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BC "Moldindconbank" SA
Financial Statements
For the Year Ended at December 31, 2018

Prepared in Accordance with
International Financial Reporting Standards

Contents

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INDEPENDENT AUDITOR'S REPORT

To: Shareholders of BC Moldindconbank SA

Opinion

We audited financial statements of BC Moldindconbank SA (the "Bank"), which comprise statement of financial position as at December 31, 2018 and statement of comprehensive income, statement of changes in equity, statement of cash flow for the year then ended and notes to the financial statements, which include significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2018, and its financial performance and its cash flow for the year ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the section *Auditor's responsibilities for the audit of the financial statements* of this auditor's report. We are independent of the Bank, according to the ethical requirements relevant to the audit of the financial statements and we accomplished other ethical responsibilities, according to these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw attention to Note 38 b, "Subsequent events of the reporting period", in the financial statements, which describes that on 21 February 2019, the Public Property Agency became owner of newly issued shares in the amount of 63.89% of the share capital, and on 22 March 2019, the right to ownership of these shares was transferred to "Doverie–Invest" S.A.. At the date of this report, the Bank is still in the early intervention regime. Our point of view is not a reservation in this regard.

Independence

We are independent in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Our audit approach

Overview

Materiality	25,8 million MDL
Audit Scope	We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Bank, the accounting processes and controls, and the industry in which the Bank operates.
Key audit matter	• Provision for impairment of loans and advances to customers • Assessment of the prudential reserves • Assets recovered by the bank as collateral

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material, if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including:

Materiality	25,8 million MDL
How we determined it	1% of net assets
Rationale for the materiality benchmark applied	We chose bank's net assets, considering the users interest in the financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements as at December 31, 2018. The matter mentioned below was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Key audit matter	How our audit addressed the key audit matter

Provision for impairment of loans

As described in Notes 3, "Significant accounting policies" of the Financial Statements, provisions for loans have been recognized in accordance with IFRS 9 "Financial Instruments".

We considered this point significant due to the importance of credit balances in the Bank's Balance Sheet and the fact that IFRS 9 is a new and comprehensive standard applicable from 1 January 2018, that involves a high level of professional judgment and management estimation for the calculation of these provisions.

Significant aspects of the judgment included:

- Interpretation of requirements to determine depreciation in accordance with IFRS 9, which is reflected in the expected losses on the bank's loans.
- Identify exposures with significant credit quality deterioration and allocation to Stages.
- Assumptions used in built models for expected bank credit losses, such as counterparty financial statements, expected future cash flows, prospective macroeconomic factors, etc. Key parameters used to calculate expected bank loan losses.

In relation to the information on the adoption of IFRS 9 by the Bank, we have assessed the key methodologies developed for calculation of the provision for credit losses in accordance with IFRS 9 for consistency with the requirements of IFRS 9 and assessed the appropriation of the approach to classification and measurements of financial instruments under that Standard. We have obtained an understanding of and assessed for reasonableness the key judgments, assumptions and calculations made by Management for estimating the impact of the adoption of IFRS 9 on the provision for credit losses.

We assessed and tested (on a sample basis) the design, operability and effectiveness of the internal control over the quality of credits, stage assignment criteria, model of expected losses from loans, including governance model and calculation accuracy. At the same time, the transfer of data to / from the banking software dedicated to the related calculations, was tested in / from core banking.

Also, for loans, the internal assessed controls include those that ensure that the data on which the key parameters are calculated, namely the PD (PD) and the loss in case of depreciation ("LGD"), are transferred in a way correctly and completely from the Bank's database in statistical models and are regularly updated, that reimbursements are appropriately allocated to the correct credit balances and that outstanding days are correctly calculated by the Bank's system.

Regarding the credit guarantees, we have reviewed and tested controls to ensure that collateral is properly registered, that collateral valuation is carried out periodically by qualified assessors and that the Bank applies appropriate rates of assistance to market values of guaranties regarding their duration and the recovery costs as well as guarantees are appropriately allocated to the relevant loan.

We re-performed discounted cash flows calculations, examined the expected future cash flows, including valuation of collateral.

We performed various types of analytical procedures over the adequacy of provision for loans.

We performed the evaluation of fairness and sufficiency disclosures of the financial statements.

Key audit matter	How our audit addressed the key audit matter
Assessment of the prudential reserves As described in Notes 19 of the Financial Statements, prudential provisions are recognized in accordance with the requirements of the National Bank of Moldova. We focused on this matter due to the significance of loans balances in Bank's balance sheet and in particular the significance of judgements and estimates required for calculation of the related reserves. These reserves are significant for determining of the bank risk and for estimating of the compliance with the normative capital rate. They are prepared monthly, based on NBM regulation, which supposes the classification of loans depending on the risk in the following categories: • Category A: Standard, 2% • Category B: Supervised, 5% • Category C: Substandard, 30% • Category D: Dubious, 60% • Category E: Compromise, 100% This classification is based on outstanding days, current financial situation of the counterparty assessed from the point of view of the capacity to honor its commitments, the contractual term's compliance, current trading value of the pledged object and its liquidity degree in the market, business environment of the counterparty, credit history on compliance by the counterparty of the obligations assumed by credit contracts, other factors that may affect the compliance by the counterparty of the contractual terms.	We assessed the key methodologies and related models for calculation of the reserve and its consistency with the requirements of National Bank of Moldova. We assessed and tested (on a sample basis) the design and operating effectiveness of the internal control over the overdue and renegotiated loans, loans exposure in the capital, including identification of the these loans and the data transfer into the system of reserve assessment. We tested (on a sample basis) loans, which had not been identified as necessary for the provision, and formed our own judgement as to whether that was appropriate. We then investigated any differences in our judgements with management to assess the appropriateness of management's judgements. We reviewed the control reports, prepared by the National Bank referring to the classification of these credits. We evaluated the acknowledgement of the reserves based on these acts, considering the subsequent events and settled loans. We performed various types of analytical procedures over the adequacy of provision for loans.
Assets revovered by the bank as collateral We have considered this matter as significant considering the due to the amount of the balances of the assets taken for the reimbursement of the loans and the level of professional judgment and management's estimation required for their fair value and the sufficiency of the provision for impairment.	The valuation of these assets was carried out by an International Valuation Company on December 31, 2018. We obtained the respective valuation reports, tested the methods used to establish the fair value by the Valuer and we assessed, based on our professional judgment, whether the management's reasoning for the determination of fair value is appropriate.

