BC MOLDOVA AGROINDBANK SA

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

(FREE TRANSLATION*)

*Translator's explanatory note: The translation of this document is provided as a free translation from Romanian which is the official and binding version.

BC MOLDOVA AGROINDBANK SA

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

CONTENT

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INDEPENDENT AUDITOR'S REPORT
to the shareholders of BC Moldova Agroindbank S.A.

Opinion
We have audited the consolidated financial statements of BC Moldova Agroindbank S.A. (the Bank) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

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 *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Moldova, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. 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 1 to the consolidated financial statements, which describe the fact that the National Bank of Moldova (the NBM) has blocked two groups of shareholders of the Bank, acting in concert in relation to the Bank and purchased a qualifying holding in the share capital of the Bank, without having a prior written permission of the NBM. The NBM has asked nominated shareholders to comply with the provisions of the Law on Financial Institutions, which stipulates the obligation of shareholders to sell within three months from the NBM decisions date the qualifying holding in the share capital of the Bank. Subsequently, taking into account that these shares were not disposed of within the period of time set by the legislation in force, shares were cancelled and additional issue of shares was performed. In accordance with the National Commission for Financial Markets Decision no. 15/2 dated 7 April 2016, issued shares were provisionally registered on the Bank's name.

Matter described indicates the existence of uncertainties that may impact the activity of the Bank in the event that new shareholders and new members of the Board of the Bank nominated by those shareholders will not continue the existing financial and operating policies of the Bank. The impact of these matters could not be estimated at the date of approval of the consolidated financial statements and has not been reflected or presented in these consolidated financial statements.

We also draw attention to Note 3 of the consolidated financial statements, which indicates that MAIB - Leasing S.A. incurred a net loss of 17,386 thousand lei during the year ended 31 December 2016 and, as of that date, has accumulated losses of 10,298 thousand lei and equity is less than the share capital by 8,234 thousand lei. For further continuing its activity MAIB - Leasing S.A. is relying on additional support of the Bank and improving its financial performance.

Our opinion is not modified in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated 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	Audit response
1 Provision for impairment of loans and advances to customers and lease receivables	
We focused on this matter due to the significance of loans and advances to customers and lease receivables and the significance of judgements and estimates required for calculation of the related impairment provision. The provision represents management's best estimate of losses incurred within the loans and advances to customers/lease receivables as at the balance sheet date. Specific provisions are calculated on an individual basis for significant loans/receivables. For such provisions, judgement is required to determine when an impairment-event has occurred and then to estimate the expected future cash flows related to the loan/receivable. For all other loans/receivables, collective provisions are calculated on a portfolio basis for loans/receivables of a similar nature. Such provisions are calculated using statistical models estimating the impact of current economic and credit conditions on loans/receivables portfolios. The design of and inputs to the models are subject to management judgement.	We assessed the key methodologies and related models for calculation of the provision for loans/receivables for consistency with the requirements of IFRS. We assessed and tested (on a sample basis) the design and operating effectiveness of the controls over impairment data, the identification of overdue balances and the calculation of the provision. We tested (on a sample basis) loans/receivables, which had not been identified by management as potentially impaired and formed our own judgement as to whether that was appropriate. We tested (on a sample basis) loans/receivables for which the individual provision was calculated. We tested whether the impairment event had been identified in a timely manner, re-performed discounted cash flows calculations, examined the expected future cash flows used by management, challenged the assumptions and compared management estimates to external evidence where available.
Refer to Notes 8 and 9 of the accompanying consolidated financial statements.	We tested (on a sample basis) the basis and operation of collective provisioning models and the data and assumptions used. Our work included comparison of the principal assumptions made with our own knowledge of industry practice and actual experience, testing of the models though re-performance, and various analytical procedures.

Key audit matter	Audit response
2 Valuation of financial instruments not quoted in an active market	
A significant part of the Group's investments in securities consists of instruments not quoted in an active market (Level 2 and Level 3 instruments). The fair value of these instruments is determined by valuation models that may use complex assumptions and rely on unobservable inputs (Level 3). The significance and subjectivity of these valuations make them a key audit matter. Refer to Note 10 of the accompanying consolidated financial statements.	We assessed the design of models and the sources of significant assumptions used in determining fair value. For a sample of individually significant instruments, we inspected the models and assumptions used, and/or performed an independent valuation assessment using alternative valuation methods and assumptions, where available. We also assessed whether the Group's disclosures in relation to the valuation of such financial instruments, including disclosures regarding significant Level 3 inputs used and sensitivity of the value to changes in these inputs, are compliant with applicable IFRS requirements.

Key audit matter	Audit response
3 Valuation of non-current assets held for sale, investment property and property and equipment	
At 31 December 2016, the Group's aggregate net value of land and buildings, non-current assets held for sale and investment property was 571,566 thousand lei. The valuation of these assets utilises unobservable inputs and assumptions. Changes in these inputs and assumptions may have a significant impact on the valuation. The significance and subjectivity of these valuations make them a key audit matter. Refer to Notes 11, 12 and 13 of the accompanying consolidated financial statements.	We assessed the selection of valuation methods and the design of valuation models, as well as the sources of significant assumptions. We also tested the determination of the lower of cost and net realisable value for a sample of individually significant non-current assets held for sale. Where management involved valuation specialists, we assessed their qualification and objectivity. For a sample of individually significant assets, we involved valuation specialist to assist us in assessing the reasonableness of the methodology and assumptions.

Other matter

This report is made solely to the Group's shareholders. Our audit work has been undertaken so that we might state to the Group's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group and the Group's shareholder, for our audit work, for this report, or for the opinion we have formed.

Other information
Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, to consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and those charged with governance for the consolidated financial statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability 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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated 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 ISAs 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 consolidated 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 consolidated 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 Group's internal control.

- 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 the Group's ability 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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated 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.

The engagement partner on the audit resulting in this independent auditor's report is Anatolie Bernaz.

BDO Audit & Consulting SRL

BDO Audit & Consulting S.R.L.
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MD-2005, Chisinau, Republic of Moldova
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27 March 2017

Eugeniu Raietchi
Licensed Auditor
License AIF 0015

BC MOLDOVA AGROINDBANK SA

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016
(All amounts are expressed in thousand MDL, if not stated otherwise)

	Note	2016 MDL'000	2015 MDL'000
Interest income	24	1,612,077	1,490,295
Interest expense	24	(775,298)	(680,646)
Net interest income		836,779	809,649
Net impairment loss on loans, lease receivables and other receivables	30	(310,092)	(471,292)
Net interest income after impairment loss on loans, lease receivables and other receivables		526,687	338,357
Fee and commission income	25	364,508	300,354
Fee and commission expense	25	(109,576)	(76,738)
Net fee and commission income		254,932	223,616
Net foreign exchange gains	26	216,062	255,160
Gains from financial assets and liabilities held for trading and available for sale		2,825	7,686
Dividend income		247	-
Other operating income	27	30,121	27,842
Impairment loss on available for sale financial assets	10	5,778	(14,924)
Impairment loss on other assets		(549)	(15,810)
Gains from revaluation of investment property		3,170	46,112
Personnel expenses	28	(295,480)	(213,951)
Other administrative and operating expenses	29	(235,471)	(214,564)
Amortization expenses		(68,686)	(58,082)
Operating profit before tax		439,636	381,442
Income tax expense	19	(32,398)	3,317
Net profit for the year		407,238	384,759
Profit attributable to:			
Equity holders of the Bank		403,817	382,466
Non-controlling interests		3,421	2,293
Net profit for the year		407,238	384,759

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016
(All amounts are expressed in thousand MDL, if not stated otherwise)

	Note	2016 MDL'000	2015 MDL'000
Other comprehensive income			
Items that are or may be reclassified to profit or loss:			
Changes in fair value of available for sale financial assets	10	2,460	9,896
Deferred tax related to the changes in fair value of available for sale financial assets	19	(153)	(594)
Items that will never be reclassified to profit or loss:			
Revaluation of land and buildings		67,226	13,384
Deferred tax related to the revaluation of land and buildings	19	(7,689)	695
Other comprehensive income for the year		61,844	23,381
Total comprehensive income for the year		469,082	408,140
Total comprehensive income attributable to:			
Equity holders of the Bank		465,661	405,847
Non-controlling interests		3,421	2,293
Total comprehensive income for the year		469,082	408,140
Earnings per share			
(expressed in MDL per share)	33	389.17	375.15

The consolidated financial statements were authorized for issue on 27 March 2017 by the Executives of the Bank represented by:

President of the Management Board

Mr. Serghei Cebotari

Chief Accountant

Mrs. Carolina Semeniuc

MAIB Moldova Agroindbank

BC MOLDOVA AGROINDBANK SA

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

(All amounts are expressed in thousand MDL, if not stated otherwise)

	Note	31.12.2016 MDL'000	31.12.2015 MDL'000
ASSETS			
Cash on hand	4	465,420	515,578
Balances with National Bank of Moldova	5	4,010,766	3,525,126
Due from banks	6	2,125,086	2,261,334
Financial assets held for trading	7	-	36,576
Loans and advances to customers	8	9,652,416	10,329,059
Lease receivables	9	172,518	263,934
Financial assets available for sale	10	174,095	153,769
Financial assets held to maturity	10	2,104,017	688,879
Non-current assets held for sale	11	24,005	24,093
Property and equipment	12	825,794	411,458
Investment property	13	78,991	75,149
Intangible assets	14	68,510	62,708
Other assets	15	163,458	101,709
Total assets		19,865,076	18,449,372
LIABILITIES			
Due to banks	16	95,658	183,931
Borrowings	17	848,088	1,114,606
Due to customers	18	15,412,375	14,044,541
Deferred tax liabilities	19	35,067	24,926
Current tax liability		6,232	8,535
Other liabilities	20	205,316	113,554
Total liabilities		16,602,736	15,490,093
EQUITY			
Ordinary shares	21	207,527	207,527
Share premium		104,537	104,537
Property and equipment revaluation reserve		208,511	149,548
Available for sale financial assets revaluation reserve		74,510	72,203
Retained earnings		2,656,859	2,418,489
Total equity attributable to equity holders of the Bank		3,251,944	2,952,304
Non-controlling interests		10,396	6,975
Total equity		3,262,340	2,959,279
Total equity and liabilities		19,865,076	18,449,372

The consolidated financial statements were authorized for issue on 27 March 2017 by the Executives of the Bank represented by:

President of the Management Board

Mr. Serghei Cebotari

Chief Accountant

Mrs. Carolina Semeniuc

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016
(All amounts are expressed in thousand MDL, if not stated otherwise)

	Attributable to equity holders of the Group							
	Ordinary shares MDL'000	Share premium MDL'000	Available for sale financial assets revaluation reserve MDL'000	Property and equipment revaluation reserve MDL'000	Retained earnings MDL'000	Total MDL'000	Non-controlling interests MDL'000	Total equity MDL'000
Balance as at 1 January 2016	207,527	104,537	72,203	149,548	2,418,489	2,952,304	6,975	2,959,279
Total comprehensive income								
Net profit for the year	-	-	-	-	403,817	403,817	3,421	407,238
Other comprehensive income	-	-	2,307	59,537	-	61,844	-	61,844
Total comprehensive income for the year	-	-	2,307	59,537	403,817	465,661	3,421	469,082
Transaction with shareholders								
Dividends paid (Note 21)	-	-	-	-	(166,021)	(166,021)	-	(166,021)
Other transactions								
Transfer of revaluation surplus at the disposal of property and equipment	-	-	-	(574)	574	-	-	-
Balance as at 31 December 2016	207,527	104,537	74,510	208,511	2,656,859	3,251,944	10,396	3,262,340

As at 31 December 2016 the non-distributable legal reserves of the Group amounted to MDL'000 455,140 (2015: MDL'000 392,626). Starting from 2012, according to the National Bank of Moldova requirements, an additional reserve was created by the Group. This reserve is determined as the difference between the allowances for impairment of loans and conditional commitments in accordance with IFRS and the value computed, but non accounted for of allowances for impairment of loans and conditional commitments in accordance with prudential regulations of the National Bank of Moldova (2016: MDL'000 257,397 and 2015: MDL'000 317,773). Both reserves are included in the retained earnings column and are non-distributable.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016
(All amounts are expressed in thousand MDL, if not stated otherwise)

	Attributable to equity holders of the Group								
	Ordinary shares MDL'000	Treasury shares MDL'000	Share premium MDL'000	Available for sale financial assets revaluation reserve MDL'000	Property and equipment revaluation reserve MDL'000	Retained earnings MDL'000	Total MDL'000	Non-controlling interests MDL'000	Total equity MDL'000
Balance as at 1 January 2015	207,527	(12,854)	31,037	62,901	160,319	2,114,936	2,563,866	4,682	2,568,548
Total comprehensive income									
Net profit for the year	-	-	-	-	-	382,466	382,466	2,293	384,759
Other comprehensive income	-	-	-	9,302	14,079	-	23,381	-	23,381
Total comprehensive income for the year	-	-	-	9,302	14,079	382,466	405,847	2,293	408,140
Transactions with shareholders									
Dividends paid (Note 21)	-	-	-	-	-	(103,763)	(103,763)	-	(103,763)
Sale of treasury shares	-	12,854	73,500	-	-	-	86,354	-	86,354
Other transactions									
Transfer of revaluation surplus at the disposal of property and equipment	-	-	-	-	(24,850)	24,850	-	-	-
Balance as at 31 December 2015	207,527	-	104,537	72,203	149,548	2,418,489	2,952,304	6,975	2,959,279

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016
(All amounts are expressed in thousand MDL, if not stated otherwise)

	Note	2016 MDL'000	2015 MDL'000
Cash flows from operating activities			
Interest received		1,589,495	1,473,684
Interest paid		(792,536)	(660,833)
Commission received		356,582	292,236
Commission paid		(102,562)	(70,170)
Income received from trading in foreign currencies	26	231,263	294,323
Recoveries of loans previously written-off	8	16,624	16,624
Other operating income received		19,182	22,917
General and administrative expenses paid		(243,265)	(208,412)
Personnel expenses paid		(299,766)	(216,734)
Cash flows from operating activities before changes in operating assets and liabilities:		775,017	943,635
Net (increase) / decrease in operating assets :			
Due from banks		24,186	(187,880)
Financial assets held for trading		40,014	141,518
Financial assets held to maturity		21,150	(63,659)
Loans and advances to customers		314,349	197,820
Lease receivables		85,171	57,014
Other assets		(1,223)	(6,803)
Net increase / (decrease) in operating liabilities :			
Due to banks		(7,602)	13,581
Due to customers		1,474,519	1,496,629
Other liabilities		146,120	8,212
Net cash from operating activities before tax		2,871,701	2,600,067
Income tax paid		(39,154)	(41,645)
Net cash from operating activities		2,832,547	2,558,422

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016
(All amounts are expressed in thousand MDL, if not stated otherwise)

	Note	2016 MDL'000	2015 MDL'000
Cash flows from investing activities			
Purchase of property and equipment and intangible assets		(483,656)	(104,623)
Available for sale financial assets		(10,327)	(1,768)
Proceeds from sale of investments in associates		-	-
Net cash used in investing activities		(493,983)	(106,391)
Cash flows from financing activities			
Repayment of loans and borrowings		(461,305)	(616,824)
Proceeds from loans and borrowings		133,673	326,260
Proceeds from redemption of treasury shares		-	86,354
Dividends paid		(222,635)	(100,909)
Net cash used in financing activities		(550,267)	(305,119)
Effect of exchange rate fluctuation		17,315	352,315
Net increase in cash and cash equivalents	23	1,805,612	2,499,227
Cash and cash equivalents as at 1 January		5,200,967	2,701,740
Cash and cash equivalents as at 31 December	23	7,006,579	5,200,967

(All amounts are expressed in thousand MDL, if not stated otherwise)

1 GENERAL INFORMATION ABOUT THE GROUP

Reporting entity

Moldova Agroindbank Group (the "Group") includes the parent bank, BC Moldova Agroindbank S.A. (the "Bank") and its subsidiaries domiciled in the Republic of Moldova. The consolidated financial statements of the Group for the year ended on 31 December 2016 include the financial statements of BC Moldova Agroindbank SA and its subsidiaries (together referred to as the "Group"), which form the Group. The subsidiaries comprise the following entities:

Entities	Field of activity	31.12.16	31.12.15
MAIB- Leasing SA	Financial lease	100%	100%
Moldmediacard SRL	Processing of card payments	54.24%	54.24%

The Group has the following business lines: banking, which is performed by BC Moldova Agroindbank SA (the "Bank"), leasing and financing, performed by MAIB-Leasing SA, and processing of card transactions, performed by Moldmediacard SRL.

The Group has 2,194 employees as at 31 December 2016 (2,061 employees as at 31 December 2015).

BC Moldova Agroindbank SA

BC Moldova Agroindbank SA was incorporated in 1991 as a joint stock commercial bank. The Bank operates through its head office located in Chisinau, through the Clients Operations Division at the Central Office, 66 branches (2015: 66 branches) and 115 representative offices (2015 : 115 offices) located throughout the Republic of Moldova.

The Bank's services are divided in corporate and retail banking operations - individuals and small, micro and medium sized enterprises.

The Bank's corporate banking activities imply attracting deposits, cash handling services, lending and financing of foreign trade. The Bank offers traditional banking services and products, as well as products associated with foreign trade operations, including payment orders, documentary transactions and issuance of letters of credit and guarantees.

The Bank, also, offers a comprehensive range of retail banking services for individuals: savings accounts, demand and term deposits, loans, foreign currency exchange operations and domestic and international funds transfers.

The Bank's shares are listed on the Moldovan Stock Exchange, having the symbol MD14AGIB1008.

As at 31 December 2016, the Bank had 2,153 employees (31 December 2015: 2,020 employees).

The registered office of the Bank is located at 9/1 Constantin Tanase Street, Chisinau, Republic of Moldova.

(All amounts are expressed in thousand MDL, if not stated otherwise)

1 GENERAL INFORMATION ABOUT THE GROUP (CONTINUED)

As at 31 December 2016 and 31 December 2015, the bank's shareholders structure was as follows:

	2016	2015
Civil society of Bank shareholders and their affiliates*	13.62%	13.57%
OOO "Evrobalt"	1.05%	4.50%
Ostryn Business Limited	0.58%	0.58%
"Dilnoro Group" SIA	0.39%	0.39%
Hessond Solution Limited	0.00%	4.49%
Dresfond Invest Limited	0.00%	4.48%
Symbol Wood Limited	0.00%	4.41%
Multigold Production Limited	0.00%	4.24%
Azyol Development LTD	0.00%	4.00%
BC "Victoriabank" S.A.	0.00%	0.00%
Dunlin Invest LTD	0.00%	3.64%
UCCC Moldcoop and other entities acting in concert	2.52%	2.52%
Individuals holding ≥ 1%, directly or indirectly	14.84%	14.84%
Entities holding ≥ 1%, directly or indirectly**	0.00%	3.52%
Others***	25.91%	34.82%
Shares provisionally registered on the Bank's name****	41.09%	0
Total	100%	100%

*As at 31 December 2016 the Civil society of the Bank's shareholders and its affiliates included 16 members (2015: 16 members) of which 2 (2015: 3 members) were members of the executive management and the other 14 members were affiliated persons (2015: 13 members).

**As at 31 December 2015, four legal entities held indirectly ≤ 1% an equity interest in the Bank of ≤ 1%. These companies are as follows: Advanced Asset Protection LTD (0.61%), Business Worlwide Alliance Financial Services LTD (0.98%), Money @ Box LTD (0.95%), Nestol Limited (0.98%). The decision of the NBM Executive Board, no. 157 dated 23/12/2015, ascertained that the above-mentioned shareholders had acquired a qualifying holding in the share capital of the Bank in a total amount of 3.52%, without the prior written permission of the National Bank of Moldova ("NBM"). Respectively, under the decision no. 157 of the EB of NBM, the rights of these four companies to exercise the right to vote were suspended, and these companies were obliged to dispose the qualifying holding in the share capital of the Bank within 3 months after the effective date of the NBM decision no. 157. In May 2016, these legal entities have lost their shareholder status of BC Moldova Agroindbank SA, as a result of the cancellation of 36,605 nominative ordinary shares, with a nominal value of MDL 200 per share of BC Moldova Agroindbank SA, that previously belonged to the following Bank shareholders: Money@Box LTD, Nestol Limited, Business Worldwide Alliance Financial Services LTD and Advanced Asset Protection LTD, and consequently, the previous capital issuance has been restructured.

1 GENERAL INFORMATION ABOUT THE GROUP (CONTINUED)

BC Moldova Agroindbank SA (continued)

None of the shareholders included in the "Others" category owns a share equal to or greater than 1% in the Bank's shareholder capital.

*** Other Bank's shareholders comprise 3,028 (31 December 2015: 3,058 shareholders) of which 2782 shareholders are individuals and 246 are legal entities (31 December 2015: 2,795 individuals and 263 legal entities).

