

Presidents Report

Annual Financial Statement of BC "EuroCreditBank" S.A for 2018 (The Bank's Annual Financial Situation for 2018)

The main results of the activity of BC "EuroCreditBank" S.A. (hereinafter – "the Bank") for 2018, are defined by the following indicators:

- According to the results for 2018 the Bank's efficiency indicators comply with the limits and norms set by the NBM;
The Own funds as of 31.12.2018 amounted to 234 007 thousand MDL (235 380 thousand MDL as of 31.12.2017). After the external auditor reviews the annual financial statements of the Bank and the subsequent approval of the General Shareholders' Meeting, the Bank's actual own funds, including the profit in August-December 2018, will be 239 275,3 thousand MDL with 3 895,3 thousand or by 1,7% more than in 2017.
- Own funds requirement as of 31.12.2018 reached 38,86 % (in the system 26,55%) (NBM norm – no less than 10%);
- The Bank's current liquidity by 31.12.2018 was 47,40 % (in the system 54,64 %) (NBM norm – no less than 20%). This allowed the Bank to ensure the timely and necessary volume of transactions and to honor its obligations;
Total Assets amounted to 1 061 071 thousand MDL having increased, in comparison with the similar period from last year with 291 510 thousand MDL or 37,88 % being the largest on the system (an increase in the system by 4,6 %);
- Bank's loan portfolio (main amount) as of 31.12.2018 amounted to 479 544 thousand MDL having increased in comparison with the similar period from last year with 126 706,7 thousand MDL or 35,9 % being the largest in the system (a decrease in the system of 5,9 %);
- Deposit portfolio as of 31.12.2018 amounted to 718 981,7 thousand MDL having increased by 270 531,2 thousand MDL or 60,3 % in comparison with the similar period from last year being the largest on the system (an increase in the system by 5,95 %).

Assets

The weight of interest bearing assets in total assets (the monthly average value as of 31.12.2018) accounted for 72,24% (in the system 77,84%).

Return on Assets was 1.22 % (in the system 1.90 %) having a 0.20 p.p. decrease compared with the previous year.

Liabilities and equity

At the end of the reporting period the total liabilities amounted to 1 061 071 thousand MDL, of which the shareholders' equity amounted to 308 385,8 thousand MDL or 29% and liabilities 752 685 thousand MDL or 71 %.

Compared to 31.12.2017 there was an increase in the share capital by 3.5% (10 559,5 thousand MDL) and that of liabilities by 59,6% (280 950,1 thousand MDL). The equity increased from the undistributed in the amount of 10 247,7 thousand MDL.

The total balance of deposits by 31.12.2018 amounted to 718 981,7 thousand MDL and increased by 270 531,2 thousand MDL or 60,3 %, compared to the same period from last year. The balance of the deposits from individuals increased by 157 545,4 thousand MDL or 52,7%, and the balance of deposits from legal entities increased by 112 985,9 thousand MDL or 75,6%. The correlation between the Bank's debt and capital is 2.43 in 2018 (1.58 in 2017), being the best on the system.

Financial Results

For the financial year 2018 the net profit of the Bank amounted to 11 055 thousand MDL by 1 047,2 thousand MDL or 10,5 % more, compared to the end of the previous year.

The Bank's total income for 2018 amounted to 101 634,8 thousand MDL including interest income – 54 315,2 thousand MDL (53,4% of total revenues) and non-interest income – 47 319,6 thousand MDL (46,6%). The structure of income according to FINREP: interest –related income– 54 315,2 thousand lei, which represents 53,4% of total income (in the banking system - 62,5%). Compared with 31.12.2017, total income increased by 13 289,1 thousand lei or by 14,2%.

A significant share in the structure of income, coming from interests pertain to the interest income from loans and debts – 45 830,7 thousand MDL (83,9%), which increase with 12 556,7 or 37,7%, compared to the

previous year, income from operations with investments held to maturity – 8 797,0 thousand MDL (16,8%). The structure of non-interest income was formed as it follows: revenue from taxes and fees – 21 326,7 thousand MDL (45,1%), revenue from transactions with foreign currency – 22 250,5 thousand MDL (47%), other income – 3 742,4 thousand MDL (7,9%).

