BC “EuroCreditBank” SA

Financial Statements

For the year ended on 31 December 2017

prepared in accordance with International Financial Reporting Standards

These financial statements represent a translation from Romanian to English.
In case of divergence, the Romanian version has priority.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of B.C. EUROCREDITBANK S.A.

Report on the Individual Financial Statements

Opinion

[1] We have audited the accompanying individual financial statements of BC EUROCREDITBANK S.A. (hereinafter referred to as ("the Bank"), which comprise the individual statement of financial position as at 31 December 2017 and the individual statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

[2] In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

[3] 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 Financial Statements section of our report. We are independent of the Bank 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.

Key Audit Matters

[4] Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	**Audit approach**
Allowance for impairment of loans to customers	
We consider the impairment of loans granted to customers to be a key audit matter, given the share of loans in the total assets of the Bank and the significant judgement and subjective assumptions involved in determining the timing and the amounts of the impairment allowance for loans.	We have assessed, performed tests of controls and substantive audit procedures in respect of the monitoring process of loans to customers as well as the main criteria's used by the Bank in the computation of the loan loss allowance (LLA). In order to analyze the key audit matter, our audit was based on understanding the assumptions used by the management and by analyzing and validating the information used in the computation of the LLA.

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Key Audit Matters (continued)

Key audit matter	Audit approach
Allowance for Impairment of Loans to Customers (continued)	
The Bank performs an assessment of the loan loss allowance both collectively and individually in accordance to the requirements of IAS 39. As at 31 December 2017, loans to customers (net) amounted to MDL'000 348,001 representing 45% of the Bank's total assets.	For the individually assessed clients, we have performed detailed loan review based on a representative sample. We have reviewed and assessed the assumptions used by the management including estimated future cash flows, valuation of collateral pledged, discounting of future cash flows to present value. In respect of the collectively assessed clients, we evaluated the calculations made by the management on the probability of default and loss given default rates, and we validated the assumptions used, we checked the mathematical accuracy and we verified the completeness of the data inserted in the computation models.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

[5] Management of the Bank is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards (IFRS's) and related regulations and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

[6] In preparing the financial statements, management is responsible for evaluating the Bank's ability to continue as a going concern, for disclosure, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.
Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

[7] Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or aggregated, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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INDEPENDENT AUDITORS' REPORT (continued)

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

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

- Obtain an understanding of internal controls 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 Bank'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 Bank'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 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 Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

[9] 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.

[10]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.

BAKER TILLY

INDEPENDENT AUDITORS' REPORT (continued)

[11]From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation prohibits 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 Constantin Schendra.

March 30, 2018

on behalf of
ICS Baker Tilly Klitou and Partners SRL
65 Stefan cel Mare si Sfant Boulevard, 5th Floor, Office 507, Chisinau MD-2001, Moldova

Baker Tilly Klitou and Partners

Audit License: General Audit Series A MMII No 056038 of 13 September 2007, valid until September 13, 2022

Constantin Schendra

Licensed Auditor
Auditor Qualification Certificate AG Series No.000012 of November 14, 2013
Certificate of Qualification of Auditors of Financial Institutions Series AIF 0026 of February 2, 2015

1. PRESIDENTS'S REPORT

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

- According to the results for 2017 the Bank's effective indicators comply with the limits and norms set by the NBM;
- The total regulatory capital as of 31.12.2017amounted to 235,380 thousand MDL(231,679 thousand MDL as of 31.12.2016) and with 35,380 thousand MDL more than the minimum norm –200,000 thousand MDL;
- Capital adequacy as of 31.12.2017 reached 64.79 % (in the system 31.03%) (NBM norm – no less than 16%);
- The Bank's current liquidity by 31.12.2017 was 44.02 % (in the system 55.48 %) (NBM norm – no less than 20%). This allowed the Bank to ensure the timely and necessary volume of transactions and to honor its obligations;
- Total Assets amounted to 769,561 thousand MDL having increased, in comparison with the similar period from last year with 123,047 thousand MDL or 19.03 % (an increase in the system by 9.2 %);
- Bank's loan portfolio (main amount) as of 31.12.2017 amounted to 352,837 thousand MDL having increased in comparison with the similar period from last year with 122,434 thousand MDL or 53.14 % (a decrease in the system of 3.0 %);
- Deposit portfolio as of 31.12.2017amounted to 449,336 thousand MDL having increased by 110,227 thousand MDL or 32.5 % in comparison with the similar period from last year (an increase in the system by 9.1 %).

Assets

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

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

Liabilities and equity

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

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

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

Financial Results

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

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

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

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

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

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

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

Principle II of liquidity (current liquidity) of the Bank as of December 31, 2017 – 44.02%, in the system 55.48% (the norm being no less than 20, as of 31.12.2016 – 53.11%, in the system 49.22%). All indicators described above meet the requirements stipulated in the regulations of the National Bank of Moldova.

PRESIDENTS'S REPORT (continued)

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

The activity with the customers of the bank

The efforts undertaken in 2017 by BC "EuroCreditBank"S.A, have achieved the excellent financial results, providing a wide range of services and products as well as improving the existing ones.

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

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

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

Throughout the 12 months of 2017, 3,024 people became clients of the Bank out of which 2,736 were individuals and 288 were legal entities. For the same period there were 5,881 new opened accounts,among which 597 legal entities and 5,284 individuals.

Loans activity

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

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

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

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

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

The average rentability of the loan portfolio as of 31.12.2017 was 12.0% (including expired loans) and 12.97% (excluding expired loans).

The income from the loans activity comprises one of the biggest shares within the total income of the bank – their share was 35.6% of the total amount of income by the end of 2017 (by 31.12.2016 – 26.3%).

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

Foreign currency activity

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

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

Activity on financial markets

During 2017 year, BC "EuroCreditBank" SA was active on the interbanking market, placing available funds within licensed banks in Moldova, NBM and correspondent banks from abroad.

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

PRESIDENTS'S REPORT (continued)

During the 12 months of 2017, the Bank invested –1,458,570 thousand MDL, including overnight –555,000 thousand MDL (or 38.05 %), CBN 795,000 thousand MDL (or 54.5 %)and state securities –108,570 thousand MDL (or 7.45%).
Duringthe 12 months of 2017 the bank gained income amounting to 11,422 thousand MDL (from CBN –2,627 thousand MDL, placements in banks –3,078 thousand MDL, overnight placements –149 thousand MDL and state securities – 5,568 thousand MDL). Compared with the same period from last year, we can note a significant decrease, by 55.5%or 14,232 thousand MDL of the aforementioned income. This is due to the decrease in the main interest rate to 6,5% and as a result of the decrease in the average rate for state securities to 5%.
As of 31.12.2017 the balance of the net investment portfolio amounted to 49,469 thousand MDL (6.4% of total assets).

Risk Management
During the reported period, the Bank's main tasks were to minimize the risk of banking operations.
In order to minimize risk exposure, the Bank calculated and controlled the limits and regulations monthly, established in accordance with the requirements approved by the NBM, the Board of Directors and the Committee of Assets and Liabilities Management (CALM). The reports on limits and normative acts were examined monthly on CALM meetings. Additionally, every quarter the Bank conducted liquidity stress testing, distributed under the terms (GAP stress testing), the results of which were also examined on CALM and Board of Directors meetings.
A fair assessment of the loan risk is of major importance to the bank. To estimate the loan risk independently for each product, the Bank calculated the following key indicators: probability of default, exposure at the time of default risk and maturities.
To determine the loan risk, a detailed analysis of the business and financial condition of the debtor is carried out and subsequently, various measures are undertaken to minimize the loan risk.
Systematically, the Bank executes the control of open currency position limits, and also sets and monitors the limits of exposure to currency risks.
In order to minimize the interest rate risk, the Bank carries out weekly analysis of the structure of assets and liabilities under the terms of payment. These reports are used by the Bank to approve decisions on the regulation of interest rate risk. During the year, both rates on term deposits as well as loans were modified.
Quarterly the Bank presents to the Management Board, the CALM and the Board of Directors a general report that describes bank's risks and steps of minimizing those risks.

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

Corporate Governance
Corporate Governance Code BC "EuroCreditBank" SA has been developed based on and in accordance with the provisions of art. 17 of the Law on financial institutions, the Law on joint stock companies, the Decision of the Government of the Republic of Moldova "On the approval of the Concept of corporate governance of the enterprises within the national economy", the Decision of the National Commission for Financial Markets "On approving the Code of Corporate Governance". While drafting the Code, there wereas well taken into account the provisions of the Basel Committee on Banking Supervision document from February 2006 "Enhancing corporate governance for banking institutions.
The Corporate Governance Code of BC "EuroCreditBank" is public and available on the website of the Bank. Its provisions are binding for the Bank's governing bodies, managers and employees of the Bank, including its shareholders.

PRESIDENTS'S REPORT (continued)

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

THE BANK'S MANAGEMENT BODIES.
The leadership and effective management of the Bank's activity comes to the governing bodies of the Bank:
- General Meeting of Shareholders - the supreme governing body of the Bank;
- Board of Directors of the Bank;
- Management Board of the Bank;
- Censor Committee.