****The shares provisionally registered on the Bank's name refer to the following two stockholdings:

•The unique stockholding of 36,605 (thirty-six thousand six hundred five) newly issued First Class ordinary shares.
•The unique stockholding of 389,760 (three hundred and eighty-nine thousand seven hundred and sixty) newly issued First Class ordinary shares.

These stockholdings were held by two groups of shareholders that acted in concert and acquired a qualifying holding of 3.53% and 39.58% in the share capital of the Bank, without having a prior written permission of the National Bank of Moldova. According the decisions of NBM Executive Committee nr.157 dated 23 December 2015 and nr.43 dated 2 March 2016, these shareholders voting rights have been suspended and they were required to dispose of the shares they held in the share capital of the Bank within three months from the date of entry into force of NBM decisions. Taking into account that these shares were not disposed of within the time limit set by the legislation in force, the respective shares were cancelled and newly additional shares were issued by BC Moldova Agroindbank. The newly issued shares were provisionally registered on the Bank's name.

MAIB-Leasing SA

MAIB-Leasing SA is a private equity entity founded by B.C. Moldova Agroindbank SA. ("MAIB") in September 2002 as a joint-stock company. The main activities performed by the Company are the finance lease of vehicles, commercial, industrial, agricultural and office equipment leasing, as well as the finance lease of real estate property. The Company, also grants financing to car dealers and loans to individuals and legal entities.

The Company operates in the Republic of Moldova and as at 31 December 2016 has 23 employees (24 employees as at 31 December 2015). The registered office of the Company is 49 Tighina Street, Chisinau, Republic of Moldova.

Moldmediacard SRL

Moldmediacard SRL is a private equity entity founded in March 2000. The business line of the Company is the selection, implementation, development and exploitation of systems implying the processing of card transactions and incorporation in the international card transaction system.

The Company operates in the Republic of Moldova and as at 31 December 2016 has 18 employees (17 employees as at 31 December 2015). The registered office of the Company is 9 Miron Costin Street, Chisinau, Republic of Moldova.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These consolidated financial statements of the Group are prepared in accordance with the International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements (hereinafter referred to as "Financial statements") are prepared considering the going concern assumption and are measured using the currency of the primary economic environment the Group operates in (functional currency). The financial statements are presented in Moldovan lei ("MDL"), rounded to the nearest value expressed in thousand Moldovan lei, which is the Group's functional and presentation currency.

These consolidated financial statements are prepared based on historical cost and/or amortized cost, except for the financial assets held for trading, financial assets available for sale, investment property, which are measured at fair value, and buildings and land which are measured at the revalued amount.

Significant accounting judgments and estimates

The preparation of financial statements in accordance with IFRS implies the use of certain critical accounting estimates. It also requires management to use its judgment in the process of applying the Group's accounting policies, in terms of reported values for assets, liabilities, income and expenses. The estimates and associated judgments are based on past experience and other factors deemed to be relevant under the given circumstances, the result of which forms the basis of judgments used in assessing the carrying value of assets and liabilities for which no other measurement sources are available. Actual results may differ from these estimated values.

The estimates and underlying assumptions are reviewed continuously. Revisions of accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period when the estimate is reviewed and future periods, if such revision affects the current and future periods.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are presented in Note 3.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(a) Standards effective for annual periods beginning on or after 1 January 2016

The following standards and new interpretations became effective for the Group from 1 January 2016:

IAS 1: Disclosure Initiative (Amendment). The amendments to *IAS 1 Presentation of Financial Statements* further encourage companies to apply professional judgment in determining what information to disclose and how to structure it in their financial statements. The amendments are effective for annual periods beginning on or after 1 January 2016. The narrow-focus amendments to IAS clarify, rather than significantly change, existing IAS 1 requirements. The amendments relate to materiality, order of the notes, subtotals and disaggregation, accounting policies and presentation of items of other comprehensive income (OCI) arising from equity accounted Investments. Management has not made use of this amendment.

IAS 16 Property, Plant & Equipment and IAS 38 Intangible assets (Amendment): Clarification of Acceptable Methods of Depreciation and Amortization. The amendment is effective for annual periods beginning on or after 1 January 2016. The amendment provides additional guidance on how the depreciation or amortization of property, plant and equipment and intangible assets should be calculated. This amendment clarifies the principle in *IAS 16 Property, Plant and Equipment* and *IAS 38 Intangible Assets* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.

This amendment did not have a significant impact on the financial statements as the Group does not apply revenue-based methods of amortisation/ depreciation.

IFRS 11 Joint arrangements (Amendment): Accounting for Acquisitions of Interests in Joint Operations. The amendment is effective for annual periods beginning on or after 1 January 2016. IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions. The Group had no transactions in scope of this amendment.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(a) Standards effective for annual periods beginning on or after 1 January 2016 (continued)

IAS 19 Defined Benefit Plans (Amended): Employee Contributions. The amendment is effective for annual periods beginning on or after 1 February 2015. The amendment applies to contributions from employees or third parties to defined benefit plans. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The Company does not have any plans that fall within the scope of this amendment.

IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception (Amendments). The amendments address three issues arising in practice in the application of the investment entities consolidation exception. The amendments are effective for annual periods beginning on or after 1 January 2016. The amendments clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Also, the amendments clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. Finally, the amendments to *IAS 28 Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments had no material impact on the financial statements of the Group.

The **IASB has issued the Annual Improvements to IFRSs 2012 – 2014 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2016:

- ***IFRS 5 Non-current Assets Held for Sale and Discontinued Operations:*** The amendment clarifies that changing from one of the disposal methods to the other (through sale or through distribution to the owners) should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

- ***IFRS 7 Financial Instruments: Disclosures:*** The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. Also, the amendment clarifies that the IFRS 7 disclosures relating to the offsetting of financial assets and financial liabilities are not required in the condensed interim financial report.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(a) Standards effective for annual periods beginning on or after 1 January 2016 (continued)

- ***IAS 19 Employee Benefits:*** The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

- ***IAS 34 Interim Financial Reporting:*** The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete.

None of these amendments had a significant effect on the Group's financial statements.

The **IASB has issued the Annual Improvements to IFRSs 2010 – 2012 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 February 2015:

- ***IFRS 2 Share-based Payment:*** This improvement amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition').

- ***IFRS 3 Business combinations:*** This improvement clarifies that contingent consideration in a business acquisition that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of IFRS 9 Financial Instruments.

- ***IFRS 8 Operating Segments:*** This improvement requires an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments and clarifies that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly.

- ***IFRS 13 Fair Value Measurement:*** This improvement in the Basis of Conclusion of IFRS 13 clarifies that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial..

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(a) Standards effective for annual periods beginning on or after 1 January 2016 (continued)

- ***IAS 16 Property Plant & Equipment:*** The amendment clarifies that when an item of property, plant and equipment is revalued, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

- ***IAS 24 Related Party Disclosures:*** The amendment clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.

- ***IAS 38 Intangible Assets:*** The amendment clarifies that when an intangible asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

((b) Standards issued but not yet effective

IFRS 9 Financial Instruments: Classification and Measurement. The standard is effective for annual periods beginning on or after 1 January 2018, with early application 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. Management has made an assessment of the effect of the standard and considers it will have a medium impact on the financial statements of the Group.

IFRS 15 Revenue from Contracts with Customers. The standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates.

The Group does not expect that this standard will have a significant impact on the financial statements of the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Principles of consolidation

The consolidated financial statements comprise the financial statements of BC Moldova Agroindbank SA and its subsidiaries: MAIB Leasing SA and Moldmediacard SRL - as at 31 December of each year.

Subsidiaries

Subsidiaries are those investees that the Group controls because the Group (i) has power to direct relevant activities of investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees in order to affect the amount of shareholders' returns

The subsidiaries are consolidated from the date on which the control is transferred to the Group and cease to be consolidated on the date on which the Group transfers the control to a third party.

The financial statements of the subsidiaries are prepared for the same reporting year as for the parent Group, using consistent accounting policies. The list of the Group's subsidiaries is presented in Note 1.

Transactions eliminated on consolidation

Intra-Group balances and transactions, as well as unrealized income and expenses arising from intra-Group transactions, are fully eliminated in the consolidated financial statements.

Unrealized losses are eliminated similarly as unrealized profits, but only to the extent that there is no evidence of impairment.

Non-controlling interests

Non-controlling interest is that part of the net assets and of a subsidiary attributable to interests that are not owned, directly or indirectly, by the Bank. Non-controlling interest forms a separate component of the Group's equity.

The Group measures non-controlling interest that represents present ownership interest and entitles the Group to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis at the non-controlling interest's proportionate share of net assets of the acquire.

(All amounts are expressed in thousand MDL, if not stated otherwise)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Foreign currency translation

Foreign currency transactions are translated into the functional currency at the exchange rate on the date of the transaction. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated into functional currency using the closing exchange rate.

The year-end and average exchange rates for 2016 and 2015 were:

	2016		2015	
	USD	Euro	USD	Euro
Average for the period	19.9238	22.0548	18.8161	20.898
Year end	19.9814	20.8895	19.6585	21.4779

Exchange differences arising on the settlement of transactions at exchange rates different from those at the date of the original transaction and unrealised foreign exchange differences arising on translation of unsettled foreign currency denominated monetary assets and liabilities are recognised in the "Foreign exchange gains, net" line of the statement of profit or loss.

2.4 Financial instruments

Recognition of financial instruments

The Group recognises a financial asset or a financial liability on the statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the respective instrument. All regular purchases and sales of financial assets are recognised on the settlement date, i.e. the date that an asset is delivered to or by the Group. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulations or conventions in the market place.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Financial instruments (continued)

Classification of financial instruments

The Group classifies the financial instruments in the following categories:

Financial assets at fair value through profit or loss

Assets classified as held for trading are included in the category "Financial assets at fair value through profit and loss". Held for trading investments are securities which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit taking exists.

Investments held for trading are initially recorded at fair value. After initial recognition, trading investments are re-measured at fair value based on quoted prices on an active market.

All related realised and unrealised gains or losses are recognised in "Gains on financial assets held for trading" in the statement of profit or loss and other comprehensive income. Interest income on trading investments is included in "Interest income" in the statement of profit or loss and other comprehensive income.

All purchases and sales of trading securities that require delivery within the time frame established by regulation or market convention are recognised at the settlement date.

The Group classified in this category investments in securities issued by the Government that were purchased for trading purposes.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides funds directly to a debtor, with no intention of trading the receivable. These are initially recognized at fair value less the transactions costs, and are subsequently measured at amortized cost using the effective interest method. The Group discloses the information regarding the loan portfolio and the allowance for its impairment based on the following segmentation of clients: corporate, retail entities and retail individuals.

The Group classifies in this category current accounts and placements with other banks, loans and other receivables, finance lease receivables, financing contracts and other receivables.

Financial assets held to maturity

Held-to-maturity assets are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity. After the initial recognition at fair value plus transaction costs, held to maturity financial assets are subsequently measured at amortised cost.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Financial instruments (continued)

Classification of financial instruments (continued)

Financial assets held to maturity (continued)

The amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in interest income. The losses arising from impairment of such assets are recognised as impairment losses in the statement of profit or loss.

A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

The Group classified in this category the investments in treasury bills and bonds issued by the Government of Moldova and certificates issued by the National Bank of Moldova that are held to maturity.

Available for sale financial assets

All assets which are not classified as held for trading or held to maturity or loans and advances are included in available for sale category. All purchases and sales of available for sale assets that require delivery within the time frame established by regulation or market convention are recognised at settlement date.

Available for sale assets are recognised initially at fair value plus transaction costs. Subsequent to the initial recognition, they are re-measured at fair value unless fair value cannot be reliably determined and are measured at cost less any impairment allowance.

Fair values are based on quoted bid prices or amounts derived from cash flow models and ratios which reflect the specific circumstances of the issuer. The changes in fair value for available for sale financial instruments are recognised in other components of comprehensive.

Impairment losses are recognized in the statement of profit or loss and other comprehensive income in the period that occurred as a result of one or more events („ loss events") that occurred after the initial evaluation of financial assets available for sale. The significant or continuing decrease of fair value of the investment under its cost is an evidence of investment's impairment. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to profit or loss for the year.

The Group classified in this category the equity instruments in enterprises.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Financial instruments (continued)

Classification of financial instruments (continued)

Financial liabilities

The Group has classified the financial liabilities as *other financial liabilities measured at amortized cost.*

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

Measurement at amortized cost

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, less the principal repayments, plus the interest calculated, and for financial assets less any impairment allowance. Accrued interest includes amortization of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and interest expense, including both accrued coupon and amortized discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest re-pricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Financial instruments (continued)

Derecognition of financial instruments

A financial asset is derecognized when:

- The rights to receive cash flows from the asset have expired;
- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full, without material delay, to a third party under a "pass-through" arrangement; or
- The Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the related asset, but has transferred control of the asset

When the Group has neither transferred nor retained substantially all the risks and rewards related to the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred assets and is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired.

Identification and measurement of impairment of financial assets

Impairment losses are recognized in profit or loss for the year when incurred as a result of one or more loss events that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and reliability of related collateral, if any.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Financial Instruments (continued)

Identification and measurement of impairment of financial assets (continued)

The other main criteria also used in determining whether there is objective evidence that an impairment loss has occurred are as follows:

a. the unfavourable financial situation of the client, classified in categories D or E according to the Group's internal ratings;

b. breach of contractual obligations;

c. restructuring / debt prolongation;

d. the unfavourable situation in the client's industry/sector;

e. indicators of reduction in cash flows in future periods;

f. negative information obtained from the credit bureau and/or other sources;

g. other (at the discretion of Group's specialists).

Individual (specific) assessment of the loans and receivables portfolio

According to the Group policy, individually assessed loans and receivables are those loans which meet at least one of the following criteria:

- Loans are in the corporate segment;
- Loans exposure exceeds the significance level for an individual loan (based on the exposure of an individual loan - automatic selection);
- Loans exposures with total outstanding balance, i.e. the sum of outstanding balances of all loans granted to the client, exceeding the level of significance for individual clients (based on the overall exposure toward a client - automatic selection;
- Individually significant loans with indicators of impairment as disclosed in points a) - h) above;
- The Group has recognised the loan as individually significant based on internal information (the manual selection).

This means that performing loans are individually assessed if:

a) The loan is in the corporate segment (no significance level applied

b) Loan exposure and / or a client exposures are of the following size:

-retail segment - corporate (IMM, Micro) exposures exceeding MDL 3,000,000;

-retail segment – for individuals exposures exceeding MDL 1,000,000.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Financial Instruments (continued)

Identification and measurement of impairment of financial assets (continued)

Individual assessment of the loans and receivables portfolio (continued)

Impairment losses are always recognized through an allowance account to write down the asset's carrying amount to the present value of expected future cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure minus costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Collective assessment of loans and receivables portfolio

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (customer type, credit product, loan-to-value, overdue days status etc.). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated

Future cash flows in a group of financial assets that are collectively assessed for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of the management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not currently exist.

The recovery rate on non-performing loans (loss given default, LGD) is calculated for secured and unsecured loans exposures. The Group uses the three-month time horizon in estimating the collective impairment provision.

Impairment losses are always recognised through an allowance account. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through the profit or loss for the year.

Impairment of financial assets available for sale

The Group assesses at each reporting date whether there is evidence of impairment of the financial asset or group of financial assets. In the case of equity instruments classified as available for sale, a significant or prolonged decline in the fair value of investments under their cost is considered to determine whether the assets are impaired.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Financial Instruments (continued)

Identification and measurement of impairment of financial assets (continued)

Impairment of assets available for sale (continued)

If there is such evidence on financial assets available for sale, the accumulate losses – calculated as the difference between the acquisition cost and its current fair value, less any other impairment losses previously recognised in profit or loss, are reclassified from the fair value reserves in other comprehensive income to profit or loss. Impairment losses recognized in profit or loss and other comprehensive income related to interests in entities are not reversed through profit or loss and other comprehensive income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss and other comprehensive income statement.

If there is objective evidence for an impairment loss on an unquoted equity instruments which is not measured at fair value as it cannot be reliably measured, the impairment loss is estimated as the difference between the carrying amount of the financial asset and the discounted future cash flows using the current market rate of return for a similar financial asset. Such impairment losses are not reversed through profit or loss.

Write-off of financial assets

Uncollectible assets are written off against the related impairment loss allowance after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment losses in profit or loss.

Loans and finance lease agreements with renegotiated terms

Where possible, the Group seeks to restructure loans and finance lease agreements rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan and lease conditions. Management continuously reviews renegotiated loans and finance lease receivables to ensure that all relevant agreed lending and leasing conditions are met and that future payments are likely to occur. The loans and the finance leasing receivables continue to be subject to an individual or collective impairment assessment, as described above.

Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle or realise on a net basis or realise the asset and settle the liability simultaneously.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Investments in associates

An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. In the consolidated financial statements, investments in associates are measured using the equity method of accounting.

2.6 Leasing

Finance leases (the Group as a Lessor)

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership.

A lease agreement is recognised at the commencement date of the lease period. The commencement of the lease period is the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease (i.e. the recognition of assets, liabilities, income and expenses resulting from the lease agreement, as appropriate).

The Group presents the assets held under a finance lease in the statement of financial statement as a receivable at an amount equal to the net investment in the lease. Net investment in the lease is the gross investment in lease discounted at the interest rate implicit in the lease agreement.

For finance leases, the gross investment is the aggregate amount of minimum lease payments plus the unguaranteed residual value. The difference between the gross investment in the lease and the net cost of acquisition of the leased object (the financed amount less commissions, costs, advances and granting fees) is recognized as unearned finance income. The finance lease income is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the receivable. The unearned income is presented as a reduction of gross investment in lease. The initial direct costs related to lease agreements are included in the initial value of the finance lease receivable and these reduce the amount of income recognized over the lease term. The lease receivables are subsequently measured at amortized cost using the effective interest method.

Operating leases (the Group as a Lessee)

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in profit or loss and other comprehensive income statement on a straight-line basis over the lease term. The assets that are received in operational lease are not recognised in the statement of financial position of the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Non-current assets held for sale

Non-current assets classified as held for sale are assets whose carrying amount will be recovered principally through a sale transaction rather than through their continuous use. An asset held for sale must meet the following criteria:

- must be available for immediate sale in its actual condition;
- management must be committed to a plan to sell the asset;
- sale of the asset is highly probable;
- sale is expected to meet the recognition criteria as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of its carrying amount and fair value less costs to sell. If the fair value of the asset to be reclassified is lower than the carrying amount, the asset must be revalued until the asset is classified as held for sale, in accordance with applicable IFRS.

Non-current asset held for sale which was not sold during one year from the date of classification, ceases to be classified as held for sale, being reclassified as inventories, property and equipment, intangible assets, etc., depending on its characteristics and the intention of the Bank to use it subsequently.

Under certain circumstances, leased objects and pledges that are repossessed from debtors, as a result of the impossibility of collecting doubtful debts related to the lease, are classified as non-current assets held for sale. At the moment of repossession, assets are measured at the lower of the exposure value and the fair value of the leased assets. Subsequently, non-current assets held for sale are measured at the lower of the carrying amount and fair value less costs to sell.

2.8 Property and equipment

All items of property and equipment are initially recognized at cost. The cost includes expenses directly attributable to the acquisition of the asset. When certain components of property and equipment have different useful lives, they are accounted as distinct elements (major components) of property and equipment.

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, except for the categories "Buildings" and "Land" – which are stated at revalued amount.

Land and buildings are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Property and equipment (continued)

When buildings and land are revalued, any accumulated depreciation at the revaluation date is proportionately restated with the modification of the gross carrying amount of the asset, so that the carrying amount of the asset after revaluation, would be equal to its revalued amount. The revaluation surplus included in other comprehensive income in respect of revalued assets is transferred to retained earnings when the asset is derecognized.

Repairs and maintenance are expensed and reported to operating expenses as incurred. Subsequent expenditure on property and equipment is only capitalised when the expenditure improves the condition of the asset beyond the originally assessed standard of performance.

Where the carrying amount of an asset is greater than the estimated recoverable amount, it is written down to its recoverable amount. Gains and losses on disposals of property and equipment are determined by reference to their carrying amount and are presented in other operating income.

The depreciation is calculated on a straight-line basis over the estimated useful life of the asset, as stated in the table below. Land and assets under construction are not depreciated.

Property and equipment	Years
Buildings	33-50
Improvements of lease-hold assets	4-15
ATMs	4
Furniture and equipment	4-8
Computers	4
Vehicles	5-7

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Intangible assets

Intangible assets represent costs incurred for acquisition of computer software, licenses and other intangible assets and are amortized using the straight-line method over the best estimate of their useful lives, that is up to 20 years. The amortisation expense on intangible assets is recognised in the statement of profit or loss.

