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BC "Moldindconbank" SA
Financial Statements
For the Year Ended at December 31, 2019

Prepared in Accordance with
International Financial Reporting Standards

Contents

MOORE

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INDEPENDENT AUDITOR'S REPORT

To: Shareholders of BC Moldindconbank SA

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2019, and its financial performance and its cash flow for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

We have audited the financial statements of BC Moldindconbank SA (the "Bank"), which comprise statement of financial position as at December 31, 2019 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.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code).

Our audit approach

Overview

Materiality	20,4 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 matters	• Provision for impairment of loans • Assessment of the prudential reserves • Assets taken over by the bank

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 the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on financial statements as a whole.

Materiality	20,4 million MDL
How we determined it	1% of own funds
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 for the year ended as at December 31, 2019. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Provision for impairment of loans As described in Note 2.4, "Significant assumptions and estimates" 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, that involves a high level of professional judgment and management estimation for the calculation of these provisions. Significant matters 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. - The assumptions used for the recalibration of the PD models carried out during the year 2019, which resulted in a total impact of 119 million MDL in the profit and loss account. - The assumptions used for reallocation per stages and recoveries made in the amount of 220 million MDL.	We assessed the key methodologies and related models for calculation of the provision for consistency with the requirements of IFRS 9. We evaluated and tested (based on a sample) the design, operability and effectiveness of internal credit quality control, Stage allocation criteria, expected loan loss model, including governance model and calculation accuracy. At the same time, the transfer of data into / from fLite, the banking software dedicated to the related calculations, to / from core banking was tested. Also, for loans, the internal assessed controls include those that ensure that the data on which the key parameters are calculated, namely the probability of default ("PD") and the loss in case of depreciation ("LGD"), are transferred in correctly and completely way 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

Key audit matter	How our audit addressed the key audit matter
	assessors and that the Bank applies appropriate haircuts 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. Regarding the recalibration of the PD models, we evaluated the historical migration matrices and the forward-looking macroeconomic assumptions used in the calculation models. We recalculated the PDs and validated the results incorporated in the fLite module regarding the calculation of IFRS provisions. Regarding the reallocation on stages, we evaluated and validated the improvements of the financial statements of the borrowers, the decrease of the outstanding days, the anticipated and integral repayments of the credits. We performed the evaluation of fairness and sufficiency disclosures of the financial statements.
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 the Bank's balance sheet and 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 quarterly, 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: Doubtful, 60% • Category E: Compromised, 100% This classification is based on outstanding days, current financial situation of the counterparty assessed from the point of view of the capacity to honour 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 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 acts, 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.

Key audit matter	How our audit addressed the key audit matter
Assets taken over by the bank as collateral	
We considered this point to be significant due to the importance of the balances of the assets taken over in exchange for the repayment of loans as well the level of professional judgment, and the management's estimation required for establishing fair value and the sufficiency of provisions for impairment.	The valuation of these assets was carried out by an International Valuation Company on December 31, 2019. 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 of the financial statements

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 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 scepticism throughout the audit. We also:

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

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 Bank to express an opinion on financial statements.

We communicate to 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 identified 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 year 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

Moore Stephens KSC SRL
Chișinău, Moldova

09 April 2020
Chișinău, Republica Moldova

Andrei Stan,
Partner Audit

Elena Panainte
Auditor certificate AG no. 000278 as fo 15 April 2011
Financial Institution Auditor certificate AIF no. 0016 as of 24 August 2012

