



April, 2020

Annual report for the year 2019
Banca Comercială Română Chișinău S.A.

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EXECUTIVE SUMMARY

In 2019, BCR Chisinau registered an increase of its assets of 35% (the first largest increase in the system) compared to 2018. This result was possible thanks to the confidence of the clients towards the bank, BCR Chisinau increasing its portfolio of attracted deposits by 67%. At the same time, the volume of loans registered a slight decrease (-44.9 million MDL) in accordance with the strategy of limited lending to clients with big exposures, to avoid further concentration of the existing portfolio.

During 2019 BCR Chisinau has managed to significantly improve the digital services offered to customers by implementing the Mobile Banking solution, optimizing the 24 Banking solution and including the possibility of opening deposits by individuals through 24 Banking.

The share of Non-performing loans decreased significantly in 2019 to 5.97% from 9.1% in 2018 (the NPLs are concentrated in a limited number of loans of a single client and mostly provisioned). As a core part of its risk management strategy, BCR Chisinau maintained a prudential approach by increasing its provisions, calculated in accordance with International Financial Reporting Standards (IFRS) and in accordance with the requirements applied in BCR/ Erste Group. In this context, the coverage on non-performing loans has increased from 73.8% in 2018 to 94.8% in 2019. However, BCR Chisinau registered a Net Profit in 2019 of MDL 24.7 million driven by the increase in its operating result (in 2018: MDL 14.7 million).

For 2020, the Bank's strategy is based on the following main pillars: increase of the self-funding, growth and increase of its revenue from operational activity, automation and continuous alignment with local regulator requirements and group policies.

I. GENERAL INFORMATION ABOUT BANK'S ACTIVITY

BCR Chişinău S.A. was founded in October 1998. The Bank is offering a large spectrum of services to all categories of clients through a head Office, two branches and an agency in Chişinău: one branch in Balti and one in Cahul. The Agency works mainly with individuals that are clients of Consular Division of Romanian Embassy in Chişinău that can make payments and change currencies.

The main focus at foundation of the Bank was to offer qualitative services to the clients involved in different industries in the Republic of Moldova. Thus, BCR Chişinău S.A. became an universal financial institution. At the moment the Bank is a dynamic and professional participant on the financial market of the Republic of Moldova.

Policy of the Bank is oriented towards increasing the value of investments made by its shareholders through a profitable activity and development of the bank to ensure stability to its assets against impairment and increase the market value of the Bank. BCR Chişinău S.A. is activating according to its Charter and License issued to the National bank of Moldova.

The unique shareholder of the Bank is Banca Comercială Română S.A., holding 72,813 shares with a nominal value of 10,000 lei.

As at 31.12.2019 the share capital of the Bank was 728.13 million lei.

External auditor for 2019 was international audit company “Pricewaterhousesoopers” SRL that expresses its opinion on the correctness of the BCR Chişinău S.A. financial statements.

Information presented in report for 2019 and 2018 was prepared in accordance with the International Financial Reporting Standards (IFRS).

II. MACROECONOMIC ENVIRONMENT AND BANK'S POSITION ON THE BANK SERVICES MARKET

Gross domestic product (GDP) In 2019 GDP amounted to 210.1 billion lei, current market prices, rising - in real terms - by 3.6% compared to 2018. The following economic activities contributed to the GDP growth in 2019 compared to 2018:

- Constructions (+ 1.3%), with a 8.6% share of GDP formation and a increase in GVA (15.9%);
- Wholesale and retail trade; maintenance and repair of motor vehicles and motorcycles; transport and storage; housing and catering (+ 1.2%), with a 21.8% share of GDP formation and an increase in gross value added (GVA) with 5.7%;
- Mining and manufacturing; production and supply of electricity and heat, gas, hot water and air conditioning; water distribution; sanitation, waste management, decontamination activities (+ 0.4%), with a contribution of 14.2% to GDP formation and a 2.6% increase in GVA;
- Information and communications (+ 0.4%), with a share of 4.7% in GDP formation and a 9.2% increase in GVA.

The volume of taxes on products increased by 0.5% over the previous year, contributing to the growth and formation of GDP by 3.6% and 13.5%, respectively.

A negative impact came from:

- Agriculture, forestry and fishing (- 0.2%), with a decrease of GVA by 2.3%;
- Public administration and security; social contributions; education; health and social assistance contributed with a negative increase in GDP (-0.1%) as a result of reduction in GVA with 0.8%.

From the GDP growth point of view, growth was mainly due to:

- Gross fixed capital formation (+ 3.1%), with a contribution of 25.6% to GDP formation and a significant increase of its volume by 12.9%.
- Final consumption of households (+ 2.5%), whose volume increased by 3.0%, contributing to GDP formation by 83.3%;

Negative contribution to GDP growth was recorded by:

- net exports (-1.5%), as a result of a greater share of imported goods and services in GDP formation (55.2%) compared with the share of exported goods and services (30.5%) and
- Inventories variation (-0.6%).

The average monthly salary per employee in the economy in 2019 amounted to 7,356.1 lei and increased by 14.1% in nominal terms compared to 2018 and in real value (adjusted to consumer price index) - with 8.9%. In QIV 2019 the average salary amounted to 7,813.1 lei, 11.8% more than in QIV 2018. The average monthly salary in public sector in QIV 2019 amounted to 6,564.1 lei (+7.7% higher than in QIV 2018). The average monthly salary in the real sector of the economy amounted to 8,287.0 lei (+12.9% higher than in QIV 2018).

The annual inflation rate. The annual inflation rate outlined a sharp upward trend during 2019 after the downward trend in the previous year. In the fourth quarter of 2019, it was outside the range of 5.0 percent _ 1.5 p.p. stipulated in the medium-term monetary policy strategy. Thus, the annual inflation rate increased from 6.3 percent in September 2019 to 7.5 percent in December 2019. The average annual CPI rate in the reference quarter was 7.1 percent. hundred and was 1.4 p.p. higher than in the previous quarter. The upward trajectory of inflation was mainly due to the increase in the positive contribution of food prices in the context of less favorable conditions for certain crops, but also to the increase in the costs of producing processed food. A significant impact on this trend was also exerted by the dynamics of regulated prices as a result of the adjustment of the electricity tariff in August 2019. At the same time, the upward evolution of the annual CPI rate was influenced, to a lesser extent, by base inflation. Both, the rise in core inflation and food prices, were supported by pressures from aggregate demand. However, they were estimated to be declining compared to previous periods. The appreciation trend of the national currency has eased from the pressures exerted by the above mentioned factors. At the same time, the atypical hot weather recorded in October-December 2019 caused the delay and decrease in intensity of the positive seasonal effect associated with food and fuel prices.

In the next period, the annual CPI rate will start a downward trend, mainly due to the effect of a high base period in the previous year.

Annual basic inflation rate In the fourth quarter of 2019, core inflation continued the upward trajectory observed in the first half of 2019 in the context of pressures from aggregate demand, but also the incidence of sectoral shocks. This dynamic was partially mitigated by the appreciation of the national currency. The annual core inflation rate increased from 6.1 percent in September 2019 to 6.9 percent in December 2019. In the fourth quarter of 2019, the average core inflation rate was 6.5 percent, being with 0.5 pp higher than in the previous quarter. Its contribution to the annual CPI rate in the reference period increased to about 2.1 pp.

The dynamics of core inflation during the quarter, similar to previous periods, was supported by demand pressures on prices, but also by the incidence of sectoral shocks. In its structure, the acceleration of core inflation was generated by the increase in the contributions of clothing and food prices. The increase in prices under the public catering subcomponent could be attributed, to a certain extent, to the increase in costs due to the adjustment of the electricity tariff in the second half of August 2019, but also to the increase in wages during 2019. At the same time, the upward trend of core inflation in the third quarter of 2019 was partially mitigated by the appreciation trend of the national currency which favored the moderation of the increase in prices for means of transport and car parts (November-

December), given that a large part of the these categories by the NBS depend on the MDL / USD and MDL / EUR quotation.

According to current estimates, aggregate demand pressures on core inflation subcomponents will continue over the next period.

BANKING SYSTEM

As at 31.12.2019 on the territory of the Republic of Moldova were activating 11 commercial banks (31.12.2018: 11 banks).

Based on assets volume the banks from the Republic of Moldova can be split into the following groups:

1. „Large” banks with assets volume greater than 3 billion lei;
2. „Medium” banks with assets volume 1-3 billion lei;
3. „Small” banks with assets volume less than 1 billion lei.
- 4.

Bank	Total assets as at 31.12.2019		
	Million lei	Place	Market share
Large banks			
BC „MOLDOVA - AGROINDBANK” S.A.	25,898.7	1	28.59%
BC „Moldindconbank” S.A.	18,436.9	2	20.35%
B.C. „VICTORIABANK” S.A.	14,663.9	3	16.19%
BC „MOBIASBANCA – Groupe Societe Generale” S.A.	12,200.1	4	13.47%
B.C. “EXIMBANK - Gruppo Veneto Banca” S.A.	4,325.3	5	4.77%
B.C. „ProCredit Bank” S.A.	3,967.5	6	4.38%
Medium banks			
„FinComBank” S.A.	3,404.4	7	3.76%
B.C. „ENERGBANK” S.A.	2,531.7	8	2.79%
BCR Chisinau S.A.	2,360.8	9	2.61%
B.C. „COMERTBANK” S.A.	1,606.2	10	1.77%
Small banks			
BC „EuroCreditBank” S.A.	1,203.9	11	1.33%
System	90,599.4		100.00%

During 2019 the banking sector from the Republic of Moldova has registered general positive development trends.

Table 1

Balance Sheet Indicators

Indicators	31.12.2018	31.12.2019	Change
	Million lei	Million lei	%
Total assets	83,152.26	90,599.43	8.96%
Loans	34,384.93	40,967.31	19.14%
Risk weighted assets	40,818.89	45,542.83	11.57%
Total deposits	63,577.30	68,449.68	7.66%
Own funds	10,826.23	11,500.49	6.23%

Total assets amounted to 90.6 billion lei, increasing during 2019 by 9.0% (7.5 billion lei).

As at 31.12.2019, the total own funds rate on the banking sector was 25.3%, being lower by 1.2 pp. compared to previous year.

As of 31.12.2019, total own funds amounted to 11.5 billion lei and recorded a growth of 6.2% (612.2 million lei) during the mentioned period. The increase in own funds was determined by the inclusion in the calculation of own funds of the eligible profit after annual general shareholders' meetings.

Table 2

Assets quality, liquidity and solvency indicators

Indicators	31.12.2018	31.12.2019	Change (%)
Nonperforming loans / Total Loans	12.54%	8.49%	-4.05 p.p.
Provisions for loan losses / Total Loans ratio	10.86%	7.96%	-2.90 p.p.
Solvency ratio	26.52%	25.25%	-1.27 p.p.
Liquidity ratio	54.62%	50.65%	-3.97 p.p.

Gross loan portfolio amounted to MDL 40.4 billion as at 31.12.2019 or 44.6 percent of total assets, increasing by 13.9 percent (4.9 billion). Total volume of new loans increased by 26.2 percent as compared to the same period of the previous year.

The largest increase in 2019 was recorded for loans granted for the purchase of the real estate, - by 58.2 percent (2.3 billion lei) and for consumer loans by 33.1 percent (1.7 billion lei). The National Bank encourages banks to focus their efforts more on financing the real economy.

Investments in financial assets (NBM certificates and TBs) amounted to 13.0 percent of total assets (11.8 billion lei), being by 2.3 pp. lower than in 2018.

Other assets, amounting to 42.4 percent are placements in banks, National Bank, cash etc.

During 2019 the share of non-performing loans according to NBM norms (substandard, doubtful and loss) in total loans decreased by 4.0 pp. compared to the end of the previous year, representing 8.5 percent as at 31.12.2019. This share decreased in most banks, the indicator ranging from 4.6% to 17.9%. For the most part, banks maintained their tendency to reduce the share of non-performing loans in total loans.

The decrease of the share of non-performing loans in total loans was mainly due to the decrease of the balance of non-performing loans by 22.9% (1,017.0 million lei), simultaneously with the increase of the gross loan balance by 13.9% (4.9 billion lei).

At the same time, was registered an increasing trend in deposits. The balance of deposits, according to prudential reports, increased by 7.7 percent up to MDL 68.4 billion (deposits of individuals amounted to 66.7 percent of total deposits, deposits of legal entities – 33.2 percent and banks deposits – 0.1 percent). The most impact in the increase in deposits were from deposits of individuals - by 9.4 percent or MDL 3.9 billion. At the same time, the balance of deposits of legal entities increased by 4.5 percent or MDL 0.9 billion.

The balance of deposits in local currency continued to increase and during 2019 increased by 3.0 billion lei (8.0 percent) up to 40.3 billion. An increase also was recorded in the balance of foreign currency deposits - by 1.9 billion (7.3 percent) up to 28.0 billion, representing 41.0 percent of total deposits. Thus, were attracted deposits in foreign currency, equivalent to 2.1 billion lei, while the exchange rate fluctuation amounted (-205.0) million lei.

Banks maintained the liquidity indicators at a high level. Thus, the long term liquidity (principle I of liquidity) amounted to 0.7 (limit ≤1), being at the same level compared with the previous year. Current liquidity on the system (principle II of liquidity) decreased by 4.0 pp. accounting 50.6 percent, (limit ≥20%), thus more than a half of the assets in banking sector are concentrated in liquid assets. The largest shares in liquid assets hold deposits with the NBM – 45.6 percent, liquid securities – 25.7 percent and net interbank money – 17.2 percent. During 2019, the balance of deposits with the NBM increased by 2.3 p.p. and the share of cash by 2.1 p.p. At the same time, the share of liquid state securities decreased by 2.2 p.p. and the net interbank money by 0.4 p.p.

The III principle of liquidity, which is the ratio between the adjusted effective liquidity and the required liquidity on each maturity band, must not be less than 1 per maturity band, respected by all banks.