Management and Those Charged with Governance's responsibility

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

In preparing the financial statements, management is responsible for assessing the ability of the Bank 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 financial reporting process of the Bank.

*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 ISA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Society.
- 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 ability of the Society 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 Society 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.
- Obtain sufficient appropriate audit evidence regarding the financial information to give our opinion on the financial statements.

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

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

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

MOORE STEPHENS KSC S.R.L.

Chişinău, Moldova

1 April 2019

For signature, please refer to the original Romanian version.

Abbreviations used

DPD	Days past due
EAD	Exposure at default
ECL	Expected credit loss
EIR	Effective interest rate
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
HTC	Held to collect
LGD	Loss given default
PD	Probability of default
SPPI	Solely Payments of Principal and Interest

BC "Moldindconbank" SA

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 MDL'000	2017 MDL'000
Interest income calculated using the effective interest method		836,241	1,010,934
Other interest income		-	-
Interest expenses		(306,836)	(434,027)
Net interest income	22	**529,405**	**576,907**
Fees and commissions income		411,337	359,750
Fees and commissions expenses		(126,228)	(91,998)
Net fee and commission income	23	**285,109**	**267,752**
Net trading income			
Net income from financial instruments at fair value through profit or loss		-	-
Other operating income	24	31,497	37,752
Profit / (Loss) from derecognition of the financial assets at amortized cost		-	-
Total income		**846,011**	**882,411**
Other income	25	145,677	142,707
Impairment / Recovery of losses due to impairment of financial assets that are not measured at fair value through profit or loss	26	58,517	(132,689)
Staff costs	27	(272,982)	(250,588)
Operational lease expenses		-	-
Amortization and impairment	9,10	(55,836)	(73,828)
Other expenses	28	(173,217)	(169,214)
Profit before tax		**548,170**	**398,799**
Income tax	16	(47,826)	(35,033)
Profit for the period		**500,344**	**363,766**
Changes in the fair value of the financial assets-available-for-sale reclassified through other comprehensive income		(928)	533
Deferred income tax regarding the other comprehensive income elements		1,498	37
Elements which can be reclassified through other elements of the comprehensive income		570	570
Total comprehensive income for the year, net tax		**500,914**	**364,336**
Other elements of comprehensive income, net tax		1,184,501	947,554
Total comprehensive income		1,646,926	1,184,501
Earnings per share, MDL		**101**	**73**

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

The financial statements were authorized for issue on 01 April 2019 by the Executives of the Bank represented by:

Chairman of the Managing Board **Victor Cibotaru**

Deputy Chief Accountant **Elena Albulesa**

BC "Moldindconbank" SA
STATEMENT OF FINANCIAL POSITION
For the year ended 31 December 2018

	Notes	2018 MDL'000	2017 MDL'000
ASSETS			
Cash and balances with the National Bank	4	4,923,965	3,898,832
Current accounts and placements with banks	5	385,386	1,354,945
Debt instruments – at amortized cost	6	2,930,007	3,154,357
Loans to customers	7	6,931,648	5,366,544
Required reserves	4.1	569,451	584,689
Equity instruments at fair value through other comprehensive income (2017: available-for-sale)	8	13,803	4,191
Tangible assets, net	9	209,218	217,660
Intangible assets, net	10	47,345	44,976
Other assets, net	11	189,254	224,323
Non-current assets for disposal	12	283,749	302,580
Total assets		**16,483,826**	**15,153,097**
LIABILITIES			
Deposits from banks	13	26,023	13,056
Other borrowings	14	353,314	629,383
Deposits from customers	15	13,081,589	12,004,668
Current income tax liability		16,725	19,409
Deferred tax liability	16	4,692	7,226
Other liabilities	17	415,973	377,240
Total liabilities		**13,898,316**	**13,050,982**
EQUITY			
Share capital	18	494,466	494,466
Other reserves	19	442,684	422,115
Share premium		5	5
Revaluation reserve of the financial assets at fair value through comprehensive income (2017: available-for-sale)		1,429	1,028
Retained earnings		1,646,926	1,184,501
Total equity		**2,585,510**	**2,102,115**
Total liabilities and equity		**16,483,826**	**15,153,097**

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

The financial statements were authorized for issue on 01 April 2019 by the Executives of the Bank represented by:

Chairman of the Managing Board — **Victor Cibotaru**

Deputy Chief Accountant — **Elena Albulesa**

BC "Moldindconbank" SA
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2018

	Ordinary shares outstanding	Share premium	Other reserves	General reserves for banking risks	Available-for- sale reserve	Retained earnings	Total
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Balance as at 1 January 2017	494,466	5	51,089	244,207	458	947,554	1,737,779
Transfers	-	-	-	126,819	-	(126,819)	-
Transactions with owners	494,466	5	51,089	371,026	458	820,735	1,737,779
Net profit for the year						363,766	363,766
Other comprehensive income for the year, net of tax							
Net change of available-for-sale financial investment	-	-	-	-	570	-	570
Balance as at 31 December 2017	494,466	5	51,089	371,026	1,028	1,184,501	2,102,115
Balance as at 1 January 2018	494,466	5	51,089	371,026	1,028	1,184,501	2,102,115
Transfers				20,570		(20,570)	-
Effect of adjustments for IFRS 9 transition (Note 19)						(16,236)	(16,236)
Transactions with owners	494,466	5	51,089	391,596	1,028	1,147,695	2,085,879
Net profit for the year						500,344	500,344
Other comprehensive income for the year, net of tax							
Net change of available-for-sale financial investment	-	-	-	-	400	-	400
Other increase (decrease) in equity						(1,113)	(1,113)
Balance as at 31 December 2018	494,466	5	51,089	391,596	1,428	1,646,926	2,585,510