THE GENERAL SHAREHOLDERS' MEETING
The General Shareholders' Meeting as supreme body, having exclusive competence pursuant to art. 50 of the Law on Joint Stock Companies, to enact decisions regarding the approval of the reports of the Board of Directors, Censor Committee, profit distribution, selecting the auditing company, etc. necessary to properly conduct the activity of the Bank within the legal existing frameworkand with the requirements of the normative acts in force at the National Bank.
The decisions of the General Shareholders' Meeting regarding these matters have been carried out in accordance with the Law on Joint Stock Companies and the Statute of the Bank, while complying with the provisions of the Code of Corporate Governance of the Bank.

THE BOARD OF DIRECTORS OF THE BANK
The Board of Directors is the body that represents the interests of shareholders between general meetings and within the limits of its powers, approved regulations of the Bank and their amendments at the request of the management board. The Board of Directors also approved amendments to the Statute due to the opening of the Branch no.2 in Chisinau.
The Board of Directors of the Bank, in the exercise of its attributions to approve internal regulations of the Bank is guided by the interests of the Bank and its shareholders. The Board also supervises on a permanent basis their fulfilment by the Management Board.
During the year, the Bank's Board of Directors oversees the effective functioning and performance of the Management Board, the results of the compliance policy for the risk management policy, significant positive and negative changes that have occurred.

THE MANAGEMENT BOARD OF THE BANK – executive body.
The executive body fulfills the ongoing management of the Bank, oriented towards achieving the objectives set out in the strategy and its business plan.
In their daily activity, the executive body ensured:
a) Organizing and coordinating the deployment of the Bank's financial activities approved by the license issued by the National Bank of Moldova in accordance with provisions of the existing legislation and internal regulations of the Bank;
b) Examining the financial and other specific statements of the Bank, as well as reports on the performance of the business plan and reporting to the Board of Directors of the Bank;
c) Examining the materials of controls carried out by the Internal Audit Unit of the Bank, as well the external auditing company;
d) Presenting to the Board of Directors, Censor Committee and each member of these bodies' the documents and other information necessary for the proper performance of their duties;
e) Approval of the Bank's transactions with third parties prior to their realization, within the limits established by the ECB's Regulation on Executive Board.
The activity of the Bank's Executive Body – The Management Board of the Bank is conducted in accordance with the principles and best practices established by the Code of Corporate Governance of the Bank.

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

PRESIDENTS'S REPORT (continued)

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

The Bank's degree of compliance to the provisions of the Code of Corporate Governance
Corporate governance refers to the relationship between investor/shareholder and manager/administrator and the problems that might arise, extending to the full range of existing relationships between those directly or indirectly involved in the activity of the bank.

By the undertaken actions, BC EuroCreditBank SA managed:

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

The Bank's Board of Directors effectively cooperated with the management of the bank and its shareholders,on the further increase the Tier I capital, in order to ensure a continuous development of the bank. Within the operational activity of the Bank, the management bodies as well as the administrators of the bank have ensured a good functioning of the bank, while respecting the principles of corporate governance.
The aforementioned analysis was conducted based on the FINREP reports as well as the Bank's prudential reports presented to the National Bank of Moldova.

BC EUROCREDITBANK SA

STATEMENT OF FINANCIAL POSITION
for the year ended 31 December 2017

	Note	31 December 2017 MDL '000	31 December 2016 MDL '000
ASSETS			
Cash and cash equivalents	4	77,987	69,400
Accounts with National Bank of Moldova	5	176,873	101,334
Current accounts and deposits with banks	6	33,606	36,967
Financial investments - held to maturity	7	49,316	132,725
Loans to customers, net	8	348,001	225,638
Financial investments - available for sale	9	165	164
Property and equipment, net	10	61,610	62,563
Intangible assets, net	11	1,494	1,302
Other assets	12	20,510	16,421
Total assets		769,561	646,515
LIABILITIES			
Due to banks		-	-
Loans	13	13,579	12,276
Due to clients	14	449,337	339,109
Deferred tax liabilities	15	2,801	3,536
Other liabilities	16	6,018	3,404
Total liabilities		471,735	358,326
EQUITY			
Ordinary shares	17	138,000	138,000
Reserves	17	36,638	27,471
Revaluation reserves	17	36,707	39,427
Retained earnings	17	86,481	83,291
Total equity		297,826	288,189
Total equity and liabilities		769,561	646,515

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

These financial statements were authorized for issue on 30 March, 2018 by the Executives of the Bank:

President of Management Board — Oleg Holban

Chief -Accountant — Svetlana Brîncă

EuroCreditBank S.A. BANCA COMERCIALĂ REPUBLICA MOLDOVA mun. CHIȘINĂU

BC EUROCREDITBANK SA

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended on 31 December 2017

	Note	2017 MDL '000	2016 MDL '000
Interest income	19	44,344	52,693
Interest expenses	20	(11,238)	(15,883)
Interest income, net		33,106	36,810
Net losses from impairment of loans and receivables	8, 12	(1,187)	(1,869)
Net interest income decreased by the impairment of loans and receivables		31,918	34,941
Fee and commission income	21	20,220	19,056
Fee and commission expenses	22	(10,075)	(11,584)
Fee and commission income, net		10,144	7,472
Income from foreign currency operations, net	23	22,574	27,143
Other operating income	24	3,356	3,389
		67,993	72,944
Personnel expenses	25	(37,828)	(37,901)
General and administrative expenses	26	(17,658)	(17,891)
Amortization expenses	10, 11	(3,047)	(2,847)
Total operational expenses		(58,532)	(58,640)
Operating profit before tax		9,462	14,305
Income tax expense	15	547	(250)
Net profit for the financial year		10,008	14,055
Basic earnings per share (MDL)	27	0.73	1.02

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

These financial statements were authorized for issue on 30 March, 2018 by the Executives of the Bank:

President of Management Board — Oleg Holban

Chief -Accountant — Svetlana Brîncă

BC EUROCREDITBANK SA

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2017

	Share capital	Reserves		Retained earnings	Reserves from revaluation	Total
		General reserve	Prudential reserve			
	(MDL '000)	(MDL '000)	(MDL '000)	(MDL '000)	(MDL '000)	(MDL '000)
Balance as of January 1, 2016	138,000	11,082	15,766	70,226	15,661	250,735
Allocations to general reserve	-	609	(14)	623	-	-
Profit for the year	-	-	-	14,055	-	14,055
Revaluation of intangible assets	-	-	-	-	-	-
Other adjustments	-	-	-	366	-	366
Balance as of December 31, 2016 and January 1, 2017	138,000	11,690	15,780	83,292	39,427	288,189
Allocations to general reserve	-	703	8,464	(9,166)	-	-
Profit for the year	-	-	-	10,008	-	10,008
Revaluation of intangible assets	-	-	-	2,720	(2,720)	-
Other adjustments	-	-	-	(372)	-	(372)
Balance as of December 31, 2017	138,000	12,393	24,244	86,481	36,707	297,826

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

These financial statements were authorized for issue on 30 March, 2018 by the Executives of the Bank:

President of Management Board
Oleg Holban

Chief -Accountant
Svetlana Brîncă

STATEMENT OF CASH FLOWS
for the year ended 31 December 2017

	2017 MDL '000	2016 MDL '000
Cash flows from operating activities		
Interest and commission receipts	38,929	36,307
Interest and commission paid	(15,430)	(23,522)
Cash receipts from loans previously written-off from allowances for loan losses	(1,187)	(1,869)
Cash receipts from other income	35,024	38,474
Cash paid to employees	(34,948)	(34,697)
Cash paid to suppliers and contractors	(56,236)	(42,120)
	(33,848)	**27,427**
Increase/(decrease) of assets		
Increase/(decrease) on deposits to NBM	(4,492)	(2,811)
Increase/(decrease) on loans to customers	(121,585)	(37,264)
Increase/(decrease) on other assets	(57,455)	(21,324)
	(183,533)	**(61,399)**
Increase/(decrease) of liabilities		
Increase/(decrease) on deposits from customers	110,216	83,413
Increase/(decrease) on deposits and loans from banks	-	(1)
Increase/(decrease) on other assets	63,382	(9,606)
Payments on income tax	-	(250)
Net cash from operating activity	**173,598**	**92,768**
Cash flows from investing activities		
Proceeds /(payments) on investment securities	33,418	(10,385)
Proceeds /(payments) on property and equipment assets	(2,108)	1,598
Payments for intangible assets	(550)	624
Interest received	13,006	10,016
Net cash from investing activities	**43,766**	**(2,591)**
Net Cash flow from financing activity		
Receipts / (payments) for long-term loans	1,317	(5,636)
Net Flow from financial activity	**1,317**	**(5,636)**
Effect exchange rate fluctuations on cash and cash equivalents	22,829	(33,303)
Increase in cash and cash-equivalents	**24,129**	**40,290**
Cash and cash equivalents at the beginning of the year	247,728	207,438
Cash and cash equivalents at the end of the year	**271,857**	**247,728**

BC EUROCREDITBANK SA

STATEMENT OF CASH FLOWS
for the year ended 31 December 2017 (continued)

Cash and Cash Equivalents

	Note	31 December 2017 MDL '000	31 December 2016 MDL '000
Cash and cash equivalents	4	77,987	69,400
Accounts with National Bank of Moldova	5	149,417	78,370
Current accounts and deposits with banks	6	33,606	36,967
Investment securities	7	10,847	62,990
		271,857	247,728

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

These financial statements were authorized for issue on 30 March, 2018 by the Executives of the Bank:

President of Management Board

Oleg Holban

Chief -Accountant

Svetlana Brîncă

EXPLANATORY NOTES TO FINANCIAL STATEMENTS

1. General Information on Bank

BC "EuroCreditBank" SA (hereinafter referred to as "the Bank") was established in the Republic of Moldova as an open joint-stock Commercial Bank “Petrolbank” in September 1992. The Bank was registered at the State Chamber of Registration as a Joint Stock commercial bank on 25 May 2001 under state identification number - 1002600020056.