REPUBLICA MOLDOVA, mun. CHIȘINĂU
S.R.L.
«MOORE STEPHENS KSC»
IDNO 1004600066436
SOCIETATE CU RĂSPUNDERE LIMITATĂ

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 December 31, 2019

	Notes	2019 MDL'000	2018 MDL'000
Interest income calculated using the effective interest method		901,720	836,241
Interest expenses		(314,105)	(306,836)
Net interest income	22	**587,615**	**529,405**
Fees and commissions income		467,673	411,337
Fees and commissions expenses		(163,739)	(126,228)
Net fee and commission income	23	**303,934**	**285,109**
Net trading income			
Other operating income	24	41,317	31,497
Total income		**932,866**	**846,011**
Other income	25	143,577	145,677
Impairment/ Release of losses due to impairment of financial assets that are not measured at fair value through profit or loss	26	227,320	58,517
Personnel expenses	27	(336,542)	(272,982)
Amortization and impairment	9,10	(71,852)	(55,836)
Other expenses	28	(137,101)	(173,217)
Profit before tax		**758,268**	**548,170**
Income tax expense	16	(79,855)	(47,826)
Profit for the period		**678,413**	**500,344**
Changes in the fair value of the financial assets-available-for-sale reclassified through other comprehensive income		825	(928)
Deferred income tax regarding the other comprehensive income elements		(447)	1,498
Elements which can be reclassified through other elements of the comprehensive income		378	570
Total comprehensive income for the year, net tax		**678,791**	**500,914**
Other elements of comprehensive income, net tax		1,646,926	1,184,501
Total comprehensive income		2,258,314	1,646,926
Earnings per share, MDL		**137**	**101**

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

The financial statements were authorized for issue on 09 April 2020 by the Executives of the Bank represented by:

Chairman of the Managing Board **Nikolay Borissov**

Chief Accountant **Elena Albulesa**

BC „Moldindconbank" SA
STATEMENT OF FINANCIAL POSITION
For the year ended December 31, 2019

	Notes	2019 MDL'000	2018 MDL'000
ASSETS			
Cash and balances with the National Bank	**4**	5,276,075	4,923,965
Current accounts and placements with banks	**5**	205,484	385,386
Debt securities – at amortized cost	**6**	2,809,760	2,930,007
Loans and advances to customers	**7**	8,663,772	6,931,648
Mandatory reserves	**4.1**	722,119	569,451
Equity instruments at fair value through other comprehensive income	**8**	22,013	13,803
Property and equipment, net	**9**	289,486	209,218
Intangible assets, net	**10**	44,617	47,345
Other assets, net	**11**	133,281	189,254
Non-current assets held for sale	**12**	270,326	283,749
Total assets		**18,436,933**	**16,483,826**
LIABILITIES			
Deposits from banks	**13**	3,325	26,023
Other borrowings	**14**	389,085	353,314
Deposits from customers	**15**	14,093,955	13,081,589
Current income tax liability		36,351	16,725
Deferred tax liability	**16**	2,855	4,692
Other liabilities	**17**	647,061	415,973
Total liabilities		**15,172,632**	**13,898,316**
EQUITY			
Share capital	**18**	494,466	494,466
Other reserves	**19**	509,264	442,684
Share premium		5	5
Revaluation reserve of the financial assets at fair value through comprehensive income		2,254	1,429
Retained earnings		2,258,312	1,646,926
Total equity		**3,264,301**	**2,585,510**
Total liabilities and equity		**18,436,933**	**16,483,826**

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

The financial statements were authorized for issue on 09 April 2020 by the Executives of the Bank represented by:

Chairman of the Managing Board **Nikolay Borissov**

Chief Accountant **Elena Albulesa**

BC "Moldindconbank" SA
STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2019

	Ordinary shares outstanding MDL'000	Share premium MDL'000	Other reserves MDL'000	General reserves for banking risks MDL'000	Available-for- sale reserve MDL'000	Retained earnings MDL'000	Total MDL'000
Balance as at January 1, 2018	**494,466**	**5**	**51,089**	**371,026**	**1,028**	**1,184,501**	**2,102,115**
Transfers	-	-	-	20,570	-	(20,570)	-
Impact of IFRS 9 adoption	-	-	-	-	-	(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 December 31, 2018	**494,466**	**5**	**51,089**	**391,596**	**1,428**	**1,646,926**	**2,585,510**
Balance as at January 1, 2019	**494,466**	**5**	**51,089**	**391,596**	**1,428**	**1,646,926**	**2,585,510**
Transfers	-	-	-	66,579	-	(66,579)	-
Transactions with owners	**494,466**	**5**	**51,089**	**458,175**	**1,428**	**1,580,347**	**2,585,510**
Net profit for the year	-	-	-	-	-	678,413	**678,413**
Other comprehensive income for the year, net of tax							
Net change of available-for-sale financial investment	-	-	-	-	825	-	**825**
Other increase (decrease) in equity	-	-	-	-	-	(447)	**(447)**
Balance as at December 31, 2019	**494,466**	**5**	**51,089**	**458,175**	**2,253**	**2,258,314**	**3,264,301**