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 software products controlled by the Group, and that will probably generate economic benefits exceeding costs, beyond one year, are recognized as intangible assets. Direct costs include the costs related to the services provided by the software developer and provider.

2.10 Investment property

Investment property are buildings owned by the Group, either held by the Group under a financial lease agreement, or available buildings of the Group held for lease on the basis of one or more operating lease agreements, as well as land held for capital appreciation rather than for sale, including agricultural land, as well as land held for undetermined future use. Investment properties are considered as long-term investments and are initially recognized at cost, including trading cost at initial value, and are subsequently measured at fair value. Thus, gain or loss caused by a change in fair value of the investment property is recognized in profit or loss as incurred.

2.11 Due to banks

Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortized cost.

2.12 Borrowings

Borrowings are initially recognized 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 statement of profit or loss over the period to maturity using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Due to customers

Due to customers are non-derivative liabilities to individuals, state or legal entities and are carried at amortized cost. Due to state customers are due to public authorities, which are current accounts of the Moldovan Ministry of Finance and deposit accounts of the Social Insurance Fund. These are stated at amortized cost, using the effective interest rate method.

2.14 Cash and cash equivalents

For the statement of cash flows, cash and cash equivalents comprise cash on hand, current accounts and short-term placements at other banks, treasury bills and other short-term highly liquid investments, with original maturity of less than 90 days. Cash on hand, current accounts and short-term placements are measured at amortized cost. Treasury bills and other highly liquid investments are measured at amortized cost.

2.15 Ordinary shares and share premium

Ordinary shares represent consideration from shareholders equal to nominal value of issued shares. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the nominal value of shares issued is recorded as share premium in equity.

2.16 Impairment of non-financial assets

The Group assesses at each reporting date whether there are indications of assets impairment. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating units (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value minus costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Financial guarantees

In the ordinary course of business, the Group issues financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the financial statements (within "other liabilities") at fair value, being the premium received.

Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognized, less, when appropriate, cumulative amortization recognized in the statement of profit or loss, and the best estimate of expenses required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in the statement of profit or loss as "Impairment losses on loans and receivables". The premium received is recognized in the statement of profit or loss as "Commission income" on a straight line basis over the life of the guarantee.

2.18 Contingencies

Contingent liabilities are not recognised in the financial statements but they are disclosed in notes, unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

2.19 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation to transfer economic benefits as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably 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 expenses 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. Future operating losses are not provided for.

2SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Interest income and expenses

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss are recognized in the statement of profit or loss and other comprehensive income for all instruments measured at amortized cost using the effective interest method. Once a financial asset or a group of financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss applied at the net carrying value of the asset.

Fees for loan and leasing commitments that are likely to be granted are deferred (together with direct costs) and are recognized as an adjustment to the effective interest rate on loans and leasing agreements.

2.21 Commission income and expense

Fees and commissions are generally recognized on an accrual basis when the service has been provided. 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. Other fee and commission income arising from the financial services provided by the Bank including investment management services, brokerage services, and account service fees are recognized as the related service is provided in the income statement. Other fee and commission expenses relate mainly to transaction and service fees, which are registered as expenses as the services are received.

2.22 Pension costs and employees' benefits

The Group makes contributions to the Republic of Moldova state funds for social insurance, medical insurance and unemployment benefits, which are calculated on the basis of salaries of all employees of the Group. The Group does not operate any other retirement plan and has no other obligation to provide further benefits to current or former employees.

2.23 Gains from foreign exchange operations

Gains from foreign exchange operations include net realized gains from trading assets and liabilities in foreign currencies and the foreign currency translation differences.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Related parties

A related party is a person or entity that is related to the entity that is preparing its financial statements.

(a) A person or a close member of that person's family is related to a reporting entity if that person:

- (i) has control or joint control over the reporting entity;
- (ii) has significant influence over the reporting entity; or
- (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:

- (i) The entity and the reporting entity are members of the same group (meaning that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- (vi) The entity is controlled or jointly controlled by a person identified in letter (a).
- (vii) A person referred to in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

A *related party transaction* represents a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.25 Taxation

Income tax expense for the period comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the end of reporting period, and any adjustment to tax payable in respect of prior periods.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of reporting period.

The deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. The tax rate used to calculate the current and deferred tax position at 31 December 2016 is 12% (2015: 12%).

The deferred tax assets and liabilities are offset at the Group level.

2.26 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decisions maker. Segments whose revenue, result or assets are 10% or more of all segments are reported separately. The information on segments is presented in Note 37.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the financial statements in accordance with the International Financial Reporting Standards requires management to make estimates and assumptions in determining the amounts and balances reported in the financial statements and notes to the financial statements. Estimates and underlying assumptions are reviewed on an ongoing basis and are based on the management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment losses on loans and advances, lease receivables and other receivables

The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Group 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 at the level of 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 the Group's customers, or national or local economic conditions that correlate with defaults on Group's assets.

Management uses estimates based on historical loss experience for assets with the same credit risk characteristics and objective evidence of impairment similar to those in its 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 experience.

Management has estimated the impact over the impairment losses on loans assessed collectively using the stress scenario of increase/decrease of the recovery ratio (Loss Given Default) by 10% and probability of default (Probability of Default) by 10% used in estimating the collective impairment losses. Increase of the LGD by 10% and PD's by 10% may generate the increase of impairment losses for loans assessed collectively by MDL'000 **5,007** (in 2015: MDL'000 5,311), while the decrease of these indicators by 10% could generate a decrease of impairment losses by MDL'000 **11,858** (in 2015: MDL'000 12,550).

Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realization of any assets held as collateral against the loans or contractual cash flows for those exposures that were analyzed for impairment on the basis of contractual cash flows. A 10% increase or decrease of the estimated future discounted cash flows from individually assessed for impairment loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase in loan impairment losses of MDL'000 **191,412** (in 2015: MDL'000 263,505) or decrease in loan impairment losses of MDL'000 **165,860** (in 2015: MDL'000 204,374).

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Impairment losses on loans and advances, lease receivables and other receivables (continued)

Management has estimated the sensitivity of the collective impairment allowance for finance lease receivables using stress scenarios of increase / decrease of the recovery coefficient (Loss Given Default) by 10% and the probability of non-recovery (Probability of Default) by 10%, used to measure the impairment assessed collectively. The increase of LGD by 10% and of probabilities of default by 10% may cause an increase in the collective impairment with MDL'000 468 (2015: MDL'000 749), whereas 10% reduction of these ratios may cause a decrease in the allowance with MDL'000 2,564 (2015: MDL'000 3,318).

Impairment allowance related to lease receivables assessed for impairment at specific asset level is measured based on estimates of discounted future cash flows related to the lease receivables analyzed individually, taking into account the recovery and foreclosure of lease objects, collateral or collection of contractual cash flows for those exposures analyzed for impairment at specific level. An 10% increase or decrease in the estimated future cash flows of lease receivables analyzed individually for impairment, which may arise from amount or timing differences, would result in an increase in impairment allowance by MDL'000 3,550 (2015: MDL'000 5.726), or in a decrease in impairment allowance by MDL'000 2,564 (2015: MDL'000 3,318).

Impairment of financial assets available for sale

The Group determines that available for sale financial assets are impaired when there has been a significant or prolonged decline in the fair value below their cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates, among other factors, the volatility in share price. In addition, an impairment allowance may be appropriate when there is evidence of changes in technology or deterioration in the financial position of the investee, industry and sector performance, or operational or financing cash flows.

Fair value of financial assets available for sale

Where the fair value of financial assets cannot be derived from market information, they are determined using valuation techniques including the discounted cash flows model. The data about these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required to determine fair values.

The estimates include considerations of such inputs as liquidity risk, credit risk and volatility. Changes in judgments about these factors could affect the reported fair value of financial assets. If the fair value cannot be reliably determined the available for sale equity investments are held at cost.

Taking into account that there is no active market for unquoted equity investments and data provided by the market cannot be used in forecasting and estimating of future cash flows, the fair value cannot be measured reliably, thus the impairment is determined with reference to the Group's share in net assets of investees determined based on audited financial statements and the carrying amount of those investments.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Financial investments held to maturity

Management applies judgement in assessing whether financial assets can be categorized as held-to-maturity, in particular (a) its intention and ability to hold the assets to maturity and (b) whether the assets are quoted in an active market. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity.

If the Group fails to keep these investments to maturity other than for the specific circumstances -for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire class as available for sale.

Fair value of financial instruments

The Group measures the fair value of financial instruments using one of these methods of hierarchy:

Level 1: Quotations in an active market for identical or similar instruments.

Level 2: Valuation techniques based on observable market data. This category includes instruments valued using: quotations in active markets for similar instruments; market quotes for similar instruments in markets that are considered less active; or other valuation techniques where all significant data are directly or indirectly observable in the market data.

Level 3: Valuation techniques based on the data which cannot be observed on the market. This category includes all instruments whose valuation method does not include observable and unobservable data and has a significant influence on the assessment instrument. This category includes instruments that are valued based on market quotes for similar instruments where unobservable adjustments or assumptions are required to reflect difference between the instruments.

The objective of valuation techniques is determining fair value, which reflects the price that would be obtained in a transaction in normal market conditions, for the financial instrument at the date of the consolidated financial statements.

Valuation models that use a significant number of unobservable data require a higher proportion of estimates and judgments by management in determining fair value. Estimates and judgments by management is usually required to select the most appropriate valuation model, determining future cash flows of the instrument under valuation, determining the probability of default of the counterparty, and selecting prepayments and discount rates. The portion of this kind of instruments in the Group's portfolio is insignificant.

Please see Note 34 for presentation of fair value of financial instruments and the sensitivity of these at the entries used.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

MAIB-Leasing S.A. going concern

As at 31 December 2016 MAIB-Leasing S.A. incurred a net loss of MDL'000 17,386 (as at 31 December 2015: net profit of MDL'000 1,613) and has cumulated losses in the amount of MDL'000 10,298 (31 December 2015: retained earnings in the amount of MDL'000 7,345), as a result as at 31 December 2016 equity is less than the share capital by MDL'000 8,234.

As result of significant decrease of leasing and financing portfolio, as at 31 December 2016 MAIB-Leasing S.A. registered net interest loss of MDL'000 925 (31 December 2015: net interest income of MDL'000 7,301).

Management's action plans regarding MAIB-Leasing S.A. going concern are:

a) Share capital increase

It is being considered the possibility of increasing the share capital through conversion of loans contracted from the Bank.

b) Other measures to ensure going concern:

- Optimizing of sources and financing costs, which would allow to provide more advantageous financing conditions and attracting customers with high creditworthiness;

- Improving internal risk management regulations in order to improve the quality of credit decisions and portfolio management. Increasing the operational capacity as result of completion of ERP system implementation process.

Projects carried out by management have the objective to make the business profitable in the medium term.

Management considers that Bank's support will be sufficient for going concern and repayment of debts in the normal course of business, without the need for substantial sale of assets, forced interruption of own activities caused by external factors or other similar actions.

4 CASH ON HAND

	31.12.2016 MDL'000	31.12.2015 MDL'000
Cash	465,342	515,487
Other	78	91
	465,420	515,578

5 BALANCES WITH NATIONAL BANK OF MOLDOVA

	31.12.2016 MDL'000	31.12.2015 MDL'000
Current account	3,069,657	2,116,621
Overnight placement	-	400,181
Mandatory reserves	941,109	1,008,324
	4,010,766	3,525,126

Current account and mandatory reserves

The Group holds the mandatory reserves in accordance with the calculus base and the required reserve ratio established by the Council of Administration of NBM. For means attracted in MDL and in nonconvertible currencies the reserves are held in MDL; for means attracted in USD the reserves are held in USD; for funds attracted in EUR and other convertible currencies the reserves are held in EUR.

The balance reserved in USD and EUR on mandatory reserve accounts amounted to USD'000 15,270 and EUR'000 30,446 respectively (2015: USD'000 16,673 and EUR'000 31,686). For the means attracted with a maturity of less than 2 years the required reserve rate is 35% (2015: 35%), and for funds attracted in freely convertible currency the reserve rate is 14% (2015: 14%). For the means attracted with a maturity of over 2 years it is nil (2015: 0%).

The interest paid by NBM on the mandatory reserves during 2016 varied between 0.18% and 0.25% per annum (2015: 0.17%-0.22% per annum) for reserves in foreign currency and 5.06% – 15.10% per annum (2015: 1.82%-14.55% per annum) for reserves in MDL.

The required reserves have to be kept at an average limit at the 7th of each month. The limit should be established at the average level throughout the period of 30/31 days. During the reporting dates to NBM (7 of each month) these can be used in any volumes needed by the Group.

6 DUE FORM BANKS

	31.12.2016 MDL'000	31.12.2015 MDL'000
Current accounts	1,754,548	2,021,127
Placements	370,538	240,207
	2,125,086	2,261,334

All current accounts and deposit balances are in foreign currencies with foreign banks such as KBC (Belgium), Raiffeisen Bank International AG (Austria), Bank of New York (USA), Commertzbank (Germany), Sberbank (Russia), etc. (2015: KBC (Belgium), Commertzbank (Germany), Bank of New York (USA), Sberbank (Russia), Raiffeisen Bank International AG (Austria), etc.), and in other local banks such as Banca de Finanțe și Comerț, Victoriabank, Moldindconbank, Energbank, Banca Comerciala Romana, Eurocreditbank and Banca Socială (subsidiaries' accounts).

As the National Bank of Moldova withdrew the license of Banca Sociala on 16.10.2015, the amount of MDL'000 1,026 deposited in the Group's accounts (subsidiary company) at Banca Sociala was sequestered.

The Group's placements include deposit at KBC (Belgium) of MDL'000 179,845 (at 31.12.2015: MDL'000); at Raiffeisen Bank International AG (Austria) of MDL'000 99,911 (at 31.12.2015: MDL'000 147,459) and restricted deposits of MDL'000 90,782 (at 31.12.2015: MDL'000 92,748).

Restricted deposits mainly represent placements for clients and under membership agreements signed with Visa, MasterCard, American Express, Commertzbank of USD'000 2,514 (MDL'000 50,233) and EUR'000 1,939 (MDL'000 40,505) (31 December 2015: USD'000 2,514 (MDL'000 49,421) and EUR'000 2,760 (MDL'000 59,279)). These deposits are held in Commertzbank, HSBC, Standard Chartered and Barclays Bank.

The credit quality analysis of amounts due from banks is presented below:

Rating	Rating Agency	31.12.2016 MDL'000	31.12.2015 MDL'000
AA-	Fitch	459,705	276,545
A2	Moody's	-	2,752
A	Fitch	2,797	-
A-	Fitch, Standard&Poor's	1,502,890	1,718,603
Baa1	Moody's	43,562	-
BBB	Fitch	100,315	255,938
BBB-	S&Ps	205	25
Rating Baa2 and lower	Moody's	15,092	7,321
Without rating	-	520	150
		2,125,086	2,261,334

7 FINANCIAL ASSETS HELD FOR TRADING

	31.12.2016 MDL'000	31.12.2015 MDL'000
Treasury bills	-	36,576
	-	36,576

As at 31 December 2016 the Group does not hold treasury bills classified in the category held for trading.

As at 31 December 2015, held for trading assets represent State treasury bills issued by the Ministry of Finance of the Republic of Moldova with a maturity of up to 364 days and an interest rate varying between 17.81% and 23.61% per annum.

In 2015 fair value gains from assets held for trading amounted to MDL'000 10,290, gains from the sale of the financial assets held for trading amounted to MDL'000 1,283.

8 LOANS AND ADVANCES TO CUSTOMERS

	31.12. 2016 MDL'000	31.12. 2015 MDL'000
Corporate customers	6,481,510	6,915,003
Retail entities	1,891,218	1,933,987
Individuals	2,176,648	2,138,025
Total loans, gross	10,549,376	10,987,015
Less: allowance for impairment losses	(896,960)	(657,956)
Total loans, net	9,652,416	10,329,059

As at 31 December 2016, the gross loan portfolio included overdue payments in the amount of MDL'000 673,937 (2015: MDL'000 431,041). During 2016 loans amounting to MDL'000 46,547 have been written off based on the assessment performed by the management on the recoverability of those loans (2015: MDL'000 76,524).

8 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The concentration of risk in economic sectors for customers' loan portfolio to:

	31.12.2016 MDL'000	%	31.12.2015 MDL'000	%
Agriculture/ Food industry	2,663,332	25%	2,636,437	24%
including:				
agriculture	949,000	*9%*	*1,075,634*	*10%*
food industry	1,714,332	*16%*	*1,560,803*	*14%*
including wine production	747,058	*7%*	*827,762*	*7%*
Non-food industry	931,373	9%	967,646	9%
Loans to individuals	2,176,648	21%	2,138,025	20%
Trade	3,220,951	30%	3,643,508	33%
Transport	489,887	5%	560,114	5%
Telecommunications	207,953	2%	254,204	2%
Construction and real estate	324,143	3%	381,926	4%
Energy sector	156,182	2%	156,200	1%
Financial institutions and organizations	134,627	1%	109,926	1%
Other	244,280	2%	139,029	1%
Total loans, gross	10,549,376	100%	10,987,015	100%

The credit quality analysis of loans outstanding as at 31 December 2016 and 31 December 2015 is as follows:

31 December 2016	Neither past due nor impaired MDL'000	Past due but not impaired MDL'000	Individually assessed, with impairment triggers MDL'000	Total MDL'000
Corporate customers	3,880,751	209,324	2,391,435	6,481,510
Retail entities	1,607,386	94,094	189,738	1,891,218
Individuals	1,962,736	213,826	86	2,176,648
Total loans, gross	7,450,873	517,244	2,581,259	10,549,376

8 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

31 December 2015	Neither past due nor impaired MDL'000	Past due but not impaired MDL'000	Individually assessed, with impairment triggers MDL'000	Total MDL'000
Corporate customers	4,131,033	39,241	2,744,729	6,915,003
Retail entities	1,592,087	87,653	254,247	1,933,987
Individuals	1,961,062	176,963	-	2,138,025
Total loans, gross	7,684,182	303,857	2,998,976	10,987,015

Loans neither past due nor impaired comprise current loans that comply with the contractual repayment schedules of principal and interest and other credit contractual conditions and which have no evidence of impairment. The impairment for these loans is assessed collectively.

The analysis of neither past due nor impaired loans is presented below:

	31.12.2016 MDL'000	31.12.2015 MDL'000
Corporate, including classified as:		
Standard	2,840,724	3,227,575
Supervised	1,040,027	891,010
Non-performing	-	12,448
	3,880,751	4,131,033
Retail entities, including classified as:		
Standard	1,468,934	1,468,192
Supervised	128,065	106,026
Non-performing	10,387	17,869
	1,607,386	1,592,087
Individuals, including classified as:		
Standard	1,888,738	1,921,557
Supervised	58,620	20,692
Non-performing	15,378	18,813
	1,962,736	1,961,062
Total	7,450,873	7,684,182

8 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Ageing analysis of past due but not impaired loans by days in arrears is presented below:

31 December 2016	1-30 days MDL'000	31-60 days MDL'000	61-90 days MDL'000	More than 90 days MDL'000	Total MDL'000
Corporate customers	83,244	-	-	126,080	209,324
Retail entities	57,831	5,478	6,310	24,475	94,094
Individuals	131,861	28,510	19,634	33,821	213,826
Total	272,936	33,988	25,944	184,376	517,244

31 December 2015	1-30 days MDL'000	31-60 days MDL'000	61-90 days MDL'000	More than 90 days MDL'000	Total MDL'000
Corporate customers	39,241	-	-	-	39,241
Retail entities	46,762	10,829	4,115	25,947	87,653
Individuals	92,951	28,458	19,368	36,186	176,963
Total	178,954	39,287	23,483	62,133	303,857

Past due, but not impaired loans primarily include the collateralized loans where the fair value of collateral covers the overdue principal and interest payments.