During the General Meeting of Stockholders held on 4 July 2002, Bank’s new name became BC “EuroCreditBank” SA.

The Bank operates through its head office in Chisinau and through its 8 branches and 42 agencies (7 branches and 42 agencies at December 31, 2016).

In present, the Bank operates under the License No. 004461 Series A MMII issued on 30 June 2008, which gives the permission of rendering a range of banking services for individuals and corporate clients, including receiving deposits, cash management, lending activities, operations related to foreign currency, etc., according to art.26 p.1) of the Law on Financial Institutions.

The Bank’s registered office:
33 Ismail Street
MD-2011, mun. Chişinău
Republic of Moldova

As of 31 December 2017 the Bank's staff reached 295employees (as of 31 December 2016: 323).

The Board of Directors develops the Bank’s operational policies and supervises their implementation. The Bank's Board is composed of *4 members* elected by the General Meeting of Shareholders.

As of 31 December 2017, the Bank's Board included the following members:

BulgariValeriu	Chairman of the Board
Verejan Oleg	Board Member
Cucu Gheorghe	Board Member
GaberiGeorge	Board Member

These financial statements were authorized for issue on 30 March 2018 by the Executives of the Bank represented by the President and the Chief Accountant.

2. Accounting policies
2.1. Basic principles used in preparing the financial statements

Compliance Statement

These financial statements are prepared in accordance with the International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board (IASB). These financial statements are prepared in accordance with the International Financial Reporting Standards effective as of 31 December 2016, the reporting date of the annual financial statements. Additionally, there were applied the interpretations issued by the IFRS Interpretations Committee (IFRIC).

The Bank does not adopt preventive standards that have not been declared effective.
Financial year of the bank is the calendar year.
The principal accounting policies applied to these financial statements are presented below. These policies have been sequentially applied for all previous years, excepting the cases when it is mentioned otherwise.

Compliance with the national legislation
For over sighting purpose the entity is qualified as commercial Bank according to the banking license issued by the National Bank of Moldova, which givesit the authorization of rendering banking services in the Republic of Moldova, and as a result, it is regulated by the National Bank of Moldova. These financial statements have been approved by the Bank's Council of Administration.

Assessment principles
The financial statements are prepared on a historical cost basis, except for land and buildings and investments available for sale, which are recorded at fair value.

Functional and presentation currency
The accompanying financial statements are presented in Moldovan Lei („MDL"), rounded to the nearest thousand, which is the Bank's functional currency, except cases when it is mentioned otherwise.

2.2. Significant accounting estimates and judgments

The presentation of financial statements in compliance with IFRS, requires the management of the Bank to make judgments about estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and future changes in the economic conditions, business strategies, regulatory requirements, accounting rules or/and other factors could result in a change in estimates that could impact the reported financial position of Bank.

The most common significant areas involving estimates and professional judgment include:

- **Fair value of financial instruments**

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position can not be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not possible, it takes a certain kind of judgment to determine fair values. The judgments include considerations of liquidity and model inputs for mathematical models, such as discounting cash flows and assessing default rate for financial instruments secured by assets.

- **Impairment losses on loans and advances**

Provisioning for incurred credit losses identified contingencies involves the management of the Bank to make judgment in estimating the loss amounts. The Bank creates provision for impairment of loans and receivables where there is objective evidence that, as a result of past events, the estimated future cash-flows are lower than carrying amount. These provisions are based on Bank's historical and current experience concerning default rates, recovery rates of loans, or time needed from a loss event to loan default, as well as subjective judgments of the Bank's management about estimated future cash-flows.

2. Accounting policies (continued)
2.2. Significant accounting estimates and judgments (continued)

- **Going concern**

Bank management has evaluated the Bank's ability to continue as a going concern and has been convinced that the Bank has the necessary resources to continue its business in the foreseeable future. In addition, the management is not aware of any material uncertainty that would create significant doubt regarding the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

2.3. Changing the accounting policies

The accounting policy adopted, are consistent with those of the previous year. Adoption of new standards and interpretations that are effective within the Bank from 1 January 2016 had no impact on accounting policies, financial position or performance of the Bank.

2.4. Significant accounting policies

a. Basis for assessment

These financial statements have been prepared under the historical cost method, except when IFRS requires recognition at fair value.

Fair value is best represented by quoted prices in an active market. If the market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. The goal of using a valuation technique is to establish what the transaction price would be at the valuation date within transactions done on objective conditions, driven by normal business considerations.

Valuation techniques include using market transactions conducted in objective conditions between interested parties and knowingly (if applicable), reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and models pricing of options. If there is a valuation technique commonly used by market participants to put value of the instrument and that technique has provided consistently reliable estimates of prices obtained in actual market transactions, the Bank uses that technique.

Chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments.

Financial instruments measured at fair value on an ongoing basis for accounting purposes include all instruments at fair value through profit or loss and financial instruments classified as available for sale. Details of the measurement techniques applied to balance sheet positions are part of the accounting policies below.

These financial statements have been prepared on a going concern basis, which assumes that the Bank will continue its operations for the foreseeable future. In order to assess the reasonableness of these assumptions, management reviews the forecasts of future cash inflows. Based on these analyses, management believes that the Bank will continue to operate under the principle of going concern for the foreseeable future and, therefore, this principle has been applied in preparing these financial statements.

The financial year starts on January 1 and ends on December 31 and includes all operations of the Bank. All figures reflecting actual economic and financial results of the bank during the financial year are included in the financial statements of the financial year.

2. Accounting policies (continued)
2.4. Significant accounting policies (continued)
b. Foreign currency transactions (continued)

Foreign currency transactions are converted into the appropriate operational currency at the exchange rate at the transaction date. Monetary assets and liabilities denominated in foreign currencies at the date of the report, are translated again, into the functional currency in accordance with the exchange rate at that date. The profit from exchange rates or loses on monetary articles - is the difference between the amount of depreciation in the functional currency at the beginning of the period, adjusted for actual yield and payments during the period and the depreciation in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at the objective value, again are converted into the functional currency at the rate of exchange on the day when this objective value was determined.
Exchange differences arising from the re-conversion are recognized in profit or loss, except for differences arising from the re-conversion of available-for-sale financial assets are included in the objective value of the stock shares.

Transactions in foreign currencies are recorded at the exchange rate at the transaction date. At financial statement date, monetary assets and liabilities denominated in foreign currencies are translated using the closing exchange rate.

	2017		2016	
	USD	**Euro**	**USD**	**Euro**
Average period	18.4902	20.8282	19.9238	22.0548
End of the year	17.1002	20.4099	19.9814	20.8895

c. Cash and cash equivalent

For the purposes of the financial statements, the cash includes cash available in treasury and inbanks and current placements, and the cash equivalents are short-term financial investments (up to 91 days) very liquid, that are easily convertible into known amounts of cash and which are subject to insignificant risk of changes in value.

d. Loans and receivables and provision for loan impairment

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted onan active market. Amounts reported as receivables from customers consist primarily of given loans and advances. In addition to overnight and short - term deposits, the amounts reported as receivables from banks include current account balances.

All loans and receivables to banks, as well as loans and receivables to customers fall into the category of "loans and receivables" and are carried at amortized cost using the effective interest methodminus the impairment losses. When calculating the amortized costs are taken into account all the discounts or premiums on purchase, as well as associated fees that are an integral part of the effective interest rate. Amortized premiums and discounts are recognized in terms of profit and loss in net interest income.

Provisions for loan impairment

Provisions for loan impairment are established when there is objective evidence that the Bank will not be able to collect all amounts it is entitled. The provision is calculated as the difference between the balance sheet and the recoverable amount, the latter representing the present value of estimated future cash flows, including amounts recoverable from guarantees and collateral, discounted by using effective interest rate applicable initially.