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

	Notes	2019 MDL’000	2018 MDL’000
Operational activity			
Interest received		977,190	814,869
Interest paid		(306,453)	(311,950)
Net fee and commission received		352,202	281,253
Net financial income and other operating income		175,776	226,569
Staff costs paid		(317,462)	(270,286)
Receipts from assets in possession		-	2,049
Payments of general and administrative expenses		(170,144)	(188,600)
Cash flows before working capital changes		**711,109**	**553,904**
(Increase) / decrease in current assets:			
Current accounts and deposits at NBM		(88,989)	(42,295)
Current accounts and deposits at other banks		(554,881)	(916,162)
Securities over 90 days		(580,929)	(123,897)
Loans and advances to customers, net		(1,113,758)	(511,789)
Other assets		32,503	(51,098)
Increase /(decrease) in current liabilities:			
Due to banks		(23,083)	12,798
Deposits from customers		1,011,229	1,079,526
Other liabilities		201,037	(3,415)
Net cash flow from operating activities before income tax		**(405,762)**	**(2,428)**
Income tax paid		(50,295)	(36,545)
Net cash used in operating activities		**(456,057)**	**(38,973)**
Investing activities			
Purchase of intangible assets		(7,588)	(10,876)
Purchase of property and equipment		(129,967)	(22,692)
Proceeds from disposal of property and equipment		235	58
Purchase of investment securities		(8,144)	(9,590)
Net cash used in investing activities		**(145,464)**	**(43,100)**
Financing activities			
Proceeds from loans and borrowings		194,725	100,194
Repayments of loans and borrowings		(158,669)	(373,417)
Dividends paid		-	-
Net cash from financing activities		**36,056**	**(273,223)**
Profit / (loss) from net foreign exchange		686	(1,583)
Net increase in cash and cash equivalents		**(564,779)**	**(356,879)**
Cash and cash equivalents at January 1		**7,316,490**	**7,673,369**
Cash and cash equivalents at December 31	**21**	**6,751,711**	**7,316,490**

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

1. General information

BC "Moldindconbank" SA (hereinafter the Bank) was established on October 1991 as a commercial and savings Bank, offering a large spectrum of services and banking products for all client categories through its 64 branches (2018: 63 branches).

At the end of 2019, 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 1,499 employees as at December 31, 2019 (December 31, 2018: 1,419 employees).

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 Board 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 as 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 Supervisory Board and some members of the Bank's Executive Board were replaced.

During the year 2019 until November 29, 2019, the Bank's Supervisory Board has been active in the composition of four temporary administrators with powers of members of the Bank's Supervisory Board: Mr. Ghedrius Steponkus - Chairman of the Supervisory Board and Mrs. Ana Gheorghiu, Mr. Sorin Andrei, Mrs. Elena Punga - members of the Bank's Supervisory Board.

Starting with November 29, 2019, the National Bank of Moldova approved the members of the Supervisory Board elected by statute, who on December 31, 2019, were acting in the following composition: The President of the Bank's Supervisory Board - Mr. Nikolov Nikolay, the members of the Bank's Supervisory Board - Mr. Basunia Tamjid Hossain, Mr. Barlagiannis Nikola , Mr Breil de Pontbriand Gaël, Jean-Marie, Ghislain, Gérard and Mrs Spînu Ana.

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

The Bank's Executive Board as of December, 31 2019 is composed of 5 persons, temporary administrators with powers of members of the Executive Board: The Chairman of the Bank's Executive Board with the right to represent the Bank in relations with third parties - Mr. Victor Cibotaru and vice-chairmen of the Bank's Executive Board - Mrs Svetlana Magdaliuc, Mr Iurie Ursu, Mrs Penka Kratunova and Mr Nicolay Borisov.