Total expenditures for 2018 amounted to 90 579,8 thousand MDL. Compared with 31.12.2017, total expenditures increased by 10 243,9 thousand lei or by 12,7%. The share of expenses pertaining to interests within the total of expenditures is about 16,7% or 16 040 thousand MDL. Compared to 2017, interest expenses increased by 4 802,1 thousand MDL or by 42,7% and non-interest expenses – 83,2% or 79 767,1 thousand MDL, from which the most of them relate to wage expenses (37 523 thousand MDL), which increased comparing to 2017 by 2 575,4 thousand MDL.

A significant share in the non-interest expenses are the wage expenses, including social and medical contributions 37 523 thousand MDL (47 %), other expenses 26 403,2 thousand MDL and expenses for fixed assets 13 486 thousand MDL.

Principle I of liquidity (long-term liquidity) of the Bank as of December 31, 2018 – 0,68 (in the system – 0,72), (the norm being less than 1).

Principle II of liquidity (current liquidity) of the Bank as of December 31, 2018 – 47,4%, in the system 54,64% (the norm being no less than 20, as of 31.12.2017 – 44,02%, in the system 55,48%). All indicators described above meet the requirements stipulated in the regulations of the National Bank of Moldova.

The policy of BC "EuroCreditBank" S.A. is oriented towards achieving positive results and ensuring stability in the development of the Bank, while maintaining its clients through transparent and high level services, as well as offering a wide range of services on beneficial terms.

The activity with the customers of the bank

The efforts undertaken in 2018 by BC "EuroCreditBank" S.A. have achieved the excellent financial results, providing a wide range of services and products as well as improving the existing ones.

Particular emphasis was given to the expansion and diversification of its customer base, to the formation of long-term and mutually beneficial relationships.

The Bank promoted a sale policy of banking services oriented towards the diversification of products for individuals and legal entities, the development of closer relationships with clients through understanding their individual needs. In order to promote non-lending products, were used electronic means of communication.

- for the legal entities from the agricultural sector: Compact Agro and Agro Business;
- loans to individuals secured by cash deposits placed in the bank: ordinary credit and credit card as bank credit line;
- employed persons, individual enterprises, household farms, legal entities (companies), individuals performing entrepreneurial activity: Micro-crediting.

Throughout the 12 months of 2018, 3 130 people became clients of the Bank out of which 2 855 were individuals and 275 were legal entities. For the same period there were 6 087 new opened accounts, among which 625 legal entities and 5 462 individuals.

Loans activity

As of 31.12.2018, the Bank's loan portfolio (basic amount) amounted to 479 544 thousand MDL, while the net loan portfolio ("Loans and advances" – FIN 1) amounted to 473 292,8 thousand MDL, the increase in comparison with last year is by 125 266,8 thousand MDL or 36%.

The size of the allowances for impairment losses for loans by 31.12.2018 amounted to 7 174,3 thousand MDL. The share of allowances for impairment losses (for basic amount) in total loans was 6,7% (in the system 10,86%) (according to NBM's Regulation) and 1.5% (depreciations formed to the base amount according to the IFRS provision matrix).

Non-performing loans was 23 447,5 thousand MDL, their share within the total amount of loans is 4,89% (average in the system is 12,54 %), this is by 1,8 p.p. lower, compared to the end of the previous year.

The loan portfolio is classified in risk categories as it follows: standard credits (46,5%), supervised (48,7%), substandard (2,1%), doubtful (0,2%) and compromised (2,6%).

During 2018 year, there were granted 1 275 loans amounting to 330 527 thousand MDL (excluding technical overdrafts), which compared to the 12 months of 2017, have increased by 30% or 76 262 thousand MDL.

The average profitability of the loan portfolio as of 31.12.2018 was 10,92% (including expired loans) and 10,04% (excluding expired loans).

The income from the loans activity comprises one of the biggest shares within the total income of the bank – their share was 42,9% of the total amount of income by the end of 2018 (by 31.12.2017 – 35,6%).

The income from the loans activity for 2018 amounted to 45 830,7 thousand MDL. The aforementioned income, compared to the 12 months of 2017, increased by 12 556,7 thousand MDL.

Foreign currency activity

Another important direction within the Bank's activity consists of purchasing/selling foreign currency. Throughout the 12 months of 2018, the bank gained income amounting to 22 332,8 thousand MDL, which represents 20,9% out of the total income of the Bank. For the 12 months of 2018, the income from the purchase/sale of foreign currency, over the same period over last year, recorded a decrease of 1,1% or 241,5 thousand MDL.

Compared to the same period from last year the turnovers increased by 8,8% or 1 056 181,4 thousand MDL out of interbank operations.