Ageing analysis of loans individually assessed with impairment triggers is presented below:

31 December 2016		Past due loans				
	Current loans MDL'000	1-30 days MDL'000	31-60 days MDL'000	61-90 days MDL'000	More than 90 days MDL'000	Total MDL'000
Corporate customers	1,623,358	157,826	44,482	43,071	522,698	2,391,435
Retail entities	18,428	40,019	36,253	15,738	79,300	189,738
Individuals	-	-	-	86	-	86
Total	1,641,786	197,845	80,735	58,895	601,998	2,581,259

8 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

31 December 2015

		Past due loans				
	Current loans MDL'000	1-30 days MDL'000	31-60 days MDL'000	61-90 days MDL'000	More than 90 days MDL'000	Total MDL'000
Corporate customers	2,108,336	271,414	36,292	41,231	287,456	2,744,729
Retail entities	62,465	74,768	38,885	5,380	72,749	254,247
Individuals	-	-	-	-	-	-
Total	2,170,801	346,182	75,177	46,611	360,205	2,998,976

8 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The movement in the impairment allowance during the years 2016 and 2015 is presented below:

	2016				2015			
	Corporate	Retail entities	Individuals	Total	Corporate	Retail entities	Individuals	Total
				MDL'000				MDL'000
Balance as at 1 January	534,292	101,797	21,867	657,956	234,793	60,866	13,344	309,003
Impairment charge	244,590	30,977	9,984	285,551	359,196	47,390	18,891	425,477
Amounts written off as uncollectible	(11,858)	(28,371)	(6,318)	(46,547)	(59,697)	(6,459)	(10,368)	(76,524)
Balance as at 31 December	767,024	104,403	25,533	896,960	534,292	101,797	21,867	657,956

The movement in individual and collective provision for impairment during the years 2016 and 2015 is as follows:

	2016			2015		
	Individual provision	Collective provision	Total	Individual provision	Collective provision	Total
			MDL'000			MDL'000
Balance as at 1 January	610,011	47,945	657,956	292,801	16,202	309,003
Impairment charge	274,933	10,618	285,551	380,141	45,336	425,477
Amounts written off as uncollectible	(39,493)	(7,054)	(46,547)	(62,931)	(13,593)	(76,524)
Balance as at 31 December	845,451	51,509	896,960	610,011	47,945	657,956

The impairment charge for the period is different from the figure disclosed in the statement of profit or loss for the years 2016 and 2015, due to the recoveries of loans previously written off as uncollectible amounting to MDL'000 10,892 (2015: MDL'000 16,624) and due to the difference in exchange rate for 2016 amounting to MDL'000 12,273 (2015: MDL'000 6,726) – see Note 30. The amount of the recoveries was credited directly to the release of the impairment charge in the statement of profit or loss for the year.

8 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The impairment coverage ratio for the Groups' loan portfolio is as follows:

	31.12.2016 %	31.12.2015 %
Total impairment coverage ratio (to total loan portfolio)	8.5	5.99
Individual impairment ratio	30.64	19.59
Collective impairment ratio	0.66	0.61

The table below shows the carrying amount of the renegotiated loans of the Group:

	31.12.2016 MDL'000	31.12.2015 MDL'000
Corporate customers	1,166,314	586,684
Retail entities	78,131	98,094
Individuals	423	383
	1,244,868	685,161

9 LEASE RECEIVABLES

The Group is the lessor in finance lease agreements in EUR, USD and MDL, having as lease objects vehicles, commercial, industrial, agricultural and office equipment, as well as industrial, commercial and residential buildings.

	31.12.2016 MDL'000	31.12.2015 MDL'000
Gross investment in finance leases receivable		
Less than one year	132,532	192,362
Between one and five years	70,603	143,501
More than five years	-	1,106
	203,135	336,969
Unearned finance income on finance leases	(18,280)	(39,768)
Allowances for impairment losses on finance lease receivables	(12,337)	(33,267)
Net investment in finance leases	172,518	263,934

9 LEASE RECEIVABLES (CONTINUED)

The Group's net investment in finance leases is as follows:

	31.12.2016 MDL'000	31.12.2015 MDL'000
Less than one year	122,150	171,574
Between one and five years	62,705	124,542
More than five years	-	1,085
	184,855	297,201
Allowances for impairment losses on finance lease receivables	(12,337)	(33,267)
Net investment in finance leases	172,518	263,934

In accordance with the tax legislation of the Republic of Moldova, the amount of lease receivables for VAT taxable items included the amount of VAT related to the principal to be invoiced in the future based on leasing rates. As at 31 December 2016 the VAT incorporated in the net investment in finance lease amounted to MDL'000 6,868 (31 December 2015: MDL'000 10,617).

Net investment in finance leases, net of VAT to be collected is MDL'000 165,649 at 31 December 2016 and MDL'000 253,317 MDL as at 31 December 2015.

Movements in allowance for impairment losses on finance lease receivables are presented below:

	Note	2016 MDL'000	2015 MDL'000
Balance as at 1 January		33,267	21,287
Net impairment charge	30	(10,740)	11,980
Amounts cancelled as unrecoverable		(10,190)	-
Balance as at 31 December		12,337	33,267

As at 31 December 2016, investment in lease incorporated past due rates of MDL'000 50,968 (31 December 2015: MDL'000 61,022), including 58 customers with past due rates of MDL'000 43,948 analysed individually for impairment (31 December 2015: 72 customers, MDL'000 54,908).

As at 31 December 2016 the Group pledged the right to collect finance lease receivables in full value (the contractual amount of the collateral is MDL'000 462,912 (31 December 2015: MDL'000 531,416).

(All amounts are expressed in thousand MDL, if not stated otherwise)

9 LEASE RECEIVABLES (CONTINUED)

The credit quality analysis of lease receivables outstanding as at 31 December 2016 and 31 December 2015 is as follows:

	2016		2015	
	Individuals	Legal entities	Individuals	Legal entities
Neither past due nor impaired	20,137	33,616	29,770	40,959
Past due but not impaired	21,794	26,534	44,075	68,621
Individually assessed with impairment triggers	40,625	42,149	49,769	64,007
Gross	82,556	102,299	123,614	173,587
Individual provision	(1,250)	(1,808)	(7,418)	(21,365)
Collective provision	(4,923)	(4,356)	(2,262)	(2,222)
Net	76,383	96,135	113,934	150,000

Lease receivables neither past due nor impaired:

	Individuals	Legal entities	Total
As at 31 December 2016			
Lease receivables	20,137	33,616	53,753
Fair value of collateral	44,776	47,424	92,200
As at 31 December 2015			
Lease receivables	29,770	40,959	70,729
Fair value of collateral	53,192	49,326	102,518

(All amounts are expressed in thousand MDL, if not stated otherwise)

9 LEASE RECEIVABLES (CONTINUED)

Lease receivables past due but not impaired:

	Individuals	Legal entities	Total
As at 31 December 2016			
Past due up to 30 days	12,323	16,991	29,314
Past due 31-60 days	9,471	9,543	19,014
Total	21,794	26,534	48,328
Fair value of collateral	37,125	56,520	93,645
As at 31 December 2015			
Past due up to 30 days	19,609	45,358	64,967
Past due 31-60 days	24,466	23,263	47,729
Total	44,075	68,620	112,696
Fair value of collateral	66,573	119,747	186,320

Lease receivables individually assessed with impairment triggers:

	Individuals	Legal entities	Total
As at 31 December 2016			
Gross amount	40,625	42,149	82,774
Fair value of collateral	43,702	45,874	89,576
As at 31 December 2015			
Gross amount	49,769	64,007	113,776
Fair value of collateral	53,787	61,909	115,696

(All amounts are expressed in thousand MDL, if not stated otherwise)

9 LEASE RECEIVABLES (CONTINUED)

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where the value of collateral is equal to or exceeds the carrying value of the asset ("over-collateralised assets") and (ii) those assets where the value of collateral is less than the carrying value of the asset ("under-collateralised assets"):

As at 31 December 2016:	**Over-collateralised assets**		**Under-collateralised assets**	
	Carrying value of assets	**Fair value of collateral**	**Carrying value of assets**	**Fair value of collateral**
Lease receivables - individuals	73,736	123,381	2,648	2,222
Lease receivables – legal entities	71,722	132,778	24,412	17,041
Total	145,457	256,159	27,060	19,263

As at 31 December 2015:	**Over-collateralised assets**		**Under-collateralised assets**	
	Carrying value of assets	**Fair value of collateral**	**Carrying value of assets**	**Fair value of collateral**
Lease receivables - individuals	108,556	168,667	5,378	4,885
Lease receivables – legal entities	121,820	208,345	28,180	22,637
Total	230,375	377,012	33,558	27,522

9 LEASE RECEIVABLES (CONTINUED)

Restructuring practices include extend repayment schedules, amend and defer the repayments. Following the restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts.

Restructuring policies and practices are based on indicators or criteria which, in the management's opinion indicate that payment will most likely be made. These policies are reviewed on an ongoing basis.

The Group renegotiated 12 lease agreements during 2016 (2015: 14). The receivables with overdue balances that have been restructured amount to MDL'000 2,916 (2015: MDL'000 6,655).

	31.12.2016	31.12.2015
	MDL'000	MDL'000
Impaired after restructuring	412	2,292
Not impaired after restructuring - would have been impaired otherwise	3,856	4,363
	4,268	6,655

Overdue categories of renegotiated finance lease agreements include as follows:

	31.12.2016	31.12.2015
	MDL' 000	MDL' 000
Not past due	139	-
Past due up to 30 days	1,041	2,707
Past due for 31-60 days	2,009	1,656
Past due for 61-90 days	667	-
	3,856	4,363

10 FINANCIAL INVESTMENTS

	31.12.2016 MDL'000	31.12.2015 MDL'000
Financial assets held to maturity	2,104,017	688,879
Financial assets available for sale	174,095	153,769
	2,278,112	842,648

Held to maturity financial assets

	31.12.2016 MDL'000	31.12.2015 MDL'000
State securities	619,310	665,571
Government bonds	47,510	23,308
Certificates issued by the NBM	1,437,197	-
	2,104,017	688,879

As at 31 December 2016 the state securities issued by the Ministry of Finance of the Republic of Moldova had a maturity of 91 to 365 days, with an annual interest rate ranging between 5.70 % and 26.54% (2015: 13.20% and 26.51% per annum). As at 31 December 2016 government bonds issued by the Ministry of Finance of the Republic of Moldova had a maturity of 730 to 1096 days, with an annual interest rate ranging between 7.00 % and 16.25% (2015:8.00% and 24.96% per annum).

As at 31 December 2016 the Group had certificates issued by the National Bank of Moldova in Group portfolio in amount of MDL'000 1,440 with an annual interest rate of 9% (as at 31 December 2015 the Group had no certificates issued by the National Bank of Moldova in Group portfolio).

As at 31 December 2016 and 31 December 2015 the Group had no state securities or certificates issued by the NBM held to maturity and pledged as collateral.

10 FINANCIAL INVESTMENTS (CONTINUED)

Available for sale investments

	Field of activity	Ownership % 2016	Ownership % 2015	31.12.2016 MDL'000	31.12.2015 MDL'000
Visa Inc.	Transaction processing	0.001%	0.001%	47,601	46,034
IM Suedzucker Moldova SA	Sugar processing	12.37%	12.37%	43,283	42,608
IM Glass Container Prim SA	Glass manufacturing	16.89%	16.89%	41,400	37,516
IM Glass Container Company SA	Glass manufacturing	17.43%	17.43%	27,143	25,249
IM „Biroul de Credit SRL	Bureau of credit histories	6.70%	6.70%	1,019	1,019
S.W.I.F.T. SCRL	Transaction processing	0.01%	0.01%	844	708
Garant Invest SRL	Financial intermediaries	9.92%	9.92%	440	440
Depozitarul Național de Valori Mobiliare al Moldovei SA	Depositary services, clearing	5.30%	5.30%	131	131
SA Astraea	Bookstore	4.26%	4.26%	57	57
Bursa de Valori din Moldova SA	Auctions and brokerage	2.56%	2.56%	7	7
IM Piele SA	Leather manufacturing	12.80%	12.80%	-	-
State securities				12,170	-
				174,095	153,769

10 FINANCIAL INVESTMENTS (CONTINUED)

Available for sale investments such as I.M. „Suedzucker Moldova" S.A., I.M. „Glass Container Company" S.A. and I.M. „Glass Container Prim" S.A., Visa Inc. and S.W.I.F.T. SCRL were recognized at fair value as at 31 December 2016, and other available for sale investments are stated at the historical cost because its fair value cannot be reliably determined. The fair value of investments in the equity of Î.M. „Glass Container Company" S.A., Î.M. „Glass Container Prim" S.A. and Î.M. „Suedzucker Moldova" S.A was determined based on the valuation performed by an external valuer.

The fair value of the Group's equity investment in ÎM Suedzucker Moldova S.A., Î.M. "Glass Container Company" S.A. and Î.M. „Glass Container Prim" S.A. were estimated using the discounted cash flows method. The estimates were made based on the companies' forecasted financial ratios for the following 4 years (2017 – 2020), an annual long-term growth rate of 5% based on the inflation rate forecasted by the National Bank of Moldova for the following periods and projected growth in cash flows based on the assumption that inflation will be the main factor that will lead to price changes and as a result increase in generated revenues; and a discount rate for the net cash flows determined by applying the weighted average cost of capital method (WACC).

The carrying value of equity investment in S.W.I.F.T. SCRL is the value confirmed by the General Meeting of Shareholders of S.W.I.F.T. SCRL based on the financial statement of the Company.

As at 31 December 2016 the fair value of equity investment in Visa Inc. was determined based on the price quoted on the NYSE stock exchange, this technique being the Level 1 in the hierarchy.

It is impossible to determine the fair value of the Group's investment in the equity of Î.M. "Piele" SA based on cash flow or other financial data since this company ceased its activity. The Group's management decided to maintain the amount of the impairment allowance at full cost of the investment, as accounted for as at 31 December 2012.

Other Group's investments, such as equity investments in IM Biroul de Credit SRL, Depozitarul National de Valori Mobiliare al Moldovei, SA Garant Invest SRL and Bursa de Valori a Moldovei SA were acquired by the Group in order to ensure its participation on the local market, according to the regulatory requirements for stock exchange market and constitutes a lever for promoting and diversifying the Group's products/services.

State securities were classified as available for sale financial assets in order to have a reserve if the Group would have the need for money and would sell them on the secondary market. The final maturity of these state securities is 20 April 2017.

Refer to Note 34 for the fair value measurement disclosures.

10 FINANCIAL INVESTMENTS (CONTINUED)

The movement in the Group's equity investment portfolio is presented below:

	2016 MDL'000	2015 MDL'000
Balance as at 1 January	153,769	158,064
Additions	12,088	733
Increase/(decrease) of the fair value	4,354	9,896
(Increase)/decrease of impairment	3,884	(14,924)
Balance as at 31 December	174,095	153,769

11 NON-CURRENT ASSETS HELD FOR SALE

As at 31 December 2016 the Group has classified foreclosed collateral as assets held for sale at book value of MDL'000 20,060 (31 December 2015: MDL'000 24,093), and property and equipment classified as held for sale in accordance with IFRS 5 provisions in the amount of MDL'000 3,945 (31 December 2015: MDL'000 0).

Non-current assets held for sale include residential and commercial real estate property, cars and equipment taken into possession from lessees, as a result of forced interruption of leasing agreements as a result of overdue payments.

Property and equipment classified as held for sale include buildings and related land from Străseni and Telenesti, which were reclassified as "Non current assets held for sale" from property and equipment categories "Land and buildings" and "Assets under construction", based on the Group's management decision. In accordance with IFRS 5 provisions, non current assets held for sale were recognised at fair value.

Type	31.12.2016 MDL	31.12.2015 MDL
Foreclosed collateral	21,957	24,831
Real estate	13,401	17,742
Vehicles	5,372	5,755
Trucks	2,138	1,052
Special equipment	764	-
Equipment	282	282
Non-current assets held for sale (*see Note 12*)	3,945	-
Allowance for impairment	(1,897)	(738)
Net non-current assets held for sale	24,005	24,093

The foreclosed collaterals are pledged for contracted borrowings.

12 PROPERTY AND EQUIPMENT

	Revalued	Cost				
	Land and buildings MDL'000	Furniture and equipment MDL'000	Vehicles MDL'000	Leasehold improvements MDL'000	Assets under construction MDL'000	Total MDL'000
As at 1 January 2016						
Cost/revalued amount	389,957	382,931	28,185	18,499	40,675	860,247
Accumulated depreciation	(136,075)	(279,256)	(17,071)	(16,387)	-	(448,789)
Net book value	253,882	103,675	11,114	2,112	40,675	411,458
Year ended 31 December 2016						
Net value as at 1 January	253,882	103,675	11,114	2,112	40,675	411,458
Additions	143,480	5,008	-	-	256,507	404,995
Revaluations	68,050	-	-	-	395	68,445
Transfers	13,146	68,481	6,954	6,348	(94,929)	-
Disposals, net	(9)	(95)	(992)	-	-	(1,096)
Reclassified in non-current assets held for sale	(895)	-	-	-	(3,050)	(3,945)
Depreciation charge	(9,084)	(40,305)	(3,408)	(1,266)	-	(54,063)
Net book value	468,570	136,764	13,668	7,194	199,598	825,794
As at 31 December 2016						
Cost/revalued amount	642,470	452,551	33,494	24,847	199,598	1,352,960
Accumulated depreciation	(173,900)	(315,787)	(19,826)	(17,653)	-	(527,166)
Net book value	468,570	136,764	13,668	7,194	199,598	825,794

12 PROPERTY AND EQUIPMENT (CONTINUED)

As at 31 December 2016, the cost of the Group's fully depreciated but still used property and equipment amounted to MDL'000 245,830 (as at 31 December 2015: MDL'000 223,221).

Property and equipment are valued at cost less accumulated depreciation and impairment losses, with the exception of the category "Land and buildings", which in 2016 was revalued at fair value in accordance with IAS 16 provisions. Evaluation was made by an independent evaluator, which has a recognized professional qualification, experience and positive reputation on the real estate market. Fair values were estimated using appropriate valuation techniques and are based on observable market prices in an active market. As a result of revaluation performed, there was recorded an increase of the book value by MDL'000 68,445. Thus, an increase of MDL'000 67,163 was recorded in the revaluation account of property and equipment in the Group's capital, and the amount of MDL'000 1,282 was reflected as additional profit in the Group's statement of profit or loss.

Fair value estimates are presented in Note 34.

As at 31 December 2016, the carrying value of land and buildings would have been MDL'000 392,269 (31 December 2015: MDL'000 80,865) had the assets been carried at cost less depreciation.

During 2015, the Group sold the land at 9 Miron Costin str., Chisinau. The carrying value of land disposed was MDL'000 11,717, and the revaluation reserve related to this land was MDL'000 13,273.

During 2016, based on the decision of the Group's management to sell the buildings and related land from Străseni and Telenesti, the Group reclassified property and equipment in the total amount of MDL'000 3,945 from the categories "Land and buildings" and "Assets under construction" to "Non-current assets held for sale". In accordance with IFRS 5 provisions, assets held for sale were recognised at fair value.

12 PROPERTY AND EQUIPMENT (CONTINUED)

	Revalued	Cost				
	Land and buildings MDL'000	Furniture and equipment MDL'000	Vehicles MDL'000	Leasehold improvements MDL'000	Assets under construction MDL'000	Total MDL'000
As at 1 January 2015						
Cost/ revalued amount	392,692	326,284	28,767	18,706	21,298	787,747
Accumulated depreciation	(125,885)	(255,092)	(14,687)	(15,797)	-	(411,461)
Net book value	266,807	71,192	14,080	2,909	21,298	376,286
Year ended as at 31 December 2015						
Net value as at 1 January	266,807	71,192	14,080	2,909	21,298	376,286
Additions	-	577	-	-	90,513	91,090
Revaluation	111	-	-	-	-	111
Transfers	8,872	61,464	206	593	(71,135)	-
Disposals, net	11,718	150	54	495	-	12,417
Depreciation	(10,190)	(29,407)	(3,119)	(895)	-	(43,611)
Net book value	253,882	103,675	11,114	2,112	40,675	411,458
As at 31 December 2015						
Cost/ revalued amount	389,957	382,931	28,185	18,499	40,675	860,247
Accumulated depreciation	(136,075)	(279,256)	(17,071)	(16,387)	-	(448,789)
Net book value	253,882	103,675	11,114	2,112	40,675	411,458
As at 1 January 2015						

13 INVESTMENT PROPERTY

	2016 MDL'000	2015 MDL'000
As at 1 January	75,149	16,816
Additions	1,633	12,221
Disposals	(961)	-
Revaluation	3,170	46,112
As at 31 December	78,991	75,149

14 INTANGIBLE ASSETS

	2016 MDL'000	2015 MDL'000
Balance as at 1 January		
Cost	149,413	124,352
Accumulated amortization	(86,705)	(72,234)
Net book value	62,708	52,118
Year ended 31 December		
Net value as at 1 January	62,708	52,118
Additions	20,425	25,328
Disposals	-	(267)
Amortisation charge	(14,623)	(14,471)
Net book value	68,510	62,708
As at 31 December		
Cost	168,817	149,413
Accumulated amortization	(100,307)	(86,705)
Net book value	68,510	62,708

Intangible assets are initially recognized at cost and subsequently are measured at cost less accumulated depreciation and impairment losses, if any. Intangible assets are depreciated on a straight-line basis throughout their useful lives.

14 INTANGIBLE ASSETS (CONTINUED)

As at 31 December 2016 the cost of fully amortized intangible assets comprising in total 65 units (2015: 62 units) amounted to MDL'000 15,821 (2015: MDL'000 13,984).

