	**523,565**

32. Risk management (continued)

Liquidity risk and funding management (continued)

Maturity structure (continued)

As at 31 December 2017	Total MDL'000	Less than 1 month MDL'000	From 1 month to 3 months MDL'000	From 3 months to 1 year MDL'000	From 1 to 5 years MDL'000	More than 5 years MDL'000	Undefined maturity MDL'000
Financial assets							
Cash on hand	76,690	76,690	-	-	-	-	-
Balances with National Bank	293,497	293,497	-	-	-	-	-
Due from banks	115,212	115,212	-	-	-	-	-
Loans and advances to customers	782,543	40,244	47,618	292,544	238,881	163,256	-
State securities – loans and receivables	204,280	60,827	14,613	126,733	2,107	-	-
Financial investments – available-for-sale	123,600	16,584	71,392	34,606	-	-	1,018
Other assets	4,112	3,265	-	847	-	-	-
Total financial assets	**1,599,934**	**606,319**	**133,623**	**454,730**	**240,988**	**163,256**	**1,018**
Financial liabilities							
Due to banks	68,398	17,373	-	51,025	-	-	-
Other borrowings	192,104	4,486	187,618	-	-	-	-
Due to customers	712,928	481,849	33,918	171,015	26,146	-	-
Other liabilities	13,626	13,626	-	-	-	-	-
Total financial liabilities	**987,056**	**517,334**	**221,536**	**222,040**	**26,146**	**-**	**-**
Guarantees issued	36,820	36,820	-	-	-	-	-
Commitments to lend funds	17,863	17,863	-	-	-	-	-
	54,683	**54,683**	**-**	**-**	**-**	**-**	**-**
Liquidity gap	**558,195**	**34,302**	**(87,913)**	**232,690**	**214,842**	**163,256**	**1,018**
Liquidity gap, cumulative		**34,302**	**(53,611)**	**179,079**	**393,921**	**557,177**	**558,195**

32. Risk management (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. The market risk is managed and monitored using sensitivity analyses.

The Bank has developed an internal Policy on Market Risk Management were are set internal limits calculated on a monthly basis, in order to monitor efficiently and diminish the effects of exposure to the market risk.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. In accordance with the Bank's policy, positions are monitored on a daily basis to ensure positions are maintained within the established limits.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the profit or loss for the year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's income statement.

Interest rate sensitivity, net

	2018 MDL'000	2017 MDL'000
+100 puncte	**3,839**	**5,879**
+50 puncte	**1,919**	**2,940**
-100 puncte	**(3,839)**	**(5,879)**
-50 puncte	**(1,919)**	**(2,940)**

The table below analyses the Bank's interest rate risk exposure on financial assets and liabilities. The Bank's assets and liabilities are included at carrying amount and categorised by the earlier of contractual re-pricing or maturity dates.

32. Risk management (continued)

Interest rate risk (continued)

As at 31 December 2018	Total	Less than 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Non-interest bearing items
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Financial assets							
Cash on hand	77,861	-	-	-	-	-	77,861
Balances with National Bank	243,899	56,481	-	-	-	-	187,418
Due from banks	244,943	232,877	-	-	-	-	12,066
Financial assets at AC – Loans and advances to customers	730,511	716,267	-	6,837	-	-	7,407
Financial assets at AC – State securities	237,940	-	62,712	168,530	6,693	5	-
Financial assets at FVOCI	147,784	-	110,611	35,590	565	-	1,018
Other assets	31,072	-	-	-	-	-	31,072
Total assets	**1,714,010**	**1,005,625**	**173,323**	**210,957**	**7,258**	**5**	**316,842**
Financial liabilities							
Due to banks	19,611	18,610	-	-	-	-	1,001
Other borrowings	191,163	191,163	-	-	-	-	-
Due to customers	1,062,311	803,629	-	-	-	-	258,682
Other liabilities	5,656	-	-	-	-	-	5,656
Total financial liabilities	**1,278,741**	**1,013,402**	-	-	-	-	**265,339**
Maturity gap	**435,269**	**(7,777)**	**173,323**	**210,957**	**7,258**	**5**	**51,503**
Cumulative maturity gap		**(7,777)**	**165,546**	**376,503**	**383,761**	**383,766**	**435,269**

32. Risk management (continued)

Interest rate risk (continued)