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

BC "Moldindconbank" SA

CASH FLOW STATEMENT

For the year ended 31 December 2018

	Notes	2018 MDL'000	2017 MDL'000
Operational activity			
Interest receipts		814,869	972,857
Interest payments		(311,950)	(448,944)
Net fee and commission receipts		281,253	262,405
Net financial income and other operating income		226,569	128,102
Staff costs paid		(270,286)	(254,238)
Receipts from assets in possession		2,049	-
Payments of general and administrative expenses		(188,600)	(178,797)
Cash flows before working capital changes		**553,904**	**481,385**
(Increase / decrease) in current assets:			
Current accounts and deposits at NBM		(42,295)	(37)
Current accounts and deposits at other banks		(916,162)	12,978
Securities over 90 days		(123,897)	(118,440)
Net Loans		(511,789)	1,429,166
Other assets		(51,098)	6,668
Increase /(decrease) in current liabilities:			
Due to banks		12,798	(27,507)
Due to customers		1,079,526	631,193
Other liabilities		(3,415)	20,903
Net cash flow from operating activities before income tax		**(2,428)**	**2,436,309**
Payments on income tax		(36,545)	-
Net cash flow from operating activities		**(38,973)**	**2,436,309**
Investing activities			
Purchase of intangible assets		(10,876)	(5,690)
Purchase of property and equipment		(22,692)	(7,153)
Proceeds from disposal of property and equipment		58	217
Payments on investment securities		(9,590)	(368)
Proceeds on investment securities		-	-
Net cash used in investing activities		**(43,100)**	**(12,994)**
Financing activities			
Proceeds from loans and borrowings		100,194	166,411
Payment of loans and borrowings		(373,417)	(400,438)
Dividends paid		-	(2,878)
Net cash from financing activities		**(273,223)**	**(236,905)**
Profit / (loss) from net foreign exchange		(1,583)	19,060
Net increase in cash and cash equivalents		**(356,879)**	**2,205,470**
Cash and cash equivalents at 1 January		**7,673,369**	**5,467,899**
Cash and cash equivalents at 31 December	21	7,316,490	7,673,369

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

1. General information

BC "Moldindconbank" SA (hereinafter the Bank) was founded on October 1991 as a commercial and savings Bank, offering a large spectrum of services and banking products for all client categories through its 63 subsidiaries (2017: 63 subsidiaries).

At the end of 2018, the Bank held the license issued by the National Bank of Moldova, which allowed it to perform the entire range of activities. The bank has 1,419 employees as at 31 December 2018 (1,448 employees from year ended 31 December 2017).

The registered office of the Bank is located at 38, Armeneasca Street, Chisinau, Republic of Moldova. The Bank has a primary listing on the Stock Exchange of Moldova.

By the decision of the Executive Committee no. 279 of October 20, 2016, the National Bank of Moldova applied to BC "Moldindconbank" SA early intervention measures, basing on the Law on recovery and resolution of banks no. 232 of 03.10.2016. Thus, by the indicated decision of the Executive Board of the NBM, from 20 October 2016, 17:00, members of the Bank Board and some members of the Bank's Management Committee were replaced.

As of December 31, 2018, the acting Board of Directors of the Bank is composed of five persons, temporary administrators appointed by the National Bank of Moldova: Chairman of the Bank Board – dl Giedrius Steponkus, members of bank's board – Mr. Aureliu Cincilei, Sorin Andrei, Anna Gheorghiu and Elena Punga.

The Managing Board is the executive body of the Bank that organizes, manages and is responsible for the current activity of the bank. The Managing Board is subordinated to the Board of Directors.

Composition of the Bank's Management Board as of 31.12.2018: Chairman of the Bank's Board of Directors with the right to represent the bank in relations with third persons – Mr. Aureliu Cincilei (temporary administrator appointed by the National Bank of Moldova); the deputy presidents of the Bank's Board of Directors – Mrs. Svetlana Magdaliuc and Mr. Iurie Ursu (temporary administrators appointed by the National Bank of Moldova). The position of First Deputy Chairman of the Bank's Board of Directors is further fulfilled by Mr. Victor Cibotaru.

The activity of the temporary administrators appointed by the NBM shall be carried out in accordance with the provisions of Title III, Chapter III of the Law on bank recovery and resolution, other applicable laws, constitutive acts and internal acts of the bank to the extent that they do not contradict the powers of the temporary administrators and the provisions of the decision NBM Executive Board no. 279 of 20 October 2016, with the subsequent changes and supplements.

The share capital of BC Moldindconbank SA is MDL'000 496,779 divided into 4,967,794 ordinary normative shares of Ist Class with voting right at nominal value of 100 lei / share. Ordinary normative shares issued by the Bank ISIN: MD14MICB1008 are admitted for trading on the regulated market at Moldova Stock Exchange (www.moldse.md).

The structure of the shareholders and groups of persons acting in concert, whose shareholding in Bank's share capital is equal to or greater than the substantial shareholding (1%) and the actual beneficiaries of the statement as at 31 December 2018:

1. General information (continued)

Structure of the Bank's shareholders

Shareholders (legal entities), whose shareholding is greater than 1%

	2018	2017
	Ownership, %	Ownership, %
SC "MVI" SRL	3,61	3,60
"Fera Management " SRL*	0	4,39
ICS "Cassia Group" SRL*	0	4,09
"Verloc Development INC" SRL*	0	4,52
IM "Remington" SRL*	0	4,50
"Jet Business Limited" SRL*	0	3,76
Firma "Dacado"SRL*	0	1,23
	3,61	**26,09**
Shareholders (individuals), whose shareholding is greater than 1%		
Mîrzac Valerian	9,11	9,06
Bauchina Irina	1,13	1,13
Nedoseichin Iuri	3,22	3,22
Kontievski Iuri*	0	4,43
Mazina Ludmila*	0	4,35
Podvishevskyi Vitalii*	0	4,33
Murashkin Artur*	0	4,31
Tkachenko Sergey*	0	4,28
Velicikina Tatiana*	0	4,25
Ciuico Igor*	0	4,25
Chernyakov Volodymyr*	0	4,35
Raducan Oleg*	0	2,75
Racoviţă Alexandru*	0	2,48
Golovcenco Serghei*	0	2,40
	13,46	**55,59**
Shareholders whose share does not exceed 1%		
Legal entities	8,70	7,89
Individuals	9,87	9,96
	18,57	**17,85**
Treasury bills	0,47	0,47
New shares issued provisionally registered on behalf of the bank*	63,89	0
Total	**100**	**100**