Activity on financial markets

During 2018 year, BC "EuroCreditBank" S.A. was active on the inter-banking market, placing available funds within licensed banks in Moldova, NBM and correspondent banks from abroad.

On the inter-banking-monetary market, the majority of placements were for the overnight transactions, whose main currency was the Moldovan Leu.

During the 12 months of 2018, the Bank invested –2 982 638,3 thousand MDL, including overnight – 1 672 000 thousand MDL (or 56 %), CBN 1 235 000 thousand MDL (or 41,4 %) and state securities – 75 638,3 thousand MDL (or 2,6%).

During the 12 months of 2018 the bank gained income amounting to 8 797 thousand MDL (from CBN –2 954,9 thousand MDL, placements in banks –3 808 thousand MDL, overnight placements –252,2 thousand MDL and state securities – 1 781,9 thousand MDL). Compared with the same period from last year, we can note a decrease with 2 625,1 thousand MDL of the aforementioned income. This is due to the decrease in the main interest rate to 6,5% and as a result of the decrease in the average rate for state securities to 5%.

As of 31.12.2018 the balance of the net investment portfolio amounted to 98 474 thousand MDL (9,3% of total assets).

Risk Management

During the reported period, the Bank's main tasks were to minimize the risk of banking operations.

In order to minimize risk exposure, the Bank calculated and controlled the limits and regulations monthly, established in accordance with the requirements approved by the NBM, the Board of Directors and the Committee of Assets and Liabilities Management (CALM). The reports on limits and normative acts were examined monthly on CALM meetings. Additionally, every quarter the Bank conducted liquidity stress testing, distributed under the terms (GAP stress testing), the results of which were also examined on CALM and Board of Directors meetings.

A fair assessment of the loan risk is of major importance to the bank. To estimate the loan risk independently for each product, the Bank calculated the following key indicators: probability of default, exposure at the time of default risk and maturities.

To determine the loan risk, a detailed analysis of the business and financial condition of the debtor is carried out and subsequently, various measures are undertaken to minimize the loan risk.

Systematically, the Bank executes the control of open currency position limits, and also sets and monitors the limits of exposure to currency risks.

In order to minimize the interest rate risk, the Bank carries out weekly analysis of the structure of assets and liabilities under the terms of payment. These reports are used by the Bank to approve decisions on the regulation of interest rate risk. During the year, both rates on term deposits as well as loans were modified.

Quarterly the Bank presents to the Management Board, the CALM and the Board of Directors a general report that describes bank's risks and steps of minimizing those risks.

Compliance with legislation on the prevention of money laundering and terrorism financing

During the year, the Bank continued the work on ensuring the bank's compliance with the requirements of the legislation on prevention and combat of money laundering and terrorism financing to the National Bank of Moldova regulations.

The "Know your customer" procedures have been modified in regards to the identification of customers, effective beneficiaries, politically exposed persons, transaction reporting, thus were brought in accordance to the changes in legislation and National Bank of Moldova requirements. These were sent for execution to the branches of the bank. For the clients with a low level of transparency, it was recommended an increased attention to the transaction monitoring, reporting of financial transactions in accordance with internal procedures and legal requirements. There were organized trainings according to the approved plan. The Report of the AML Group on the Bank's compliance with the legislation on preventing and combating money laundering and terrorism financing according to the National Bank of Moldova's regulations, is presented on a quarterly basis to the Bank's Management Board and periodically is being reviewed during the bank's Board of Directors meetings.

Corporate Governance

Corporate Governance Code BC "EuroCreditBank" SA has been developed based on and in accordance with the Law on the activity of banks, the Law on joint stock companies, the Decision of the Government of the Republic of Moldova "On the approval of the Concept of corporate governance of the enterprises within the national economy", the Decision of the National Commission for Financial Markets "On approving the Code of Corporate Governance". While drafting the Code, there were as well taken into account the provisions of the Basel Committee on Banking Supervision document from February 2006 "Enhancing corporate governance for banking institutions".

The Corporate Governance Code of BC "EuroCreditBank" is public and available on the website of the Bank. Its provisions are binding for the Bank's governing bodies, managers and employees of the Bank, including its shareholders.

The Corporate Governance Code is the basic legal document containing basic principles and concrete situations, that are tracked by the Executive Staff, the Board of Directors of the Bank, its shareholders in their activity as well being guided by the Code's best principles and practices. The Corporate Governance Code contains the basic rights and obligations, how to respect them, to ensure direct and control operations of the Bank taking into account the interests of their shareholders.