Intangible assets comprise the automatic banking system T24 with a carrying value of MDL'000 31,668 as at 31 December 2016 (2015: MDL'000 28,328), which, according to contractual provisions, will be used by the Group till 30 September 2030.

In 2015 the Group launched the project of acceptance and issuance of American Express Cards. As at 31 December 2016 the carrying value of the license was MDL'000 10,163 (2015: MDL'000 12,652).

15 OTHER ASSETS

	31.12.2016 MDL'000	31.12.2015 MDL'000
Other non-financial assets		
Prepayments	39,606	40,561
Low-value items and materials in stock	8,143	7,650
Receivables due from budget	857	55
Other cancelled fees	475	439
	49,081	48,705
Other financial assets		
Receivables related to cancelled finance lease agreements	99,211	80,577
Receivables from other financial institutions	94,736	37,999
Financing contracts	7,790	9,004
Receivables from insurance companies	1,213	1,247
Other assets	44,551	23,540
	247,501	152,367
Less impairment losses for non-financial assets	(23,185)	(22,389)
Less impairment losses for financial assets	(109,939)	(76,974)
	163,458	101,709

Receivables from other financial institutions represent receivables arising from clearing operations related to Visa , Mastercard and American Express systems in amount of MDL'000 82,900 (2015: MDL'000 30,716), receivables due to international money transfer systems in amount of MDL'000 9,890 (2015: MDL'000 6,501) and receivables due to documentation settlements in amount of MDL'000 1,946 (2015: MDL'000 781). According to Moody's rating agency Visa International system has the "A 1" and "P-1" ratings, while MasterCard Incorporated: "A-3" and "P-2" ratings.

15 OTHER ASSETS (CONTINUED)

Receivables related to cancelled finance lease agreements represent early terminated finance lease contracts due to the lessees' breaches of the contractual clauses. The Group has recognized the difference between the fair value of the repossessed lease objects and the carrying amount of the finance lease receivables as assets, as the Group can claim these amounts from lessees in accordance with the provisions of the finance lease contracts. For certain agreements in 2015 the Group is in process of taking into possession the lease objects or the available collateral, while for others it had already foreclosed all lease objects, but it sues for the recovery of those amounts which were not covered by the value of the repossessed lease objects.

Financing contracts represent loans granted to car dealers, legal entities for investment and real estate projects, working capital needs and other purposes, and also to individuals - mortgages and consumer. The financing contracts are secured by movable items (as vehicles for car dealers) and mortgage (for other debtors).

Receivables related to cancelled leasing agreements, financing, credit sales

The Group uses the following credit quality categories to manage the credit risk of financing, cancelled lease agreements, credit sale and other receivables:

- Neither past due nor impaired - if payments are made regularly and in accordance with contract terms;
- Past due, but not impaired
  - Past due 30 days - if payments are overdue up to 30 days;
  - Past due 31-90 days - if payments are overdue from 31 to 90 days;
- Impaired- if payments are overdue more than 90 days.

Movement in impairment allowance for receivables from sales on credit during 2016 and 2015 was as follows:

	2016 MDL'000	2015 MDL'000
Balance as at 1 January	22,389	6,174
Impairment charge	2,110	15,810
Write-off and other reclassifications	(1,314)	405
Balance as at 31 December	23,185	22,389

15 OTHER ASSETS (CONTINUED)

Movement in impairment allowance for receivables related to cancelled finance lease agreements during 2016 and 2015 was as follows:

	Note	2016 MDL'000	2015 MDL'000
Balance as at 1 January		76,974	34,244
Impairment charge	30	34,376	44,495
Write-off and other reclassifications		(1,411)	(1,765)
Balance as at 31 December		109,939	76,974

The value of net impairment losses in 2016 differs from the value presented in the consolidated statement of profit and loss and other comprehensive income in 2016 and 2015, the result of the recovery of amounts written-off previously as non-recoverable in amount of MDL'000 476 (2015: MDL'000 762). The amount of the recovery has been credited directly to the "Net impairment loss on loans, lease receivables and other receivables" line in the statement of profit or loss and other comprehensive income for the year.

16 DUE TO BANKS

	Currency	Maturity	31.12.2016 MDL'000	31.12.2015 MDL'000
Borrowings from and current accounts of other banks				
Borrowings from EBRD	EURO	12 August 2015	-	-
Current accounts of other banks	USD	Non - applicable	4,598	8,803
			4,598	8,803
Loans and borrowings for financing the lease activity				
Energbank	EUR	November 2016	-	7,683
Victoriabank	EUR	November 2017	8,931	30,937
FinComBank SA	MDL/EUR	September 2019	6,416	14,107
Comerțbank	EUR	July 2017	683	1,913
Moldindconbank	EUR/MDL	October 2019	52,840	80,807
Banca Comerciala Română	EUR	March 2021	14,395	17,326
Black Sea Trade and Development Bank (BSTDB)	EUR	May 2017	4,661	19,148
EuroCreditBank	EUR	April 2018	3,134	3,207
			91,060	175,128
			95,658	183,931

Loans and borrowings to finance the lease activity

As at 31 December 2016 and 31 December 2015 the Group pledged the right to collect receivables under finance lease agreements and financing contracts and repossessed assets to secure the contracted loans and borrowings as follows:

	31.12.2016 MDL'000	31.12.2015 MDL'000
Victoriabank	24,545	49,903
BSTDB	27,476	31,438
FinComBank	14,320	32,204
Banca Comercială Română	39,080	40,181
Comertbank	2,625	2,625
Energbank	10,299	13,943
Moldindconbank	60,355	76,721
EuroCreditBank	5,212	5,401
	183,912	252,416

17 BORROWINGS

	Currency	Maturity	31.12.2016 MDL'000	31.12.2015 MDL'000
Borrowings from International Financial Institutions:				
Rural Investment and Services Project (RISP)	MDL/USD /EUR	01.04.2027	143,670	192,795
International Fund for Agricultural Development (IFAD)	MDL/USD /EUR	18.07.2022	325,676	450,589
Project for Competitiveness Improvement (PCI)	MDL/USD /EUR	01.10.2019	119,296	152,318
Kreditanstalt fur Wiederaufbau	MDL/USD /EUR	15.07.2022	42,519	57,930
Millennium Challenge	MDL/USD /EUR	25.03.2022	28,767	44,481
Filiere du Vin	EUR	18.12.2023	186,626	210,944
			846,554	1,109,057
Borrowings from other organizations to finance the leasing activity				
Autospace SRL			1,534	5,549
			1,534	5,549
			848,088	1,114,606

For loans contracted under agreements between the Government of the Republic of Moldova and International Financial Institutions, repayment schedules are set for each individual project. The agreements have no financial covenants which require regular calculation and reporting.

18 DUE TO CUSTOMERS

	31.12.2016 MDL'000	31.12.2015 MDL'000
Legal entities		
Current accounts, including:		
Corporate customers	1,072,505	863,794
Retail customers	1,734,835	1,576,326
	2,807,340	2,440,120
Term deposits, including:		
Corporate customers	553,619	377,307
Retail customers	637,774	624,224
	1,191,393	1,001,531
	3,998,733	3,441,651
Individuals		
Current accounts	1,728,825	1,358,371
Term deposits	9,684,817	9,244,519
	11,413,642	10,602,890
	15,412,375	14,044,541

As at 31 December 2016 current accounts of legal entities and individuals include restricted deposits under guarantee agreements in the amount of MDL'000 143,787 (31 December 2015: MDL'000 94,266).

The Group's term deposit portfolio includes certain deposits with no rights to withdraw deposits prior to maturity. Should such deposits be withdrawn prior to maturity, the interest rate is decreased to the rate applied for demand deposits and is recalculated for the whole term of the deposit.

19 TAXATION

	31.12.2016 MDL'000	31.12.2015 MDL'000
Current income tax expenses	30,098	48,181
Deferred income tax expense	2,300	(51,498)
Income tax expenses for the year	32,398	(3,317)

19 TAXATION (CONTINUED)

Current income tax is calculated on the taxable income for the statutory financial statements. For tax purposes, the deductibility of certain expenses, for example entertainment costs, philanthropic, sponsorship and other expenses, expenses unconfirmed documentary are limited to a percentage of profit specified in the tax law.

The standard income tax rate in 2016 is 12% (2015: 12%).

The reconciliation of the income tax expense is presented in the table bellow:

	31.12.2016 MDL'000	31.12.2015 MDL'000
Profit before tax	439,636	381,443
Tax calculated at applicable rate of 12% (2015:12%)	52,755	45,773
Adjustment of income tax expenses*	-	(55,008)
Tax effect of:		
Non-taxable income	(20,133)	(13,454)
Non-deductible expenses	(372)	26,838
Philanthropic, sponsorship and other expenses	148	(832)
Income tax expense for the year	32,398	(3,317)

*In accordance with amendments made for 2015 in Article 31 paragraph (3) of the Tax Code, stipulating that financial institutions are allowed to deduct the allowance for impairment of assets and conditional liabilities measured under IFRS, deferred income tax liability calculated in prior periods in accordance with the previous version of the Tax Code, was recognized in statement of profit or loss and other comprehensive income as "Income tax expenses", in accordance with the recommendations of the Ministry of Finance of the Republic of Moldova.

19 TAXATION (CONTINUED)

2016	Balance at 1 January MDL'000	Recognized in profit or loss MDL'000	Recognized in other comprehensive income MDL'000	Deferred tax assets MDL'000	Deferred tax liabilities MDL'000	Net balance at 31 December MDL'000
Current accounts and deposits with banks	123	(1)	-	122	-	122
Loans to customers	719	(343)	-	376	-	376
Lease receivables	493	(224)	-	269	-	269
Available for sale financial assets	(5,597)	27	(152)	-	(5,722)	(5,722)
Non-current assets held for sale	(25)	(34)	-	-	(59)	(59)
Property and equipment	(19,233)	(955)	(7,689)	-	(27,877)	(27,877)
Investment property	(2,472)	(146)	-	-	(2,618)	(2,618)
Intangible assets	32	(6)	-	26	-	26
Other assets	31	1	-	32	-	32
Borrowings	91	(9)	-	82	-	82
Tax losses	646	(645)	-	1	-	1
Other liabilities	266	35	-	301	-	301
Total deferred tax assets (liabilities)	(24,926)	(2,300)	(7,841)	1,209	(36,276)	(35,067)

19 TAXATION (CONTINUED)

2015	Balance at 1 January MDL'000	Recognized in profit or loss MDL'000	Recognized in other comprehensive income MDL'000	Deferred tax assets MDL'000	Deferred tax liabilities MDL'000	Net balance at 31 December MDL'000
Current accounts and deposits with banks	(2,718)	2,841	-	-	123	123
Loans to customers	(48,487)	49,206	-	719	-	719
Lease receivables	460	33	-	493	-	493
Available for sale financial assets	(6,028)	1,025	(594)	-	(5,597)	(5,597)
Non-current assets held for sale	(60)	35	-	-	(25)	(25)
Property and equipment	(19,795)	(133)	695	-	(19,233)	(19,233)
Investment property	153	(2,625)	-	-	(2,472)	(2,472)
Intangible assets	-	32	-	-	32	32
Other assets	(178)	209	-	31	-	31
Borrowings	77	14	-	91	-	91
Tax losses	-	646	-	646	-	646
Other liabilities	51	215	-	266	-	266
Total deferred tax assets (liabilities)	(76,525)	51,498	101	2,246	(27,172)	(24,926)

20 OTHER LIABILITIES

	31.12.2016 MDL'000	31.12.2015 MDL'000
Other non-financial liabilities		
Other taxes payable	20,156	17,227
Other financial liabilities		
Dividends payable	81,203	16,146
Trade payables	3,067	2,216
Due to insurance companies (subsidiary)	544	752
Settlements with other financial institutions	42,349	35,303
Advances from customers on future lease agreements	2,331	2,015
Payables to employees	2,414	1,219
*Other liabilities	53,252	38,676
	205,316	113,554

*Other liabilities include creditors on documentary settlements of MDL'000 5,664 (31 December 2015: 0), unidentified amounts of MDL'000 9,855 (31 December 2015: MDL'000 1,399), payments received for transfers of MDL'000 5,466 (31 December 2015: MDL'000 2,663), settlements related to E-Commerce of MDL'000 15,315 (31 December 2015: MDL'000 13,877), settlements related to Payments Agent service of MDL'000 7,136 (31 December 2015: MDL'000 9,889), and other liabilities of MDL'000 9,816 (31 December 2015: MDL'000 10,848).

21 SHARE CAPITAL

As at 31 December 2016 the share capital comprises 1,037,634 authorized ordinary shares, with a nominal value of MDL 200 per share (31 December 2015: 1,037,634).

During 2015 the Group disposed of 64,267 treasury shares, purchased at a tender in 2007 (at a price of MDL 1,340 per share in the total value of MDL'000 86,118). The sale price ranged between MDL 1,341 and 1,350, the total value being MDL'000 86,352. The difference between the sale price and the nominal value was included in additional capital.

During 2016 the Group declared and distributed dividends from the net profit of the year ended 31 December 2015, in the amount of MDL'000 166,021 or MDL 160 per share (2015: MDL'000 103,763 or MDL 100 per share)

22 CAPITAL ADEQUACY

	Carrying value		Risk-weighted value	
	31.12.2016 MDL'000	31.12.2015 MDL'000	31.12.2016 MDL'000	31.12.2015 MDL'000
Balance sheet items (net of reserves)				
Cash on hand	465,420	515,578	-	-
Balances with NBM denominated in MDL	3,069,657	2,516,802	-	-
Balances with NBM denominated in foreign currency	941,109	1,008,324	188,222	201,665
Due from banks	2,125,086	2,261,334	425,017	452,267
Financial assets held for trading	-	36,576	-	-
Loans to customers (excluding mortgage)	8,697,632	9,157,908	8,697,632	9,157,908
Loans to customers (mortgage)	954,784	1,171,151	477,392	585,576
Lease receivables	172,518	263,934	172,518	263,934
Financial assets available for sale (equity investments)	161,925	153,769	161,925	153,769
Financial assets available for sale (State securities)	12,170	-	-	-
Financial assets held to maturity	2,104,017	688,879	-	-
Non-current assets held for sale	24,005	24,093	24,005	24,093
Property and equipment	825,794	411,458	825,794	411,458
Investment property	78,991	75,149	78,991	75,149
Intangible assets	68,510	62,708	68,510	62,708
Other assets	163,458	101,709	163,458	101,709
Total statement of financial position	19,865,076	18,449,372	11,283,464	11,490,236
Off-balance sheet items				
Guarantees issued	245,587	234,064	245,587	234,064
Letters of credit	6,288	9,719	6,288	9,719
Commitments to extend loans	884,930	848,271	442,465	424,136
Total off-balance sheet items	1,136,805	1,092,054	694,340	667,919
Total	21,001,881	19,541,426	11,977,804	12,158,155

22 CAPITAL ADEQUACY (CONTINUED)

	31.12.2016 MDL'000	31.12.2015 MDL'000
Tier 1 capital		
Share capital, nominal	207,527	207,527
Share premium	104,537	104,537
Retained earnings	2,656,859	2,418,489
Total tier 1 capital	2,968,923	2,730,553
Tier 2 capital		
Property and equipment revaluation reserve	208,511	149,548
Available for sale financial assets reserve	74,510	72,203
Total tier 2 capital	283,021	221,751
Total capital	3,251,944	2,952,304
Capital adequacy ratio	27.15%	24.28%

The Group conducts its activity in accordance with Capital Management Policy of BC "Moldova Agroindbank" S.A. and applies the following tools for the management of Bank's capital: (i) capital planning and (ii) monitoring, compliance and maintenance of capital requirements.

The Group maintains a system of monitoring and reporting related to the Group's capital in order to ensure the compliance with capital requirements stipulated in the legislation.

23 CASH AND CASH EQUIVALENTS

For the consolidated cash flow statement, cash and cash equivalents comprise the following balances with original maturity of less than 90 days:

	31.12.2016 MDL'000	31.12.2015 MDL'000
Cash on hand	465,420	515,578
Balances with National Bank of Moldova	3,069,657	2,516,802
Current accounts and overnight deposits with banks	2,034,305	2,168,587
Certificates issued by the National Bank of Moldova	1,437,197	-
	7,006,579	5,200,967

24 NET INTEREST INCOME

	2016 MDL'000	2015 MDL'000
Interest income		
Loans and advances to banks	228,942	169,339
Loans and advances to customers	1,116,604	1,177,637
Finance lease and financing agreements	23,062	37,375
Financial assets held to maturity	243,469	105,944
	1,612,077	1,490,295
Interest expense		
Due to customers (individuals)	656,916	542,583
Due to customers (companies)	67,075	66,402
Due to banks and other organizations	51,307	71,661
	775,298	680,646
Net interest income	836,779	809,649

25 NET FEE AND COMMISSION INCOME

	2016 MDL'000	2015 MDL'000
Fee and commission income		
Cash transactions	78,912	70,926
Processing of clients' payments	53,054	48,618
Transactions with debit cards	78,005	55,007
Commissions on salary transferred to debit cards	9,450	8,658
Money transfer services	16,946	14,490
Cash delivery service	5,567	5,177
Commission from direct debit transactions	6,495	3,775
Commissions on guarantees and letters of credit	7,814	9,945
Service fees on client accounts	30,605	28,304
Commissions from other services to clients	77,660	55,454
	364,508	300,354
Fee and commission expense		
Transactions with debit cards	24,118	21,296
Processing centres services	53,764	35,027
Commissions charged by correspondent banks	1,536	1,985
Commissions for cash transactions	14,453	6,336
Cash withdrawal related to debit cards	2,584	2,528
Contributions to the Deposit Guarantee Fund	8,147	6,892
Others	4,974	2,674
	109,576	76,738
Net fee and commission income	254,932	223,616

26 NET FOREIGN EXCHANGE GAINS

	2016 MDL'000	2015 MDL'000
Gains from trading in foreign currencies	231,263	294,323
Foreign exchange translation losses	(15,201)	(39,163)
Net result	216,062	255,160

27 OTHER OPERATING INCOME

	2016 MDL'000	2015 MDL'000
Penalties received	12,556	18,165
Income from unpaid and expired dividend liabilities	8,443	2,584
Gains from disposal of other assets	1,278	1,100
Income from rent	3,900	1,588
Gain on disposal of property and equipment	252	-
Gains from disposal of investments	-	335
Other income	3,692	4,070
	30,121	27,842

28 PERSONNEL EXPENSES

	2016 MDL'000	2015 MDL'000
Salaries and bonuses	228,376	165,325
Social insurance and contributions	53,071	38,319
Medical insurance contributions	10,298	7,201
Other personnel expenses	3,735	3,106
	295,480	213,951

The Group makes contributions to the State social insurance fund of the Republic of Moldova, calculated as a percentage of the gross salary and other compensations. These contributions are charged to the consolidated statement of profit or loss in the period in which the related salary is earned by the employee.

29 OTHER OPERATIONAL AND ADMINISTRATIVE EXPENSES

	2016 MDL'000	2015 MDL'000
Rent	39,885	33,121
Advertising and charity	39,790	47,070
Repairs and maintenance	31,558	25,528
Maintenance of intangible assets	13,870	13,202
Utilities	13,136	10,468
Safeguarding of assets and security	9,107	7,226
Postage and telecommunication	8,485	7,371
Transportation	7,093	5,920
Stationery and supplies	11,008	9,071
Business promotion	7,329	3,318
Professional services	7,906	6,889
Remuneration of Group Council	11,563	9,898
Dealing and informational services	5,441	5,081
Inventory	5,960	4,369
Travel	2,504	2,354
Insurance	2,930	2,641
Training	2,151	1,477
Other fees and commissions	308	2,167
Expenses for debt collection services	1,053	1,215
Write down of assets	1,158	990
Other expenses	13,236	15,188
	235,471	214,564

Other expenses include property tax, penalties paid, amounts relating to cash transactions and certain marketing expenses.

30 IMPAIRMENT OF LOANS, LEASE RECEIVABLES AND OTHER RECEIVABLES

Impairment of interest bearing assets includes impairment of:

	Note	2016 MDL'000	2015 MDL'000
Loans and advances	8	286,932	415,579
Finance lease receivables	9	(10,740)	11,980
Other assets	15	33,900	43,733
		310,092	471,292

31 GUARANTEES AND OTHER FINANCIAL COMMITMENTS

The aggregate amount of guarantees, commitments and other off-balance sheet items existing as at 31 December 2016 and 31 December 2015 is:

	2016 MDL'000	2015 MDL'000
Letters of credit	6,288	9,719
Guarantees	245,587	234,064
Financing commitments and other	884,930	848,271
	1,136,805	1,092,054

In the normal course of business, the Group issues guarantees and letters of credit on behalf of its customers. The credit risk on guarantees is similar to that arising from granting of loans. In the event of a claim on the Group as a result of a customer's default on a guarantee, these instruments also present a degree of credit risk to the Group. No provision was required as at 31 December 2016 and 31 December 2015.