*Changes in number due to approximation

By the Executive Committee Decision no.278 of October 20, 2016, the National Bank of Moldova, stated that the shareholders the bank -SRL „Jet Business Limited", SRL „Verloc Development INC.", SRL „Fera Management", ÎM „Remington" SRL, ÎCS „Cassia Group" SRL, Mazina Liudmyla, Chernyakov Volodymyr, Podvishevskyi Vitalii, Ciuico Igor, Platon Veaceslav, Platon Nicolae, Uzun Maria, Kontievski Iuri, Murashkin Artur, Tkachenko Serghey, Velicikina Tatiana, Raducan Oleg, Racoviţă Alexandru, Golovcenco Serghei are acting in concert with respect to BC "Moldindconbank" S.A., have acquired and hold the substantial share (63.89%) in the bank's share capital without having the prior written permission of the National Bank of Moldova, according to the requirements of the legal framework. Because the mentioned shareholders did not alienate the shares within the set deadline, according to the laws in force, in January 2018, the shares owned by them, were canceled. Therewith, were issued new shares, in the same number and of the same class, which were registered on the behalf of the BC „Moldindconbank" S.A. and were exposed for sale.

2. Basis of presentation

2.1 Declaration of conformity

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

2.2. Valuation principles

The financial statements have been prepared under the historic cost convention, except for derivative financial instruments and available-for-sale financial assets that have been measured at fair value.

The preparation of the financial statements on a going concern basis requires management to make judgments, estimates and assumptions referring to income, expenses, assets, liabilities, cash flow, liquidity and capital requirement.

Uncertainties on these assumptions and estimates could lead to results that require significant adjustments to assets, liabilities and capital requirements in future periods.

The Bank recorded a net financial result of MDL'000 **500,344** for the financial year ended 31 December 2018, while the capital adequacy ratio reported according to the National Bank of Moldova's regulations was 23.98% (the minimum being 10%) as at 31 December 2018.

At the same time, based on the Bank's business plan, management estimates a net profit for the financial year ending December 31 2019 in amount of MDL'000 364 677.

Based on the above, the Bank's management has made an assessment of the Bank's capacity to continue its business in the near future, and concluded that the Bank will provide its business in the foreseeable future (at least 12 months from December 31, 2018), under normal circumstances and thus the financial statements as at 31 December 2018 were prepared on a going concern basis.

2.3 Functional and presentation currency

The financial statements are presented in Moldovan lei ("MDL"), which is also its functional currency and the currency of the country in which the Bank operates. All the financial information presented in MDL has been rounded to the nearest thousands, except when otherwise indicated.

2.4 Significant assumptions and estimates

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Estimates and basic assumptions are continually reviewed. The reviews of the accounting estimates are recognized in the period in which the estimate is reviewed and affect only that period, either during the review period or in future periods, if the review affects both the current and future periods.

2. Basis of presentation (continued)

2.4 Significant assumptions and estimates (continued)

(i) Impairment losses on loans

The Bank reviews its loans and advances to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of one borrower in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss of loans.

Where the final outcome of these factors is different from the amounts that were initially recorded, such differences could materially impact the provision for loan impairment in the period in which such determination is made.

The loan loss is calculated for significant loans (with a total balance of MDL'000 **3,000** and more) individually, and other loans in the portfolio basis. For loans individually evaluated, first is determined present impairment factors. The impairment factors are client's financial difficulties, disputes with this client, extension or modification of the loan repayment schedule due to the impossibility of payment.

In cases of interest or loan overdue payments of more than 90 days, it will be automatically considered that the loan is impaired.

For valuing the depreciation amount, it is prepared the table of monthly cash flows expected from the credit performance, including the flows from the collateral, and the flows are updated using the effective interest rate.

For collectively assessed loans, applies forecasting matrix is calculated according to statistical data of the bank. Matrix forecasting shall be drawn to separate groups of loans, grouped according to risk lending. Collective impairment provision is calculated as the product EAD * PD * LGD,

where EAD – exposure at default

PD - probability of default

LGD - expected loss rate of default.

Default probability is calculated based on the credit quality of bank data in the last 12 months prior to the calculation date.

Loans separate portfolios fall into the following categories:

- Loans with delays from 0 to 30 days;
- Loans with a delay of 31 to 90 days;
- Credits with a delay of more than 91 days.

Monthly credit migration from one category to another and final probability of becoming a credit outstanding over 90 days is the probability of default.

2. Basis of presentation (continued)

2.4 Significant assumptions and estimates (continued)

The expected loss default rate (LGD) is calculated according to the statistics of realization of collateral, structure of the collateral portfolio and update of the recoverable amounts of the pledge by using the discount rate.

(ii) Business continuity

The management has assessed the Bank's capacity to continue its business and considers that the Bank has resources to continue its business in the foreseeable future. Moreover, the management does not have information on the existence of significant uncertainty that may cause significant doubts about the Bank's capacity to continue its activity. Thus, the financial statements are prepared in accordance with the going concern principle.

(ii) The fair value of financial instruments

The fair value of financial instruments that are not traded on the active market is determined using the valuation techniques. Based on reasonable estimates, management chooses the valuation method considering the fact that these are made based on the existing circumstances at the reporting date. The evaluation of financial instruments is made in a detailed form in Note 32.

3. Significant accounting policies

3.1 Changes in accounting policies

Accounting policies have been consistently applied by the Bank for all financial years presented in these financial statements.

Bank initially adopted IFRS 9 (see A) and IFRS 15 (see B) from 1 January 2019. Other standards are also applicable from 1 January 1 2018, but they do have a significant effect on these financial statements.

Due to the method of transition to IFRS 9, choosed by Bank, comparative information in these financial statements have not been restated.

Adopting IFRS 15 had no impact on the period and the amount of income from fees and commissions on customer contracts and the related assets and liabilities recognized by the Bank. Consequently, the impact on comparative information is limited to additional disclosures required.