Impairment of financial assets

A financial asset (or group of financial assets) is considered impaired and impairment losses occur if and only if, there is objective evidence of impairment as a result of one or more subsequent events to theinitial recognition of the asset ("loss generating event") and that loss event had an impact on the estimated future cash flows of the financial asset (or group of financial assets) that can be estimated reliably. It may not be possible to identify a singleevent that caused the impairment. Rather, combined effect of several events may have caused the impairment.

2. Accounting policies (continued)
2.4. Significant accounting policies (continued)
d. Loans and receivables and provision for loan impairment (continued)

Individually assessed exposures
Loans are considered individually significant if they have a certain size. The Bank believes that all loans that exceed the level of 2,000thousand MDL(or equivalent) and/or 90 days of payment delay of the credit or interest, should be individually assessed for impairment. Such credits shall be assessed whether there is objective evidence of impairment, i.e. any factors that might influence the customer to meet contractual payment obligations to the bank:

- At the assessment date there is an overdue of the loan payment or interest. In this case the loan will be considered impaired and the impairment test shall be performed without considering other evidence.
- The financial situation of the debtor at the time the credit assessment. Indicators that would indicate that the loan is impaired could be: a significant decrease in the turnover rate, decrease of the operating profit ration to a level insufficient to cover interest payments, negative net current assets.
- According to the information held by the Bank, it isprobable that the borrower will enter in bankruptcy or other reorganization accounts.
- Unfavourable economic conditions on borrower’s market, such as: difficulties with export production due to the closure of export markets, the overall decrease in the level of income within the debtor's industry, etc..

Calculating the present value of the estimated future cash flows of a guaranteed financial asset reflects the cash flows that may result from the execution the lien right minus the costs for obtaining and selling the collateral.

Individually assessed loans for which no provision has resulted, are subject to collective impairment calculation, by multiplying the exposure in the event of default by the probability of default (PD) and the rate of loss in case of default (LGD).

Collectively assessed exposures
For the purpose of a collective evaluation of the loan portfolio, the Bank will form groups of loans that have similar risk characteristics. Credits will be divided into groups:
- Legal entities
- Individuals who have secured the loans with collateral
- Individuals who have not secured the loans with collateral

In these groups are included both insignificant loans and the significant ones, but which have no evidence of impairment.

Recovery of the impairment loss
If, in a subsequent period, the amount of loss on impairment decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the loss from the previously recognized impairment, will be recovered by adjusting an provision account for impairment. Recovery doesn’t have as a result a carrying amount of the financial asset that exceeds the amortized cost, if the impairment had not been recognized at the date on which impairment is repeated. The amount of the loss is recognized in profit.

Other assets that are not loans (Receivables)
In this category are recorded amounts which are not loans, as follows:
- Nostro accounts in correspondent banks,
- Securities representing shares in the capital of other entities;
- Assets passed in possession / purchased for debt repayment;
- Amounts receivable on the balance sheet of the Bank, with unidentified character;
- Receivables related to settlements with other individuals or legal entities;
- Receivables on capital investments and intangible assets;
- Receivables related to documentary settlements;
- Debtors with which the Bank is in dispute.

Amounts of state fees are passed directly to the charges, excepting the amounts that are considered significant to the Bank.

2. Accounting policies (continued)
2.4. Significant accounting policies (continued)

e. Financial assets available-for-sale

Financial assets available-for-sale are those financial assets that are designated as available for sale and are not classified as held-to-maturity investments or investments at fair value through profit or loss.

Financial assets available-for-sale areinitially recognized at cost plus transaction costs of the acquisition.

After initial recognition, the Bank assesses the financial assets at fair value, without any deduction for transaction costs that may be incurred on sale or other disposal, except for the following categories of financial assets:

i. held to maturity investments which are measured at amortized cost, using the effective interest method, and

ii. investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and the derivatives that are linked to, and that are settled by delivery of such unquoted equity instruments, which are measured at cost.

A gain or loss arising from a change in fair value of the investment is recognized as follows:

- a gain or loss of an investment classified as assessed at fair value through profit or loss is recognized in profit or loss;
- a gain or loss of an investment available-for-sale is recognized in other comprehensive income, except for losses from impairment. In that moment the cumulative gain or loss recognized previously in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. However, interest calculated using the effective interest method is recognized in profit or loss. Dividends for equity instruments available-for-sale are recognized in profit or loss when the entity's right to receive payment is established.

For investments carried at amortized cost, a gain or loss is recognized in profit or loss when the investment is derecognized or impaired, and through the amortization process.

f. Securities

Securities held to maturity are financial assets with fixed or determinable payments and a fixed maturity,that the Bank has the positive intent and ability to hold to maturity, other than those that the Bank designates as available-for-sale.

State securities (VMS) and the NBM's certificates are classified as investments held to maturity.

Any sale or reclassification of a significant amount of financial instruments held to maturity before their maturity, would result in the reclassification of all investments held to maturity investments intended for sale and prevent the Bank to classify securities as held-to-due in the current financial year and the following two financial years.

g. Property,plant and equipment

Property,plant and equipment are items of greater value than the value set by the Ministry of Finance, which are held for use in providingservices, for rental to third partiesor for administrative purposes and are expected to be used during several periods.

Buildings and land are recorded in the balance sheet at revalued amount minus accumulated depreciation and minus allowance for impairment, if necessary. Other tangible assets are recorded at historical cost minus depreciation and scheduled impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition products.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, only when it is probable that future associated economic benefits will come to the Bank and the asset cost can be measured reliably. All other repairs and maintenance are passed to profit and loss during the financial period in which they are incurred.

2. Accounting policies (continued)
2.4. Significant accounting policies (continued)
g. Property, plant and equipment(continued)

The depreciation method applied to an asset is reviewed at each financial year-end.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate cost to their residual values using the following life periods:

	Years
Buildings	45 -50 years
Office equipment	3-5 years
Equipment and installations	3 - 15 years
Vehicles	5- 7 years
Cash machines (ATM) and equipment	8- 10 years

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

Investment property
Investment property is property, land or buildings, or part of building, or both, owned by the owner lessee under a financial or operational lease agreement, to earn rentals or for capital appreciation, or both.

Investment property is recognized as an asset if, and only if it is probable that future economic benefits associated with the investment property will flow to the Bank and the cost of the investment property can be measured reliably.

The Bank does not recognize in the carrying amount of the investment property, thedaily maintenance costs of such property. These costs are recognized in profit or loss as incurred.

Investment property is measured initially at cost. Transaction costs are included in the initial measurement. The Bank uses the cost model,fortracking all of its investment property.

h. Lease contracts
Leases are accounted for in accordance with IAS 17 "Lease Contracts" and IFRS 4 "Insurance Contracts". Classification as a financial lease or an operationallease depends on the economic substance of the transaction rather than the legal form of the contract.

Financial leases
The agreements under which the lessersubstantially transfers to the lessee, all the risks and rewards of ownership of the assets but not necessarily legal title, are classified as finance leases.

Operational leases
Operationalleases are all leasing contracts that do not qualify as finance leases. Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lesser, are classified as operational leases.
In case when the Bank gives in leasinga part of the building, while the other is still occupied by the Bank, the leased part will be reclassified as investment property only if it is biggerthan 50% of the total area of the building.

i. Intangible assets
An intangible asset is an identifiable non-monetary asset without physical substance. An asset is identifiable if it is separable or arises from contractual rights and either, or other legal rights, regardless of whether those rights are transferable or separable from the Bank or from other rights and obligations.

An intangible asset is recognized if and only if it is probable that future economic benefits attributable to the asset will flow to the Bank and the cost of the asset can be measured reliably.

The Bank assesses the probability of future economic benefits based on reasonable and supportable assessments representing the best estimate of the management team for the set of economic conditions that will exist over the useful life of the asset.

2. Accounting policies (continued)
2.4. Significant accounting policies (continued)
i. Intangible assets (continued)

An intangible asset is measured initially at cost. Recognition of costs in the carrying amount of an intangible asset ceases when the asset is in the condition necessary to be able to operate in the manner intended by management. Therefore, costs incurred in using or redeploying an intangible asset is not included in the carrying amount of that asset.

After initial recognition, an intangible asset is recorded at its cost minus any accumulated depreciation and any accumulated impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and introduce to operation of the specific software. These costs are amortised on the basis of the expected useful lives up to 5 years.

The costs associated with maintaining computer software programs are recognised as an expense when incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Bank, and that will probably generate economic benefits that would exceed the costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives over 5 years.

Licenses are capitalized on the basis of the costs incurred to acquire the specific license. These costs are amortised on the basis of the license period (5-20 years). Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

j. Impairment of non-financial assets

Assets that have an indefinite useful life are not amortized according to graphics, but are tested at the end of each reporting period for impairment.

Assets that are subject to amortization are reviewed for indications of impairment, whenever events or changes ofthe circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The carrying amount of the asset is written down immediately to its recoverable amount if the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the highestbetween the asset's fair value,minussellingcosts and value of use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

k. Other assets (inventories)

Inventories are assets of value up to the value set by the Ministry of Finance in the form of materials or supplies to be used in the production or providing services.

