

Presidents Report

The main results of the activity of BC “EuroCreditBank” S.A. (hereinafter – “the Bank”) for 2017, are defined by the following indicators:

- According to the results for 2017 the Bank’s efficiency indicators comply with the limits and norms set by the NBM;
- The Total Regulatory Capital as of 31.12.2017 amounted to 235,380 thousand MDL (231,679 thousand MDL as of 31.12.2016) and with 35,380 thousand MDL more than the minimum norm –200,000 thousand MDL;
- Capital adequacy as of 31.12.2017 reached 64.79 % (in the system 31.03%) (NBM norm – no less than 16%);
- The Bank’s current liquidity by 31.12.2017 was 44.02 % (in the system 55.48 %) (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 769,561 thousand MDL having increased, in comparison with the similar period from last year with 123,047 thousand MDL or 19.03 % (an increase in the system by 9.2 %);
- Bank’s loan portfolio (main amount) as of 31.12.2017 amounted to 352,837 thousand MDL having increased in comparison with the similar period from last year with 122,434 thousand MDL or 53.14 % (a decrease in the system of 3.0 %);
- Deposit portfolio as of 31.12.2017 amounted to 449,336 thousand MDL having increased by 110,227 thousand MDL or 32.5 % in comparison with the similar period from last year (an increase in the system by 9.1 %).

Assets

The weight of interest bearing assets in total assets (the monthly average value as of 31.12.2017) accounted for 67.2% (in the system 77.7%).

Return on Assets was **1.42 %** (in the system 1.85 %) having a 0.96 p.p. increase compared with the previous year.

Liabilities and equity

At the end of the reporting period the total liabilities amounted to 769,561 thousand MDL, of which the shareholders’ equity amounted to 297,826 thousand MDL or 38.7% and liabilities 471,734 thousand MDL or 61.3 %.

Compared to 31.12.2016 there was an increase in the share capital by 3.3% (9,637 thousand MDL) and that of liabilities by 31.6% (113,409 thousand MDL). The equity increased from the undistributed in the amount of 12,356 thousand MDL and from the revaluation of assets in the amount of 2,719 thousand MDL.

The total balance of deposits by 31.12.2017 amounted to 449,336 thousand MDL and increased by 110,227 thousand MDL or 32.5 %, compared to the same period from last year. The balance of the deposits from individuals increased by 62,289 thousand MDL or 26.3%, and the balance of deposits from legal entities increased by 47,926 thousand MDL or 47.2%.

Financial Results

For the financial year 2017 the net profit of the Bank amounted to 10,008 thousand MDL by 4,046 thousand MDL or 28.8 % less, compared to the end of the previous year (in the system the increase was 8.5%, the decrease in the group of 5 small banks was 34,05%).

The Bank’s total income for 2017 amounted to 93,573 thousand MDL including interest income – 41,618 thousand MDL (44.5% of total revenues) and non-interest income –51,955 thousand MDL (55.5%). Compared to 31.12.2016, the total income have decreased with 8,708 thousand MDL or 8.5 %.

A significant share in the structure of income, coming from interests pertain to the interest income from loans and debts – 33,274 thousand MDL (79.9%), income from operations with investments held to maturity – 8,344 thousand MDL (20.1%).

The structure of non-interest income was formed as it follows: revenue from taxes and fees – 13,130 thousand MDL (25.3%), revenue from transactions with foreign currency – 22,574 thousand MDL (43.4%), other income – 16,250 thousand MDL (31.3 %).

Total expenditures for 2017 amounted to 83,565 thousand MDL. The share of expenses pertaining to interests within the total of expenditures is about 13.4% or 11,238 thousand MDL. Compared to 2016, interest expenses decreased by 4,644 thousand MDL or by 29.2% and non-interest expenses - 88.1% or 73,626 thousand MDL, from which the most of them relate to wage expenses (34,947 thousand MDL), which decreased comparing to 2016 by 250 thousand MDL or 0.7 %. Compared to 31.12.2016 the total expenditures have decreased by 5,947 thousand MDL or by 6.6%.

A significant share in the non-interest expenses are the wage expenses, including social and medical contributions 34,947 thousand MDL (47.4 %) expenses for fixed assets 13,194 thousand MDL, from which the biggest share relate to rental expenses of 4,333,512 MDL.

Principle I of liquidity (long-term liquidity) of the Bank as of December 31, 2017 – 0.85 (in the system – 0.61), (the norm being less than 1).

Principle II of liquidity (current liquidity) of the Bank as of December 31, 2017 – 44.02%, in the system 55.48% (the norm being no less than 20, as of 31.12.2016 – 53.11%, in the system 49.22%). 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 2017 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 2017, 3,024 people became clients of the Bank out of which 2,736 were individuals and 288 were legal entities. For the same period there were 5,881 new opened accounts, among which 597 legal entities and 5,284 individuals.