Table 3

Profitability indicators

um/mil. lei

Indicators	31.12.2018	31.12.2019	Change
Net profit	1,635.11	2,257.49	38.06%
Net Interest Income	2,845.90	3,113.74	9.41%
ROA	1.90%	2.47%	0.57 p.p.
ROE	11.60%	14.63%	3.03 p.p.
Net Interest margin	4.31%	4.39%	0.08 p.p.
Efficiency index	142.65	159.25	11.64%

As of 31.12.2019, the profit of the banking sector for the period accounted for MDL 2.3 billion. Compared to the same period of the previous year, the profit increased 38.1 percent (622 million).

Total revenues amounted to 7.5 billion lei, of which interest income - 60.4 percent (4.5 billion), and non-interest income – 39.6 percent (2.9 billion lei). At the same time, total expenditures amounted to 5.2 billion lei, including interest expenses - 26.8% of total expenditures (1.4 billion lei), and non-interest expenses – 73.2% of total expenditures (3.8 billion lei).

The increase in profit is determined by the increase of non-interest income by 12.6 percent or 330.4 million. At the same time, interest income increased by 4.7 percent or 204.4 million lei as a result of the increase in loan portfolio.

Interest expense decreased by 4.3 percent or 62.2 million lei. Non-interest expenditures decreased by 5.2% or 208.9 million lei as a result of the decrease in financial and non-financial asset depreciation, together with increase in amortisation of tangible assets, fees and commission expenses and general and administrative expenses.

Return on assets and return on equity represented 2.5 percent and 14.6 percent as at 31.12.2019, being higher by 0.8 p.p. and 4.3 p.p. compared with the previous year.

FOREX MARKET

During 2019 **the official nominal exchange rate** of the local currency reported to US dollar has appreciated by 0.39 percent (17.1427 lei for 1 US dollar as at 31 December 2018 up to 17.2093 lei for 1 US dollar as at 31 December 2019), and reported to Euro it has appreciated by 1.34 percent (19.5212 lei for 1 Euro as at 31 December 2018 up to 19.2605 lei for 1 Euro as at 31 December 2019).

In 2019 Euro appreciated against US dollar by 1.72%, Russian ruble depreciated by 12.16%, and Romanian leu appreciated by 4.41%.

INSTRUMENTS OF MONETARY POLICY

Interest rate policy

The base rate was maintained at the level of 7.5 percent annually between October and November 2019. However, under the disinflationary conditions forecast for 2020, the NBM decided in mid-December to reduce it by 2.0 pp to 5.5 percent annually.

The CHIBOR 2W yield curve remained relatively stable in October and November, fluctuating at the top of the interest rate corridor. In mid-December, the CHIBOR yield curve re-entered a downward trajectory under the impact of the decline in the base rate, but the magnitude of the decline was modest. Thus, the CHIBOR 2W quotation registered at the end of December was lower by 0.54 p.p. the one recorded on the last day of the previous quarter, amounting to 7.79 percent.

The partial rejection by the Ministry of Finance of the bids submitted in the auctions and the placement of state securities with a maturity of 91 days below the announced volume led to a slight increase in the interest rates related to these securities. Over the whole period, the average of this rate was 4.75 percent (+0.15 pp compared to the third quarter of 2019).

The quarterly average of the yield related to the sale-purchase operations on the secondary market of state securities amounted to 6.4 percent, being lower than the previous quarter, given the increase of the weighted average term to maturity from 244 days to 253 days.

The weighted average interest rate on the interbank money market stood at 8.0 percent per year.

Sale of NBM Certificates

The NBM conducted weekly NBC auctions, 14 days maturity and having set the maximum interest rate equivalent to the NBM's base rate. In the fourth quarter of 2019, the weighted average rate of liquidity-absorbing operations recorded 7.06 percent, annually.

The NBC stock varied throughout the quarter, ranging from the minimum amount of 4,588.8 million lei to the maximum amount of 6,590.5 million lei. The average monthly balance of the NBC amounted to 5,616.0 million lei (+477.1 million lei compared to the third quarter of 2019).

Mandatory reserves

The required reserve mechanism continued to ensure monetary control and liquidity management in the banking system.

Throughout the quarter, the ratio of required reserves held in Moldovan lei and non-convertible currencies was maintained at the level of 42.5 percent of the calculation base,

Required reserves in MDL maintained by banks during December 16, 2019 - January 15, 2020, amounted to 16,031.1 million lei, having increased by 279 million lei (+1.8 percent) compared to the amount recorded at the end of the previous quarter (16 September - 15 October 2019).

The ratio of **required reserves held in freely convertible currency** remained at the level of 17 percent of the calculation base. Required reserves in FCC held by banks with the NBM as of December 31, 2019, totalled 73.4 million U.S. dollars and 167.4 million EUR. Compared to September 30, 2019, the amount of required reserves held in U.S. dollars increased by 0.1 percent and reserves held in euro increased by 4.4 percent.

FINANCIAL ASSETS MARKET

During the fourth quarter of 2019, the Ministry of Finance of the Republic of Moldova put into circulation state securities in total amount of 2,487.5 million lei, 0.7% less than the volume of the initial offer. The ratio between supply and demand in the primary market of TBs was 1.27, the volume of demand in the primary market amounted 2,675 million lei.

Throughout the reporting period, the interest rates of the TBs have increased, thus the average effective yields of the treasury bills with maturity of 91 days, 182 days and 364 days increased by 0.1 pp. The average effective yields for government bonds maturing 2 years increased by 0.5 pp, and for government bonds maturing 3 years and 5 years increased by 0.2 pp and 0.1 pp, accordingly.

The structure of portfolio, put into circulation during the reference period, shows that TBs with 364-day maturity recorded highest demand, accounting for 46.1 percent of total transactions, being followed by the 182-day treasury bills, the share of which recorded 40.0 percent, and the 91-day treasury bills holding a share of 8.3 percent. It should be mentioned that the share of government bonds with 2-year, 3-year and 5-year maturity recorded 2.0 percent, 1.1 percent and 2.5 percent, respectively.

III. FINANCIAL SITUATION OF BCR CHIȘINĂU S.A. IN 2019

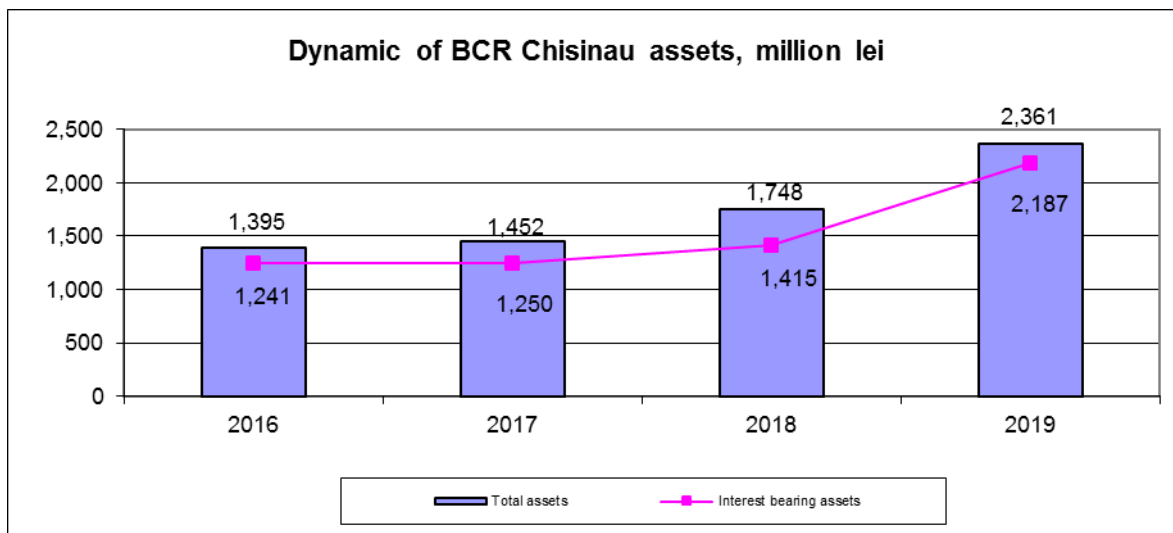
ASSETS

Assets of BCR Chișinău S.A. as at 31.12.2019 amounted to 2,361 million lei. During the year the assets value increased by 35.0% (or 612 million lei), with an increase in market share from 2.10% to 2.63%. The share of interest bearing assets consisting 92.6%, and the share of liquid assets – around 67.6% of total assets.

In 2019 **interest bearing assets** increased by 772 million lei (or 55%), amounting to 2,187 million lei. This change was due to increase in the volumes of interest bearing assets: placements in NBM and banks.

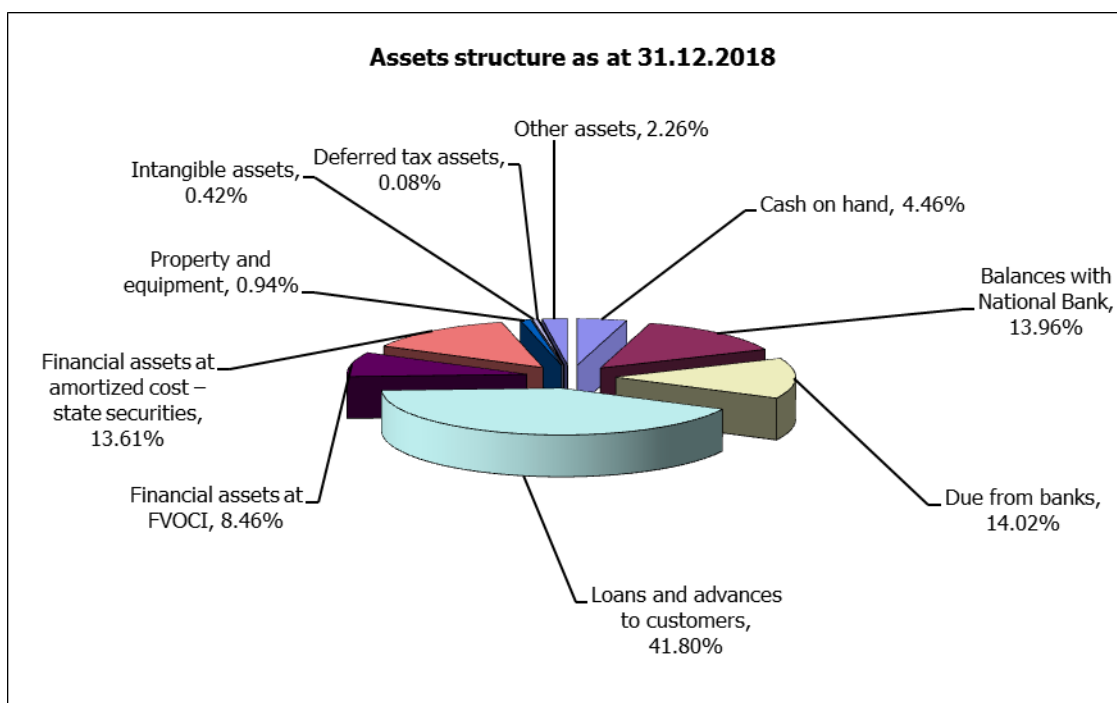
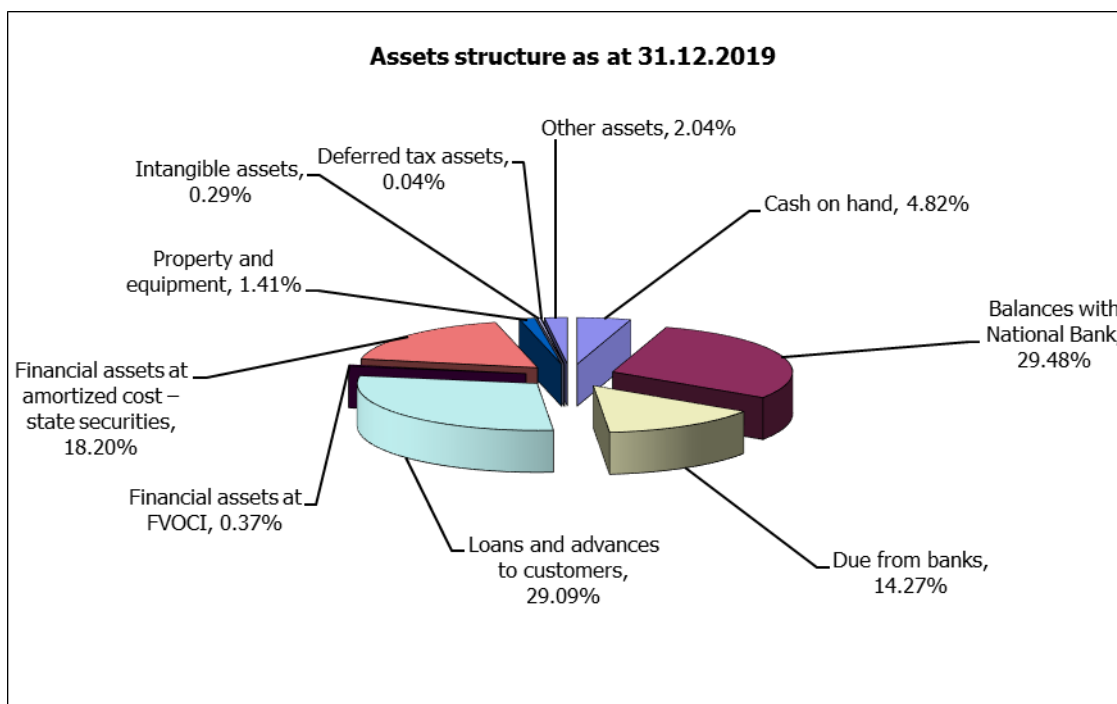
Maintaining the **liquid and interest bearing assets** at such a level, the bank places its resources into profitable operations, obtaining sufficient income for further development. At the same time, the bank maintains its liquidity in order to be able at any time to honour the obligations towards clients. Bank's liquidity as at 31 December 2019, according to both principles of calculations amounted to 0.23% and 67.6%.