Inventories are valued at the lower of cost and net realizable value.

The cost of inventories includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to the location and condition that they are at the moment .

Trade discounts, rebates and other similar items are deducted in determining the costs of purchase. Other costs are included in cost of inventories only to the extent that they represent costs incurred in bringing the inventories to the location and condition are present.

Deposit costs and administrative overhead costs are not included in the cost of inventories and are recognized as expenses in the period in which they are incurred.

The cost of inventories is determined using the FIFO method. The Bank uses the same formula to determine the cost for all inventories having similar nature and use to the Bank.

2. Accounting policies (continued)
2.4. Significant accounting policies (continued)
k. Other assets (inventories) (continued)

The cost of inventories may not be recoverable if those inventories were damaged, if they were obsolete and technically overused, whole or in part. The practice of reduction of the inventories below the cost, tillthe net realizable value, is consistent with the principle that assets are not reflected in the balance sheet in an amount higher than the value expected to be obtained from their sale or use. The value of any cuts of inventories till the net realizable value and all the losses of inventories are recognized as an expense,during the time when downs or loss are carried.

l. Property and equipment submitted to loan reimbursement

Property and equipment submitted in exchange for loans reimbursement are classified by the Bank as assets held for sale and are recognized in the balance sheet only when there is high probability of sale thereof in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

When registering in accounting the property and equipment submitted in exchange for the reimbursement of loans is reflected at the lowest value of the total amount of the debtor (loan balance, interest calculated and reflected in the balance sheet, fees, penalties and other receivables related to loans and fair value (market) property and equipment assets submitted in exchange to loans reimbursement minus the costs of sale. In case if the market value of the asset is less than the loan balance - the difference is expensed immediately.

At the end of each reporting period, the Bank estimates ifthere is evidence of impairment of such assets from internal and external sources of information. In case that such evidence exists, the asset's recoverable amount is estimated.

m. Deposit, borrowings and other financial liabilities

The amortized cost of a financial liability is the amount at which the financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or failure recovery.

The effective interest method is a method of calculating the amortized cost of a financial liability (or group of financial liabilities) and of allocating interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts future cash payments for the time ofthe expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial liability. When calculating the effective interest rate,the cash flows are estimatedconsidering all contractual terms of the financial instrument.

When a financial liability is recognized initially, it is measured at its fair value plus, in the case ifthe financial liabilities are not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of financial liability.

After initial recognition, the Bank assesses at amortized cost using the effective interest method, all the financial liabilities.

For the financial liabilities at amortized cost, a gain or loss is recognized in profit or loss when the financial liability is derecognised, as well through the amortization process.

All financial liabilities are derecognised when they are extinguished – i.e. when the obligation is issued or cancelled or when it expires.

2. Accounting policies (continued)
2.4. Significant accounting policies (continued)

n. Provisions, contingent liabilities and contingent assets

Provisions are recognized if there is a current legal or constructive obligation, resulting from past events; it is probable that an outflow of resources will be required to settle the obligation and when the amount can be reliably estimated.

If these conditions are not met, no provision is recognized.

When there are a number of similar obligations, the likelihood that an outflow of resources will be required in settlement is determined by considering the group of obligations as a whole.

The provisions for which the output time of resources is known will be measured at the present value of costs where the flow does not occur within a year.

Contingent liabilities, which consist primarily of certain guarantees and credit commitments issued to customers, are possible obligations arising from past events. Whether they happen or not depends on uncertain future events not wholly within the control of the Bank, they are not recognized in the financial statements but disclosed off balance, unless the probability of settlement is vague.

A contingent asset is a possible asset arising from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank.

Contingent assets are not recognized in the financial statements but are disclosed when an inflow of economic benefits is probable.

o. Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse to the holder a loss which he supports because a specified debtor performs no payments due in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognized in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the highest of the initial measurement, minusamortization calculatedto recognize in the income and loss, the commission income earned on a linear basis during the lifetime of the guarantee and the best estimate of the expenditure required to settle any financial obligation that results at the balance sheet date.These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management.

Any increase in the liability related to these guarantees is reflected in the income statement in the note of the operational expenses.

p. Recognition income and expense

Revenue is measured at the fair value of the consideration received or receivable.

Amount of revenue arising on a transaction is usually determined by an agreement between the Bank and the buyer or user of the asset.

Revenue is recognized only when it is probable that the economic benefits associated with the transaction will flow to the Bank. However, when an uncertainty arises about the collectability of an amount already included in revenue, the amount cannot be collected or the amount of which recovery has ceased to be probable is recognized as an expense rather than as an adjustment to the amount of initial revenue.

Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognized within "interest income" and "interest expense" in the income statement using the effective interest method. Interest income and expenses are recognized in the income statement on an accrual basis, using the effective interest method.

2. Accounting policies (continued)
2.4. Significant accounting policies (continued)
p. Recognition income and expense (continued)

Once the carrying amount of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, the interest income is recognized using the interest rate used to discount future cash flows in order to measure the impairment loss. Payments received in respect of disposal of loans are recognized in net interest income, but reserve for credit losses.

Income and expenses from fees and commissions
Income and expenses from fees and commissions are recognized on an accrual basis when the service has been rendered.

Advance fees for loans that are likely to be used, are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate of the loan.

q. Income tax
Current income tax
Current income tax is calculated based on the applicable tax laws in the jurisdiction and is recognized as an expense.

Deferred income tax
Deferred income tax is applied in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their financial statements in accordance with IFRS. Deferred tax assets and liabilities are determined using tax rates (and laws) that have been adopted substantially at the balance sheet date and are expected to apply when the deferred income tax asset is realized or the deferred income tax liability is settled.

Temporary differences mainly come from the depreciation of fixed assets and tax losses carried forward. However, the deferred income tax is not accounted for if it occurs from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither profit (before tax) for the period IFRS nor taxable profit or loss.

Current and deferred tax is recognized as income or an expense and included in profit or loss.

Current tax and deferred tax shall be recognized outside profit or loss if the tax relates to items that are recognized in the same or a different period, outside profit or loss. Therefore, current tax and deferred tax is recognized for the elements in the same or a different period.
- other comprehensive income shall be recognized other comprehensive income
- directly in equity shall be recognized in equity.

In 2017 and 2016 the income tax rate was 12%.

r. Employee benefits
The Bank recognizes the undiscounted amount of short-term employee benefits, expected to be paid in exchange for that service as a liability after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the Bank recognizes that excess as an asset and as an expense, unless permitted inclusion of the benefits in the cost of an asset.

The Bank makes payments during their the ordinary work, to the National Social Insurance House and the National Health Insurance Fund on behalf of the employees that hold Moldovan citizenship for pension, healthcare and unemployment benefits. All the employees of the Bank are members and are required by law to make defined contributions (included in social security contributions) to the pension fund of the Republic of Moldova (a state defined contribution plan). All relevant contributions to the pension fund of the Republic of Moldova, are reflected in the income statement as expenses as incurred. The Bank has no further obligations in this regard. The Bank does not have an individual program for payment of pensions, and therefore has no obligations to pay pensions.

2. Accounting policies (continued)
2.4. Significant accounting policies (continued)

s. Related parties

Counterparty is considered related to the Bank if:

i. directly or indirectly through one or more intermediaries, the party:
   a. controls, is controlled by or is under common control with the Bank (it includes parents, subsidiaries and fellow subsidiaries);
   b. has an interest in the Bank that gives significant influence over the Bank, or
   c. has joint control over the Bank;

ii. the party is an associate of the Bank;
iii. the party is a joint venture in which the Bank is a venture;
iv. the party is a member of the key management personnel of the Bank or its parent;
v. the party is a close member of the family of individual referred to in (a) - (c);
vi. the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (a) - (c), or
vii. the party is a post-employment benefit plan for employees of the Bank, or any entity that is a related party of the Bank.

Related party transactions and information on compensation and benefits to key management personnel of the Bank are presented in the financial statements, in accordance with IAS 24 "Related party disclosures".

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

t. Subsequent events

Events after the reporting date are those events, favourable or unfavourable, that occur between the end of reporting period and the date when the financial statements are authorized for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period); and
- those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

u. Dividends

If dividends are declared to equity holders after the reporting period, then do not recognize those dividends as a liability at the end of the reporting period. If dividends are declared after the reporting period but before the financial statements for approval, dividends are not recognized as a liability at the end of the reporting period because no obligation exists at that time.

3. Effective and new Standards and Interpretations

(a) Standardseffective in theperiod starting with or after 1 January 2017

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs that have been adopted by the Bank on January 1, 2017:

- **IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses (Amendments)**

The objective of the Amendments is to clarify the requirements of deferred tax assets for unrealized losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to combined versus separate assessment.
The adoption of this amendment did not have a significant impact on Financial Statements and did not influence on changing accounting policies of the bank.

- **IAS 7: Disclosure Initiative(Amendments)**

The objective of the Amendments is to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Amendments specify that one way to fulfil the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes.
The adoption of this amendment did not have a significant impact on Financial Statements and did not influence on changing accounting policies of the bank.