As at 31 December 2017	Total	Less than 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Non-interest bearing items
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Financial assets							
Cash on hand	76,691	-	-	-	-	-	76,691
Balances with National Bank	293,497	219,240	-	-	-	-	74,257
Due from banks	115,212	106,952	-	-	-	-	8,260
Loans and advances to customers	604,686	586,665	6,527	11,437	-	-	57
State securities – loans and receivables	122,186	16,000	70,731	34,437	-	-	1,018
Financial investments – available-for-sale	198,488	60,046	13,070	123,319	2,053	-	-
	4,112	-	-	-	-	-	4,112
Total assets	**1,414,872**	**988,903**	**90,328**	**169,193**	**2,053**	**-**	**164,395**
Financial liabilities							
Due to banks	68,398	17,316	-	51,082	-	-	-
Other borrowings	189,171	3,453	185,718	-	-	-	-
Due to customers	709,979	380,727	-	-	-	-	329,252
Other liabilities	13,626	-	-	-	-	-	13,626
Total financial liabilities	**981,174**	**401,496**	**185,718**	**51,082**	**-**	**-**	**342,878**
Maturity gap	**433,698**	**587,407**	**(95,390)**	**118,111**	**2,053**	**-**	**(178,483)**
Cumulative maturity gap		**587,407**	**492,017**	**610,128**	**612,181**	**612,181**	**433,698**

32. Risk management (continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on positions by currency. In accordance with the Bank's policy, positions are monitored on a daily basis to ensure positions are maintained within established limits.

The analysis calculates the effect of a reasonably possible movement of the currency rate against the Moldovan Leu, with all other variables held constant, on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities) A negative amount in the table reflects a potential net reduction in income statement, while a positive amount reflects a net potential increase. An equivalent decrease in each of the below currencies against the MDL would have resulted in an equivalent but opposite impact.

Currency	Change in currency rate in % 2018	Effect on Profit before tax 2018	Change in currency rate in % 2017	Effect on profit before tax 2017
		MDL'000		MDL'000
USD	+10	(218)	+10	(428)
EUR	+10	(1,927)	+10	(553)

	31/12/2018				
	Total	MDL	USD	EUR	Others
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
ASSETS					
Cash on hand	77,861	35,977	11,825	28,276	1,782
Balances with National Bank	243,899	156,025	20,556	67,318	-
Due from banks	244,943	-	42,994	187,781	14,167
Financial assets at AC – Loans and advances to customers	730,511	292,361	79,383	358,766	-
Financial assets at AC – State securities	237,940	237,940	-	-	-
Financial assets at FVOCI	147,784	147,784	-	-	-
Other assets	31,072	5,561	4,801	20,710	-
Total assets	**1,714,010**	**875,648**	**159,559**	**662,851**	**15,949**
LIABILITIES					
Due to banks	19,611	10,658	279	4,035	4,639
Other borrowings	191,163	-	46,333	144,830	-
Due to customers	1,062,311	426,020	110,839	515,332	10,120
Other liabilities	5,656	2,418	770	2,468	-
Total liabilities	**1,278,741**	**439,096**	**158,221**	**666,665**	**14,759**
GAP	**435,269**	**436,552**	**1,338**	**(3,814)**	**1,190**

32. Risk management (continued)

Currency risk

			31/12/2017		
	Total	**MDL**	**USD**	**EUR**	**Others**
	MDL'000	**MDL'000**	**MDL'000**	**MDL'000**	**MDL'000**
ASSETS					
Cash on hand	76,691	35,370	13,351	26,848	1,122
Balances with National Bank	293,497	196,034	19,586	77,877	-
Due from banks	115,212	-	70,451	36,764	7,997
Loans and advances to customers	604,686	214,876	42,249	347,561	-
State securities – loans and receivables	122,186	122,186	-	-	-
Financial investments – available for sale	198,488	198,488	-	-	-
Other assets	4,112	3,974	21	117	-
Total assets	**1,414,872**	**770,928**	**145,658**	**489,167**	**9,119**
LIABILITIES					
Due to banks	68,398	14,690	1	51,103	2,604
Other borrowings	189,171	-	66,482	122,689	-
Due to customers	709,979	303,012	82,779	317,790	6,398
Other liabilities	13,626	10,781	424	2,419	2
Total liabilities	**981,174**	**328,483**	**149,686**	**494,001**	**9,004**
GAP	**433,698**	**442,445**	**(4,028)**	**(4,834)**	**115**

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but it endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

33. Comparative policies IAS 39

a. Impairment of financial assets

Impairment of loans

If there is objective evidence that the Bank will not be able to collect all amounts due (principal and interest) according to original contractual terms of the loan, such loans are considered impaired. The amount of the impairment loss is the difference between the loan carrying amount and the present value of expected future cash flows discounted at the loan's original effective interest rate or is the difference between the carrying value of the loan and the fair value of collateral less costs for obtaining and selling the collateral, if the loan is collateralised, whether or not foreclosure is probable.

Impairment and un-collectability are measured and recognised individually for loans and receivables that are individually significant, and on a portfolio basis for a group of similar loans and receivables that are not individually identified as impaired.

33. Comparative policies IAS 39 (continued)

a. Impairment of financial assets (continued)

The main evidence of deterioration in the value of a financial asset is any factor that could influence the ability of the client to fulfill its contractual obligations to the Bank:

- violations of contractual interest or principal payments;
- breach of restrictive clauses or credit conditions;
- initiation of the bankruptcy procedure;
- any specific customer business information (for example, manifested through cash flow difficulties encountered by the client;
- changes in the client's market environment;
- general economic condition, etc.
- the existence of litigations.