The effect of initial application of this standard is attributed mainly to the following:

- an increase impairment losses on financial assets (see note 34);
- additional disclosures related to IFRS 9;
- additional disclosures related to IFRS 15.

a. IFRS 9 Financial Instruments

IFRS 9 establishes recognition and measurement requirements for financial assets, financial liabilities and certain contracts for the sale or purchase of non-financial items. This Standard supersedes IAS 39 Financial Instruments: Recognition and Measurement. The requirements of IFRS 9 represent significant changes to IAS 39. The new standard brings fundamental changes to accounting for financial assets and certain items of financial liabilities.

Following the adoption of IFRS 9, has adopted further amendments to IAS 1 Presentation of Financial Statements, which requires separate disclosure of the interest income calculated using the effective interest method in the statement of profit or loss and the other comprehensive income. Previously, BC Moldindconbank S.A. submitted this amount in the notes to the financial statements.

Moreover, has adopted further amendments to IFRS 7 Financial Instruments: Disclosures that apply to the 2018 disclosure but have not been applied to comparative information.

The main changes in the accounting policies of BC Moldindconbank S.A. which result from the adoption of IFRS 9 are presented in Note 34.

3. Significant accounting policies (continued)

3.1 Changes in accounting policies (continued)

IFRS 9 contains three main categories of classification of financial assets: amortized cost, at fair value through other comprehensive income (FVOCI) at fair value through profit or loss (FVPTL).

The business model for IFRS is based on managing the financial assets and and its cash flow. IFRS 9 eliminates categories of IAS 39: held to maturity investemnts, loans and receivables and assets available for sale. IFRS 9 on derivatives not applicable to the Bank, as the Bank has no such instruments at 31 December 2018.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

Impairment of financial assets

IFRS 9 replaces the „incurred loss" model in IAS 39 with an „expected credit loss" model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. Under IFRS 9, credit losses are recognized earlier than in accordance with IAS 39.

In accordance with IFRS 9, credit losses are recognized earlier than in accordance with IAS 39.

b. IFRS 15 *Incomes from contracts with customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations

The Bank initially applied IFRS 15 on 1 January 2018 retrospectively in accordance with IAS 8 without any practical expedients. The timing or amount of the Bank's fee and commission income from contracts with customers was not impacted by the adoption of IFRS 15. The impact of IFRS 15 was estimated by the bank's management as being immaterial.

3.2 Summary of significant accounting policies

a. Foreign currency translation

Financial statements are presented in Moldovan lei ("MDL"), which is the functional and representation currency of the bank.

Foreign currency transactions are translated into the functional currency, using the exchange rates prevailing at the dates of the transactions. At the Balance Sheet date monetary assets and liabilities denominated in foreign currency are translated in MDL using closing exchange rate. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Non-monetary assets and liabilities registered at historical cost denominated in foreign currency are translated using the exchange rate at the date of the initial transaction.

Income and losses in foreign currency arising from the revaluation of monetary assets and liabilities in foreign currency are reflected in the financial results report.

Modifications in the fair value of monetary securities denominated in foreign currency classified as available for sale are analyzed between the differences arising from changes in the amortized cost of the security and other changes in carrying amount of the asset. Conversion differences related to changes in amortized cost are recognized in the income statement and other changes in carrying amount are recognized in equity.

Exchange rates and average rates per year were:

	2018		2017	
	USD	**Euro**	**USD**	**Euro**
Average for the period	16.8031	19.8442	18.4902	20.8282
Year ended	17.1427	19.5212	17.1002	20.4099

3. Significant accounting policies (continued)

3.2 Summary of significant accounting policies (continued)

b. Financial assets

The bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income (available-for-sale financial assets) and financial assets carried at amortised cost (loans and receivables, held-to-maturity investments). The Management of the Bank determines the classification of assets at the moment of their initial recognition.

(i) *Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss account on initial recognition.

A financial asset is considered held for trading if it is acquired or registered mainly for the purpose of selling or redeeming it in the short term, or it is part of identified financial instruments portfolio, that are managed together and for which there is evidence regarding the actual model of collecting short-term benefits.

Derivative instruments are also classified as held for trading, except the cases they are designated as hedging instruments.

Gains and losses arising from changes in the fair value of derivatives that are managed in relation to the designated financial assets or financial liabilities are included in the net income from financial instruments designated at fair value.

(ii) Financial assets carried at amortised cost (loans and receivables)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the entity upon initial recognition designates as available-for-sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

(iii) Financial assets carried at amortised cost (Held-to-maturity)

Held-to-maturity investments (HTM) are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. If the Bank would sell a significant amount of held-to-maturity assets, the entire category would be reclassified as available-for-sale.

As at 31 December 2018, the Bank classifies the State Securities issued by the Ministry of Finance and the National Bank of Moldova as financial assets held-to-maturity.

3. Significant accounting policies (continued)

3.2 Summary of significant accounting policies (continued)

b. Financial assets (continued)

(v) Derecognition of financial assets and liabilities

Financial assets are derecognized in the following cases:

- The rights to receive cash flows from the asset have expired;
- The Bank 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;
- The Bank has transferred substantially all the risks and rewards of the asset, or the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred the control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the Bank's continuing involvement in the assets. 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.

c. Financial liabilities

The bank classifies financial liabilities as other liabilities, which are valued at amortized cost.

d. 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 / receivables on financial leasing, such loans are considered impaired.

The amount of the impairment loss is the difference between the loan's 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, if the loan / receivables on financial leasing is collateralized and foreclosure is probable.

Impairment and uncollectability 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. 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.

The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

3. **Significant accounting policies (continued)**

3.2 Summary of significant accounting policies (continued)

d. Impairment of loans (continued)

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 to be uncollectible, fully or partially. Write-offs are charged against previously established provisions for loan impairment and at the same time reduce the balance value of the loan and related payments. Recoveries of written off loans in prior periods are included in income through the transfer in the provision for impairment of credit amount.

If the amount of the impairment subsequently decreases due to an event occurring after its recognition (such as an improvement of the debtor's credit rating), the loss form impairment recognized previously is resumed to the adjustment of impairment provision account.