- The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs.

    - ***IFRS 12 Disclosure of Interests in Other Entities:*** The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity’s interest in a subsidiary, a joint venture or anassociate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5. This change did not affect Financial Statements of the bank.

(b) Standards issued, but not yet effective and not early adopted

- **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 performed an assessment of the effects of the Standard and presented below the effects of adopting IFRS 9:

The new IFRS 9 "Financial Instruments" (IFRS 9), which is mandatory for annual periods beginning on or after 1 January 2018, replacing IAS 39 "Financial Instruments: Recognition and Measurement"
At the time of preparation of these separate financial statements, the Bank has already ensured the first applicationof IFRS 9 in respect of the new requirements for the classification, measurement and depreciation of financial instruments.
To ensure timely compliance with the requirements set by accounting principles, the Bank has initiated a project to develop accounting and risk-based methodologies.
Reflecting on the major changes required by IFRS 9, the project was organized into two main working areas:
I. Classification and measurement, aimed at reviewing the classification of financial instruments in accordance with the new IFRS 9 criteria,
II. Depreciation calculation, which aims at developing and implementing models and methodologies for depreciation calculations.
The whole project is developed with the involvement of all relevant departments of the Bank as well as with the involvement of an external consultant.
Details of the new requirements in the field of classification, measurement and depreciation, as well as their impact on the bank's financial statements, are described below.

3. Effective and new Standards and Interpretations (continued)
(a) Standardseffective in theperiod starting with or after 1 January 2017 (continued)

I. Classification and Measurement
With reference to "Classification and Measurement" the Bank policy consists mainly of the following sections:
- Business model
- SPPI Test
- Reclassifications and
- Subsequent measurement.

All financial instruments will be classified based on the following two criteria:
- The Bank's business model for managing the financial asset; and
- Their contractual cash flow characteristics (referred to as the 'SPPI test').

Based on the above criteria, the Bank will classify all financial instruments into one of the following four measurement categories:
- Amortised cost;
- FVOCI (debt instruments);
- FVOCI option (equity instruments); and
- FVTPL.

Business model
The business model reflects how the Bank manages a group of assets to generate cash flows and determines whether cash flows will result from collecting contractual cash flows, selling or both. Accordingly, the Bank has identified the following business models:
- Hold to collect;
- Hold to collect and sale; and
- Other business models.

SPPI Test
On the initial recognition of a financial instrument, the Bank will assess whether the cash flows represent solely payments or principle and interest (SPPI) that provide compensation for the time value of money, credit risk and other basic lending risks (e.g. liquidity risk, administrative costs and reasonable profit margin).
Features that include leverage or exposure to risks that are unrelated to basic lending arrangements will most likely fail the test. All loans and bonds that fail the SPPI test are measured at Fair Value through Profit and Loss (FVTPL).

Reclassifications
Reclassifications between the measurement categories will be allowed only when the Bank changes its business model for a group of assets. Such changes are expected to be very rare.

Subsequent measurement
Compared to the existing policy in accordance with IAS 39, the main changes relate to the measurement and presentation of impairment for bonds and equity instruments that will be measured at FVOCI and amortised cost. Credit loss allowance for bonds will be measured using the same three-stage expected credit loss model for loans. Consequently, all bonds will have a provision from initial recognition.

II. Impairment
With reference to the "Impairment" work-stream, the Bank impairment models have been adapted to comply with the new accounting requirements.
Staging criteria
The following criteria have been adopted for the estimation of IFRS 9 impact:
- Stage 1: there have been allocated the exposures with less than (<) 30 days past due.
- Stage 2: there have been allocated the exposures with more than (>=) 30 days past due and less than (<) 90 days past due and the prorogated and renegotiated loans with less than (<) 30 days past due.
- Stage 3: there have been allocated the exposures with more than (>=) 90 days past due

4. Effective and new Standards and Interpretations (continued)
(a) Standardseffective in theperiod starting with or after 1 January 2017 (continued)

For loans characterized as "corporate" by the Bank ("Type individual/corporate" field), the staging criteria are based on a customer level; each customer is assigned to the maximum days past due. This contamination effect applies to all debtors, i.e. if a customer has a Stage 3 exposure, all other exposures are classified as Stage 3.

Loss impairment calculation
The IFRS 9 impairment estimation is distinguishing based on the stage classification as follows:
- For exposures in Stages 2 and 3, it is considered the Lifetime Expected Credit Losses (ECLs).
- For exposures in Stage 1, the provision are calculated as the 12-month ECL measurement.
- In the case of Individual assessed exposures, Bank's provisions are considered as IFRS 9 impairment as the individual assessment is already in lifetime concept on IAS39.

Stage 1 loss impairment calculation
The process calculates the Loss Impairment for all Stage 1 allocated facility loans. The process is identical irrespective of the Asset Class.
The following formula applies for the calculation of the Impairment amount:
Impairment Amount (Stage 1)=EAD×PD (12m)×LGD(t)
Furthermore, specific adjustments have been developed on Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) parameters to compound the Expected Credit Loss (ECL).

Stage 2 loss impairment calculation
The PD, EAD and LGD and the effect of discounting, reflect the expected life or period of exposure. Each of these components are calculated on a facility basis for a series of monthly time intervals over the period of exposure to derive the lifetime ECL.
- PDs are set on a pool level for each of the year for all the remaining years of each facility
- LGDs are set on a pool level (corporate, retail secured and retails unsecured)
- EAD remaining balance for each loan facility for all the remaining years for both revolving and amortized facilities is estimated using gross carrying value and off-balance sheet exposure.

Stage 3 loss impairment calculation
Stage 3 is where the financial asset is credit impaired. This is effectively the point at which there has been an incurred loss event under the IAS 39 model. In the case of Stage 3 the Bank's provisions are calculated according to IAS 39 individually assessed loans methodology, as is considered the IFRS 9 impairment as the individual assessment is already in lifetime concept on IAS39. Therefore, the amount of impairment for Stage 3 will be the difference between EAD and discounted value of future cash flows (mainly expected from collateral' sale). For financial assets in stage 3, entities will continue to recognize lifetime ECL but they will now recognize interest income on a net basis. This means that interest income will be calculated based on the gross carrying amount of the financial asset less ECL.
Securities and Mandatory Reserves
For Mandatory Reserves, impairment calculation will be made at the bank's discretion, following the depreciation model applicable to securities.
The securities for impairment will be considered after packages of more than 90 days.
The following formula applies to the calculation of write-downs:
Impairment Value (Step 1) = EAD × PD (12m) × LGD (t)

PDs and LGDs are based on Moodys rating for the Republic of Moldova.

First Time Adoption effects
At the date of first time application, the main impacts of IFRS9 on bank are expected to come from the application of the new model for impairment based on an expected losses approach, which is expected to cause slight an increase of Loan Loss Provisions made on financial assets, as well as the application of the new transfer logic between the different Stages provided for by the new standard. In particular, a greater volatility is expected to be generated in the financial results between different reporting periods due to the dynamic changes between different "Stages" of the financial assets recognized in the financial statements (especially between "Stage1", which will include the new positions originated as well as all performing loans, and "Stage2" which will include positions in financial instruments that have suffered a significant credit risk deterioration since initial recognition).

The effects arising from IFRS 9 adoption both in term of impairment and classification and measurement were an increase of allowance in amount of MDL 521,622 for debt securities and zero for loans.

3. Effective and new Standards and Interpretations (continued)
(a) Standards effective in the period starting with or after 1 January 2017 (continued)

- **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 adoption of this standard will not have a significant impact on Financial Statements of the Bank.

(b) Standards issued, but not yet effective and not early adopted

- **IFRS 15: Revenue from Contracts with Customers (Clarifications)**

The Clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 Revenue from Contracts with Customers, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach.The adoption of this standard will not have a significant impact on Financial Statements of the Bank.

- **IFRS 16: Leases**

The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The adoption of this standard will not have a significant impact on Financial Statements of the Bank.

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The adoption of these changes will not have a significant impact on Financial Statements of the Bank.

- **IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The adoption of these changes will not have a significant impact on Financial Statements of the Bank.

3. Effective and new Standards and Interpretations (continued)
(b) Standards issued, but not yet effective and not early adopted (continued)

- **IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2018. The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach, which would permit entities that issue contracts within the scope of IFRS 4 to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets. The adoption of these changes will not have a significant impact on Financial Statements of the Bank.

- **IAS 40: Transfers to Investment Property (Amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These Amendments have not yet been endorsed by the EU. The adoption of these changes will not have a significant impact on Financial Statements of the Bank.

- **IFRS 9: Prepayment features with negative compensation (Amendment)**

The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. These Amendments have not yet been endorsed by the EU. The adoption of these changes will not have a significant impact on Financial Statements of the Bank.

- **IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)**

The Amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. These Amendments have not yet been endorsed by the EU. Management of the bank did not perform an evaluation of the effects of this standard.