Financing commitments do not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being disbursed.

The table below shows the expected maturity of the Group's guarantees and other financial commitments as at 31 December 2016 and 31 December 2015:

2016	Less than 1 month MDL'000	From 1 to 3 months MDL'000	From 3 months to 1 year MDL'000	From 1 to 5 years MDL'000	More than 5 years MDL'000	Total MDL'000
Letters of credit	624	5,664	-	-	-	6,288
Guarantees	171,486	8,787	33,477	31,837	-	245,587
Financing commitments	15,348	156,692	296,092	416,784	14	884,930
Total	187,458	171,143	329,569	448,621	14	1,136,805

2015	Less than 1 month MDL'000	From 1 to 3 months MDL'000	From 3 months to 1 year MDL'000	From 1 to 5 years MDL'000	More than 5 years MDL'000	Total MDL'000
Letters of credit	4,585	5,134	-	-	-	9,719
Guarantees	234,064	-	-	-	-	234,064
Financing commitments	266,309	69,319	268,947	243,696	-	848,271
Total	504,958	74,453	268,947	243,696	-	1,092,054

32 CAPITAL COMMITMENTS

As at 31 December 2016, the Group had no capital commitments.

33 EARNINGS PER SHARE

	Ordinary shares outstanding	Profit for the year MDL'000	Basic earnings per share MDL
As at 31 December 2015	1,019,515	382,466	375.15
As at 31 December 2016	1,037,634* *(see Note 1)*	403,817	389.17

34 FAIR VALUE OF FINANCIAL INSTRUMENTS AND FAIR VALUE HIERARCHY

Fair value measurements are analysed by the fair value level in the fair value hierarchy as described in Note 3. Management makes judgments in categorizing the financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against their impact on fair value of the valued instruments.

Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period.

34 FAIR VALUE OF FINANCIAL INSTRUMENTS AND FAIR VALUE HIERARCHY (CONTINUED)

The level in the fair value hierarchy into which the recurring fair value measurements are categorized as follows:

				2016				2015
				Fair value				Fair value
				MDL'000				MDL'000
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
Financial assets held for trading	-	-	-	-	-	36,576	-	36,576
Financial assets available for sale	47,601	12,170	114,324	174,095	46,034	-	107,735	153,769
Non-financial assets								
Land and buildings	-	-	468,570	468,570	-	-	253,883	253,883
Investment property	-	78,991	-	78,991	-	75,149	-	75,149
Total assets recurring fair value measurements	47,601	91,161	582,894	721,656	46,034	111,725	361,618	519,377

(All amounts are expressed in thousand MDL, if not stated otherwise)

34 FAIR VALUE OF FINANCIAL INSTRUMENTS AND FAIR VALUE HIERARCHY (CONTINUED)

The valuation technique, inputs used in the fair value measurement for level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows as at 31 December 2016 and 31 December 2015:

	Fair value	Valuation technique	Inputs used	Range of inputs (weighted average)	Reasonable change	Sensitivity of fair value
31 December 2016						
Financial assets available for sale	114,324	Discounted cash flows	Weighted average cost of capital	8.15%-15.79% (11.95%)	+10%	(47,550)
					-10%	73,748
	47,601	Market value	Market price for the financial asset		±5%	±2,380
Land and buildings	468,570	Market value	Market prices for comparable properties (MDL/sq.m.)	Lands – 29-4,137 (2,319) Buildings – 98-36,935 (14,186)	±10%	±46,857
31 December 2015						
Financial assets available for sale	107,735	Discounted cash flows	Weighted average cost of capital	13.29%-18.16% (16.11%)	+10%	(54,341)
					-10%	40,143
	46,034	Market value	Market price for the financial asset		±5%	±2,302
Land and buildings	253,883	Market value	Market prices for comparable properties (MDL/sq.m.)	Lands – 29-4,137 (2,319) Buildings – 98-36,935 (14,186)	±10%	±25,388

34 FAIR VALUE OF FINANCIAL INSTRUMENTS AND FAIR VALUE HIERARCHY (CONTINUED)

The above tables discloses sensitivity to valuation inputs for financial assets, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly. For this purpose, significance was judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognized in other comprehensive income, total equity.

There were no changes in valuation technique for level 3 recurring fair value measurements during the year ended 31 December 2016 (31 December 2015: none).

The sensitivity of fair value measurement disclosed in the above table shows the direction that an increase or decrease in the respective input variables would have on the valuation result. For investments available for sale, increases in the WACC multiple would lead to a decrease in estimated value.

Level 3 valuations are reviewed on an annual basis by Corporate Investments Department which report to the Management Board. The Group involves an external valuer who hold a recognized and relevant professional qualification and who have recent experience in the valuation of assets in a similar category. The Corporate Investments Department considers the appropriateness of the valuation model inputs, as well as the valuation result using various valuation methods and techniques generally recognized as standard within the financial services industry.

34 FAIR VALUE OF FINANCIAL INSTRUMENTS AND FAIR VALUE HIERARCHY (CONTINUED)

	2016					2015				
	Carrying value MDL'000	Fair value MDL'000				Carrying value MDL'000	Fair value MDL'000			
		Level 1	Level 2	Level 3	Total		Level 1	Level 2	Level 3	Total
Financial assets										
Accounts with NBM	4,010,766	-	4,010,766	-	4,010,766	3,525,126	-	3,525,126	-	3,525,126
Due from banks	2,125,086	-	2,125,086	-	2,125,086	2,261,334	-	2,261,334	-	2,261,334
Loans to customers:	9,652,416	-	-	10,093,156	10,093,156	10,329,059	-	-	10,169,170	10,169,170
Corporate customers	5,714,486	-	-	5,926,012	5,926,012	6,380,711	-	-	6,419,677	6,419,677
Retail entities	1,786,815	-	-	1,874,123	1,874,123	1,832,190	-	-	1,871,875	1,871,875
Individuals	2,151,115	-	-	2,293,021	2,293,021	2,116,158	-	-	1,877,618	1,877,618
Lease receivables	172,518	-	-	185,737	185,737	263,934	-	-	270,110	270,110
Financial assets held to maturity	2,104,017	-	2,054,875	-	2,054,875	688,879	-	669,336	-	669,336
Other financial assets	137,562	-	-	137,562	137,562	75,393	-	-	75,393	75,393
Total	18,202,365	-	8,190,727	10,416,455	18,607,182	17,143,725	-	6,455,796	10,514,673	16,970,469

34 FAIR VALUE OF FINANCIAL INSTRUMENTS AND FAIR VALUE HIERARCHY (CONTINUED)

	2016					2015				
	Carrying value MDL'000	Fair value MDL'000				Carrying value MDL'000	Fair value MDL'000			
		Level 1	Level 2	Level 3	Total		Level 1	Level 2	Level 3	Total
Financial liabilities										
Due to banks	95,658	-	-	95,658	95,658	183,931	-	-	183,931	183,931
Borrowings	848,088	-	-	855,908	855,908	1,114,606	-	-	1,114,606	1,114,606
Due to customers	15,412,375	-	-	15,166,276	15,166,276	14,044,541	-	-	14,044,541	14,044,541
Legal entities, including:	3,998,732	-	-	3,984,056	3,984,056	3,441,651	-	-	3,441,651	3,441,651
Current accounts	2,807,339	-	-	2,807,339	2,807,339	2,440,120	-	-	2,440,120	2,440,120
Term deposits	1,191,393	-	-	1,176,717	1,176,717	1,001,531	-	-	1,001,531	1,001,531
Individuals, including:	11,413,642	-	-	11,182,220	11,182,220	10,602,890	-	-	10,602,890	10,602,890
Current accounts	1,728,825	-	-	1,728,825	1,728,825	1,358,371	-	-	1,358,371	1,358,371
Term deposits	9,684,817	-	-	9,453,395	9,453,395	9,244,519	-	-	9,244,519	9,244,519
Other financial liabilities	185,160	-	-	185,160	185,160	96,327	-	-	96,327	96,327
Total	16,541,281	-	-	16,303,002	16,303,002	15,439,405	-	-	15,439,405	15,439,405

34 FAIR VALUE OF FINANCIAL INSTRUMENTS AND FAIR VALUE HIERARCHY (CONTINUED)

Cash and cash equivalents

The fair value of cash and cash equivalents equals to their carrying amount.

Net loans and lease receivables

Loans and lease receivables are reduced by the impairment allowance on loans and lease receivables. The estimated fair value of loans and lease receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Financial investments held to maturity

Financial assets held to maturity include only interest-bearing assets held to maturity. Fair value for held-to-maturity assets is based on market prices or broker/dealer price quotations.

Borrowings, due to banks, due to customers

The fair value of floating rate borrowings approximates their carrying amount. The estimated fair value of fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

35 CLASSIFICATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition and Measurement*, the Group classifies financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL").

Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

The table below provides a reconciliation of financial assets under these measurement categories as at 31 December 2016 and 31 December 2015:

35 CLASSIFICATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY (CONTINUED)

The table below provides a reconciliation of financial assets under these measurement categories as at 31 December 2016:

31 December 2016	Loans and receivables, including leasing MDL'000	Available for sale assets MDL'000	Assets held for trading MDL'000	Held to maturity assets MDL'000	Total MDL'000
Assets					
Cash on hand and balances with National Bank	4,476,186	-	-	-	4,476,186
Due from banks	2,125,086	-	-	-	2,125,086
Loans and advances to customers:					
Corporate customers	5,714,486	-	-	-	5,714,486
Retail customers legal entities	1,786,815	-	-	-	1,786,815
Individuals	2,151,115	-	-	-	2,151,115
Lease receivables:					
Corporate customers	103,501	-	-	-	103,501
Individuals	82,236	-	-	-	82,236
Financial assets available for sale	-	174,095	-	-	174,095
Financial assets held to maturity	-	-	-	2,104,017	2,104,017
Other financial assets:					
Receivables related to cancelled lease agreements (leasing)	14,447	-	-	-	14,447
Receivables from other financial institutions	72,942	-	-	-	72,942
Due from providers (leasing)	4,348	-	-	-	4,348
Due from insurance companies (leasing)	1,213	-	-	-	1,213
Other	44,612	-	-	-	44,612
Total financial assets	16,576,987	174,095	-	2,104,017	18,855,099

35 CLASSIFICATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY (CONTINUED)

The table below provides a reconciliation of financial assets under these measurement categories as at 31 December 2015:

31 December 2015	Loans and receivables, including leasing MDL'000	Available for sale assets MDL'000	Assets held for trading MDL'000	Held to maturity assets MDL'000	Total MDL'000
Assets					
Cash on hand and balances with National Bank	4,040,704	-	-	-	4,040,704
Due from banks	2,261,334	-	-	-	2,261,334
Financial assets held for trading	-	-	36,576	-	36,576
Loans and advances to customers:					
Corporate customers	6,380,711	-	-	-	6,380,711
Retail customers legal entities	1,832,190	-	-	-	1,832,190
Individuals	2,116,158	-	-	-	2,116,158
Lease receivables:					
Corporate customers	153,510	-	-	-	153,510
Individuals	116,600	-	-	-	116,600
Financial assets available for sale	-	153,769	-	-	153,769
Financial assets held to maturity	-	-	-	688,879	688,879
Other financial assets:					
Receivables related to cancelled lease agreements (leasing)	21,725	-	-	-	21,725
Receivables from other financial institutions	18,112	-	-	-	18,112
Due from providers (leasing)	7,243	-	-	-	7,243
Due from insurance companies (leasing)	1,247	-	-	-	1,247
Other	27,067	-	-	-	27,067
Total financial assets	16,976,601	153,769	36,576	688,879	17,855,825

35 CLASSIFICATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY (CONTINUED)

As at 31 December 2016 and 31 December 2015 all financial liabilities of the Group were carried at amortized cost.

36 RELATED PARTIES

During the year a number of banking and non-banking transactions were entered into with related parties in the normal course of business.

These include extending of loans, accepting deposits, finance trade, payment settlement, foreign currency transactions and acquisition of services and goods from related parties.

The transactions and balances mentioned above arose in the ordinary course of the Group's business and are performed at market rates.

In the table below are disclosed the balances and the transactions with the related parties during the year.

36 RELATED PARTIES (CONTINUED)

In the table below are disclosed the balances as at year ended 31 December:

Related parties			Loans (5.6-14.75%) MDL'000	Impairment loss on loans MDL'000	Lease receivables (9%-15%) MDL'000	Loans received (5.6%-11.55%) MDL'000	Deposits (0-11%) MDL'000	Guarantees issued by the Group MDL'000	Commitments to grant loans MDL'000
Civil society of Group shareholders and their affiliates and persons holding or controlling 1% or more of the Bank's share capital		*2016*	6,122	4	-	-	91,647	-	-
	Shareholders	*2015*	341	-	-	-	37,462	-	-
Other directors (executive/ non-executive) and their affiliates		*2016*	1,087	2	481	1,534	32,835	13,645	1,862
	Management	*2015*	107,859	71	233	5,549	193,143	14,499	21,718
Total		***2016***	7,209	6	481	1,534	124,482	13,645	1,862
		2015	108,200	71	233	5,549	230,605	14,499	21,718

36 RELATED PARTIES (CONTINUED)

In the table below are disclosed the transactions for the year ended 31 December:

Related parties			Interest and commission income MDL'000	Interest and commission expenses MDL'000	Non-interest income MDL'000	Non-interest expenses MDL'000	Procurement of vehicles MDL'000	Dividends received MDL'000
Civil society of Group shareholders and their affiliates and persons holding or controlling 1% or more of the Bank's share capital	*Shareholders*	*2016*	3,787	5,119	1,898	15,985	-	22,824
		2015	65	2,535	1,127	13,491	-	14,180
Other directors (executive/ non-executive) and their affiliates	*Management*	*2016*	3,555	1,335	1,573	30,645	3,681	6,883
		2015	9,589	3,927	4,539	30,841	12,527	10,594
Total		***2016***	7,342	6,454	3,471	46,630	3,681	29,707
		2015	9,654	6,462	5,666	44,332	12,527	24,774

36 RELATED PARTIES (CONTINUED)

Key management remuneration

The executive management and non-executive members of Group Board of Directors received remuneration during the years 2016 and 2015, as follows:

	2016 MDL'000	2015 MDL'000
Executive management remuneration	23,133	23,072
Medical insurance contributions	990	940
Social fund	5,302	5,284
Total executive management	29,425	29,296
Board remuneration	7,990	7,092
Medical insurance contributions	350	286
Social fund	1,786	1,482
Total Board	10,126	8,860

37 SEGMENT REPORTING

Operating segments are structural units of the Group carrying out business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the members of the Management Board of the Group and by the heads of departments responsible for making operational decisions based on the reports prepared in the prescribed manner.

(a) Description of products and services from which each reportable segment derives its revenue

The Group is organised on the basis of the following main business segments:

- *Retail Banking* - representing banking services to entities of small and medium-sized businesses and to individuals for private customer current accounts; financing of consumer loans and mortgages, pawn services, deposits, investment savings products, custody, credit and debit cards, electronic products, other services.
- *Corporate Banking* - this segment includes various types of financing current and investment activities of companies (loans, credit lines, guarantees, letters of credit etc.), maintenance of current accounts of companies, deposits placements, payroll, foreign currency transactions and financial instruments, provision of investment services.
- *Treasury* - this segment includes interbank transactions (FOREX operations, attracting and placing deposits and interbank loans, transactions with treasury bills, transactions with certificates issued by the NBM) on internal and external financial markets within established limits, as well as attracting loans and credit lines from banks and other international financial organisation.
- Other –include the segments of Capital investment, Leasing and others.

(b) Factors used by the Management to identify the reportable segments

The Group's segments are strategic business units, focused on different categories of clients. Taking into account the particularity of clients segmentation and the bank services provided, business units are managed separately.

37 SEGMENT REPORTING (CONTINUED)

(c) Measurement of operating segment profit or loss

The consolidated financial statements provided by the Group in accordance with International Financial Reporting Standards differ in certain aspects from the information prepared for the Management and namely:

(i) Allocation of resources among subunits – the purchase/sale of funds for each category of resources is based on transfer pricing, resulted from interest rate applied on resources attraction/placements for each category and the margin on purchase/sale of funds;

(ii) Transfer pricing for the purchase/sale of special-purpose resources in national currency and foreign currency attracted from the NBM, national and international financial institutions is equal to the cost of these resources formed under the conditions of respective loan agreements and contracts. Transfer prices are examined at ALCO and approved by the Management Board;

(iii) Income taxes are allocated to segments in accordance with approved Group keys;

(iv) Service centers expenses are reallocated to all units in accordance with approved keys.

(d) Geographical information

The Group has no significant income from foreign customers.

The Group has no long-term assets (more than one year) located in countries other than the Republic of Moldova.

(e) Major customers

The Group has no external customers with revenues exceeding 10 % of Group's total revenue.

37 SEGMENT REPORTING (CONTINUED)

The segment information for the reportable segments for the year ended at 31 December 2016 and 31 December 2015 is set below:

31 December 2016	Corporate banking MDL'000	Retail banking MDL'000	Treasury MDL'000	Other MDL'000	Total MDL'000	Adjustments MDL'000	Total per profit or loss statement MDL'000
Interest income	606,832	522,108	472,377	10,760	1,612,077	-	1,612,077
Interest income from inter segment sales	105,028	879,533	91,425	-	1,075,986	(1,075,986)	-
Total interest income	711,860	1,401,641	563,802	10,760	2,688,063	(1,075,986)	1,612,077
Interest expense on customer deposits and other borrowings	39,826	723,139	927	11,406	775,298	-	775,298
Interest expenses for inter segment sales	385,189	266,706	416,662	7,294	1,075,851	(1,075,851)	-
Total interest expenses	425,015	989,845	417,589	18,700	1,851,149	(1,075,851)	775,298
Net interest income	286,845	411,796	146,213	(7,940)	836,914	(135)	836,914
Less impairment losses on interest bearing assets	257,718	40,737	-	11,637	310,092	-	310,092
Net income after impairment losses	29,127	371,059	146,213	(19,577)	526,822	(135)	526,687
Less the impairment on available for sale financial assets	-	-	-	(5,778)	(5,778)		(5,778)
Total non-interest income	70,411	294,364	10,121	25,426	400,322	-	400,322
Total income	99,538	665,423	156,334	11,627	932,922	(135)	932,787

37 SEGMENT REPORTING (CONTINUED)

31 December 2016	Corporate banking MDL'000	Retail banking MDL'000	Treasury MDL'000	Other MDL'000	Total MDL'000	Adjustments MDL'000	Total per profit or loss statement MDL'000
Net foreign exchange gains	63,911	167,352	(14,561)	640	216,062	-	216,062
Direct expenses of the cost centre	40,213	388,798	14,327	197,126	640,464	-	640,464
Depreciation and amortization	2,515	29,968	1,006	35,260	68,749	-	68,749
Indirect income (redistributed between segments)	(75,204)	61,420	13,784	-	-	-	-
Indirect expenses (of the administrative and support centre)	21,650	204,584	1,735	(227,969)	-	-	-
Profit before tax	23,867	270,845	138,489	6,570	439,771	(135)	439,636
Income tax	5,542	19,005	5,804	2,047	32,398	-	32,398
Net profit after tax	18,325	251,840	132,685	4,523	407,373	(135)	407,238

37 SEGMENT REPORTING (CONTINUED)

31 December 2015	Corporate banking MDL'000	Retail banking MDL'000	Treasury MDL'000	Other MDL'000	Total MDL'000	Adjustments MDL'000	Total per profit or loss statement MDL'000
Interest income	668,892	519,747	275,260	26,396	1,490,295	-	1,490,295
Interest income from inter segments sales	47,433	744,369	11,579	-	803,381	(803,381)	-
Total interest income	716,325	1,264,116	286,839	26,396	2,293,676	(803,381)	1,490,295
Interest expenses on customer deposits and other borrowings	38,557	611,866	11,416	18,807	680,646	-	680,646
Interest expenses for inter segment sales	392,714	303,619	99,834	7,145	803,312	(803,312)	-
Total interest expenses	431,271	915,485	111,250	25,952	1,483,958	(803,812)	680,646
	285,054	348,631	175,589	444	809,718	(69)	809,649
Net interest income	372,420	64,950	-	33,922	471,292	-	471,292
Less impairment losses on interest bearing assets	(87,366)	283,681	175,589	(33,478)	338,426	(69)	338,357
Net income after impairment losses	-	-	-	14,924	14,924	-	14,924
Less the impairment on available for sale financial assets	57,121	240,272	16,410	52,381	366,184	-	366,184
Total non-interest income	(30,245)	523,953	191,999	3,979	689,686	(69)	689,617

37 SEGMENT REPORTING (CONTINUED)

31 December 2015	Corporate banking MDL'000	Retail banking MDL'000	Treasury MDL'000	Other MDL'000	Total MDL'000	Adjustments MDL'000	Total per profit or loss statement MDL'000
Net foreign exchange gains	94,009	200,315	(36,566)	(2,598)	255,160	-	255,160
Direct expenses of the cost centre	35,148	302,948	13,881	153,276	505,253	-	505,253
Depreciation and amortization	2,127	22,736	864	32,355	58,082	-	58,082
Indirect income (redistributed between segments)	(72,822)	54,626	18,196	-	-	-	-
Indirect expenses (of the administrative and support centre)	16,058	157,448	1,367	(174,873)	-	-	-
Profit before tax	(62,391)	295,762	157,517	(9,377)	381,511	(69)	381,442
Income tax	(255)	(3,836)	(1,354)	2,128	(3,317)	-	(3,317)
Profit after tax	(62,136)	299,598	158,871	(11,505)	384,828	(69)	384,759

The total segments revenue and net profit differs from the profit and revenue, disclosed in the statement of comprehensive income due to intersegment revenue / expenses which are not significant enough to be disclosed.