Diagram 1



In the assets structure has changed the share of interest bearing assets, the main increase being registered for NBM placements from 4.0 % in 2018 to 31.8% in 2019.

At the same time, has reduced the share of loans from 52.3% in 2018 to 32.2% in 2019, the share of financial assets decreased from 28.0% at year-end 2018 to 21.0% at year-end 2019 and the share placements in banks reduced from 16.5% in 2018 to 15.5% in 2019.



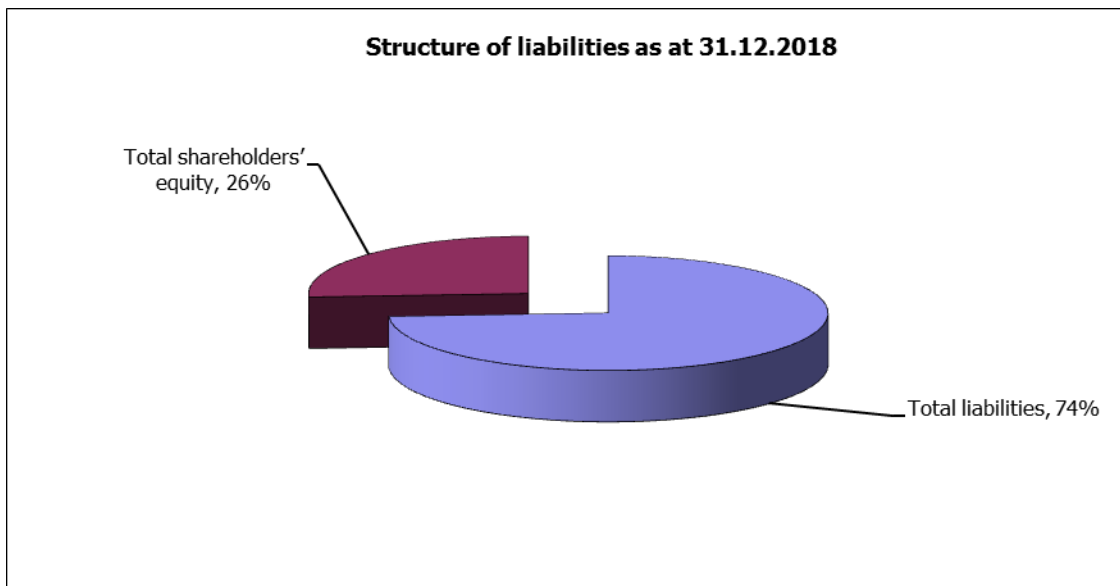
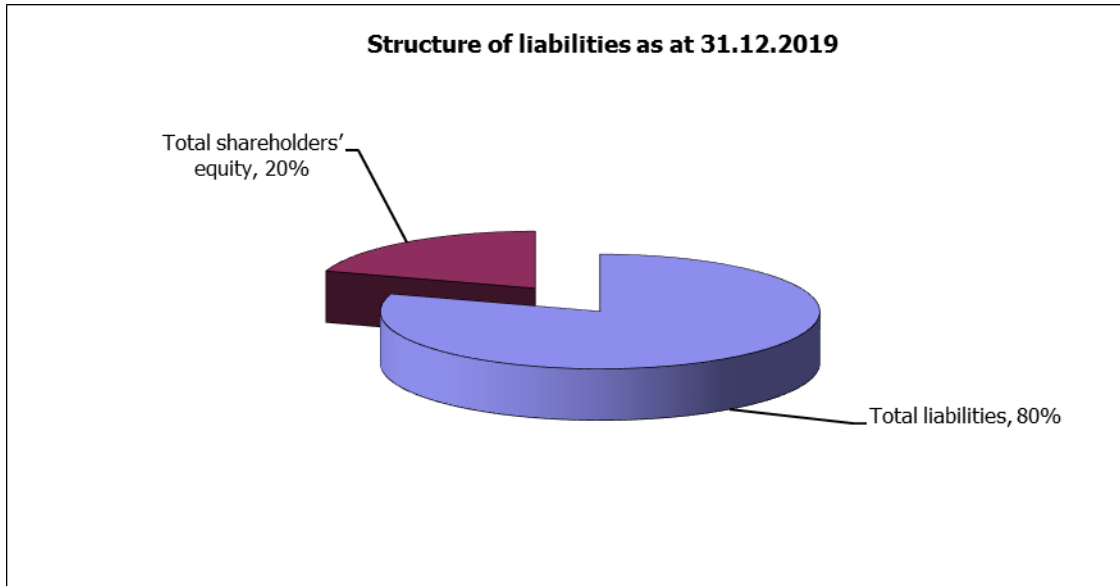
In 2019 the Bank placed its resources in loans, deposits in banks and NBM, State Bonds, and NBM instruments (bank certificates).

LIABILITIES

Liabilities and share capital are sources of financing the operations of the Bank. As at 31.12.2018 the share of Bank's capital 26% and its liabilities – 74%.

Diagram 3

Structure of liabilities



Bank's liabilities as at 31.12.2019 amounted to 1,887 million lei, increasing by 45.9% (or 593 million lei). The volume of individuals deposit accounts increased by 69% (or 301 million lei), while the volumes of legal entities deposit accounts increased by 66% (or 415 million lei).

During 2019 the Bank's strategy on attracting the funds was oriented on attracting the term deposits from clients, mainly for a term greater than 1 year. The Bank focused on term deposits from individuals, that have a lower risk of withdrawal at maturity and thus contributing to the reduction of deposits concentration rate.

Diagram 4

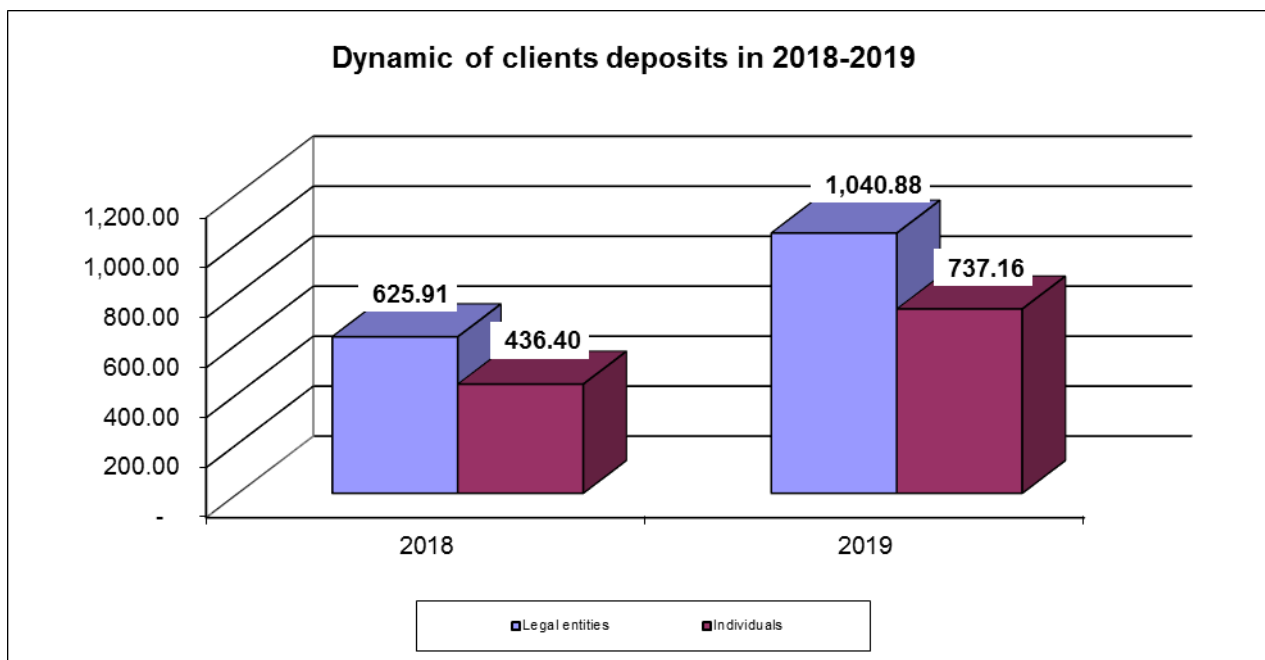
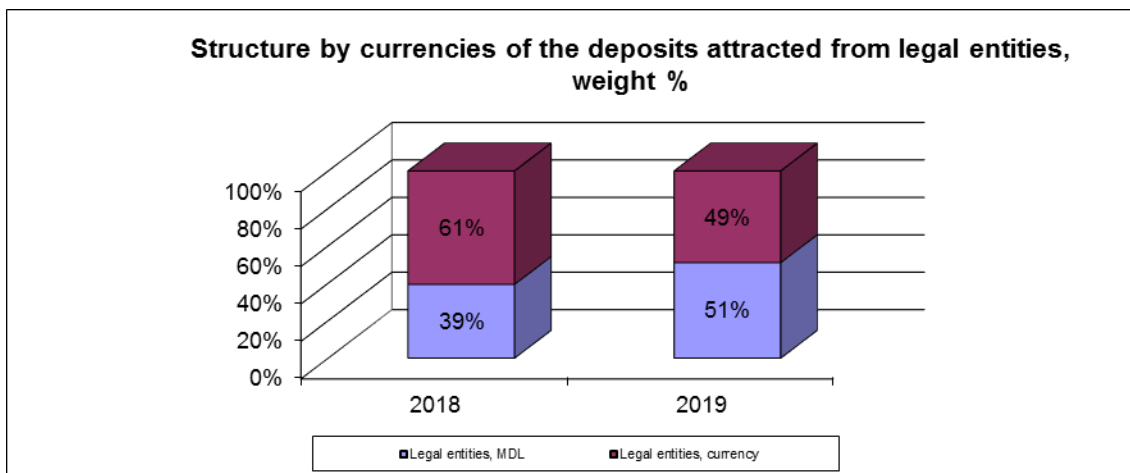
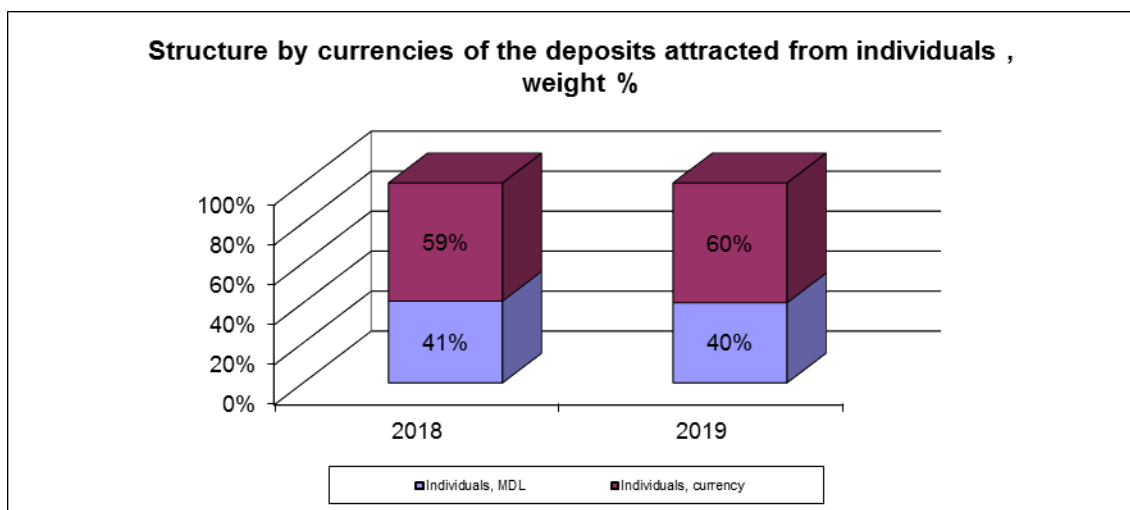
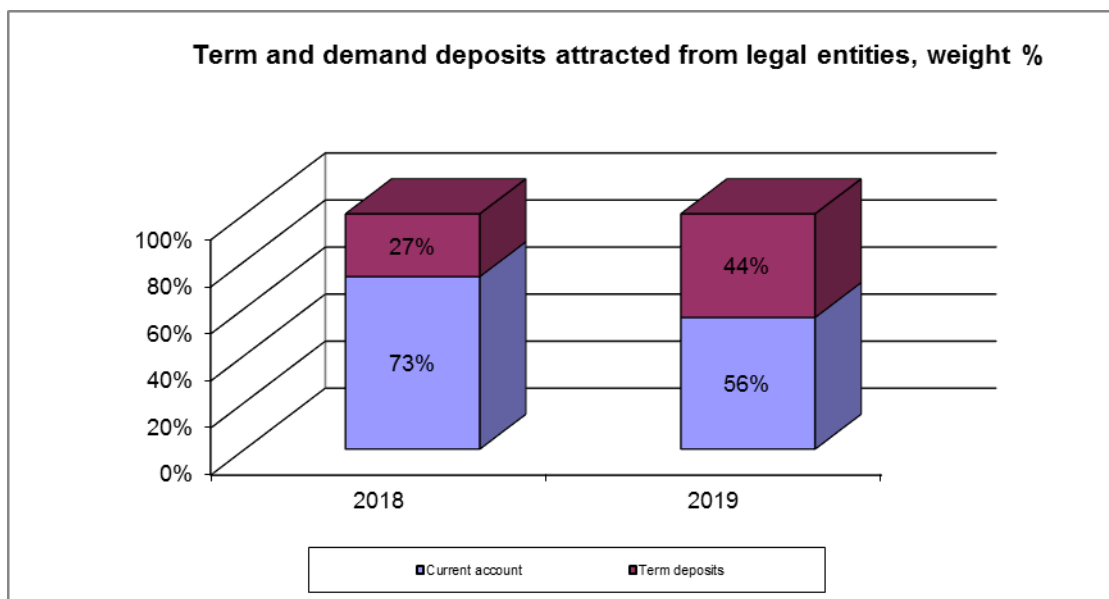
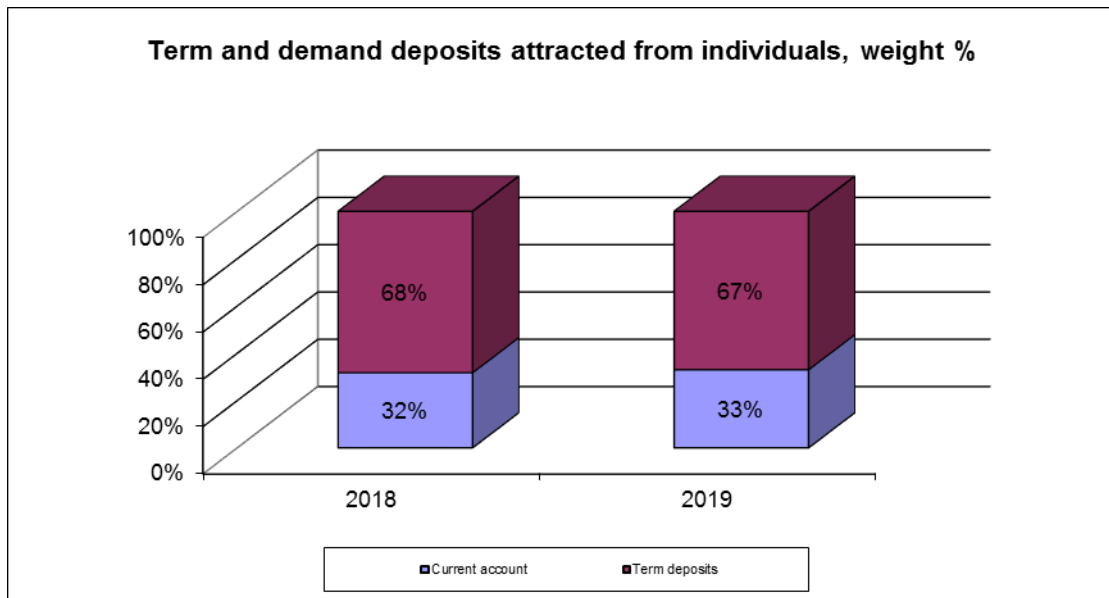