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.

d. Offsetting financial instruments

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

e. Derivative financial instruments

In the normal course of business, the Bank enters into contracts for financial instruments, which represent instruments that require a very low or zero initial investment relative to the nominal value of the contracts. The derivative financial instruments used include interest rate and currency forward and swaps. These financial instruments are used by the Bank to hedge interest rate risk and currency exposures associated with its transactions in the financial markets. These instruments have not been designated as hedged items.

Derivative financial instruments are initially recognized in the balance sheet at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate. These assets and liabilities are classified as held for trading. Changes in the fair value of derivatives held for trading are directly included in the income statement.

f. 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, 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 simultaneously.

3. Significant accounting policies (continued)

3.2 Summary of significant accounting policies (continued)

g. Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognized in the income statement using the effective interest rate method.

The effective interest rate method is a method of calculation the amortized cost of a financial asset or financial liability and of allocation interest income or interest expenses over the relevant period.

The effective interest rate is the rate that updates exactly the payments or future cash receipts expected over the financial instrument estimated life, or, where appropriate, a shorter period at the net book value of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows taking into consideration all the contractual terms of the financial instrument, without considering future credit losses. The calculation includes all commissions paid or charged between the contract parties, which are an integral part of the effective interest rate, transaction costs or other premiums or discounts.

Once the value of a financial asset or group of financial assets has been reduced as a result of an impairment loss, interest income is recognized using the effective interest rate used to reduce future cash flows in order to value the impairment losses.

The accrued interest on treasury bills was calculated for the period between the date of acquisition and the date on which the financial statements were prepared applying different interest rates for each issue. The interest expenses include calculated interest related to received deposits, current accounts, Loro accounts, loans, as well as interest on other bonds.

h. Fee and commission income

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate on the loan. Commission and fees arising from negotiating, or participating in the negotiation of a transaction for a third party - such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses - are recognized on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-apportionment basis.

All property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

i. Tangible assets

All the tangible assets are recorded in the balance sheet at the historical cost of acquisition less accumulated amortization and depreciation. Historical cost includes costs that are directly attributable to their purchase. Subsequent costs are included in the asset's balance sheet value or, alternatively, recognized as a separate asset, only when the cost of that item can be determined and when it is probable that the Bank will benefit from the future economic benefits associated with that asset. All other expenses related to repair and maintenance are included in other operating expenses during their occurrence.

3. Significant accounting policies (continued)

3.2 Summary of significant accounting policies (continued)

i. Tangible assets (continued)

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Tangible assets	Period (years)
Buildings	50-100
Furniture	5-15
Vehicles	5-15
Modernization performed leased assets	1-10
ATMs and POS terminals	3-10
Computers and other assets	3-10

Assets under construction are not depreciated until they are put in use.

At each date from the balance, residual value and useful life of the asset are to be revised, and, if necessary to be adjusted. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount. These are included in their operating expenses in the income statement.

j. Intangible assets

Intangible assets are valued as per the model based on the cost using straight line method. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized using the straight-line method on the basis of the expected useful lives (two to twenty years).

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

k. Leases

The leases entered into by the Bank are primarily operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

l. Borrowings

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

3. Significant accounting policies (continued)

3.2 Summary of significant accounting policies (continued)

m. Cash and cash equivalents

For the purposes of the Cash Flow Report, cash and cash equivalents comprise balances less than three months after the acquisition date including cash, unrestricted balances with the National Bank of Moldova, government securities, balances due to other banks and payments with money transfer systems.

n. Provisions

Provisions for restructuring costs and legal claims are reflected when the Bank has a current or constructive legal obligation to transfer economic benefits as a result of past events. It is more likely that a transfer of resources will be required for the reimbursement of the obligation and the amount of the obligation is reasonably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

o. Treasury shares

Own equity instruments of the Bank which are acquired by it (treasury shares) are deducted from equity and accounted for at weighted average cost. Consideration paid or received on the purchase, sale, issue or cancellation of the Bank's own equity instruments is recognized directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancelation of own equity instruments.

p. Employee benefits

The Bank, in the normal course of business makes payments to the Moldovan State funds on behalf of its employees for pension, health care and unemployment benefit. All employees of the Bank are members of the State pension plan. The Bank does not operate any other pension scheme and, consequently, has no further obligation in respect of pensions. The Bank does not operate any other defined benefit plan or postretirement benefit plan. The Bank has no obligation to provide further services to current or former employees.

q. Taxation

Income tax payable on profits, based on the applicable Moldovan tax law, is recognized as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognized as an asset when it is probable that future taxable profits will be available against which these losses can be utilized.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

3. Significant accounting policies (continued)

3.2 Summary of significant accounting policies (continued)

q. Taxation (continued)

The principal temporary differences arise from depreciation of equipment, provisions for loans and advances to customers, other assets and other liabilities. The rates enacted or substantively enacted at the balance sheet date are used to determine deferred income tax. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred tax assets are recognized where it is probable that future taxable profit will be available against which the temporary differences can be utilized. The standard rate of income tax for 2018 was 12% (2017: 12%).

r. Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation. After initial recognition investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Rental income and operating expenses from investment property are reported within other revenue and other expenses respectively.

Bank's accounting policies do not expressly provide materiality of accounting elements. In order to ensure consistency of revenue and operating expenses related to investment properties materiality is determined based on professional judgment, taking into account the legal framework in force.

As at 31 December 2018 and 2017, the Bank does not own any investment property.

s. Contingent assets and liabilities

Contingent liabilities are not recognized in the financial statements, but are submitted, except the cases when there is a probability of a resources outflow to settle the current liabilities.

A contingent asset is not recognized in the financial statements but is submitted when it is probable that an outflow of economic benefits will occur.

t. Affiliated entities

The parties are considered affiliated with the Bank when one party, either through ownership, contractual rights, family relationship or otherwise, has the ability to control or significantly influence, directly or indirectly, the other party in making financial and operational decisions.

Transactions with affiliated entities represent a transfer of resources or liabilities between related parties, regardless of whether a price is charged.

u. Events subsequent to the balance sheet date

Events subsequent to the balance sheet date are reflected in the financial statements if they provide additional information about the Bank's situation at the balance sheet date (events requiring adjustments), or indicate that the going concern assumption is inappropriate. Subsequent events that do not require adjustments are disclosed in the notes, if they are material.