If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced to its estimated recoverable amount by a charge to income through the use of a provision for loan impairment account. A write off is made when all or part of a loan is deemed uncollectible. Write offs are charged against previously established provisions and reduce the principal amount of a loan. Recoveries of loans written off in earlier periods are included in profit and loss.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the provision for loan losses expense.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit rating that considers credit risk characteristics such as industry, 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 methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Financial assets available for sale

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

In case of debt instruments classified as available for sale, the impairment is measured using the same criteria as for financial assets at amortized cost. However, the amount recognized for impairment is the cumulative impairment loss, measured as the difference between the amortized cost and the current fair value less any impairment loss previously recognized in the income statement. Future interest income continues to be calculated at the asset's reduced book value using the interest rate used to update future cash flows for the purpose of assessing the impairment loss.

Interest income is recorded under Interest income. If, in a subsequent exercise, the fair value of the debt instrument increases, and this increase may objectively be associated with a credit event that occurred after the impairment loss was recognized in the profit and loss account; these impairment losses are eliminated through the profit and loss account. However, any subsequent recovery of the fair value of an available-for-sale equity instrument will be subsequently recognized in the statement of comprehensive income.

33. Comparative policies IAS 39 (continued)

b. Financial investments

State securities - loans and receivables

State securities – loans and receivables are those which carry fixed or determinable payments and have fixed maturities and which the Bank has the intention and ability to hold to maturity. These state securities are part of "Loans and receivables" according to IAS 39, because they are not traded on an active market. After initial measurement, state securities – loans and receivables are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in "Interest and similar income" in the income statement. The losses arising from impairment of such investments are recognized in the income statement line "Impairment losses on financial investments".

Available- for- sale financial investments

Available-for-sale investments comprise investments in equity and debt securities. Investments in capital classified as available-for-sale are those that are not designated as another category of financial assets.

For debt securities included in this category, there is an intention to hold them for an indefinite period of time, but they may be sold for the purpose of liquidity regulation or due to changes in market conditions.

After the initial valuation, available-for-sale financial instruments are subsequently measured at fair value. When fair value estimation cannot be reliably obtained, capital investments are recorded at the current cost less impairment losses. Unrealized gains or losses are recognized directly in equity (Other income) in the reserve for available-for-sale instruments. When the instrument is sold / derecognised, the cumulative profit or loss previously recognized in equity is recognized in the statement of comprehensive income, other income. if the Bank holds more than one investment in the same instrument, they are deemed to be ceded on a first-in-first-out basis. Interest earned on the disposal of the available-for-sale financial instrument is recorded as interest income using the effective interest rate (EIR). Dividends earned on the disposal of the available-for-sale financial instrument are recorded in the statement of comprehensive income, the Other Operating Income chapter, when the right to receive payment is settled. Losses arising from the impairment of these instruments are recognized in the statement of comprehensive income in "Impairment losses on financial instruments" and are removed from the available for sale reserve.

Financial investments - loans and receivables

Financial investments - loans and receivables are those that make fixed or determinable payments and have a fixed maturity and which the Bank has the intent and ability to hold to maturity. These debt securities are part of "loans and receivables" in accordance with IAS 39, as they are not traded on an active market. After initial recognition, financial investments - loans and receivables are subsequently measured at amortized cost using the effective interest method less provision for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Depreciation is included in interest income in the statement of comprehensive income. Impairment losses on these instruments are recognized in the statement of comprehensive income in the impairment expense category.

33. Comparative policies IAS 39 (continued)

b. Financial investments (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable amounts of repayment that are not quoted on an active market, except:

- Those that the Bank intends to sell immediately or within the near term and which, prior to initial recognition, the Bank designates as at fair value through profit or loss;
- Those that the bank, prior to initial recognition, designates as available for sale;
- Those for which the Bank may not recover all initial investments for reasons other than credit quality deterioration.

The Bank reflects loans and advances to customers and other assets as loans and receivables.

The Bank classifies as loans and receivables the state securities issued by the Ministry of Finance and the NBM certificates, although there is no active market for such instruments.

After the initial assessment, loans and receivables are subsequently measured at amortized cost using the effective interest rate method less impairment losses. When calculating the amortized cost, all discounts or prizes are taken into account as well as the related commissions that form an integral part of the effective interest rate. Depreciation is included in interest income in the statement of comprehensive income. The linear interest method is the Bank's best estimate of the effective interest rate method. Annually, the Bank's management performs a comparative study of the effects of the straight line method and the effective interest method, whereby the potential differences do not significantly affect the Financial Statements. The impairment losses on these instruments are recognized in the statement of comprehensive income in the Expenditure on impairment of financial assets.

34. Events after the reporting date

On March 25, 2019 was signed the prolongation by 1 year of the Risk Participation Agreement with BCR.