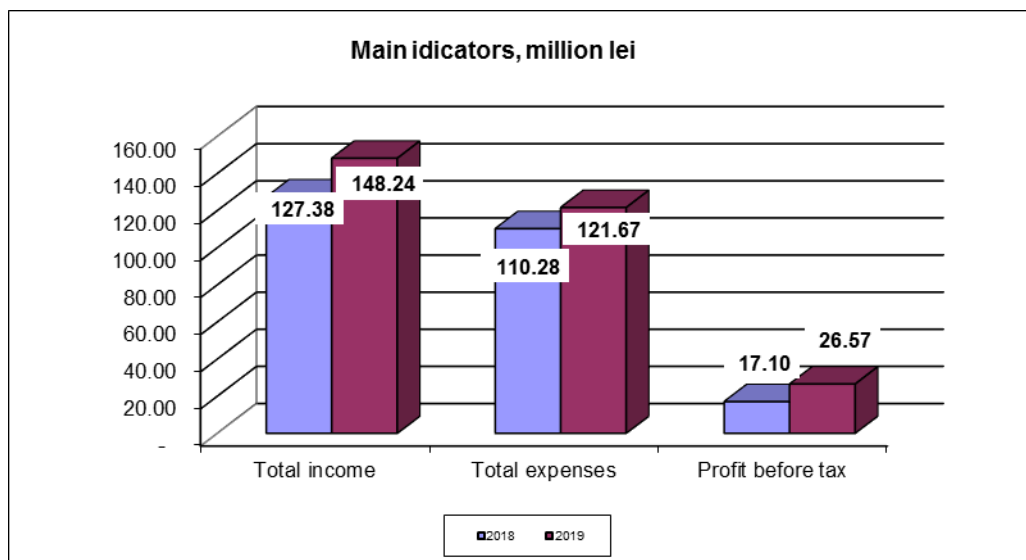
Diagram 5





Analysis of income and expenses

Based on 2019 **results** the Bank registered a net profit of 24.7 million lei, compared to net profit of 14.7 million lei in 2018. Loan loss provisions amounted to 5.6 million lei, while recoveries of written-off loans amounted to 2.7 million lei.



Total income increased by 16.4% amounting to 148.2 million lei, while total expenses amounted to 127.4 million lei, increasing by 15.4%.

The main share in total income (65.0%) represent interest income, amounting to 96.3 million lei showing an increase by 13.6% compared to 2018. Non-interest income in amount of 51.9 million lei increased by 22.0% compared with previous year.

Increase in interest income was caused by higher portfolios of loans and securities during the year.

Commission income increased in 2019 by 12.2% compared to previous year. The main increase being registered for clients' accounts servicing 16.5%.

Total expenses (Total interest and non-interest expenses) amounted 121.7 million lei. The main share in total expenses has salary expenses, other general and administrative expenses and interest expense on clients' deposits and borrowings.

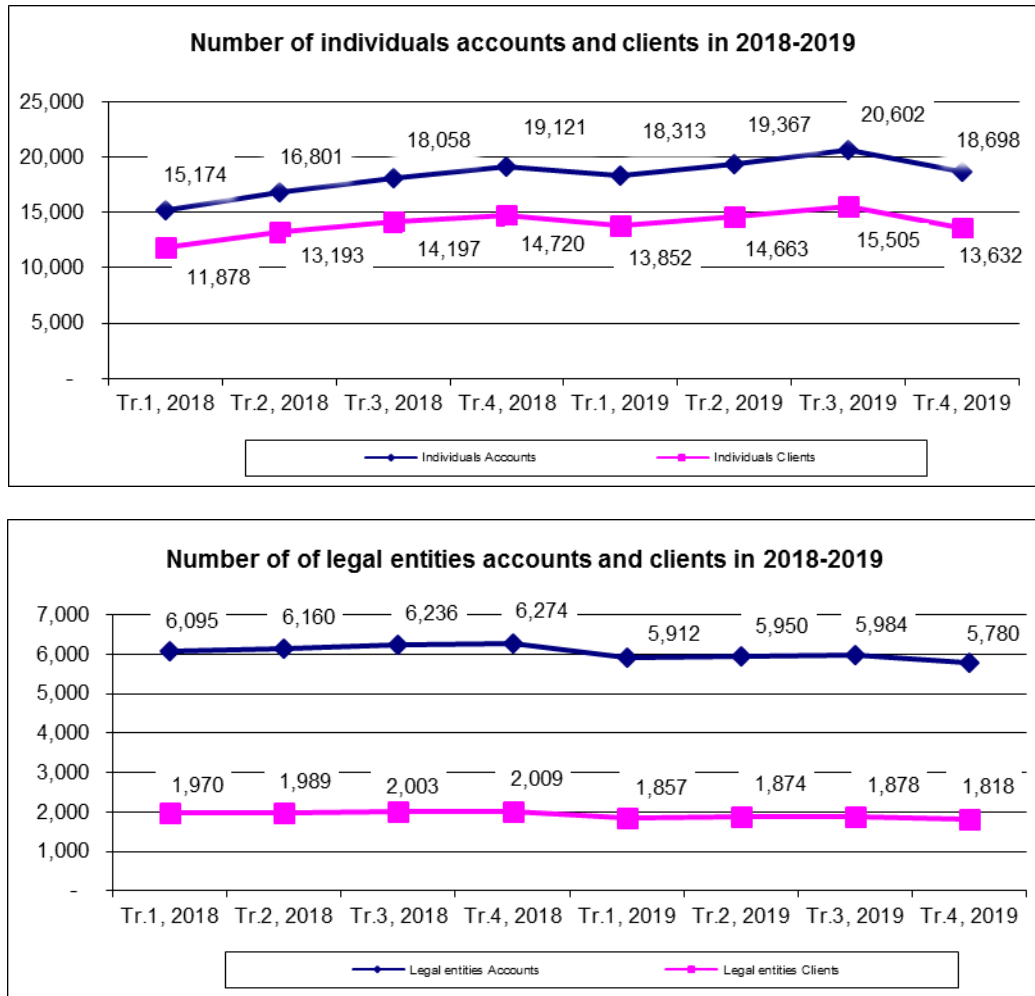
In 2019 the average interest rates for deposits attracted from legal entities decreased by 0.34 p.p. for the banking sector for deposits in local currency from 3.85% in 2018 to 3.50% and increased by 0.06 p.p. for foreign currency: from 1.61% to 1.67%.

For deposits attracted from individuals was registered an increase in interest rate for the whole bank sector for deposits in lei by 0.18 p.p. – from 4.80% to 4.98%, and IR for deposits in foreign currencies increased by 0.04 p.p. – from 0.90% in January to 0.94% in 2019.

IV. CLIENTS

The basis for offering services to clients was to offer to its clients an integral and modern set bank services and products at the highest level of quality. In 2019 the number of clients decreased by 7.6% (from 16,729 in 2018 to 15,450), and the number of accounts decreased by 3.6% (from 25,395 to 24,480 accounts). The decrease in the number of accounts and clients was registered for individuals (-2.2%, from 19,121 to 18,698 accounts, and 7.4%, from 14,720 to 13,632 clients). For legal entities was registered a decrease in the number of accounts and clients -7.9%, from 6,274 to 5,780 accounts, and -9.5%, from 2,009 to 1,818 clients).

Diagram 8



It should be mentioned the fact that, besides corporate clients that have active accounts, the Bank serves many clients without opening an account. These are payments made for the benefit of service suppliers, Forex operations etc.

BCR Chişinău S.A. offers to its clients a large set of services, including loans and transactional banking services, salary projects etc.

The Bank guarantees to its clients:

- Confidentiality;
- Individual approach and flexibility in relations;
- Complete information about the activity of the Bank.

V. CREDITING ACTIVITY

In 2019 BCR Chişinău S.A. continued to develop and improve its crediting policy.

Bank's **crediting policy** was very prudent in 2019. The bank focused mainly on lending Corporate and SME clients with a good financial standing and an impeccable reputation, continuing the administration of existing loans granted to individuals and micro-entreprises.

Priority directions of Bank credit activity were oriented towards the following segments:

1. Industry and trade;
2. Processing industry;

The main focus of credit activity of the Bank in 2019 was to insure profitable placements of funds with a minimum risk through:

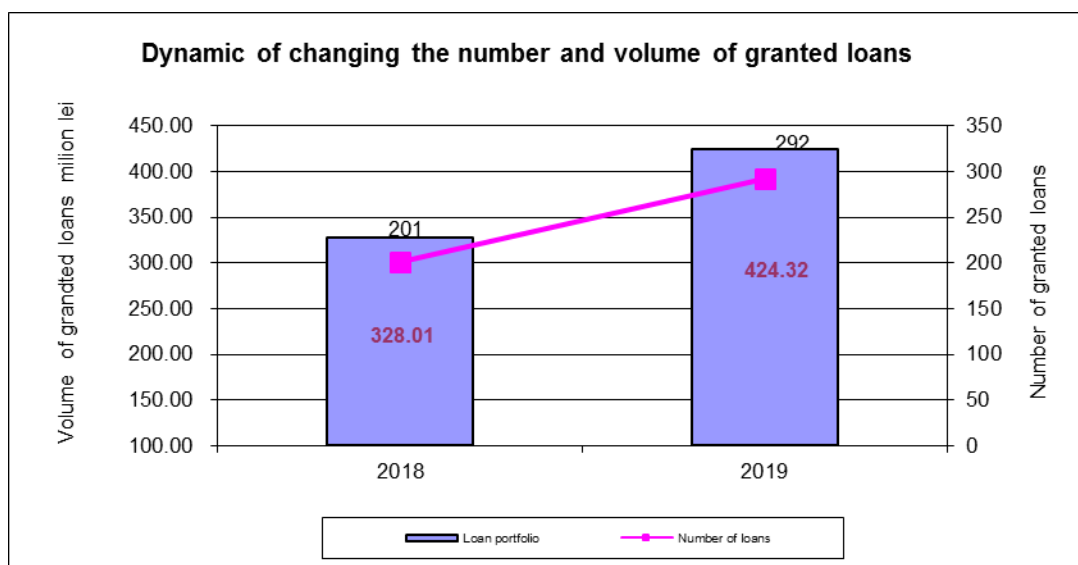
- Rigorous selection of potential clients.
- Improvement of loan portfolio quality.
- Diversification of services rendered to its clients.
- Diversification of portfolio depending on the loan term, mortgage type, industry of the client.
- Reduction of concentration in loan portfolio.

As of 31.12.2019 the volume of net loan portfolio (including factoring) amounted 718.7 million lei, representing 31.5% of total assets (in 2018 the net loan portfolio amounted to 756.0 million lei, representing 43.2% of total assets). In 2019 the bank has strengthened the efforts in developing long term relationship with key clients and has set up a growth strategy for 2020 based on banking activity on all segments (Corporate, SME and Retail).