3. Significant accounting policies (continued)

3.3 New and revised standards

(i) Standards and interpretations effective for the current reporting year

IFRS 9 Financial Instruments: Classification and Valuation. The Standard enters into force for annual periods beginning on or after 1 January 2018 and early application is permitted. The final version of IFRS 9 Financial Instruments reflects all phases of the Financial Instruments Project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The Standard introduces new requirements for classification and measurement, impairment and hedge accounting.

Following the adoption of IFRS 9, BC Moldindconbank S.A. has adopted further amendments to IAS 1 Presentation of Financial Statements, which requires separate disclosure of the interest income calculated using the effective interest method in the statement of profit or loss and the other comprehensive income. Previously, BC Moldindconbank S.A. submitted this amount in the notes to the financial statements.

Moreover, BC Moldindconbank S.A. has adopted further amendments to IFRS 7 Financial Instruments: Disclosures that apply to the 2018 disclosure but have not been applied to comparative information.

The main changes in the accounting policies of BC Moldindconbank S.A. which result from the adoption of IFRS 9 are presented below.

Classification of financial assets and liabilities

FRS 9 contains three main categories of financial asset classification: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of IFRS 9 is generally based on the business model in which a financial asset and its contractual cash flows are managed. The Standard eliminates the previous categories of IAS 39 held to maturity, loans and receivables and available for sale. In accordance with IFRS 9, derivatives embedded in contracts where the host is a financial asset within the scope of the Standard are never divided. Instead, the entire hybrid instrument is evaluated for classification.

IFRS 9 largely maintains the existing requirements of IAS 39 for classifying financial liabilities. However, although according to IAS 39 all changes in the fair value of the liabilities designated in the fair value option have been recognized in profit or loss in accordance with IFRS 9, changes in fair value are generally presented as follows:

- the amount of the change in fair value that is attributable to changes in debt credit risk is presented in other comprehensive income;
- the remaining amount of change in fair value is presented through profit or loss account.

Impairment of financial assets

IFRS 9 replaces the „incurred loss" model in IAS 39 with an „expected credit loss" model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. Under IFRS 9, credit losses are recognized earlier than in accordance with IAS 39.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except those described below.

Generally, comparative periods have not been restated. Differences between the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in the reported result and reserves on 1 January 2018. Consequently, the disclosures for 2017 do not reflect the requirements of IFRS 9 and therefore the information is not comparable to the information presented for 2018 in accordance with IFRS 9.

3. Significant accounting policies (continued)

3.3 New and revised standards (continued)

***(i) Standards and interpretations effective for the current reporting year* (continued)**

BC Moldindconbank S.A. used the exception of not restoring comparative periods, but since the amendments brought by IFRS 9 to IAS 1 introduced the requirement to present "interest income calculated using the effective interest rate" as a separate line item in the statement of profit or loss; and other comprehensive income, BC Moldindconbank SA reclassified the financial interest income from financial lease to "other interest income" and amended the description of the line item in "interest income" reported in 2017 to "interest income calculated using the effective interest rate method"

The following assessments were made on the basis of the facts and circumstances existing at the time of the initial request:

- Determining the business model in which a financial asset is held.
- Designation and revocation of earlier names of certain financial assets and financial liabilities measured at FVTPL.
- Designation of certain investments in equity instruments that are not held for trading as at FVOCI.
- For financial liabilities designated as FVTPL, determine whether disclosure of the effects of changes in credit risk of financial debt in the OCI would create or widen an accounting mismatch in profit or loss.
- If a liability had a low credit risk at the date of initial application of IFRS 9, then the Bank assumed that the credit risk of the asset did not increase significantly from the initial recognition.

(ii) Standards and interpretations issued but not yet in force and not yet adopted

IFRS 16 Lease contracts. The Standard becomes operative for periods beginning on or after 1 January 2019. The Standard introduces significant changes to the accounting for leases in which the Bank has the status of lessee.

IFRS 16 requires the registration in the statement of the financial position of the:

- assets related to right of use
- the debt which implies the lease contract

At the same time, IFRS 16 provides for optional exemptions from the provisions for the recognition of related leases:

- short-term lease (till 12 months), and
- lease of low value and short-term assets.

At the moment of issuance of the present financial statements, the Bank's Management has estimated an impact in value MDL'000 94,263 MDL (Note 38. a Subsequent events) on the financial statements, as a result of IFRS 16 implementation starting 01 January 2019, which is mainly due to the transition to the requirements of the standard.

IFRS 16: Leases. The Standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 establishes principles for the recognition, valuation, presentation and disclosure. The standard stipulates a unique accountant model of the tenant, which imposes the tenants to recognize assets and liabilities for all the leasing contracts, excepting the case where the leasing term is 12 months or less or the value of the support asset is small. Tenants continue to classify leasing as operational or financial, as per IFRS 16 looking to tenant's accounting, in essence, remaining unchanged compared to its predecessor IAS 17. Management estimates that the effect of these clarifications on the financial statements will be insignificant.

IFRS 17: Insurance Contracts. The Standard enters into force for annual periods beginning on or after 1 January 2021 and replaces IFRS 4. It requires that insurance liabilities be valued at a present value and provides a more uniform measurement and disclosure approach for all insurance contracts. These requirements are designed to achieve the objective of consistent accounting and principles based on insurance contracts.

3. Significant accounting policies (continued)

3.3 New and revised standards (continued)

(ii) Standards and interpretations issued but not yet in force and not yet adopted (continued)

Interpretation FRIC 23: Uncertainty about income tax treatment. The interpretation shall enter into force for annual periods beginning on or after 1 January 2019, but not yet approved for application in EU countries.

Interpretation refers to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates when there is uncertainty about the treatment of income tax under IAS 12.

The Bank has decided not to apply these standards, amendments, and interpretations before the effective date on which they enter into force.