The registered capital of BC "Moldindconbank" SA is MDL'000 496,779 divided into 4,967,794 class I common shares with voting rights at the nominal value of 100 lei / share. The ordinary shares registered by Bank ISIN: MD14MICB1008 are admitted to trading on the regulated market at the Moldovan Stock Exchange (www.moldse.md).

The structure of the shareholders and groups of persons acting in concert, whose shareholding in the share capital of the Bank is equal to or greater than the substantial share (1%) as at December 31, 2019:

1. General information (continued)

Structure of the Bank’s shareholders

Shareholders (companies), whose shareholding is greater than 1%

	December 31, 2019	December 31, 2018
	Ownership, %	**Ownership, %**
“DOVERIE- INVEST” J.S.C.	77,63	-
SC “MVI” SRL	3,61	3,61
	81,24	**3,61**
Shareholders (individuals), whose shareholding is greater than 1%		
Mîrzac Valerian	9,11	9,11
Bauchina Irina	-	1,13
Nedoseichin Iuri	-	3,22
	9,11	**13,46**
Shareholders whose share does not exceed 1%		
Legal entities	5,09	8,70
Individuals	4,09	9,87
	9,18	**18,57**
Treasury shares	0,47	0,47
New shares issued provisionally registered on behalf of the bank	-	63,89
Total	**100,00**	**100,00**

In February 2019, the transaction of the purchase and de-securitization of the newly issued shares issued by BC “Moldindconbank” SA was carried out, after which, on 18 February 2019, the Public Property Agency purchased the unique package of 3,173,751 shares, which constitutes 63.89% of the share capital of BC "Moldindconbank" SA The registration of the ownership right on the respective shares was made on 21 February 2019.

Subsequently, on March 18, 2019, in the auction held on the regulated market of the Stock Exchange of Moldova, “DOVERIE-INVEST” J.S.C company purchased the unique package of 3,173,751 shares of BC “Moldindconbank” SA, offered for sale by the Public Property Agency. The registration of the ownership right on the respective shares was made on March 22, 2019, thus, "DOVERIE-INVEST" J.S.C. became a majority shareholder with a qualified holding of 63.89% in the share capital of the Bank.

Additionally, following the offer to take over the Bank's shares, "DOVERIE-INVEST" J.S.C. acquired a further 13.73%, owning, on December 31, 2019, 77.63% of the total shares issued by BC "Moldindconbank" S.A. It is worth mentioning that, within the compulsory takeover offer, several shareholders of the Bank disposed the shares, including Mr. Nedoseichin Iuri and Mrs. Bauchina Irina, who held more than 1% of the total shares issued by BC “Moldindconbank” SA.

2. Basis of presentation

2.1 Statement of Compliance

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. Basis of measurement

The financial statements were prepared on the historical cost basis, except for the financial instruments recognized at fair value through profit or loss, the financial instruments at fair value through other items of comprehensive income and the revaluation of property and equipment and investment property. The preparation of the financial statements on a going concern basis requires management to use 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'**000 678,413** for the financial year ended on December 31, 2019, while the capital adequacy ratio reported according to the National Bank of Moldova's regulations was 24.36% (the minimum being 10%) as of December 31, 2019. Based on the above, the Bank's management has evaluated the Bank's ability to continue its activity in the near future, and concluded that the Bank will ensure its activity in the foreseeable future (at least 12 months from December 31, 2019), under normal circumstances and, therefore, the financial statements as of December 31, 2019 were prepared on a going concern basis.

2.3 Functional and presentation currency

The financial statements are prepared in Moldovan lei ("MDL"), which is the functional currency and the currency of the country in which the Bank operates. All financial information presented in the MDL has been rounded to 1,000 units, unless otherwise indicated.

2.4 Significant accounting assumptions and estimates

The Bank applies estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are 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.