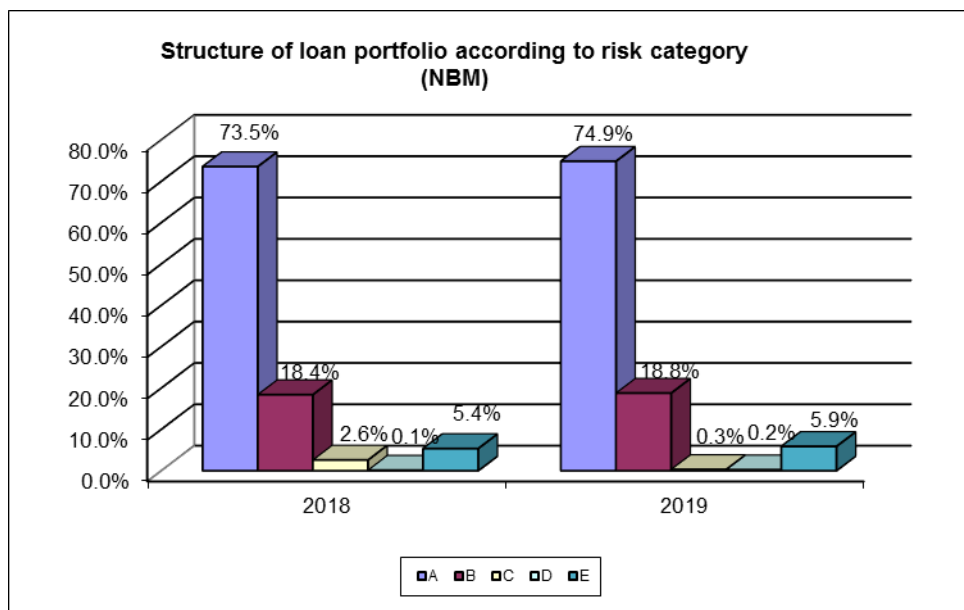
BCR Chişinău S.A. placed on 9th place on the market based on loan portfolio, with a share of 1.83% that represents a decrease by 0.29 p.p. compared to previous year (in 2018 was on 8th place).

Loans volume. In 2019 the Bank clients benefited from 292 loans in total amount of 424 million lei.

Diagram 9



Loan portfolio quality: As at 31.12.2019 the main share in the loans portfolio had performant loans (classified in „Standard” and „Watch” risk category) – 93.6% (as at 31.12.2018 – 91.9%).



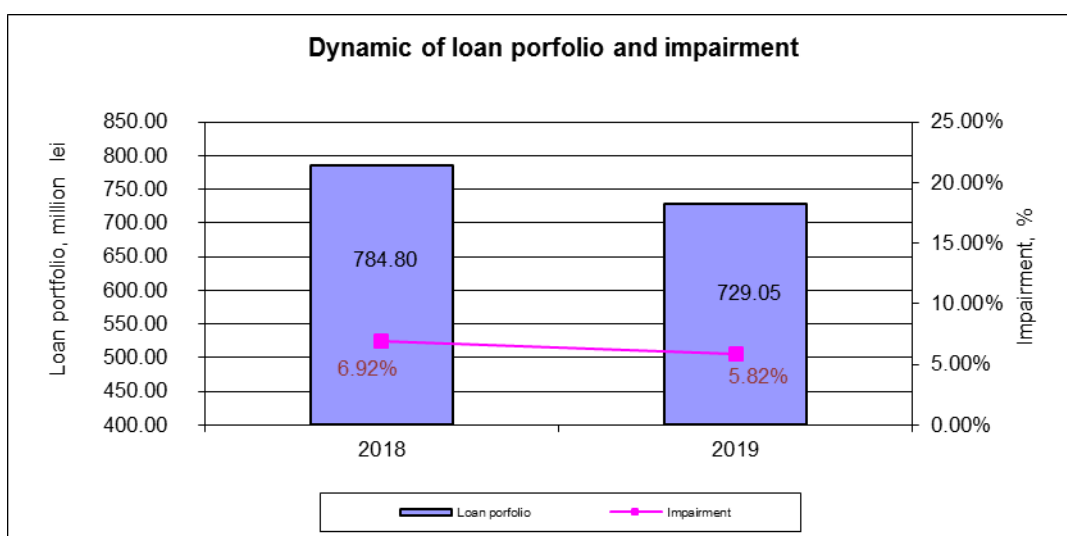
Indicator of nonperforming loans valued according to prudential norms / total portfolio (principal) is 5.02 p.p., being lower than the bank sector (8.49%).

Table 4

Indicators of loan portfolio quality

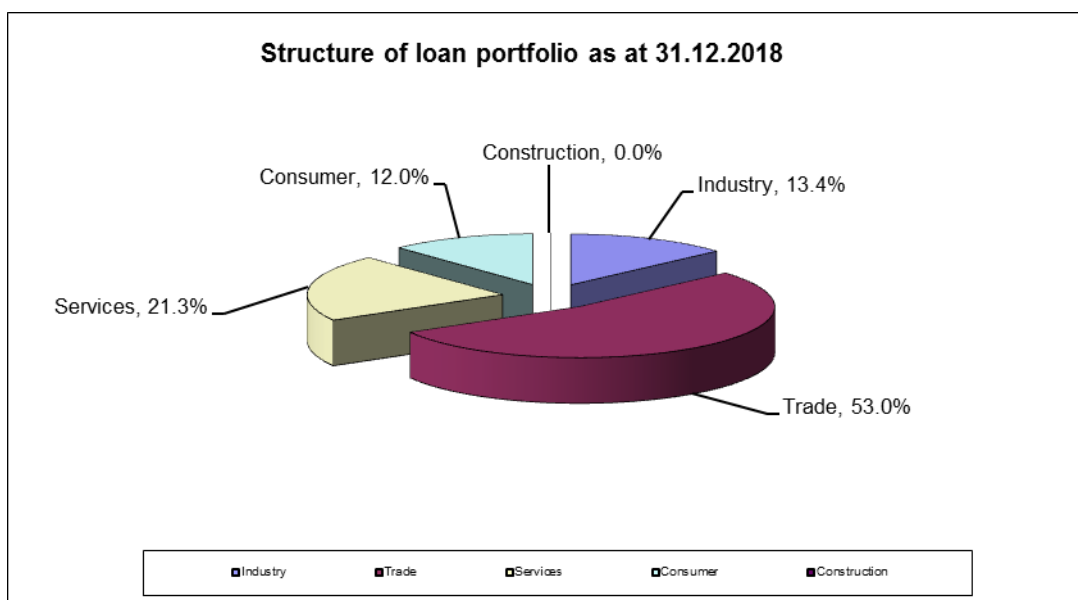
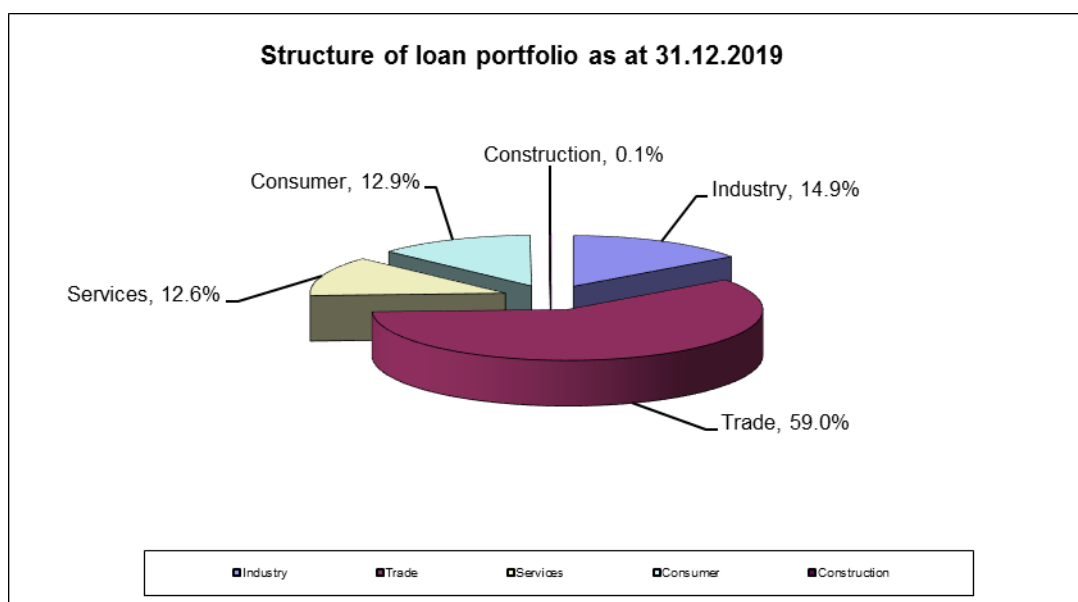
Indicator	31.12.2018	31.12.2019	Change
Non-performing Loans / Loans ratio	8.06%	5.02%	-3.04 p.p.
Provisions for loan losses/ Total loans	7.26%	6.81%	-0.45 p.p.
Top 10 net exposures/Net loans	28.20%	46.77%	18.57 p.p.

Diagram 11



In 2019 the structure of loan portfolio divided by industries hasn't changed compared to 2018. The share of loans granted to trade, industry and individuals increased from 53.0%, 13.4% and 12.0% accordingly in 2018 to 59.0%, 14.9% and 12.9% in 2019, while loans granted for services decreased from 21.3% in 2018 to 12.6% in 2019.

Diagram 12



According to market trend of overall bank sector, as well as BCR Chisinau S.A., the interest rate for new issued loans in lei and for loans in currency has diminished. Thereof, the average interest rate for loans in lei granted to legal entities in 2019 decreased compared to 2018 by 0.55 p.p. (from 9.31% to 8.76%), and for loans in currency decreased by 0.24 p.p. (from 4.64% to 4.40%). The average interest rate for loans granted in lei to individuals decreased by 0.42 p.p. (from 8.08% to 7.65%), and for loans in foreign currency decreased by 1.84 p.p. (from 8.74% to 6.90%).

The Bank plans to maintain for the future a high quality of loan portfolio through an efficient and well developed crediting policy.

VI. FINANCING

2019 was productive for BCR Chişinău S.A. Due to an efficient liquidity and risk management resulted in a net operational income of 30.8 million lei.

Capital. At the year-end 2019 the share capital amounted to 728.13 million lei (2018: 728.13 million lei). The bank did not issue, not redeemed, acquired or alienated own shares during 2019.

As at the year-end 2019 The Own Funds amounted to 402.6 million lei.

The bank has its policy regarding dividend distribution. It should be mentioned that in the last 3 years the bank didn't pay dividends to its own shareholder.

Table 5

Nr.	Indicators	Normative	Value
1	Own funds (million lei)	min 200 mln. lei	402.64
2	Solvency ratio (%)	min 13.5%	49.22%
3	Long term liquidity (P I)	max 1	0.23
4	Current liquidity (P II)	min 20%	67.61%

VII. ACTIVITY ON THE FOREX MARKET

The activity on the Forex market in 2019 was oriented towards: currency conversion transactions, clients' operations with foreign currencies, contracts for placing and attracting funds with foreign banks.

The strategy for Forex operations on the market was determined by the following factors:

- Increase of the clients base;
- Satisfaction of bank clients that perform transactions of currency buying/selling;
- Dynamic of official exchange rate of the NBM.

It should be mentioned that BCR Chişinău S.A. has 5 units of currency exchange that operates with 5 currencies. The main operating currencies remained US dollar and Euro, having a share of – 90% of all operations in 2018, decreasing compared with 2018 (96%). In 2019 has decreased the share of operations in Euro to 81% (88% in 2018). For USD the share increased to 9% in 2019 (8% in 2018).

Volume of assets in currencies increased by 20.0% compared to 31.12.2018, amounting to – 1,005.8 million lei as at 31.12.2019 (43% of total assets). the main increase was for current deposits and bank placements.

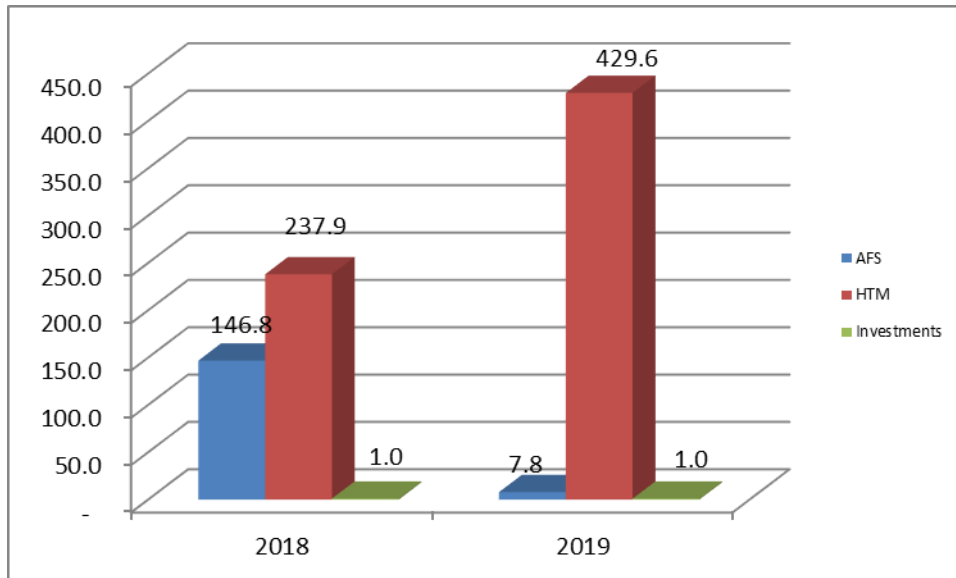
Income from Forex transactions in 2019 amounted to 26.1 million lei, which is 37% higher than in 2018.

VIII. ACTIVITY ON THE INVESTMENT MARKET OF MOLDOVA

Another important element in the assets structure is the investment activity. The advantage of placing the funds into securities is the stable income with a minimum risk level and the possibility to manage the Bank's liquidity.