The following new pronouncements will not have a significant impact on the bank when adopted:

- Sale or contribution of assets between an investor and an associate - 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).
- Preliminary Payments with negative compensation - Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Long-term interests in joint ventures - Amendments to IAS 28 (issued on 12 October 2017 and enters into force for annual periods beginning on or after 1 January 2019).
- Annual amendments to IFRS from the period 2015-2017 - Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued December 12, 2017 and effective for annual periods beginning on or after January 1, 2019).

4. Cash and balances with the National Bank

	2018 MDL'000	2017 MDL'000
Cash	1,325,432	1,249,155
Current account at National Bank	3,602,676	2,649,677
Less: Reduction for impairment	(4,143)	-
	4,923,965	**3,898,832**

4.1. Mandatory reserves

	2018 MDL'000	2017 MDL'000
Mandatory reserves	570,011	584,600
Current account at National Bank	95	89
Less: Reduction for impairment	(655)	-
	569,451	**584,689**

Current account and mandatory reserves

Based on the decision no. 365 of the NBM Administrative Council of December 27, 2017, the National Bank of Moldova (NBM) requires commercial banks to maintain a reserve calculated for a certain percentage of the average funds attracted by the bank in the last month, including all customer deposits. The funds attracted in Moldovan Lei (MDL) and in the non-convertible currency are booked in MDL. Funds raised in free convertible currency are reserved in US Dollars (USD) and/or EURO (EUR).

4. Cash and balances at National Bank (continued)

4.1. Mandatory reserves (continued)

During 2018, the NBM Regulation on mandatory reserves was not changed. As at 31 December 2018 the minimum mandatory reserve ratio was 42,5% for the attracted resources in MDL and unconvertible currency and 14% for the resources attracted in convertible currency (31 December 2017: 40% for the attracted resources in MDL and unconvertible currency and 14% for the resources attracted in convertible currency). The Bank maintains its mandatory reserves in a current account opened with the NBM in amount of 42.5% from the attracted resources in MDL and unconvertible currency and 14% from the resources attracted in convertible currency

As at December 31, 2018 the balance in the current account held with the NBM amounted to MDL'000 3,593,993 (31 December 2017: MDL'000 2,642,385) and includes mandatory reserve on funds attracted in Moldovan Lei and non-convertible currencies amounted to MDL'000 3,359,497. The balance reserved on USD and EUR obligatory reserve accounts amounted to USD'000 9,697 and EUR'000 20,700 respectively (31 December 2017: USD'000 11,944 and EUR'000 18,636).

The interest paid by NBM on the mandatory reserves during 2018 varied between 0.31% and 0.47% per annum for reserves in foreign currency and 3.5% for the reserves in MDL (during 2017 – between 0.30% and 0.60% in currency and 4.0 % and 6,0% for the reserves in MDL).

The mandatory reserves held in the current account at NBM are available for use in the Bank's day to day operations.

5. Current accounts and placements with banks

	2018 MDL'000	2017 MDL'000
Current accounts	327,110	1,354,945
Overnight deposits with non-affiliated banks	60,015	-
	387,125	**1,354,945**
Less: Discount for loss of value	(1,739)	-
	385,386	**1,354,945**

During 2018, in order to optimize the network of correspondent banks and in order to reduce the country's risk were closed 6 correspondent NOSTRO accounts of the Bank and 2 correspondent LORO accounts. At the same time, was opened one new correspondent NOSTRO account.

6. Debt instrument – at amortized cost

	2018 MDL'000	2017 MDL'000
State securities	2,976,006	3,188,360
Less: Allowance for impairment	(21,624)	-
Discounts	(24,375)	(34,003)
	2,930,007	**3,154,357**

Investments in state securities as of 31 December 2018 represent MDL treasury bills with the maturity from 91 to 1820 days, issued by the Ministry of Finance of the Republic of Moldova with an interest rate between 4.13% and 8.35% annually. Certificates issued by the NBM are of 14 days original maturity with an interest rate of 6.5% annually. As at 31 December 2018, the Bank does not have pledged state investment securities

7. Loans to customers

	2018 MDL'000	2017 MDL'000
Loans	6,873,387	6,442,284
Other financial assets	1,132,764	-
Loans, gross	**8,006,151**	**6,442,284**
Less: Discount for loss of value of loans	(916,654)	(1,075,740)
Less: Discount for loss of value of other financial assets	(157,849)	-
	6,931,648	**5,366,544**

The analysis of the loan portfolio per sectors is presented below:

	2018 MDL'000		2017 MDL'000	
	Gross value	**Impairment**	**Gloss value**	**Impairment**
Agriculture	313,728	(14,719)	423,319	(103,648)
Extractive industry	5,599	(359)	10,841	(2,250)
Manufacturing industry	870,531	(74,249)	630,797	(78,093)
Prod. of electricity, heat, gas, water	7,360	(360)	18,858	(2,031)
Water distribution, sanitation	63,299	(3,702)	85,879	(10,507)
Construction	169,768	(17,927)	255,852	(55,343)
Trade, Commerce, car maintenance and repair	1,946,357	(321,214)	2,122,337	(292,637)
Transportation	187,765	(5,941)	85,476	(3,714)
Accommodation and food service	47,132	(14,401)	48,290	(12,487)
Information and telecommunication	87,172	(13,200)	182,007	(1,961)
Financial activity, insurance	412,626	(20,358)	279,876	(15,985)
Real estate transactions	116,700	(14,093)	231,507	(27,057)
Professional, scientific and technical activities	18	(18)	1,744	(45)
Administrative services and sports	5,976	(157)	6,346	(80)
Public administration	2,014	(711)	2,603	(148)
Education	7,843	(177)	12,607	(260)
Individuals loans	2,233,514	(45,829)	1,582,364	(69,889)
Health and social care	139,680	(124,628)	145,273	(124,541)
Leisure activities	11,682	(326)	15,400	-
Other services	270	(4)	4,302	(3,785)
Other activities	244,353	(244,281)	296,606	(271,279)
	6,873,387	**(916,654)**	**6,442,284**	**(1,075,740)**

According to the instruction of National bank of Moldova, approved through HCE no. 42 from 02.03.2018, as at 31 December 2018, in the total financial assets at amortised cost (loans and advances) was included the value of other financial assets, inclusively the cash placed as term deposits in other banks, which represents MDL'000 1,132.