- **IFRIC 22 interpretation: Foreign Currency Transactions and Advance Consideration**

The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Management of the bank did not perform an evaluation of the effects of this standard.

3. Effective and new Standards and Interpretations (continued)
(b) Standards issued, but not yet effective and not early adopted (continued)

- The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. The management of the Bank believes that these amendments will not have an impact on Financial Statements.
  - ***IFRS 1 First-time Adoption of International Financial Reporting Standards:***This improvement deletes the short-term exemptionsregarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.
  - ***IAS 28 Investments in Associates and Joint Ventures:***The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

- **IFRIC INTERPETATION 23:Uncertainty over Income Tax Treatments**
  The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted.The Interpretation addresses the accounting for income taxes when tax treatmentsinvolve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances.Management of the bank did not perform an evaluation of the effects of this standard.

- The **IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The management of the Bank believes that these amendments will not have an impact on Financial Statements.

  - ***IFRS 3 Business Combinations and IFRS 11 Joint Arrangements*****:**The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
  - ***IAS 12Income Taxes*****:**The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.
  - ***IAS 23 Borrowing Costs*****:** The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

4. Cash and cash equivalents

	31 December 2017 MDL '000	31 December 2016 MDL '000
Cash on hand	28,169	46,959
Cash in transit	45,614	18,324
Cash in ATM's	3,558	3,462
Commemorative coins	647	654
	77,987	**69,400**

5. Accounts with National Bank of Moldova

	31 December 2017 MDL'000	31 December 2016 MDL'000
Current account	109,402	78,370
Overnight placements	40,015	-
Mandatory reserves	27,456	22,964
	176,873	**101,334**

The National Bank of Moldova (NBM) requires commercial banks to maintain for liquidity purposes mandatory reserves calculated at a certain rate of the average funds borrowed by banks during the previous month (period between date 8 of the previous month and date 7 of the current month) including all customer deposits.

According to the NBM Decision no.295 as of 12.29.2014 "On the National Bank interest rates and required reserves", the required reserves ratio from funds attracted in MDL and non-convertible currency ranged between 35 % at 01.01.2017 and 40 % at 31.12.2017 (2016: from 14% to 35%). Required reserves attracted in freely convertible currency was fixed in amount of 14% of the calculation basis (2016: 14%).

On 31 December 2017 the mandatory reserve in the account that has been opened at the National Bank was of MDL'000 27,456 (31 December 2016: MDL'000 22,964) and it included the compulsory reserve on funds attracted in MDL and non-convertible currency. The balance of the accounts booked in reserves in USD and EUR was USD'000 429 and respectively EUR'000 689 (31 December 2016: USD'000 454 and EUR'000 523).

The interest paid by NBM for the accounts of required reserves during 2017 varied from 0.3% to 0.6%per year for reserves in foreign currency and between 4% to 6% for reserves in MDL (during year 2016: 0.20% to 0.65 %per year for reserves in foreign currency and 6% to 16,41%for reserves in MDL). The required reserves in MDL held on current accounts with National Bank of Moldova can be used by the Bank during its daily transactions.

5. Current accounts and deposits with banks

	31 December 2017 MDL'000	31 December 2016 MDL'000
Current accounts	33,580	36,942
Deposits	26	26
	33,606	**36,967**

On the 31 December 2017 the current account balances in BC Moldindconbank SA and BC Moldova Agroindbank SA amounted to MDL'000 4,109 and in RAIFFEISEN ZENTRALBANK OSTERREICH AG amounted to MDL'000 24,452.
On the 31 December 2016 the current account balances in BC Moldindconbank SA and BC Moldova Agroindbank SA amounted to MDL'000 14,803 and in RAIFFEISEN ZENTRALBANK OSTERREICH AG amounted to MDL'000 14,010.
The interest rate on funds in foreign currency placed in the "Nostro" accounts ranged from -0.4% to -0.6% (2016:0.6% to 1%).

6. Financialinvestments-heldtomaturity

	31 December 2017 MDL'000	31 December 2016 MDL'000
State securities	49,316	85,690
Securities issued by NBM	-	47,034
	49,316	**132,725**
Included in cash and equivalents (Note 18)	10,847	62,990
Securities with maturities greater than 90 days	38,468	69,734
	49,316	**132,725**

On the 31 December 2017 the state securities represent treasury bills and state bonds in MDLand NBM certificates with maturity from 91 to 720 days (2016: 14 to 731 days), issued by the Ministry of Finance of Moldova with an interest rate ranging between 5.45 % and 8.08 % annually (2016: 5.16 % and 26.55%).They are traded in active market.

7. Loans to customers, net

	31 December 2017 MDL'000	31 December 2016 MDL'000
Loans, gross	353,248	231,208
Allowance for losses	(5,248)	(5,571)
Credits. net	**348,001**	**225,638**

On the 31 December 2016 the interest rate for impaired loans accounted MDL'000 3,067. On 31 December2016 - MDL'000 2,387.
On the 31 December 2017 the adjustment to the amortized cost of loans granted accounted MDL'000 2,804. On 31 December 2016 - MDL'000 1,607.

Analysis of the portfolio of customer types is presented below:

Loans and receivables as at 31 December 2017	**Not impaired assets**	**Impaired assets (gross carrying amount)**	**Total loans (amortised cost)**	**Allowances for individually assessed assets**	**Allowances for collectively assessed assets**	**Carrying amount**
	MDL'000	**MDL'000**	**MDL'000**	**MDL'000**	**MDL'000**	**MDL'000**
General Administrations	1,489	-	1,489	-	(4)	1,486
Non-banking financial institutions	23,042	2,246	25,288	(1,972)	(49)	23,267
Non-financial corporations. Corporate	29,404	-	29,404	-	(57)	29,346
Non-financial corporations. Retail	124,250	10,801	135,051	(1,787)	(287)	132,977
Households. Corporate	15,542	-	15,542	-	(37)	15,504
Households. Retail	144,756	1,719	146,475	(540)	(514)	145,421
	338,482	**14,766**	**353,248**	**(4,299)**	**(949)**	**348,001**

8. Loans to customers, net (continued)

Loans and receivables as at31 December 2016	Not impaired assets	Impaired assets (gross carrying amount)	Total loans (amortised cost)	Allowances for individually assessed assets	Allowances for collectively assessed assets	Carrying amount
	MDL’000	MDL’000	MDL’000	MDL’000	MDL’000	MDL’000
General Administrations	-	-	-	-	-	-
Non-banking financial institutions	16,354	2,357	18,711	(1,972)	24	16,715
Non-financial corporations. Corporate	29,280	-	29,280	-	35	29,245
Non-financial corporations. Retail	78,428	10,174	88,601	(2,782)	138	85,681
Households. Corporate	6,947	-	6,947	-	12	6,935
Households. Retail	86,158	1,510	87,668	((303))	(305)	87,061
	217,168	**14,041**	**231,208**	**(5,057)**	**(514)**	**225,638**

The concentration of credits granted to customers depending on the economic sector (gross carrying amount):

	31 December 2017 MDL'000	31 December 2016 MDL'000
Agriculture	28,676	6,823
Constructions/ real estate and land improvements	83,217	55,031
Consumer credits	65,082	46,827
Trade and industry	100,660	77,007
Roadway construction	2,604	2,709
Non-banking financial environment	25,287	22,341
Loans of rendering services’ field	10,286	2,149
Loans to individuals who practice activity	15,539	6,947
Other	21,898	11,375
	353,248	**231,208**

The average interest rate during the year for the loans granted in MDL in 2017 varied from 4.95%to 18% (2016: from 8.95% to 23%) and for loans granted in foreign currency from 4.9% to 7.5% (2016: from 5% to 9%).

8. Loans to customers, net (continued)

Ageing analysisby past due days as at 31 December 2017

Branch	No debts	From 1 to 30 days	From 30 to 61 days	From 61 to 90 days	More than 90 days	Total loans
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Agriculture	28,676	-	-	-	-	28,676
Constructions/ real estate and land improvements	80,790	1,798	443	-	202	83,232
Consumer credits	59,247	2,270	158	522	2,921	65,118
Trade and industry	88,538	-	1,180	1,284	9,732	100,733
Roadway construction	2,605	-	-	-	-	2,605
Non-banking financial environment	23,027	15	-	-	2,246	25,288
Loans of rendering services' field	10,286	-	-	-	-	10,286
Loans to individuals who practice activity	15,542	-	-	-	-	15,542
Other	15,333	6,436	-	-	-	21,769
	324,042	**10,519**	**1,780**	**1,806**	**15,101**	**353,248**

8. Loans to customers, net (continued)

Ageing analysis by past due days as at 31 December 2016

Branch	No debts	From 1 to 30 days	From 30 to 61 days	From 61 to 90 days	More than 90 days	Total loans
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Agriculture	5,138	1,685	-	-	-	6,824
Constructions/ real estate and land improvements	52,736	384	-	-	1,916	55,036
Consumer credits	42,972	1,120	586	20	2,161	46,859
Trade and industry	65,991	1,400	-	-	9,622	77,013
Roadway construction	1,379	-	-	-	1,330	2,709
Non-banking financial environment	19,989	-	-	-	2,357	22,346
Loans of rendering services' field	1,946	-	213	-	-	2,160
Loans to individuals who practice activity	6,658	-	-	-	289	6,947
Other	10,813	15	-	-	487	11,315
	207,622	**4,605**	**800**	**20**	**18,162**	**231,208**

8. Loans to customers, net (continued)

Allowance for loan losses

The movements of allowance for loss on loans during the years 2016 and 2015 are presented below

	2017 MDL'000	2016 MDL'000
Balance at 1 January	**5,571**	**4,202**
Additions	2,905	4,463
Write-off of loans	(1,359)	710
Recoveries	(1,869)	(2,385)
Balance at 31 December	**5,248**	**5,571**

Exposures to affiliated persons

	31 December 2017 MDL'000	31 December 2016 MDL'000
The total amount of exposures to affiliated persons	13,937	16,207
Interest rate (min / max.)	4,95%-18%	9.95%-22%
Total Regulatory Equity	235,380	231,680
The ratio of the total amount of affiliated persons exposures to regulatory equity	**5.92%**	**7.00%**

The total loan debt of the affiliated persons and / or a group acting together with affiliated persons is respected and does not exceed 10% of the total regulatory capital of the Bank.