Diagram 13

Analysis of investment portfolio (volumes in million lei)

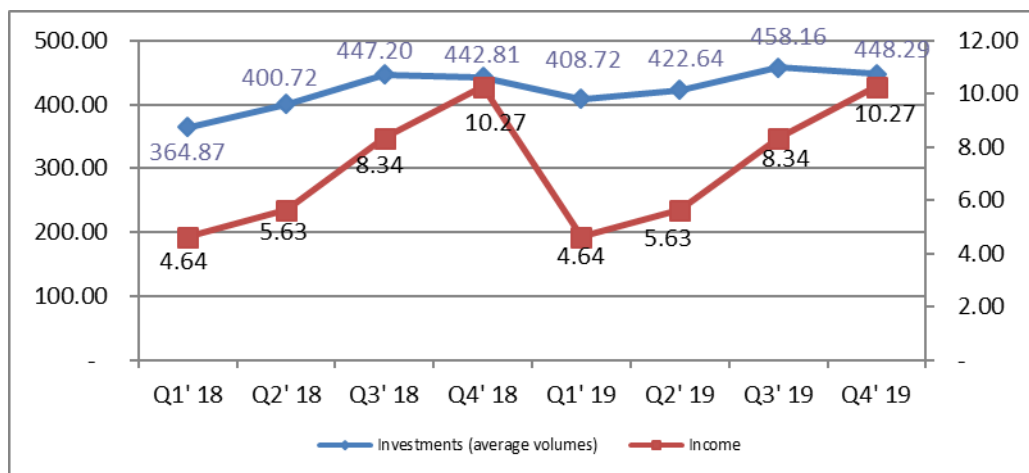


In 2019 the Bank placed a great amount of funds into acquisition of TB and NBM Certificates, generating 29 million lei of income from investment activity (or 19.5% of total income). Compared to the previous year the income has decreased by 20.0% (or 4.9 million lei) as a result of increase in portfolio.

Investment portfolio volume as at 31.12.2019 amounted to 438.4 million lei.

Diagram 14

Dynamic of changes in average volumes of investments and related income (In million lei)



IX. OPERATIONS WITH CARDS

In 2019 the cards issued by BCR Chisinau S.A. (BCRC) amounted to 7,526 units, card portfolio at the end of 2019 was 10,784 units. As at the end of 2019 the Bank had a 0.54% share (including 1.03% VISA cards) on the bank cards market in Republic of Moldova.

In 2019 the transactions at ATMs BCRC decreased by 0.95 % as volume (423.49 mil. lei - 2019 compared to 427.59 mil. lei - 2018) and 4.3 % as number (336,700 transactions - 2019 compared to 351,847 transactions - 2018), due that have been uninstalled 8 ATM units, the market share of ATM`s held by the bank represented 2.47% at national level (28 ATM`s, incl. 5 Cash-In ATM`s). The volume of interchange commission generated by transactions made at ATM`s BCR Chisinau SA increased by 9.37% compared to 2018 (2.57 mil. lei - 2019 compared to 2.35 mil. lei – 2018).

At 31.12.2019 the card accounts balance amounted to 170.53 mil. lei, which represents an increase by 69.72% of the indicator for 2018 and the volume of transactions on cards accounts, amounted to 767.72 mil. lei, which represents an increase by 29.67% of the indicator for 2018.

X. E - CHANNELS

At the end of 2019, the total number of 24Banking clients consisted of 3,777 clients (2,979 individuals and 798 legal entities), which represents a 37.7% increase compared to 2018. The volume of transactions through 24Banking in 2019 amounted to 17,799 mil. lei, which represents an increase by 35.3% of the indicator for 2018.

In July 2019, the mobile version of 24Banking was launched.

At InfoCont service (the account balance and account statements online) at the end of 2019 was connected 961 legal entities and 1,913 individuals, which represents an increase by 19.46% of the indicator for 2018.

The amount collected from legal entities through Automatic Deposit Machine (ADM) in 2019 was in sum of 53.74 mil. lei. At the moment in Moldova only at BCR Chisinau there is such a device type.

XI. INFORMATIONAL TEHNOLOGIES

In the era of information technology, the development of a Bank can not be achieved without investment in technology, modern and reliable solutions in continuous development. Investing in the bank's technological development presents a number of advantages, including new, modern technologies in executing operations and transfers more efficiently and quickly, with low and accurately high risk, streamlining control, access management and information processing.

The requirements for quick access to services and information, the exponential increase of data complexity is increasing the role of IT in banking sector. The change in risk approach, regulatory requirements, big data processing requirements forces allocation of resources to IT area. A high level of services in banking sector can be ensured only using modern information technologies.

Reduction of time and cost pe transaction (as a result of no network and staff used), utilisation of staff in other activities are only several real advantages of using electronic systems.

There is no doubt that bank's customers are generally attracted by bank's products with low interest and not by modern e-banking services, but they can be kept by such instruments. On day banking customers will become more demanding, better documented, requiring effective benefits, characterized by professionalism and confidentiality while. Although this type of service is not a profit center, BCR Chisinau will continue to invest in improving these systems, as they allow getting customers loyalty. International studies show that the number of those who use electronic solutions is constantly

growing and in the future, the customers will refuse the banks that do not offer quality electronic services.

IT today has a key role in the activity and development of a banking business. BCR Chişinău has a Data Centre in compliance to international standards. New implemented infrastructure in BCR assures a high performance production network, a modern server and data storage infrastructure.

Implementation of new technologies and infrastructure upgrades insures the bank and the client a high level of reliability, processing speed and redundancy of information systems. Bank has modern technology network of IP telephony that interconnects all bank sites. IVR service and Call Centre (Info BCR), Internet site and Intranet Portal is constantly improved to insure a large range of services and quicker access to information provided to internal and external clients based on new technologies implemented by leading companies in the field of communication and data processing services.

Modern technologies and efficient systems allow future development of new services and solutions according bank's needs and customers' expectations.

XII. CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

Banca Comerciala Română Chisinau S.A. („Bank”) carries out its activity based on a corporate governance framework, in observance of the Republic of Moldova legal and regulatory requirements, as well alignment with BCR SA/Erste Group guideline and the best international practices in the field. Public acces to the corporate governance principles is ensured by publishing the Code on the bank's web page at address: <https://www.bcr.md/ro/dezvaluire-informatii/informatie-guvernanta>.

Bank's principles guiding the bank's activity:

- **Client first**– we offer services of financial intermediation. We take over the risk and offer trust. We build a long-term mutually beneficial relation with our clients.
- **Performance** – We are concerned to ensure an efficient working environment and deliver outstanding results following four aspects: client satisfaction, the bank's profitability, market share and regulatory compliance.
- **Accountability** – Employees' accountability is part of the business model. We focus on increasing efficiency day by day, learning from mistakes and looking for solutions, not excuses..
- **Cooperation** – We base our work on the constructive cooperation principle by knowledge sharing and mutual support..
- **Initiative** – We encourage initiative, anticipation and prompt reaction to changes through implementation of valid solutions.
- **Discipline and results** – Building a successful bank showing that we are genuine professionals. The activity must be characterized by the best ethic behavioral and image standards.

BCR Chisinau S.A. is an authorized bank to operate all kinds of banking activities in the Republic of Moldova.

The territorial network includes the headquarters in Chisinau, four branches (two located in Chisinau, one in Balti and one in Cahul) and an agency (located within Romanian embassy's premises).

BCR Chisinau SA principles, corporate governance structure and shareholding

From BCR's perspective, Corporate Governance means all rules, systems and processes implemented with a view to establish the relation between shareholders, management, clients,

employees, suppliers and other parties involved in setting the objectives and the manner to achieve them, for increasing economic performance and, implicitly, the Bank's value. It also highlights the efficiency of the management systems, namely the role of the Supervisory Board and of the Management Board, the responsibilities and remuneration of these structures' members, the creditability of the financial statements and the efficiency of control functions.

BCR establishes and reassess on an annual basis and publishes on its website the corporate governance principles that ensure an adequate framework for its activity, in observance of the legal and regulatory requirements of the legislative framework in Romania, the guiding principles of Erste Group Bank, as well as the best international practices in the field.

The report has the role of annually assessing the manner in which the general principles and the governance policy are implemented and reflected through the presentation of the corporate governance structure, including the manner in which it is transposed in the bank's internal governance and the manner in which its management body, through its supervisory and executive management functions, supervises and implements an activity management framework that ensures the efficient and cautious management of the credit institution..

Based on the provisions of the Law on joint stock companies no 1134-XIII of 02.04.1997, Law on banking activity, Low on capital market Corporate Governance Code, the CNPF recommendations and in compliance with Charter, BCR Chisinau is organized as a two-tier corporate governance structure

The management structure is designed so as to meet the following objectives:

- to fit the dimension and complexity of the bank activity;
- to allow a clear separation of responsibilities between the supervisory function and the management function;
- to allocate responsibilities and competencies along the functional/reporting lines in a clear, precise, well-defined and transparent manner;
- to ensure independence of the internal control system, so as to properly cover its main functions: risk management, compliance, internal audit;
- to improve the information flow, vertically, from top to bottom, and vice versa, and also horizontally, so as to ensure the delivery of comprehensive information, relevant in terms of the proper fulfilling of each organisational structure's tasks, in due time .

The BCR management structure consists of the **Management Board** – representing the **management function**, which ensures the operational management of the bank, and the **Supervisory Board** – representing the **supervisory function**, which ensures the supervision and coordination of the Management Board activity. Their competencies and responsibilities are regulated through the Charter, the Internal Rules of each structure and also through BCR's Operational Book..

Efficiently organised corporate governance helps ensure the Bank's stability and maintains corporate governance and business conduct standards.

Shareholding

The Bank's share capital is 728.130.000 lei, divided in 72.813 nominative shares, with a nominal value pe share of 10.000 lei.

The shareholder structure of Banca Comerciala Român SA as of 31.12.2019:

- **BCR SA**, București, București, Calea Victoriei, nr.15, sector 3, holds 72.813 nominative shares, worth 10.000 lei each, representing 100% of the total share capital.

Shareholders - General Shareholders Meeting

The shareholders exercise their rights within the General Shareholders Meeting („GMS” or „General Meeting”), which is the highest management body of the Bank.

The Bank’s shares are indivisible and offer its shareholders equal rights, each share representing the right to one vote in the General Shareholders Meeting.

The General Meetings are convened by the Management Board at least 30 days prior to the established meeting date.

The General Shareholders Meetings are ordinary and extraordinary. The Ordinary General Shareholders Meeting is held at least once a year, within 5 months from concluding the financial year and the Extraordinary General Meeting is convened whenever necessary.

The Bank carries out all diligences to protect and facilitate shareholders in exercising their rights, by clear and transparent provisions at the bank’s level:

- The right to safe registration means for shareholders/ associates;
- The right to timely, regular and relevant information with respect to the company’s development;
- The right to attend and vote during the GMS and additionally, the right to be informed with respect to the voting rules and procedures, applicable to this type of meetings; the right to their share of the company profit;
- The right to attend and to receive sufficient information with respect to the changes within the company: changes in the company Charter, authorization to issue new shares, one-off transactions (for example- sale of a significant part of the company’s assets);
- The right of the shareholders to address questions, also with respect to the independent auditor’s report, the right to participate in strategic decision making processes such as electing the Supervisory Board members or expressing opinions with respect to the remuneration of the Supervisory Board and Management Board members

In 2019, 5 meetings took place, one ordinary and 4 extraordinary meetings, with mainly the following topics on the agenda:

- Approval of the revenue & expenditure budget related to the 2019 financial exercise;
- Approval of the financial statements for the financial exercise concluded on 31.12.2018;
- Distribution of profit for the financial exercise concluded on 31.12.2018
- Appointment of the independent financial auditor

Transparency and timely dissemination of information is ensured in the Bank by:

- Regular and timely communication of relevant and material information with respect to the company, in order to guarantee that voting rights are properly exercised in the general shareholders meetings
- Timely, regular, complete and accurate reporting to shareholders and the independent auditor of all current, financial, administrative and extraordinary activities.

BCR Chisinau SA Management Structure

A. Organisational structure of the BCR Chisinau SA

BCR Chisinau SA is organized on the functional lines at central level.

The territorial units’ network of the Bank is formed of the units without legal personality, respectively branches and agencies. Executive Director of the Sales and Business Development insures the activity coordination and the organization of the units.

According to the legal requirements, the management structure has the role to monitor, assess and regularly revise the efficiency of the management framework of the bank’s activity and of the

policies, which refer to it, so that it takes into consideration any change of internal and external factors which affect the Bank.

B. Supervisory Board (SB)

Members – persons, appointment

The Supervisory Board is composed of three members (1 vacancy), appointed for a period of (4) four years, with the possibility of being re-elected for another period.

As such, the Supervisory Board structure at the end of 2018 was the following:

SB Member	Position	Starting date of the mandate	Ending date of the mandate
Manea Sergiu Cristian	President	30.04.2012	22.04.2020
Ganna Lishchenko	Member	12.09.2018	12.09.2022

Internal SB internal structure - subcommittees and their responsibilities

The Supervisory Board gathers in quarterly meetings or on any occasion necessary. In 2019 there were 28 Supervisory Board meetings, organised in compliance with the provisions of the Charter and of the Supervisory Board Internal Rules, out of which 4 were regular meetings and the others were held through correspondence.

In order to fulfil its attributions, the Supervisory Board established the following committees:

Audit, Compliance and Risks Administration Committee – it has a consultative role, as it was established in order to assist the Supervisory Board in carrying out its attributions, drafting recommendations within the limits of its competencies, according to its responsibilities and attributions provisioned in the Internal Rules, in relation to internal control, compliance, audit, risk, financial crime and litigations;

Control instruments in relation to the Management Board

The Supervisory Board supervises and coordinates the activity of the Management Board, as well as compliance with legal provisions, the Charter and the decisions of the General Shareholders Meeting related to the Bank's activity.

The Supervisory Board exercises a permanent control over the Bank's management and specifically over the Management Board's activity, based on the following responsibilities:

- The Supervisory Board should monitor the compliance of administrative operations carried out by the Management Board based on the applicable legislation, the Bank's Charter and the resolutions of the General Shareholders' Meeting of the Bank;
- The Supervisory Board represents the Bank in what concerns communications with the Management Board;
- The Supervisory Board is not involved in the day-to-day administration of the Bank, and these attributions are not appointed to the Supervisory Board, except for certain provisions included in the applicable legislation and/or the Bank's Charter.