(i) Allowance for impairment losses on loans

The Bank reviews its loans and advances to assess allowance for impairment losses on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank uses 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. At the end of 2019, the Bank, with the support of the international audit entity Deloitte Romania, verified and adjusted the calculation models of IFRS 9 provisions, updated the PD values on the sub-portfolios and modified the segmentation on DPD-buckets. Thus, at the moment the Bank applies PD for 4 DPD-buckets (0-30 DPD, 31-60 DPD, 61-89 DPD and more than 90 DPD).

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.

2. Basis of presentation (continued)

2.4 Significant assumptions and estimates (continued)

Loans are impaired according to the characteristics of the stages, as follows:

Features of Stage 1: (for all contracts that do not have assigned a default mark):

- All contracts with DPD between 0 and 30 days (0 <= DAYS_PAST_DUE <= 31) and not assigned in stage 3 or 2 set off stage 1.
- When a financial instrument is created / purchased or no default event occurs and there is no significant increase in the credit risk, credit losses are estimated on a 12-month base, are recognized in profit or loss and is constituted a provision for loss. They are allocated based on currently available risk parameters in homogeneous portfolios.
- This serves as an approximation for the initial expectations of credit losses.
- For financial assets, interest income is calculated based on the gross amount (i.e. no adjustment for estimated credit losses).

Features of Stage 2: (for all contracts that do not have assigned a default mark):

- All DPD contracts between 31 and 89 days (31 <= DAYS_PAST_DUE <= 89) or contracts with a restructuring marker set off stage 2.
- D and E are classified in stage 2.
- The debtor may have assets classified in stage 1 and stage 2, depending on the situation.
- If the risk increases significantly and the resulting credit quality is not considered to be a credit risk in the low range, then credit losses estimated over the life of the credit are recognized.
- Estimated credit losses throughout the period are recognized unless the financial instrument presents low credit risk at a reporting date.
- The calculation of interest income on financial assets remains the same as for Stage 1.

Features of Stage 3:

- The debtor registers at least one contract for more than 90 outstanding days;
- The debtor has shown default signs in the last 12 months.
- If the debtor has an asset in stage 3, all debtor assets will be in stage 3. All contracts that have a default marker set off stage 3. If the customer has a contract in stage 3, all his contracts will be contaminated.
- If the credit risk of a financial asset increases to the point where it is considered default, interest income is calculated based on amortized cost.
- Estimated credit losses over the lifetime of the credit are still recognized on those financial assets.

IFRS 9 contains guidance on impairment requirements. The proposed approach distinguishes between the expected 12-month credit losses and estimated credit losses over the lifetime of the loan. The Standard determines if a provision for loss should be based on estimated 12-month credit losses or credit losses over the lifetime and depends on whether there has been a material impairment of the credit of the financial instrument since the initial recognition (or the date of the commitment).

- losses from loans estimated at 12 months are the portion of the estimated credit loss for the full duration of the estimated credit losses resulting from default financial instruments that are possible within 12 months after the reporting date (Stage 1).

- estimated losses from loans over the entire period are estimated credit losses resulting from all possible default events over the estimated life cycle of a financial instrument (Stage 2 or 3).

2. Basis of presentation (continued)

2.4 Significant assumptions and estimates (continued)

(ii) Going concern

The management has assessed the Bank's capacity to continue as a going concern 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.

(iii) 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 because 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

The accounting policies have been consistently applied by the Bank for all the financial years presented in the accounting policies applied by the bank for these financial statements are the same as those applied in the financial statements as at 31 December, 2018, except for the accounting policies regarding IFRS 16 (applied by bank starting January 1, 2019). Where necessary, the comparative figures have been reclassified according to the presentation changes for the current period. Except for the initial application of IFRS 16 "Leasing Contracts", there were no significant changes in accounting policies after December 31, 2019, resulting from the application of new or updated standards.

Starting with January 1, 2019, the Bank adopted the standard IFRS 16 "Leasing Contracts", as published by the IASB in January 2016. IFRS 16 replaces the instructions for accounting for existing leases in IAS 17 "Leasing Contracts", IFRIC 4 "Determination the extent to which a commitment contains a leasing contract ", SIC-15" Operational leasing - Stimulants" and SIC-27 "Evaluation of the economic fund of transactions involving the legal form of a leasing contract".