37 SEGMENT REPORTING (CONTINUED)

31 December 2016	Corporate banking MDL'000	Retail banking MDL'000	Treasury MDL'000	Other MDL'000	Total per statement of financial position MDL'000
ASSETS					
Cash on hand	-	-	-	465,420	465,420
Balances with National Bank of Moldova	-	-	4,010,766	-	4,010,766
Due from banks	-	-	2,125,086	-	2,125,086
Loans and advances to customers	5,714,486	3,937,930	-		9,652,416
Lease receivables	-	-	-	172,518	172,518
Financial assets available for sale	-	-	12,170	161,925	174,095
Financial assets held to maturity	-	-	2,104,017	-	2,104,017
Non-current assets held for sale	-	-	-	24,005	24,005
Property and equipment	-	-	-	825,794	825,794
Investment property	-	-	-	78,991	78,991
Intangible assets	-		-	68,510	68,510
Other assets	-	14,962	-	148,496	163,458
Total assets	5,714,486	3,952,892	8,252,039	1,945,659	19,865,076

37 SEGMENT REPORTING (CONTINUED)

31 December 2016	Corporate banking MDL'000	Retail banking MDL'000	Treasury MDL'000	Other MDL'000	Total per statement of financial position MDL'000
LIABILITIES					
Due to banks	-	-	4,598	91,060	95,658
Borrowings	-	-	846,554	1,534	848,088
Due to customers	1,632,043	13,780,332	-	-	15,412,375
Deferred tax liability	1,577	21,679	11,422	389	35,067
Other liabilities	5,677	67,405	-	138,466	211,548
Total liabilities	1,639,297	13,869,416	862,574	231,449	16,602,736

37 SEGMENT REPORTING (CONTINUED)

31 December 2015	Corporate banking MDL'000	Retail banking MDL'000	Treasury MDL'000	Other MDL'000	Total per statement of financial position MDL'000
ASSETS					
Cash on hand	-	-	-	515,578	515,578
Balances with National Bank of Moldova	-	-	3,525,126	-	3,525,126
Due from banks	-	-	2,261,334	-	2,261,334
Financial assets held for trading	-	-	36,576	-	36,576
Loans and advances to customers	6,380,711	3,948,348	-		10,329,059
Lease receivables	-	-	-	263,934	263,934
Financial assets available for sale	-	-	-	153,769	153,769
Financial assets held to maturity	-	-	688,879		688,879
Non-current assets held for sale	-	-	-	24,093	24,093
Property and equipment	-	-	-	411,458	411,458
Investment property	-	-	-	75,149	75,149
Intangible assets	-		-	62,708	62,708
Other assets	-	11,082	428	90,199	101,709
Total assets	6,380,711	3,959,430	6,512,343	1,596,888	18,449,372

37 SEGMENT REPORTING (CONTINUED)

31 December 2015	Corporate banking MDL'000	Retail banking MDL'000	Treasury MDL'000	Other MDL'000	Total per statement of financial position MDL'000
LIABILITIES					
Due to banks	-	-	8,803	175,128	183,931
Borrowings	-	-	1,109,057	5,549	1,114,606
Due to customers	1,241,101	12,803,440	-	-	14,044,541
Deferred tax liability	(4,030)	19,431	10,304	(779)	24,926
Other liabilities	13	60,886	-	61,190	122,089
Total liabilities	1,237,084	12,883,757	1,128,164	241,088	15,490,093

38 RISK MANAGEMENT

The risks are part of the Group's activities. Effective risk management is a key condition for success, especially during current economic conditions. The key objectives such as the maximization of the profitability, reduction of the risk exposure, compliance with regulations determined that the risk management process becomes more complex and vital.

The Group is exposed to the credit risk, including the risk related to counterparties, liquidity risk, market risk that includes interest rate risk and currency risk, operational risk, country and transfer risk.

38.1 Risk management structure

Risk management structure is based on actual requirements regarding the internal control system, general accepted practice, including recommendations of the Basel Committee for Banking Supervision.

Risk management is performed by a structured applying of management culture, policies, procedures and practices to identify, assess, monitor and mitigate the risk.

38.2 Basic principles of risk management

Monitoring and controlling risks is conducted primarily by using the system of limits imposed by the Group for each significant risk. Limits are monitored daily, ensuring communication to members of the Management Board. Given the environmental change, market trends and/or increase of some risk indicators, the Group intervenes and imposes limits or other control measures. Risk limits reflect in the first place the tolerance and risk appetite of the Group.

In order to ensure effective risk management and obtain objective information on the condition and size of the risks, the Group's risk exposure is monitored continuously, information being presented and analyzed daily, so that the risks are identified and kept at the Group's acceptable and justifiable level.

38.3 Country and transfer risk

Country risk is the risk determined by the eventual negative impact of economic, social and political conditions and events in a foreign country on the Group's activity.

Transfer risk is the risk that it will be impossible for a foreign entity to convert certain financial liabilities in the necessary currency to settle the payment due to the deficiency of the respective currency as a result of restrictions imposed in that country.

The country risk management system within the Group provides for the application and improvement of the internal model for evaluation and assessing of the risk category established for the country, on the basis of the analysis of complex factors, including the international rating assigned by the international rating agencies stipulated in the internal normative acts. Based on them the risk categories and the exposure limits of the bank toward each country are established. The review and adjustment of the approved limits is done periodically, but not less than once a year.

38RISK MANAGEMENT (CONTINUED)

38.3 Country and transfer risk (continued)

Group's country exposure as at 31 December:

	2016		2015	
Country risk category	**MDL'000**	**%**	**MDL'000**	**%**
I	2,122,270	92.43	2,262,419	93.22
II	153,286	6.68	25	0.00
III	17,938	6.68	164,208	6.77
IV	2,139	0.09	267	0.01
Total	2,295,633	100	2,426,919	100

Category I includes countries with international rating AAA-AA, category II: A-BBB, category III: BB-B, category IV: less than B.

In respect to the macroeconomic and country and transfer risk can be mentioned the following: weak economic activity in Eurozone countries, uncertainties regarding the impact on European economies of the pro-Brexit vote in the referendum held in the end of June 2016, the continued recession in Russia and timeliness of the geopolitical Russian-Ukrainian conflict, with maintaining of international sanctions.

However, the Group considers as acceptable the level of country risk, given that most of the financial resources exposed to country risk relate to States with a high solvency, and namely I risk category - 92.43%.

The Group periodically assesses the credit quality of its exposure to country risk and performs various stress scenarios based on the severity of the assumed circumstances, estimating the size of potential losses if the conditions will occur and the impact on the Group's capital. Developments in the global and regional economy and trends and their forecasts are continuously analysed, in order to react promptly and effectively to minimize risks.

38.4 Market risk

Market risk represents the risk of registering financial losses and /or the worsening of the financial position of the Group, as a result of the unfavourable fluctuations in the price of the Group's portfolio, determined by the changes in the risk factors such as: interest, exchange rates, volatility, etc.

The Group identifies itself as being exposed to the linear market risk, respectively to the risks that arise in the case of open positions, which changes linearly or with a linear admissible approximation to the change in the risk factors.

The most important market risks that the Group is exposed to are interest rate and currency risks.

Market risk management is aimed at monitoring and maintaining the exposure of the financial instruments in the portfolio within the set parameters while optimizing the return on those investments.

38 RISK MANAGEMENT (CONTINUED)

38.4 Market risk (continued)

38.4.1 Currency risk

Currency risk is the risk of potential losses due to exchange rate changes (price) of the respective currency on exchange market.

The Group manages the exchange rate risk through its prudent management of the open currency positions, the management and monitoring process being based on VAR methodology, the internal system of indicators and limits applied, maintenance of a balanced structure of assets and liabilities in foreign currency, applying stress scenarios to exchange rate developments and analysis of the impact on earnings and capital.

In order to estimate the market risk derived from changes in exchange rates of foreign exchange to the Moldovan Leu, the Bank uses the VAR method with a confidence interval of 95%, calculated on the basis of information on daily fluctuations of exchange rates, recorded during a two year period of observation.

VAR index (MDL'000)

	VAR limit	Effectively as at 31 December	Daily average	Maximum	Minimum
2016	2,200	334	533	1,912	48
2015	1,500	468	487	1,500	30

To ensure effective monitoring of the currency risk and increase the Group's protection against possible adverse developments in the risk factors, the Group analyses the sensitivity of its opened currency positions to the volatility of the exchange rates.

The table below reflects the potential effect (on account of profit/loss) from daily change of foreign exchange rates that Group mainly operates with and therewith significant exposure (given the size of balance sheet assets and foreign exchange liabilities): EUR, USD and RUB in relation to MDL.

The stress analysis is applied to open currency positions for each of the three currencies listed at 31 December 2016, given reasonable daily deviation increase/decrease in exchange rates of foreign currencies against the national currency.

The amount of open currency positions includes the balances of balance sheet and off-balance sheet assets and liabilities in foreign currency. Negative amount, possibly obtained under scenario reflects a potential net reduction in foreign currency differences gains, net, while a positive amount reflects a possible increase in the foreign currency differences gains, net:

38 RISK MANAGEMENT (CONTINUED)

38.4 Market risk (continued)

38.4.1 Currency risk (continued)

Open currency position	Nominal value MDL'000	FX rate	Possible daily rate increase %	Income/ (loss) effect MDL'000	Possible daily rate decrease %	Income/ (loss) effect MDL'000
As at 31 December 2016						
EUR	(97,591)	20.8895	15.00	(14,639)	(10.00)	9,759
USD	31,506	19.9814	15.00	4,726	(15.00)	(4,726)
RUB	(5,920)	0.3315	25.00	(1,480)	(25.00)	1,480
Total				(11,393)		6,513

Open currency position	Nominal value MDL'000	FX rate	Possible daily rate increase %	Income/ (loss) effect MDL'000	Possible daily rate decrease %	Income/ (loss) effect MDL'000
As at 31 December 2015						
EUR	(59,274)	21.4779	+10.00	(5,927)	(8.00)	4,742
USD	(31,289)	19.6585	+10.00	(3,129)	(8.00)	2,503
RUB	8,313	0.2692	+15.00	1,247	(25.00)	(2,078)
Total				(7,809)		5,167

The nominal value of open foreign exchange position is calculated according to the provisions of the NBM and includes the assets and financial liabilities and the conditional commitments as at 31 December 2016 and 31 December 2015.

See Note 39 for the structure of Group's assets and liabilities per currencies.

38 RISK MANAGEMENT (CONTINUED)

38.4 Market risk (continued)

38.4.2 Interest rate risk (continued)

Interest rate risk is the risk of loss resulting from changes in interest rates, which can influence the future cash flows or market value of financial instruments.

The Group's net interest income represents a significant part of the Group's income, thereby increasing its capital and ensuring that the Group's business model succeeds. In this context, the Group pays the corresponding importance to the management of the interest rate risk.

The Group applies the GAP analysis method to assess the impact of the market fluctuation of interest rate on the net interest margin, and hence on the net interest income. The Group's interest rate position is assessed by establishing the gap related to assets and liabilities through the GAP method.

The Group registers a positive GAP value between assets and liabilities sensible to interest rate, which indicates a greater sensitivity of assets to the interest rate fluctuations and that in the event of interest rates increase, i.e. a decrease in net margin when interest rates fall.

The bank determines an optimal value (risk parameter) ratio of the size of GAP divided by the assets sensitive to interest rate (ASIR), and the ratio of the assets divided by the liabilities sensitive to interest rates, in order to assess and minimize the bank's exposure to interest rate risk, among other internal limits.

38 RISK MANAGEMENT (CONTINUED)

38.4 Market risk (continued)

38.4.2 Interest rate risk (continued)

In order to estimate the level of interest rate risk, the Group takes into account the prognosis for standard developments and/or non-standard risk factors estimates by modelling scenarios of deviation of their level, which being applied to the amount of assets and liabilities interest rate gap indicates their sensitivity and the potential impact on net interest income.

The table below sets out the net interest income sensitivity to a potential modification of the interest rate for individual intervals.

		Sensitivity of net interest income, MDL'000					
Increase in basis points		**1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
	+100	17,818	(2,351)	969	(179)	(20)	16,237
2016	+50	8,909	(1,175)	484	(90)	(10)	8,118
	+100	27,737	(7,346)	(4,068)	25	360	16,708
2015	+50	13,868	(3,673)	(2,034)	13	180	8,354

		Sensitivity of net interest income, MDL'000					
Decrease in basis points		**1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
2016	-100	(17,818)	2,351	(969)	179	20	(16,237)
	-50	(8,909)	1,175	(484)	90	10	(8,118)
2015	-100	(27,737)	7,346	4,068	(25)	(360)	(16,708)
	-50	(13,868)	3,673	2,034	(13)	(180)	(8,354)

In 2016 the Group recorded an increase of interest bearing assets over the interest bearing liabilities as such ensuring the maximum net interest income in the local banking system. In annual terms, the interest rates decreased for the main portfolios as result of the gradual relaxation of monetary policy and the stabilization of the exchange rate of the national currency.

38 RISK MANAGEMENT (CONTINUED)

38.5 Liquidity risk

Liquidity risk represents the incapacity of the Group to ensure at any moment in time and at a reasonable price the necessary monetary funds in order to meet its obligations resulting from the outflow of deposits and other obligations or from an increase in the amount of the non-liquid assets (loans).

The Group's liquidity risk management system provides for managing liquidity in accordance with regulatory requirements, systematic monitoring and analysis of risk factors related to current and long-term liquidity, regular reporting on the level of exposure of the Group's liquidity risk, submission of recommendations and proposals, conducting stress tests to back up the projection of cash flows, and provides an assessment of the Group's liquidity situation.

Additionally to the requirements of the National Bank of Moldova related to liquidity risk, the Group established internal limits for minimum current and long-term liquidity ratio in order to efficiently manage and prevent liquidity deficit. The Group developed a range of indicators that allow analysing the dynamics of liquidity position. To ensure financial equilibrium in terms of maturities, the Group aims to maintain congruence between continuity and flexibility of attracting funds, by contracting liabilities with different maturity.

Given that liquidity risk involves not only deficit of the needed funds, but also the cost of obtaining them, the Group aims to ensure a diversified portfolio and a high quality of the assets, thus securing a sustainable and successful activity.

38 RISK MANAGEMENT (CONTINUED)

38.5 Liquidity risk (continued)

The table below sets out the remaining contractual cash flows until the maturity of the Group's non-derivative financial liabilities. The amounts disclosed in the table represent undiscounted cash flows at 31 December 2016:

31 December 2016	On demand MDL'000	Less than 3 months MDL'000	From 3 months to 1 year MDL'000	From 1 to 5 years MDL'000	Over 5 years MDL'000	Total MDL'000
Financial liabilities						
Due to banks	9,886	9,617	35,590	43,113	-	98,206
Borrowings	71,326	12,110	214,782	561,622	64,134	923,974
Due to customers	6,052,895	2,352,712	6,663,831	769,649	11,023	15,850,110
Other financial liabilities	226,459	-	-	-	-	226,459
Total undiscounted financial liabilities	6,360,566	2,374,439	6,914,203	1,374,384	75,157	17,098,749
Letters of credit	624	5,664	-	-	-	6,288
Financial guarantees	171,486	8,787	33,477	31,837	-	245,587
Financing commitments	15,348	156,692	296,092	416,784	14	884,930
Total	6,548,024	2,545,582	7,243,772	1,823,005	75,171	18,235,554

38 RISK MANAGEMENT (CONTINUED)

38.5 Liquidity risk (continued)

The table below sets out the remaining contractual cash flows until the maturity of the Group's non-derivative financial liabilities.. The amounts disclosed in the table represent undiscounted cash flows at 31 December 2015:

31 December 2015	On demand MDL'000	Less than 3 months MDL'000	From 3 months to 1 year MDL'000	From 1 to 5 years MDL'000	Over 5 years MDL'000	Total MDL'000
Financial liabilities						
Due to banks	40,318	23,039	88,242	48,404	1,102	201,105
Borrowings	69,743	6,782	228,036	782,049	124,085	1,210,695
Due to customers	5,186,002	2,691,881	5,625,854	859,186	11,317	14,374,240
Other financial liabilities	96,327	-	-	-	-	96,327
Total undiscounted financial liabilities	5,392,390	2,721,702	5,942,132	1,689,639	136,504	15,882,367
Letters of credit	4,585	5,134	-	-	-	9,719
Financial guarantees	234,064	-	-	-	-	234,064
Financing commitments	266,309	69,319	268,947	243,696	-	848,271
Total	5,897,348	2,796,155	6,211,079	1,933,335	136,504	16,974,421

38 RISK MANAGEMENT (CONTINUED)

38.6 Counterparty risk

The counterparty risk (partner banks) is the risk that certain financial assets and liabilities arising from transactions concluded on financial markets (currency, monetary and stock exchange) or during clearing and settlement operations are not met, which may cause losses for the Group.

The Group follows a prudent policy regarding the partnership with local and foreign banks. Largest share of completed operations, and means held in correspondent accounts is performed with strategic partners with long experience of working together

The management system of counterparty risk in the Group provides a mechanism for implementation and improvement of assessment and review of the solvency of partner banks based on an internal evaluation model that involves the qualitative and quantitative analysis of the banks to establish certain exposure limits, with further structuring based on the type and term of the operations. The limits are revised and adjusted periodically.

To assess the solvency of partner banks, besides the internal qualitative and quantitative parameters, the Group takes into account the international lowest rating of partner bank assigned by the rating agencies: Standard & Poor's, Moody's and Fitch Ratings.

During the control of the counterparty risk management (partner banks), the Group provides clear procedures for current monitoring and post-factum control of compliance with the limits, the level Group's exposure to a particular partner bank or cumulatively per all banks, and the effectiveness of the monitoring and control system.

38 RISK MANAGEMENT (CONTINUED)

38.7 Credit risk

The credit risk is the current or future risk of a negative impact on the profits and capital as a result of a client's failure to meet its contractual obligations or of the deterioration of its financial performance and results.

The Group manages credit risk through:

-Set the level of empowerment for the transaction approval based on the credit risk size;

-Diversification of the loan portfolio;

-Setting general limits on risk concentration for segments of clients, currencies, types of activities, maturity dates, products and their permanent management;

-Compliance with the limits established by the National Bank of Moldova and by other international financial institutions – Group creditors, compliance with the internal indicators established by the Group, set up and monitoring of annual limits for the credit risk exposure on loans granted to corporate clients

-Creation of the credit risk management structure and decision-making system, detailed analysis of each credit transaction by the Corporate Clients Department or the Bank's branch/DOCCB;

-Developing a complex and systemic approach for risks assessment and management;

-Monthly analysis of loan portfolio quality, quarterly classification of credits in accordance with the Regulation of the National Bank of Moldova "On the classification of assets and contingent liabilities, setting up allowances for loan losses and provisions for contingent liabilities".

-Continuous monitoring of client's business progress, it's solvency, compliance with the terms of agreements, throughout the entire lending period;

-Assessment of the loan portfolio impairment (specific and collective) and of other assets that are not loans and recognition of impairment losses whether objective impairment evidence is obtained;

-Developing of stress test practice in order to assess the Bank's ability to resist exogenous shocks and development of plan for Bank's recovery in such situations;

-Continuous monitoring of clients position for the purpose of determining the clients' possibility and ability to continue to honour their credit commitments, early detection of signs of alert, which may negatively impact the clients' ability to honour appropriately commitments assumed by them and take appropriate actions in order to protect the Bank from probable losses;

38 RISK MANAGEMENT (CONTINUED)

38.7 Credit risk (continued)

-Evaluation of collateral sufficiency, probable cash flows and insurance, appropriate and suitable reaction on adverse fluctuations in the client's activity, quarterly classification of clients depending on their financial position, application of interest rates on loans according to the client's category and risk degree.