C. Management Board (MB)

Members – persons, appointment

According to the provisions of the Management Board Internal Rules, the management of the Bank carries out its responsibilities under the supervision of the Supervisory Board, which appoints and revokes Management Board members and the Management Board chairman from the existing members, acting in accordance with the current provisions of the Bank's internal regulations and Charter.

According to the provisions of the Charter, the number of the members of the Management Board is established by the Supervisory Board (on December 31st, 2019, the Management Board had 3 members).

Management Board membership on December 31st 2019:

MB Member	Position	Starting date of the mandate	Ending date of the mandate
Juan Luis Martin Ortigosa	President	25.07.2013	15.04.2022
Codreanu Natalia	Member	23.09.2013	21.09.2020
Rusu Iurie	Member	30.01.2015	31.01.2021

Internal structure – subcommittees and their responsibilities

The Management Board meets in weekly meetings or whenever necessary. During 2019, the Management Board had 75 meetings, namely 31 regular meetings and 44 extraordinary meetings.

In order to carry out its responsibilities, the MB has created the following committees:

Name	Responsibilities
Loan Committee	Loan committee is organized and operates as assessment/pre-approval/approval bodies of documents on loans approval, modification of granting conditions, usage, granting and/or reimbursement of some anterior granted loans, requirements to conclude the agreements and extending the period of validity, the issue of guarantee letters, loan contracts, factoring operations and other facilities, in the limit settled through Bank's regulations.
Asset-Liability Committee (ALCO)	ALCO review, report and assists to MB in performing its activity in the area of asset and liability structure management, financing strategy, interest rate policy, liquidity policy, and is an analysis and decision-making body that issues decisions and recommendations according to established authority limits. ALCO may set up committees, subcommittee that are organized and function on the basis of their own operating regulations approved by the MB.
Arrears Committee	Arrears Committee drafts/develops the strategy of recovering of the Bank's receivables, insures the recovery maximizing of the Bank's receivables, decides on the necessary measures to reduce the non-performing loan portfolio of the Bank.
Project committee	The Project Committee is the analytical, advisory and approval body for the Bank's newly created and ongoing portfolio of programs and projects, at the local or group level, which are defined and approved in line with the Bank's strategy, on budget allocation for projects implementation.

IV. Community

Any community values dignity, kindness, honesty and wisdom. These core values are part of BCR's principles: **Client first, Accountability, Performance, Cooperation, Initiative, Discipline and Results.**

This is what we are offering to our clients when we work and behave according to Bank's principles.

Bank's strategic directions in the relation with the community:

- Supporting and promoting leaders and role-models;
- Education for practical skills development;

- Civic leadership.
- **Supporting and promoting leaders and role models**, by taking part in the creation of a positive and inspirational framework for Moldova's development.
- **Education for practical skills development**, by strategic partnerships with the largest universities in the country, with the main goal of creating projects which help develop practical skills of students for an easier integration in the labour market.
- **Civic leadership**, by developing projects which annually support hundreds of NGOs, as well as by encouraging employees to be responsible citizens, thus integrating the bank in the community.

Also, **Bank's team members** are encouraged to act as **responsible citizens** in the communities they belong.

XIII. RISK MANAGEMENT

Ensuring a responsible, prudent and profitable banking activity first and foremost requires the identification, assessment, monitoring, managing and reporting of significant risks.

Significant risks are determined conditional upon the nature, volume and complexity of the activities unfolded by the bank within the annual risk materiality assessment exercise.

In this respect, the risks which may strongly impact the patrimonial status and/or the reputation of the bank, that BCR Chisinau S.A. considers significant risks are: **credit, market, liquidity, operational, inter-concentration, compliance, strategic, macroeconomic and political risks**.

For a proper management of significant risks, the bank uses:

- a system of procedures for the authorization of operations affected by the respective risks, consisting in the drawing up of credit approval competences/ pouvoirs for: the granting of loans and credit-type products, interbank placements, etc.;
- a risk exposures reporting system, as well as additional aspects related to these risks, to the proper management levels (reports on the bank's exposure to significant risks, the compliance with the risk limits drawn up by the bank etc.);
- a system of responsibilities, policies, norms and procedures on internal control at bank level;
- a system for the management of legal risk and compliance risk;
- criteria for the recruitment and remuneration of personnel, including criteria drawn up in order to avoid conflicts of interest, which should stipulate high training, experience and integrity standards;
- personnel training programs;

The risk management activity is consolidated under the Finance and Risk functional line. In these terms, risk management specialists are clearly delimited from an organizational point of view from the employees who have responsibilities in the business development area.

The bank properly assigns attributions to all its organizational levels, making sure that the personnel does not have responsibilities which might lead to conflicts of interest (e.g. dual responsibilities for one individual, such as: the unfolding of both front-office and back-office activities, approval of fund drawings and performing the respective drawings, the assessment of the credit documentations and the monitoring of the client after the latter has obtained the loan, etc.).

Credit risk, being the risk of losses or of failing to achieve the estimated profit, due to the inability of counterparty to fulfill its contractual obligations, is the main risk faced by the bank due to the fact that more than 40% of the assets are loans.

The main risk management focus will be on an active management of the lending book, on the improvement of the asset quality (keeping NPL under control) and setting the basis for a healthy growth of loan portfolio.

In the context of the global financial crisis, BCR Chisinau S.A. establishes limits on countries, sovereign entities, banks and financial institutions affiliated to bank groups, closely monitors its exposures, performing risk analysis whenever negative information emerge on one of its counterparties and putting forth adequate measures with respect to the risk limits assigned.

Market risk is the risk of registering losses or of failing to achieve the estimated profits due to the market fluctuation of prices, interest rates and exchange rates.

The bank pays special attention to the identification of the market risk sources, evaluation of its risk exposure and setting a proper limits for market risk mitigation/limitation, having as an objective assurance of a proper structure of its portfolio in the way that the change of interest rates, FX rates and market prices won't have an important negative impact on BCR Chisinau S.A. activity and financial performance.

Liquidity risk represents the risk of registering losses or of failing to achieve the estimated profits due to the impossibility of credit institutions to honor their short-term payment obligations at any point, without there being any costs or losses which may not be covered by the respective institution.

The administration of liquidity risks envisages the ensuring of the necessary liquid funds enabling the bank to cover its financial obligations at any point, to maintain a proper liquidity level for all time buckets and the maximization of the net income obtained from interests. The bank pays special attention to the identification of the liquidity risk sources, to the assessment of the bank's exposure to this risk and to the drawing up of the appropriate risk limits.

Operational risk represents the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk also includes legal risk, but excludes strategic and reputational risk.

The management of operational risks seeks to ensure the internal framework which enables the identification, assessment, monitoring and undertaking of appropriate measures in order to decrease the operational losses.

Inter-Concentration Risk refers to risk concentrations that may arise from interactions between different risk exposures across different risk categories. The interactions between the different risk exposures may stem from a common underlying risk driver or from interacting risk drivers.

Concentration risk management at BCRC is based upon a framework of processes, methods and reports. Multiple analyses are regularly conducted, reviewed and reported. Concentration risks are also taken into account systematically in the stress factors of stress tests.

Macroeconomic risk is the risk that the bank incurs losses due to adverse changes in the overall economic environment, i.e. business cycle risk.

In order to support the management of macroeconomic risk and ensure the timely reaction to potential adverse developments the evolution of the macroeconomic environment, equity markets and banking sector are monitored on a regular basis by the bank.

Political risk is the exposure to a loss, caused by events in a particular country which are under the control of the government but clearly not under the control of an independent private enterprise or individual.

Some risks – such as political risk - arise from events outside the Bank and are beyond its influence or control. Because the Bank cannot prevent such risk / events from occurring, management must focus on identification and mitigation of their impact. In order to support the management of political risk the bank tracks the evolution internal and external market developments on a regular basis taking into account the implications of the political changes and government initiatives which can have wider economic implications on the banking industry.

Strategic risk represents the actual or potential risk for earnings and capital, resulting from changes in the business environment and from negative business decisions, improper implementation of decisions or lack of reaction to changes in the business environment.

Compliance risk is the risk represented by legal or regulatory sanctions, significant financial losses or losses of a bank's reputation, as a result of non-compliance with laws, rules, regulations, self-regulatory organizational standards and codes of conduct applicable to banking activity.

XIV. HUMAN RESOURCES ACTIVITY AND ORGANISATIONAL STRUCTURE

In 2019 HR management continued to be one of the most important issues for Bank management. The organizational changes have been focused on strengthening sales force, improving customer service and increase efficiency of support and control functions. The total number of employees at December 31st, 2019 amounted to 98 persons and remained within the targets approved by Bank management.

The Bank offered a number of possibilities to its employees to show their potential and develop a career. The Bank policy is to promote first of all its own staff. At the same time the Bank continued to attract talents from outside based on core competences required to the organizational development.

In 2019 for the 5-th year in a row, within the "Bursa Speranței" project, the bank awarded one stipend to students for research and development in various fields. The "Bursa Speranței" is a chance for young people with outstanding academic performance to continue their professional training and to develop their practical knowledge. The Bank has proposed to be an integral part of society and to support young people in the education and research process, thus contributing to the development of the community it belongs to.

Achieving new strategic goals implies personnel development in line with the Bank development. In 2020, human resources policy is oriented towards to the development of corporate culture, continuing professional development, improving individual performance, managing and promoting talent, increasing productivity and work efficiency. Human resources activity will contribute to the implementation of overall Bank objectives.

XV. EVENTS AFTER THE REPORTING DATE

Late in 2019 news first emerged from China about the COVID-19 (Coronavirus). The situation at year end, was that a limited number of cases of an unknown virus had been reported to the World Health Organisation. In the first few months of 2020 the virus had spread globally and its negative impact

has gained momentum. While this is still an evolving situation at the time of issuing these financial statements, it appears that the negative impact on global trade and on the Bank may be more severe than originally expected.

At the Bank level, was approved and implemented a continuity plan, which regulates the Bank's activity in the conditions of COVID 19 epidemiology. According to the plan, the Bank ensures the service of customers in compliance with all epidemiological requirements and is fully operational.

As of March 31, 2020, the Bank received from clients 10 restructuring requests due to COVID 19, of which 6 requests were approved. The volume of principal restructured as at March 31, 2020 was 50,262 thousand MDL. The NBM did not impose or recommend the granting of benefits to the bank's clients.

The employees carry out their activity partly in Bank's offices and partly from home, being implemented IT solutions.

The Bank constantly monitors the current situation and intervenes, as appropriate, with measures designed to ensure business continuity and protect the health of its customers and employees.

XVI. ANNEXES

BALANCE SHEET
INCOME STATEMENT

Indicator	2018		2019		Change	
	mil. Lei	share, %	mil. Lei	share, %	mil. Lei	%
Interest income from						
Due from NBM	7.86	6.17%	9.86	6.65%	2.00	25.45%
Due from banks	0.54	0.42%	0.88	0.59%	0.34	62.96%
Financial investments- AFS	8.81	6.92%	11.03	7.44%	2.22	25.20%
Financial investments- HTM	15.33	12.03%	18.01	12.15%	2.68	17.48%
Loans interest	52.28	41.04%	56.56	38.15%	4.28	8.19%
Other interest income	-	0.00%	-	0.00%	-	
Total interest income	84.82	66.59%	96.34	64.99%	11.52	13.58%
Interest expense on						
Due to banks	0.47	0.42%	0.90	0.70%	0.43	91.49%
Deposits of individuals	7.37	6.54%	14.94	11.58%	7.57	102.71%
Deposits of legal entities	6.74	5.98%	11.74	9.10%	5.00	74.18%
Other borrowings	10.41	9.24%	6.15	4.77%	(4.26)	-40.92%
Total interest expense	24.98	22.16%	33.72	26.13%	8.74	34.99%
Net interest income	59.84	46.98%	62.62	42.24%	2.78	4.65%
Less: Loan loss provision	(0.35)	-0.31%	(1.73)	-1.34%	(1.38)	394.29%
Net interest income after LLP	60.19	47.25%	64.34	43.40%	4.15	6.89%
Non-interest income (expense)						
Fees and commissions income	22.62	17.76%	25.37	17.11%	2.75	12.16%
Fees and commissions expense	8.66	7.68%	11.03	8.55%	2.37	27.37%
Net fees and commission income	13.97	10.97%	14.34	9.67%	0.37	2.65%
Income (expense) from FOREX	19.02	14.93%	26.12	17.62%	7.10	37.33%
General and administrative expenses						
Wages	35.03	31.08%	36.74	28.47%	1.71	4.88%
Other general and administrative expenses	29.25	25.95%	20.47	15.86%	(8.78)	-30.02%
Depreciation	8.64	7.67%	15.06	11.67%	6.42	74.31%
Total General and administrative expenses	72.93	64.71%	72.28	56.00%	(0.65)	-0.89%
Other operating result						
Other operating income	0.92	0.72%	0.41	0.28%	(0.51)	-55.43%
Other operating expense	4.38	3.89%	6.36	5.15%	1.98	45.21%
Impairment of non-financial assets	(0.32)	-0.28%	0.01	0.01%	0.33	-103.13%
Profit (loss) before taxation and extraordinary items	17.12	13.44%	26.56	17.92%	9.44	55.14%
Income tax charge (release)	2.43	2.16%	1.85	1.43%	(0.58)	-23.87%
Profit (loss) before extraordinary items	14.70	11.54%	24.71	16.67%	10.01	68.10%
Extraordinary profit (loss)	-	0.00%	-	0.00%	-	
Income tax	-	0.00%	-	0.00%	-	
Extraordinary profit (loss) less income tax	-	0.00%	-	0.00%	-	
Net profit (loss)	14.70	11.54%	24.71	16.67%	10.01	68.10%