IFRS 16 introduces a unique model, with recognition in the balance sheet of lease agreements for tenants. The lessee recognizes in the balance sheet or an asset that represents the right to use the underlying asset and a debt, representing the obligation to make the payments related to the lease. Short-term leasing contracts (under 12 months) and those for low-value support assets that do not exceed 2 million lei are exempted from recognition. At the beginning of the contract, it is evaluated to determine whether it contains a leasing transaction - that is, whether it transmits the right to control the use of an identifiable asset, for a period, in exchange for a remuneration. At the beginning of the contract, an asset is recognized - right of use and a debt arising from the lease. These are initially measured at cost and subsequently amortized, from the start date to the end of the utility period or until the end of the contractual term (the first one). The bank uses the straight-line method of amortization. The debt arising from the lease contract is initially measured at the present value of the lease payments remaining to be made at the time of the beginning of the contract, the discount factor used being the implicit interest rate of the contract or, if this cannot be determined, the incremental loan rate of lessee. The contractual payments include fixed payments, variable payments depending on an index or rate, payment amounts in case of a residual value guarantee, the exercise price of the purchase option, the payments for the optional renewal period - if the lessor intends to exercise the option, and penalty payments for termination before term - if the clauses of the contract allow the tenant the option of termination.

Subsequently, the carrying amount of the debt arising from the lease is increased by the interest calculated with the applicable discount rate, reduced by the payments made, and adjusted with variations reflecting the revaluation or other changes in the contract. Determining the incremental loan rate for real estate leasing is generally based on an observable rate available, which may be the yield of the property. In addition, an adjustment of the rate of return of the property is necessary to reflect the specific characteristics of the respective lease.

3. Significant accounting policies (continued)

3.1 Changes in accounting policies (continued)

The lessor's accounting remains the same as in the case of IAS 17 standard, the lessor still classifying the lease contracts as financial or operational.

The Bank has adopted IFRS, using the cumulative retroactive approach, in accordance with IFRS 16.C5 (b), where comparative information is not restated. At the adoption of IFRS 16, the Bank recognized the debts arising from leases previously classified as operating leases, in accordance with the principles of IAS 17 and IFRIC 4. These were measured at the present value of the remaining contractual payments to be made, using as a discount rate factor. basis established by the NBM. The right-of-use asset was recognized at a value equal to that of the debt arising from the lease (IFRS 16.C8 (b) (ii)). Subsequently, it was adjusted with the value of the prepayments and the preliminary leases recognized on the balance sheet at December 31, 2018.

The bank had no capital impact on the initial application. All contracts previously identified as leases under IAS 17 and IFRIC 4 were taken over under IFRS 16, except those of small amount.

The Bank does not apply IFRS 16 to leases that relate to intangible assets.

In the statement of financial position, the assets representing the right of use are presented within the property and equipment. In the context of the transition to IFRS 16, the Bank recognized an asset representing rights of use, together with the corresponding debt, as of January 1, 2019, as detailed below:

- In the composition, the assets of the property and equipment, included the assets related to the right of use, received in operational leasing amounting to MDL'000 93,305;
- In the composition of the debts, other financial debts, the debts to the clients regarding the operational leasing amounting to MDL'000 93,305 were included.

As at December 31, 2019, in the composition of the property and equipment, were included assets related to the right of use, received in operational leasing amounting to MDL'000 94,853. In the composition of the debts, other financial debts, were included the debts to the clients regarding the operational leasing, in the amount of MDL'000 80,610.

3.2 Summary of significant accounting policies

a. Foreign currency translation

Financial statements are presented in Moldovan lei ("MDL"), which is the functional and presentation 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:

	2019		2018	
	USD	**Euro**	**USD**	**Euro**
Average for the period	17.5751	19.6741	16.8031	19.8442
Year ended	17.2093	19.2605	17.1427	19.5212