In addition to the basic principles, the Code establishes specific principles considered to be important elements in the process of corporate governance.

THE GENERAL SHAREHOLDERS' MEETING

The General Shareholders' Meeting as supreme body, having exclusive competence pursuant to art. 50 of the Law on Joint Stock Companies, to enact decisions regarding the approval of the reports of the Board of Directors, profit distribution, selecting the auditing company, etc. necessary to properly conduct the activity of the Bank within the legal existing framework and with the requirements of the normative acts in force at the National Bank.

The decisions of the General Shareholders' Meeting regarding these matters have been carried out in accordance with the Law on Joint Stock Companies and the Statute of the Bank, while complying with the provisions of the Code of Corporate Governance of the Bank.

THE BANK'S MANAGEMENT BODIES.

The leadership and effective management of the Bank's activity comes to the governing bodies of the Bank:

- Board of Directors of the Bank;
- Management Board of the Bank;

THE BOARD OF DIRECTORS OF THE BANK

The Board of Directors is the body that represents the interests of shareholders between general meetings and within the limits of its powers, approved regulations of the Bank and their amendments at the request of the management board.

The Board of Directors of the Bank, in the exercise of its attributions to approve internal regulations of the Bank is guided by the interests of the Bank and its shareholders. The Board also supervises on a permanent basis their fulfilment by the Management Board.

During the year, the Bank's Board of Directors oversees the effective functioning and performance of the Management Board, the results of the compliance policy for the risk management policy, significant positive and negative changes that have occurred.

THE MANAGEMENT BOARD OF THE BANK – executive body.

The executive body fulfills the ongoing management of the Bank, oriented towards achieving the objectives set out in the strategy and its business plan.

In their daily activity, the executive body ensured:

- a) Organizing and coordinating the deployment of the Bank's financial activities approved by the license issued by the National Bank of Moldova in accordance with provisions of the existing legislation and internal regulations of the Bank;
- b) Examining the financial and other specific statements of the Bank, as well as reports on the performance of the business plan and reporting to the Board of Directors of the Bank;
- c) Examining the materials of controls carried out by the Internal Audit Unit of the Bank, as well the external auditing company;
- d) Presenting to the Board of Directors and each member of these bodies' the documents and other information necessary for the proper performance of their duties;
- e) Approval of the Bank's transactions with third parties prior to their realization, within the limits established by the ECB's Regulation on Executive Board.

The activity of the Bank's Executive Body – The Management Board of the Bank is conducted in accordance with the principles and best practices established by the Code of Corporate Governance of the Bank.

Conclusion:

The year 2018 was the year of key-changes for BC "EuroCreditBank" S.A., moving from slow to aggressive activity focused on product sales. This year was marked by a significant assault in the granting of credits, against the backdrop of the decrease in the interest rate on state securities, the money resources were redirected to the lending activity, the net portfolio increasing by 35% from the beginning of the year. Also, a special attention was drawn to render services to existing customers and attracting new customers to the bank. The experience of 2018, by applying aggressive and massive tactics in the field of sales urges BC "EuroCreditBank" S.A. to continue its activity at the same pace. The Bank's Board of Directors worked effectively with the bank's management and shareholders to further increase the first-tier capital in order to further develop the Bank's business. In the operational activity, the governing bodies and the bank's administrators ensured the bank's functioning, complying with the principles of corporate governance. At the same time, the work was carried out in order to bring the bank back to the requirements of the implementation of the International Financial Reporting Standard 9 and to implement the Basel III provisions in order to improve the risk management, increase the transparency and publication requirements of the credit institutions. The Bank aims to continuously strengthen and complement existing methods and processes in all risk management areas. Among the difficulties faced by the bank during 2018, we can mention obsolete IT systems that require both modernization and procurement of new equipment. That's why, in order not to halt the positive pace started in 2018, investment is needed in this area. Also, the sharp increase in the loan portfolio, ie the balance of credits extended over a period of more than 2 years, has led to the need to attract additional financial resources, especially in the long run. For the year 2019, the bank will continue its activity based on the following objectives:

- Quickly attract resources for lending.
- The growth of the loan portfolio will be mainly due to the provision of short-term and medium-term loans.
- Implementing measures to remove shortcomings following the complex control of NBM.
- Achieving the provisions of Basel III.
- Implementing NBM control measures in the field of information and development technologies, investing rapidly in the given sphere.