Indicator	2018		2019		Change	
	mil. Lei	share, %	mil. Lei	share, %	mil. Lei	%
ASSETS						
Cash on hand	77.86	4.46%	113.68	4.82%	35.82	46.01%
Balances with National Bank	243.90	13.96%	695.96	29.48%	452.06	185.35%
Due from banks	244.94	14.02%	336.89	14.27%	91.95	37.54%
Loans and advances to customers	730.51	41.80%	686.65	29.09%	(43.86)	-6.00%
Financial assets at fair value through other comprehensive income (FVOCI) / (2017:Financial investments – available-for-sale)	147.78	8.46%	8.85	0.37%	(138.93)	-94.01%
Financial assets at amortized cost – state securities / (2017:Financial investments – held-to-maturity)	237.94	13.61%	429.57	18.20%	191.63	80.54%
Property and equipment	16.51	0.94%	33.18	1.41%	16.67	100.97%
Intangible assets	7.37	0.42%	6.83	0.29%	(0.54)	-7.33%
Deferred tax assets	1.41	0.08%	0.98	0.04%	(0.43)	-30.50%
Other assets	39.42	2.26%	48.24	2.04%	7.31	17.86%
Total assets	1,747.65	100.00%	2,360.81	100.00%	611.66	34.97%
LIABILITIES						
Due to banks	19.61	1.12%	16.73	0.71%	(2.88)	-14.69%
Other borrowings	191.16	10.94%	19.00	0.80%	(172.16)	-90.06%
Due to customers	1,062.31	60.79%	1,778.04	75.31%	715.73	67.37%
Other liabilities	17.60	1.01%	69.86	2.96%	52.25	296.71%
Deferred tax liabilities	2.76	0.16%	2.88	0.12%	0.12	4.35%
Total liabilities	1,293.44	74.01%	1,886.51	79.91%	593.06	45.85%
EQUITY						
Ordinary shares	728.13	41.66%	728.13	30.84%	-	0.00%
Statutory reserve	17.87	1.02%	18.61	0.79%	0.74	4.14%
Accumulated deficit	(298.29)	-17.07%	(272.82)	-11.56%	23.98	-8.08%
Available-for-sale financial assets reserves	6.50	0.37%	0.39	0.02%	(6.11)	
Total shareholders' equity	454.21	25.99%	474.30	20.09%	18.60	4.08%
Total liabilities and shareholders' equity	1,747.65	100.00%	2,360.81	100.00%	611.66	34.97%

CASH FLOW STATEMENT

Indicatori	2018	2019
	million Lei	million Lei
Cash flows from operating activities		
Interest receipts	104.19	102.70
Interest payments	(26.74)	(32.03)
Net fee and commission receipts	13.44	14.34
Net financial and other operating income	21.36	26.70
Recovery of written-off loans	5.24	1.73
Staff costs paid	(31.50)	(37.41)
Payments of general and administrative expenses	(30.36)	(26.40)
Income tax payments	(0.57)	(1.42)
Operating profit before working capital changes	55.06	48.21
		-
<i>(Increase) / decrease in operating assets:</i>		-
Loans, net	(157.73)	34.03
Other assets	(1.40)	0.54
		-
<i>Increase / (decrease) in operating liabilities:</i>		-
Due to banks	(48.79)	(2.89)
Due to customers and public authorities	350.87	716.48
Other liabilities	(21.60)	37.79
Net cash flow from / (used in) operating activities	176.42	834.16
		-
Purchase of property and equipment and intangible assets	(10.79)	(7.16)
Receipts from tangible and intangible assets	-	0.33
Proceeds from Financial investments AFS	2,807.79	3,617.05
Purchase of Financial investments AFS	(2,833.69)	(3,478.02)
Proceeds from Financial investments HTM	1,427.86	2,500.12
Purchase of Financial investments HTM	(1,487.85)	(2,702.80)
Net cash used in investing activities	(96.68)	(70.48)
		-
Cash flows from financing activities		-
Receipts from borrowings	131.16	38.15
Payments of borrowings	(126.66)	(220.35)
Net cash from financing activities	4.50	(182.20)
		-
Foreign currency effect	(1.15)	(0.58)
		-
Net increase/(decrease) in cash and cash equivalents	83.09	580.90
		-
Balance as at 1 January	485.40	569.44
Balance as at 31 December	569.38	1,150.34

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Reserve capital	Statutory Reserve	Accumulated deficit	Revaluation of financial assets at FVOCI	Other comprehensive income	Total
2019	mln. Lei	mln. Lei	mln. Lei	mln. Lei	mln. Lei	mln. Lei	mln. Lei
Balance as at 1 January	728.13	17.87	(335.65)	38.86	(0.06)	6.55	455.70
Net profit / (loss) for the year	-	-	24.708	-	-	-	24.71
Comprehensive income for the year	-	-	-	-	-	(6.11)	(6.11)
Transfers between reserves	-	0.74	(0.39)	(0.35)	-	-	-
Balance as at 31 December	728.13	18.61	(311.33)	38.51	(0.06)	0.44	474.30

	Share capital	Reserve capital	Statutory Reserve	Accumulated deficit	Revaluation of financial assets at FVOCI	Other comprehensive income	Total
2018	mln. Lei	mln. Lei	mln. Lei	mln. Lei	mln. Lei	mln. Lei	mln. Lei
Balance as at 1 January	728.13	16.99	(348.27)	62.95	0.21	-	460.01
Efect of transition to IFRS 9	-	-	(25.29)	-	-	5.40	(19.89)
Updated balance as at 1 January 2018	728.13	16.99	(373.56)	62.95	0.21	5.40	440.12
Net profit / (loss) for the year	-	-	14.695	-	-	-	14.70
Comprehensive income for the year	-	-	-	-	(0.27)	1.15	0.89
Transfers between reserves	-	0.88	23.21	(24.09)	-	-	-
Balance as at 31 December	728.13	17.87	(335.65)	38.86	(0.06)	6.55	455.70

FINANCIAL INDICATORS

Indicator	31.12.2018	31.12.2019	Change (%)
Total Assets	1,749.15	2,360.81	34.97%
Other assets	40.93	48.24	17.86%
Loans	730.51	686.65	-6.00%
Liquid assets	791.23	948.90	19.93%
Bank Deposits	19.61	16.73	-14.71%
Client Deposits	1,062.31	1,778.04	67.37%
Own funds	397.60	402.64	1.27%

Market share			
	31.12.2018	31.12.2019	Change
Total Assets	2.10%	2.61%	0.51%
Loans	2.12%	1.83%	-0.29%
Liquid assets	1.94%	2.08%	0.15%
Total Deposits	1.70%	2.62%	0.92%
Capital	3.19%	2.89%	-0.30%

Rating			
	31.12.2018	31.12.2019	Change
Total Assets	9	9	0
Loans	8	9	-1
Total Deposits	9	8	-1
Client Deposits	9	8	-1
Capital	9	9	0

Profitability indicators			
	31.12.2018	31.12.2019	Change
Net profit	14.70	24.71	10.01
Net Interest Income	59.84	62.62	2.78
Net Non-Interest Income	(43.08)	(37.78)	5.30
Provision allocation	(0.35)	(1.73)	(1.38)
ROA	0.84%	1.05%	0.21%
ROE	3.70%	6.14%	2.44%
Cost / Income ratio	78.56%	70.12%	-8.44%

Indicators of the loan portfolio quality			
	31.12.2018	31.12.2019	Change
Overdue Loans /Total loans	5.54%	4.59%	-0.95%
Non-performing Loans (non-interest) / Total loans	8.06%	5.02%	-3.04%
Provisions for loan losses/ Total loans	7.26%	6.81%	-0.45%
Large Loans/Total loans	28.20%	46.77%	18.57%
Solvency ratio	48.33%	49.22%	0.89%
Liquidity ratio	54.25%	67.61%	13.36%

**Declarația de guvernare corporativă
„Conformare sau justificare”**

Nr. d/o	ÎNTREBARE	DA	NU	DACĂ NU, ATUNCI JUSTIFICARE
1.	Dispune societatea de o pagină web proprie? Indicați denumirea acesteia.	DA www.bcr.md		
2.	Societatea a elaborat Codul de guvernare corporativă care descrie principiile de guvernare corporativă, inclusiv modificările la acesta?	DA		
3.	Codul de guvernare corporativă este plasat pe pagina web proprie a societății, cu indicarea datei la care a fost operată ultima modificare?	DA Aprobat la sedinta Consiliului de Supraveghere din 04.10.2019		
4.	În Codul de guvernare corporativă sunt definite funcțiile, competențele și atribuțiile consiliului, organului executiv și comisiei de cenzori a societății?	DA		
5.	Raportul anual al conducerii (organului executiv) prevede un capitol dedicat guvernării corporative în care sunt descrise toate evenimentele relevante, legate de guvernarea corporativă, înregistrate în perioada de gestiune?	DA		
6.	Societatea asigură tratamentul echitabil al tuturor acționarilor, inclusiv minoritari și străini, deținători de acțiuni ordinare și/sau preferențiale?	DA		
7.	Societatea a elaborat, a propus și a aprobat procedurile pentru convocarea și desfășurarea ordonată și eficientă a lucrărilor adunării generale a acționarilor, fără a prejudicia însă dreptul oricărui acționar de a-și exprima liber opinia asupra chestiunilor aflate în dezbateră?	DA		
8	Societatea publică pe pagina web proprie informații cu privire la următoarele aspecte privind guvernarea corporativă:			
	1) informații generale cu privire la societate – date istorice, genurile de activitate, datele de înregistrare, etc.;	DA		
	2) raportul societății cu privire la respectarea principiilor de guvernare corporativă și a prevederilor legislației;	DA		
	3) statutul societății;	DA		
	4) regulamentele societății, regulamentele consiliului societății, organului executiv, precum și politica de remunerare a membrilor organelor de conducere, de asemenea reglementarea procedurii privind convocarea și desfășurarea	DA		Componenta, responsabilitățile și atribuțiile Consiliului de Supraveghere, comitetului Executiv,

	adunării generale a acționarilor, în cazul în care astfel de procedură a fost adoptată;			precum și politica de remunerare a membrilor organelor de conducere sunt încorporate în Codul guvernanta corporativa în BCR Chișinău S.A., care este document public și este plasat pe pagina web al băncii. Reglementările de organizare și funcționare a organelor de conducere sunt documente de uz intern.
	5) situații financiare și rapoarte anuale ale societății;	DA		
	6) informații privind auditul intern și auditul extern al societății;	DA		Pe pagina web a băncii este publicată organigrama care prezintă existența și modul de subordonare a funcției de audit intern. Pe pagina web a băncii este publicată informația privind auditul extern (raport anual)
	7) informații cu privire la organul executiv, membrii consiliului societății (pentru fiecare membru separat). Se indică experiența de lucru, funcțiile deținute, studiile, informații cu privire la numărul de acțiuni deținute, cât și mențiunea privind independența acestora;	DA		
	8) acționarii care dețin cel puțin 5% din acțiunile societății, cât și informațiile privind modificările operate în lista acționarilor;	DA		
	9) orice alte informații care trebuie dezvăluite public de societate, în conformitate cu legea, de exemplu informații cu privire la tranzacțiile de proporții, orice evenimente importante, comunicate de presă ale societății, informații arhivate cu privire la rapoartele societății pentru perioadele precedente;	DA		
	10) Declarația de guvernanță corporativă.	DA		
9	Acționarul poate utiliza notificări electronice cu privire la convocarea adunării generale a acționarilor (dacă există o astfel de preferință)?	DA		
10.	Societatea publică pe pagina web proprie (într-o secțiune separată) informații privind adunările generale ale acționarilor:	DA		
	1) decizia de convocare a adunării generale a acționarilor?	DA		
	2) proiectele de decizii care urmează să fie examinate (materialele/ documentele aferente ordinii de zi), precum și orice alte informații referitoare la subiectele ordinii de zi?	DA		

	3) hotărârile adoptate și rezultatul votului?	DA		
11.	Există în cadrul societății funcția de secretar corporativ?	DA		
12.	Există în cadrul societății un departament/ persoană specializat(ă) dedicat(ă) relației cu investitorii?	DA		
13.	Consiliul se întrunește cel puțin o dată pe trimestru pentru monitorizarea desfășurării activității societății?	DA		
14.	Toate tranzacțiile cu persoane interesate sunt dezvăluite prin intermediul paginii web a societății?	DA		
15.	Consiliul societății/ organul executiv a adoptat o procedură în scopul identificării și soluționării adecvate a situațiilor de conflict de interese?	DA		
16.	Persoana interesată respectă prevederile legale și prevederile Codului de guvernare corporativă referitor la tranzacțiile cu conflict de interese?	DA		
17.	Structura consiliului societății asigură un număr suficient de membri independenți?	DA		
18.	Alegerea membrilor consiliului societății are la bază o procedură transparentă (criterii obiective privind calificarea profesională etc.)?	DA		
19.	Există un Comitet de remunerare în cadrul societății?		NU	Legislația nu obliga pentru bancile nesemnificative.
20.	Politica de remunerare a societății este aprobată de adunarea generală a acționarilor?		NU	Politica de remunerare este aprobată de Consiliul de Supraveghere (pentru banci competența CS conform Legii privind activitatea banicilor nr. 202 din 06.10.2017, art. 41)
21.	Politica de remunerare a societății este prezentată în Statutul/ Regulamentul intern și/sau în Codul de guvernare corporativă?	DA; Codul de guvernare corporativă (principia generale)		Exista si o reglementare separata
22.	Societatea publică pe pagina web proprie informațiile în limba rusă și/sau engleză?	DA		în limba rusă și engleză
23.	Există în cadrul societății un Comitet de audit?	DA		
24.	Societatea, a căror instrumente financiare sunt admise spre tranzacționare pe piața reglementată, prezintă pieței reglementate Declarația sa cu privire la conformarea sau neconformarea cu prevederile Codului de guvernare corporativă?	DA		Instrumentele financiare ale bancii nu sunt tranzacționate pe piața reglementată