The table below shows the maximum exposure to credit risk of the Group's elements from the financial position and off-balance sheet items. The table also discloses the financial effect of the fair value of total collateral held per types.

Exposures not covered by collateral include National Bank of Moldova accounts, foreign bank accounts rated between BBB and A according to international rating agencies, certificates issued by the National Bank of Moldova, state securities issued by the Ministry of Finance of the Republic of Moldova, as well as lending products for individuals and enterprises within the Program for Products without Collateral.

38 RISK MANAGEMENT (CONTINUED)

38.7 Credit risk (continued)

31 December 2016	Maximum exposure to credit risk MDL'000	Fair value of the collateral: Immovable assets MDL'000	Movable assets MDL'000	Securities MDL'000	Bank guarantees MDL'000	Cash in deposit accounts MDL'000	Total value of collateral MDL'000
Balances with National Bank	4,010,766	-	-	-	-	-	-
Due from banks	2,125,086	-	-	-	-	-	
Loans and receivables							
Corporate	5,714,486	4,431,082	5,636,569	320,518	-	22,105	10,410,274
Retail, legal entities	1,786,815	2,128,935	1,476,269	-	22,056	79,183	3,706,443
Retail, individuals	2,151,115	2,494,424	12,882	-	-	2,949	2,510,255
Total loans	9,652,416	9,054,441	7,125,720	320,518	22,056	104,237	16,626,972
Lease receivables	172,518	37,472	218,687	-	-	-	256,159
Financial assets held to maturity	2,104,017	-	-	-	-	-	-
Other financial assets	137,562	-	-	-	-	-	-
Commitments							
Letters of credit	6,288	-	-	-	-	-	-
Guarantees	245,587	174,554	340,758	-	4,507	34,303	554,122
Financing commitments	681,399	392,003	602,137	25,956	1,400	12,559	1,034,055
	933,274	566,557	942,895	25,956	5,907	46,862	1,588,177
Total	19,135,639	9,658,470	8,287,302	346,474	27,963	151,099	18,471,308

38 RISK MANAGEMENT (CONTINUED)

38.7 Credit risk (continued)

		Fair value of the collateral					
31 December 2015	**Maximum exposure to credit risk MDL'000**	**Immovable assets MDL'000**	**Movable assets MDL'000**	**Securities MDL'000**	**Bank guarantees MDL'000**	**Cash in deposit accounts MDL'000**	**Total value of collateral MDL'000**
Balances with National Bank	3,525,126	-	-	-	-	-	-
Due from banks	2,261,334	-	-	-	-	-	-
Financial assets held for trading	36,576	-	-	-	-	-	-
Loans and receivables							
Corporate	6,380,711	4,655,489	5,413,454	137,756	-	28,947	10,235,646
Retail, legal entities	1,832,190	2,121,564	1,515,423	-	31,308	32,335	3,700,630
Retail, individuals	2,116,158	2,553,574	12,019	-	-	6,062	2,571,655
Total loans	10,329,059	9,330,627	6,940,896	137,756	31,308	67,344	16,507,931
Lease receivables	263,934	49,718	327,293	-	-	-	377,011
Financial assets held to maturity	688,879	-	-	-	-	-	-
Other financial assets	75,393	-	-	-	-	-	-
Commitments							
Letters of credit	9,719	-	-	-	-	-	-
Guarantees	234,064	145,222	147,547	-	2,000	10,077	304,846
Financing commitments	848,271	316,495	912,841	14,085	282	32,537	1,276,240
	1,092,054	461,717	1,060,388	14,085	2,282	42,614	1,581,086
Total	18,272,355	9,842,062	8,328,577	151,841	33,590	109,958	18,466,028

38 RISK MANAGEMENT (CONTINUED)

38.7 Credit risk (continued)

The financial effect of collateral

The financial effect of the collateral is presented as its disclosure of the value, separately for (i) the assets for which the collateral is equal or greater than the carrying of the asset (over-collateralised) and (ii) the assets for which the collateral is less than the carrying value of the asset (under-collateralised). "Over-collateralised assets" do not include the assets secured only by surety, third party collateral and cash flows, including cash claims and receivables.

The carrying value of the under-collateralized assets, granted to corporate customers secured only by cash receivables constitutes MDL'000 189,049 (31 December 2015: MDL'000 233,530).

Therefore, the share of loans granted without collateral in accordance with original contractual conditions and those stipulated in loan products represents 60.80%.

The financial effect of the collateral at 31 December 2016 and 31 December 2015 is presented below:

	Over-collateralized assets		Under-collateralized assets	
31 December 2016	**Carrying value of assets**	**Fair value of collateral**	**Carrying value of assets**	**Fair value of collateral**
Corporate customers	5,153,854	10,320,123	560,632	90,151
Retail, legal entities	1,668,430	3,664,785	118,385	41,658
Individuals	1,185,812	2,508,681	965,303	1,574
Total	8,008,096	16,493,589	1,644,320	133,383
31 December 2015				
Corporate customers	5,938,727	10,103,111	441,984	132,534
Retail, legal entities	1,609,495	3,586,194	222,695	114,436
Individuals	1,216,962	2,565,227	899,196	6,429
Total	8,765,184	16,254,532	1,563,875	253,399

(All amounts are expressed in thousand MDL, if not stated otherwise)

38 RISK MANAGEMENT (CONTINUED)

38.7 Credit risk (continued)

The financial effect of collateral for finance lease receivables is presented by disclosing leased objects values separately for (i) those assets where leased objects and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where leased objects and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets"). The financial effect of the collateral at 31 December 2016 for lease receivables:

	Over-collateralized asset		Under-collateralized asset	
31 December 2016	**Carrying value of assets**	**Fair value of collateral**	**Carrying value of assets**	**Fair value of collateral**
Lease receivables from individuals	73,736	123,381	2,648	2,222
Lease receivables from legal entities	71,722	132,778	24,412	17,041
Total	145,458	256,159	27,060	19,263
31 December 2015				
Lease receivables from individuals	108,555	168,667	5,378	4,885
Lease receivables from legal entities	121,820	208,345	28,180	22,637
Total	230,375	377,012	33,558	27,522

38 RISK MANAGEMENT (CONTINUED)

38.7 Credit risk (continued)

As at 31 December 2016 loans granted to 20 major customers (groups of clients) of the Group amounted to MDL'000 3,366,712 representing 31.91 % of the total Group's gross loan portfolio (2015: MDL' 000 3,361,069 or 30.59%). These customers are analysed by industry as follows:

	31.12.2016 MDL'000	31.12.2015 MDL'000
Winery	442,124	506,738
Non-food industry	554,501	573,995
Sunflower oil production	193,968	204,298
Trade	840,485	635,350
Food processing	389,404	261,679
Car dealers	134,985	161,695
Agriculture	312,774	295,970
Consumer loans	3,324	3,211
Transport	169,090	192,444
Postal services/telecommunications	169,875	253,538
Utilities (electricity, electrical and thermal storage, gas, water)	156,182	146,937
Others	-	125,214
	3,366,712	3,361,069

For significant credit risk concentration at the industry level please refer to Note 8.

38 RISK MANAGEMENT (CONTINUED)

38.8 Taxation risk

The Group is committed to ensure a sustainable management of taxation risk by building and maintaining a transparent, effective and efficient tax function within the Group. The Group strictly respects and applies the tax legislation in force for all fees and taxes.

Considering the fact that the fiscal legislation is in permanent dynamics, by including of new amendments and tax rules, the Group analyses them thoroughly and seeks to anticipate early possible interpretations and the impact of each changes on financial and tax results.

In this connection, the Group requests for written explanations on the interpretative provisions of the legislation from Tax authorities, to ensure against tax risks.

Tax liabilities of the Group are open to tax inspection for a period of four years.

38.9 Operational risk

Operational risk is the risk of direct or indirect loss from a diverse range of causes associated with the process, staff, technologies and infrastructure of the Group, and external factors other than credit risk, market or liquidity risk, such as legislative or regulatory requirements and the accepted standards for corporate governance. Operational risks arise from all activities of the Group and are related to all business units.

The objective of the Group is to ensure operational risk management and to avoid financial losses that could damage the reputation of the Group, in accordance with cost-efficiency principles and procedure avoidance discouraging the initiative and creativity.

The primary responsibility for developing and implementing controls to reduce the operational risks are assigned to the executive management of each business unit. This responsibility is based on the development of general standards of the Group aimed in operational risk in the following areas:

- appropriate requirements for segregation of responsibilities, including independent authorization of transactions;
- requirements for reconciliation and monitoring of transactions;
- compliance with laws and regulations;
- documentation of controls and procedures;
- requirements for periodic re-evaluation of operational risks, and the adequacy of controls and procedures for addressing the identified risks;
- reporting requirements of operational losses and proposed remedial actions;
- development of contingent plans;
- professional development of staff;
- ethical and business standards;
- risk reduction, including through insurance, when it is efficient.

39 STATEMENT OF FINANCIAL POSITION STRUCTURE BY CURRENCY

	31 December 2016				
	Total	MDL	USD	EUR	Other
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
ASSETS					
Cash on hand	465,420	275,738	47,702	101,742	40,238
Balances with NBM	4,010,766	3,069,657	305,110	635,999	-
Due from banks	2,125,086	520	764,801	1,341,756	18,009
Loans and advances to customers	9,652,416	5,343,001	1,272,126	3,037,289	-
Lease receivables	172,518	36,924	-	135,594	-
Financial assets available for sale	174,095	174,095	-	-	-
Financial assets held to maturity	2,104,017	2,104,017	-	-	-
Non-current assets held for sale	24,005	24,005	-	-	-
Property and equipment	825,794	825,794	-	-	-
Investment property	78,991	78,991	-	-	-
Intangible assets	68,510	68,510	-	-	-
Other assets	163,458	110,391	31,957	19,387	1,723
Total assets	19,865,076	12,111,643	2,421,696	5,271,767	59,970
LIABILITIES					
Due to banks	95,658	4,598	-	91,060	-
Borrowings	848,088	461,531	75,648	310,909	-
Due to customers	15,412,375	8,115,292	2,312,421	4,954,836	29,826
Deferred tax liabilities	35,067	35,067	-	-	-
Current tax liability	6,232	6,232	-	-	-
Other liabilities	205,316	155,199	24,548	25,087	482
Total liabilities	16,602,736	8,777,919	2,412,617	5,381,892	30,308
GAP	3,262,340	3,333,724	9,079	(110,125)	29,662

39 STATEMENT OF FINANCIAL POSITION STRUCTURE BY CURRENCY (CONTINUED)

	31 December 2015				
	Total MDL'000	MDL MDL'000	USD MDL'000	EUR MDL'000	Other MDL'000
ASSETS					
Cash on hand	515,578	276,857	39,261	161,422	38,038
Balances with NBM	3,525,126	2,516,802	327,773	680,551	-
Due from banks	2,261,334	147	448,836	1,800,265	12,086
Financial assets held for trading	36,576	36,576	-	-	-
Loans and advances to customers	10,329,059	6,037,969	1,751,443	2,539,647	-
Lease receivables	263,934	42,236	-	221,698	-
Financial assets available for sale	153,769	153,769	-	-	-
Financial assets held to maturity	688,879	688,879	-	-	-
Non-current assets held for sale	24,093	24,093	-	-	-
Property and equipment	411,458	411,458	-	-	-
Investment property	75,149	75,149	-	-	-
Intangible assets	62,708	62,708	-	-	-
Other assets	101,709	42,990	24,924	32,348	1,447
Total assets	18,449,372	10,369,633	2,592,237	5,435,931	51,571
LIABILITIES					
Due to banks	183,931	1,499	8,803	173,629	-
Borrowings	1,114,606	627,672	119,202	367,732	-
Due to customers	14,044,541	6,569,869	2,490,171	4,953,778	30,723
Deferred tax liabilities	24,926	24,926	-	-	-
Current tax liability	8,535	8,535	-	-	-
Other liabilities	113,554	60,238	25,484	26,931	901
Total liabilities	15,490,093	7,292,739	2,643,660	5,522,070	31,624
GAP	2,959,279	3,076,894	(51,423)	(86,139)	19,947

40 MATURITY STRUCTURE

31 December 2016	Total MDL'000	Less than 1 year MDL'000	More than 1 year MDL'000
Assets			
Cash on hand	465,420	465,420	-
Balances with National Bank of Moldova	4,010,766	4,010,766	-
Due from banks	2,125,086	2,125,086	-
Loans and advances to customers	9,652,416	4,400,725	5,251,691
Lease receivables	172,518	109,854	62,664
Financial assets available for sale	174,095	12,170	161,925
Financial assets held to maturity	2,104,017	2,067,132	36,885
Non-current assets held for sale	24,005	-	24,005
Property and equipment	825,794	-	825,794
Investment property	78,991		78,991
Intangible assets	68,510	-	68,510
Other assets	163,458	163,458	-
Total assets	19,865,076	13,354,611	6,510,465
Liabilities			
Due to banks	95,658	4,598	91,060
Borrowings	848,088	285,254	562,834
Due to customers	15,412,375	14,720,130	692,245
Deferred tax liabilities	35,067		35,067
Current tax liability	6,232	6,232	-
Other liabilities	205,316	137,098	68,218
TOTAL LIABILITIES	16,602,736	15,153,312	1,449,424
MATURITY GAPS	3,262,340	(1,798,701)	3,262,340

40 MATURITY STRUCTURE (CONTINUED)

31 December 2015	Total	Less than 1 year	More than 1 year
	MDL'000	MDL'000	MDL'000
Assets			
Cash on hand	515,578	515,578	-
Balances with National Bank of Moldova	3,525,126	3,525,126	-
Due from banks	2,261,334	2,261,334	-
Financial assets held for trading	36,576	36,576	-
Loans and advances to customers	10,329,059	4,786,670	5,542,389
Lease receivables	263,934	123,944	139,990
Financial assets available for sale	153,769	-	153,769
Financial assets held to maturity	688,879	678,191	10,688
Non-current assets held for sale	24,093	-	24,093
Property and equipment	411,458	-	411,458
Investment property	75,149		75,149
Intangible assets	62,708	-	62,708
Other assets	101,709	101,709	-
Total assets	18,449,372	12,029,128	6,420,244
Liabilities			
Due to banks	183,931	36,929	147,002
Borrowings	1,114,606	298,065	816,541
Due to customers	14,044,541	13,256,350	788,191
Deferred tax liabilities	24,926		24,926
Current tax liability	8,535	8,535	-
Other liabilities	113,554	113,554	-
Total liabilities	15,490,093	13,713,433	1,776,660
Maturity gaps	2,959,279	(1,684,305)	4,643,584

41 INTEREST RATE RISK EXPOSURE

The table below set out the Group's exposure to interest rate risk based on the earlier of contractual maturity of its financial instruments or the next interest rate repricing date, if the instruments are subject to variable interest rates. Group's policy on interest rate risk management is to minimize exposure and continuously to adapt interest repricing dates and maturities for assets and liabilities.

31 December 2016	Total MDL'000	Less than 1 month MDL'000	From 1 month to 3 months MDL'000	From 3 months to 1 year MDL'000	From 1 to 5 years MDL'000	More than 5 years MDL'000	Non-interest bearing items MDL'000
ASSETS							
Cash on hand	465,420	-	-	-	-	-	465,420
Balances with National Bank of Moldova	4,010,766	4,010,766	-	-	-	-	-
Due from banks	2,125,086	2,125,086	-	-	-	-	-
Loans and advances to customers (floating rate)	9,563,161	9,401,272	-	-	-	-	161,889
Loans and advances to customers (fixed rate)	89,255	-	6,223	83,032	-	-	-
Lease receivables	172,518	43,957	10,129	41,332	62,664	-	14,436
Financial assets available for sale	174,095	-	-	12,170	-	-	161,925
Financial assets held to maturity	2,104,017	1,546,792	196,177	361,048	-	-	-
Non-current assets held for sale	24,005	-	-	-	-	-	24,005
Property and equipment	825,794	-	-	-	-	-	825,794
Investment property	78,991	-	-	-	-	-	78,991
Intangible assets	68,510	-	-	-	-	-	68,510
Other assets	163,458	-	-	-	-	-	163,458
Total assets	19,865,076	17,127,873	212,529	497,582	62,664	-	1,964,428

41 INTEREST RATE RISK EXPOSURE (CONTINUED)

31 December 2016	Total MDL'000	Less than 1 month MDL'000	From 1 month to 3 months MDL'000	From 3 months to 1 year MDL'000	From 1 to 5 years MDL'000	More than 5 years MDL'000	Non-interest bearing items MDL'000
LIABILITIES							
Due to bank	95,658	4,598	-	15,552	75,508	-	-
Borrowings	848,088	230,860	200,194	376,977	-	-	40,057
Due to customers (fixed rate)	410,570	147,846	247,473	8,178	5,068	2,005	-
Due to customers (floating rate)	15,001,805	14,962,686	-	-	-	-	39,119
Deferred tax liabilities	35,067	-	-	-	-	-	35,067
Current tax liability	6,232	-	-	-	-	-	6,232
Other liabilities	205,316	-	-	-	-	-	205,316
Total liabilities	16,602,736	15,345,990	447,667	400,707	80,576	2,005	325,791
Interest gap	3,262,340	1,781,883	(235,138)	96,875	(17,912)	(2,005)	1,638,637
Cumulative interest gap		1,781,883	1,546,745	1,643,620	1,625,708	1,623,703	3,262,340

41 INTEREST RATE RISK EXPOSURE (CONTINUED)

31 December 2015	Total MDL'000	Less than 1 month MDL'000	From 1 month to 3 months MDL'000	From 3 months to 1 year MDL'000	From 1 to 5 years MDL'000	More than 5 years MDL'000	Non-interest bearing items MDL'000
ASSETS							
Cash on hand	515,578	-	-	-	-	-	515,578
Balances with National Bank of Moldova	3,525,126	3,525,126	-	-	-	-	-
Due from banks	2,261,334	2,261,334	-	-	-	-	-
Financial assets held for trading	36,576	5,083	6,713	24,780	-	-	-
Loans and advances to customers (floating rate)	10,235,958	10,059,476	-	-	-	-	176,482
Loans and advances to customers (fixed rate)	93,101	1,025	1,013	4,596	46,193	40,274	-
Lease receivables	263,934	40,983	15,564	67,397	124,395	1,083	14,512
Financial assets available for sale	153,769	-	-	-	-	-	153,769
Financial assets held to maturity	688,879	62,695	270,344	355,840	-	-	-
Non-current assets held for sale	24,093	-	-	-	-	-	24,093
Property and equipment	411,458	-	-	-	-	-	411,458
Investment property	75,149	-	-	-	-	-	75,149
Intangible assets	62,708	-	-	-	-	-	62,708
Other assets	101,709	-	-	-	-	-	101,709
Total assets	18,449,372	15,955,722	293,634	452,613	170,588	41,357	1,535,458

41 INTEREST RATE RISK EXPOSURE (CONTINUED)

31 December 2015	Total MDL'000	Less than 1 month MDL'000	From 1 month to 3 months MDL'000	From 3 months to 1 year MDL'000	From 1 to 5 years MDL'000	More than 5 years MDL'000	Non-interest bearing items MDL'000
LIABILITIES							
Due to bank	183,931	8,803	-	28,126	147,002	-	-
Borrowings	1,114,606	322,006	244,616	487,512	-	-	60,472
Due to customers (fixed rate)	1,748,723	594,899	783,613	343,820	21,022	5,369	-
Due to customers (floating rate)	12,295,818	12,256,302	-	-	-	-	39,516
Deferred tax liabilities	24,926	-	-	-	-	-	24,926
Current tax liability	8,535	-	-	-	-	-	8,535
Other liabilities	113,554	-	-	-	-	-	113,554
Total liabilities	15,490,093	13,182,010	1,028,229	859,458	168,024	5,369	247,003
Interest gap	2,959,279	2,773,712	(734,595)	(406,845)	2,564	35,988	1,288,455
Cumulative interest gap		2,773,712	2,039,117	1,632,272	1,634,836	1,670,824	2,959,279

The Group extends loans and accepts deposits bearing fixed rates as well as variable rates. Floating rate loans to customers and deposits from customers represent instruments in respect of which the Group has the right to change unilaterally the interest rate in line with the rates on the market. The Group has to give 15 day notice prior to the date when the change takes place. For interest gap disclosure purposes, loans and deposits bearing floating rates were considered to have a 15-day notice re-pricing period and were classified into the category "less than 1 month".

42 CONTINGENT LIABILITIES

At 31 December 2016 and 31 December 2015 the Group is the defendant in several lawsuits arising in the ordinary corporate activity. According to Management and the Legal Department of the Group, the loss probability is small and accordingly no provision has been made in these financial statements

43 EVENTS AFTER THE REPORTING DATE

There are no events after the reporting date.