Loans activity

As of 31.12.2017, the Bank's loan portfolio (basic amount) amounted to 352,837 thousand MDL, while the net loan portfolio ("Loans and advances" – FIN 1) amounted to 348,026 thousand MDL, the increase in comparison with last year is by 122,363 thousand MDL or 54.2%.

The size of the allowances for impairment losses for loans by 31.12.2017 amounted to 5,247 thousand MDL. The share of allowances for impairment losses (for basic amount) in total loans was 7.17% (in the system 14.81%) (according to NBM's Regulation) and 1.4% (depreciations formed to the base amount according to the IFRS provision matrix).

Non-performing loans increased from 20,320 thousand MDL to 23,495 thousand MDL, their share within the total amount of loans is 6.66% (average in the system is 18.38 %), this is by 2.16 p.p. lower, compared to the end of the previous year.

The loan portfolio is classified in risk categories as it follows: standard credits (60.4%), supervised (32.9%), substandard (2.5%), doubtful (1.5%) and compromised (2.7%).

During 2017 year, there were granted 1,401 loans amounting to 254,265 thousand MDL (excluding technical overdrafts), which compared to the 12 months of 2016, have increased by 96.62% or 124.952 thousand MDL.

The average profitability of the loan portfolio as of 31.12.2017 was 12.0% (including expired loans) and 12.97% (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 35.6% of the total amount of income by the end of 2017 (by 31.12.2016 – 26.3%).

The income from the loans activity for 2017 amounted to 33,274 thousand MDL. The aforementioned income, compared to the 12 months of 2016, increased by 6,047 thousand MDL.

Foreign currency activity

Another important direction within the Bank's activity consists of purchasing/selling foreign currency. Throughout the 12 months of 2017, the bank gained income amounting to 12,574 thousand MDL, which represents 24.12% out of the total income of the Bank. For the 12 months of 2017, the income from the purchase/sale of foreign currency, over the same period over last year, recorded a decrease of 16.8% or 4,569 thousand MDL.

Compared to the same period from last year the turnovers increased by 7.45% or 833,507.9 thousand MDL out of interbank operations.

Activity on financial markets

During 2017 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 2017, the Bank invested –1,458,570 thousand MDL, including overnight – 555,000 thousand MDL (or 38.05 %), CBN 795,000 thousand MDL (or 54.5 %) and state securities –108,570 thousand MDL (or 7.45%). During the 12 months of 2017 the bank gained income amounting to 11,422 thousand MDL (from CBN –2,627 thousand MDL, placements in banks –3,078 thousand MDL, overnight placements –149 thousand MDL and state securities – 5,568 thousand MDL). Compared with the same period from last year, we can note a significant decrease, by 55.5% or 14,232 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 31.12.2017 the balance of the net investment portfolio amounted to 49,469 thousand MDL (6.4% 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 provisions of art. 17 of the Law on financial institutions, 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 BANK'S MANAGEMENT BODIES.

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

- General Meeting of Shareholders - the supreme governing body of the Bank;
- Board of Directors of the Bank;
- Management Board of the Bank;
- Censor Committee.

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, Censor Committee, 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 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 also approved amendments to the Statute due to the opening of the Branch no.2 in Chisinau.

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, Censor Committee 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.

CENSOR COMMITTEE

The Censor Committee supervises financial and economic activity of the Bank. During 2016 the Censor Committee has carried out controls according with its Activity Plan and has informed the Board of Directors on its results. The Council took note of the provided information.

The report on the control carried out by the Censor Committee:

- a) Establishes for the bank proper accounting policies for control, under the regulations of the National Bank, oversees its compliance and controls the bank accounts and other documents of the bank;
- b) Controls the compliance with the laws and regulations pertaining to the bank and submit those reports to the Board of Directors;
- c) Presents opinions on matters requested by the Board of Directors and other matters it seems necessary.
- d) Carries out extraordinary controls in accordance with the Decision of the General Shareholders' Meeting, at the request of the Board of Directors or on its own initiative.

The Bank's degree of compliance to the provisions of the Code of Corporate Governance

Corporate governance refers to the relationship between investor/shareholder and manager/administrator and the problems that might arise, extending to the full range of existing relationships between those directly or indirectly involved in the activity of the bank.

By the undertaken actions, BC EuroCreditBank SA managed:

- a) To reduce risks and as a result, their costs;
- b) To put maximum effort into optimizing risk management and improving internal control systems;
- c) Opening of the new branches, equipment with necessary fixed assets;
- d) Development of new products in order to attract to the maximum new customers;
- e) Promotion of products (radio, TV) with a reasonable budget.

Conclusion:

The year 2017 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 54.2% 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 2017, 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 2017, 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 2017, 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 2018, 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.