The total amount of debt on loans to affiliated persons and / or groups of persons that act together with the affiliated persons shall not exceed 20% of the first degree capital value of the Bank.

Provisions for impairment

The Bank establishes provisions for impairment losses that represents its estimation on losses within its loan portfolio. The main components of these provisions are specific components of losses that refer to the individual significant exposures, and a provision for collective losses for credits fixed for groups of homogenous assets on losses that have been incurred but not identified in respect of loans for which individual assessment has been carried out in order to determine the impairment.

Write-off Policy

The Bank writes-off the loan balance (and any related provision for impairment losses) when the Bank determines that the loans cannot be collected. This conclusion is reached after the examination of such information as the occurrence of significant changes in the financial position of the borrower so that the borrower can honor the payment obligations, or that revenues from the guarantees will not be enough to cover all bank exposures.

9. Financialinvestments-availableforsale

	31 December 2017 MDL’000	31 December 2016 MDL’000
The credit bureau SRL	52	52
National Securities Depository of Moldova	13	13
MoldMediaCard SRL	91	91
Moldova Stock Exchange	10	10
Accumulated impairment (adjustment for impairment)	-	2
	165	**164**

All the investments available for sale as of 31 December 2017 and 2016 are reflected at its cost, as there is no quoted market price in an active market for them and their fair value cannot be determined with certainty. The management has reviewed and did not find any indicators of impairment of these investments.

10. Property and equipment, net

	Assets under construction MDL'000	Land and buildings MDL'000	Furniture and equipment MDL'000	Transportation means MDL'000	Improvement of leased assets MDL'000	Total MDL'000
Cost or revaluation						
As of 1 January 2017	92	80,062	16,943	2,566	72	99,735
Additions	-	141	1,906	21	327	2,396
Reevaluation	-	(411)	-	-	-	(411)
Transfers	(92)	92	-	-	-	-
Disposals	-		(535)	-	-	(535)
As of 31 December 2017		**79,885**	**18,314**	**2,587**	**400**	**101,185**
Accumulated depreciation						
As of 1 January 2017	-	21,776	13,479	1,897	20	37,172
Additions	-	1,198	1,510	152	79	2,938
Reevaluation	-	-	-	-	-	-
Disposals	-	-	(535)	-	-	(535)
As of 31 December 2017	**-**	**22,975**	**14,454**	**2,048**	**99**	**39,576**
Net carrying amount						
As of 31 December 2017	**92**	**58,286**	**3,464**	**670**	**52**	**62,563**
As of 1 January 2017	**-**	**56,910**	**3,861**	**539**	**301**	**61,610**

At 31 December 2017, the cost of fixed assets used in full, but still used by the Bank amounted to MDL'000 12,480.

Tangible assets are measured at cost less accumulated depreciation and impairment losses, except for the "Land and buildings" group that was revalued in 2016 in accordance with IAS 16.
In October 2016 the Bank has revalued fixed assets using the services of independent valuer "Vibimobil" LLC, the license number A MMII 040 275 issued on July 30, 2002 and EI Series IX Quality Certificate no. 0272 issued by the Agency for Land Relations and Cadaster on 6 July 2012. The review was carried out based on the market price. The market price of fixed assets is the estimated amount for which they may be changed at the valuation date between interested buyers and sellers interested in the transaction under conditions of normal competition, where each participant is acting voluntarily and knowingly.The fair value of fixed assets items are based on market approach using the market price for similar objects, or replacement cost where applicable. The applied net surplus as a result of the deferred taxes revaluation was credited to fair value of the shareholders' equity.
As at 31 December 2017, the Bank conducted an internal assessment to determine the existence of impairment indicators in accordance with IAS 36. As a result of this assessment, the Bank determined that the value of these assets did not change fundamentally.

10. Property and equipment, net(continued)

	Assets under construction	Land and buildings	Furniture and equipment	Transportation means	Improvement of leased assets	Total
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Cost or revaluation						
As of 1 January 2016	480	48,190	15,140	2,566	151	66,527
Additions	315	607	2,179	-	26	3,127
Reevaluation	-	30,562	-	-	-	30,562
Transfers	(703)	703	-	-	-	-
Disposals	-	-	(376)	-	(104)	(480)
As of 31 December 2016	**92**	**80,062**	**16,943**	**2,566**	**72**	**99,735**
Accumulated depreciation						
As of 1 January 2016	-	17,501	12,754	1,743	107	32,105
Additions	-	1,005	1,101	153	17	2,277
Reevaluation	-	3,271	-	-	-	3,271
Disposals	-	-	(376)	-	(104)	(480)
As of 31 December 2016	**-**	**21,776**	**13,479**	**1,897**	**20**	**37,172**
Net carrying amount						
As of 1 January 2016	**480**	**30,689**	**2,386**	**823**	**44**	**34,422**
As of 31 December 2016	**92**	**58,286**	**3,464**	**670**	**52**	**62,563**

At 31 December 2016, the cost of fixed assets used in full, but still used by the Bank amounted to MDL'000 12,655.

11. Intangible assets

	31 December 2017 MDL'000	31 December 2016 MDL'000
Cost		
Balance as of 1 January	**9,936**	**9,312**
Additions (Disposals), net	550	624
Balance as of 31 December	**10,486**	**9,936**
Amortization		
Balance as of 1 January	**8,634**	**8,230**
Additions (Disposals), net	358	404
Balance as of 31 December	**8,992**	**8,634**
Carrying amount		
As of 1 January	**1,301**	**1,082**
As of 31 December	**1,493**	**1,301**

Intangible assets represent computer software and licenses.

At 31 December 2017 fully amortized cost of intangible assets amounted to MDL'000 7,862 (31 December 2016: MDL'000 7,862).

12.Other assets

	31 December 2017 MDL'000	31 December 2016 MDL'000
Clearing and transit amounts	15,562	12,645
Receivables	837	521
Settlements with Bank's employees	17	27
Advances and deferred expenses	1,330	709
Inventories	909	833
Current income tax receivables	1,226	1,226
Other assets	1,089	810
	20,969	**16,771**
Allowances for other assets losses	(459)	(350)
	20,510	**16,421**

13. Loans

	31 December 2017 MDL'000	31 December 2016 MDL'000
Rural Investment and Services Project (RISP)	9,437	10,980
International Fund for Agricultural Development (IFAD)	4,142	1,296
	13,579	**12,276**

Name of the Project	Interest rate applied in 2017 (%)	Currency Loan	31 December 2017 MDL'000	31 December 2016 MDL'000
RISP I - refinancing	6.00 - 7.00	MDL	681	-
RISP II - refinancing	6.00 - 7.00	MDL	7,382	8,870
	1.35-1.55	EUR	1,374	2,026
		USD	-	84
FIDA	6.00 - 7.00	MDL	256	1,296
	1.35	EUR	3,886	58
			13,579	**12,276**

14. Due to clients

	31 December 2017 MDL'000	31 December 2016 MDL'000
Non-interest bearing deposits		
Deposits of individuals		
in Moldovan lei	11,960	12,732
in foreign currencies	52,521	47,773
	64,481	**60,505**
Deposits of legal entities		
in Moldovan lei	70,718	32,422
in foreign currencies	45,342	51,363
	116,060	**83,784**
Total non-interest bearing deposits	**180,541**	**144,289**
Interest bearing deposits		
Deposits of individuals		
in Moldovan lei	135,857	113,387
in foreign currencies	99,484	63,663
	235,341	**177,050**
Deposits of legal entities		
in Moldovan lei	25,064	13,686
in foreign currencies	8,391	4,084
	33,455	**17,770**
Total interest bearing deposits	**268,795**	**194,820**
Total deposits	**449,337**	**339,109**

The annual interest rates granted by the Bank for term deposits of individuals and legal entities in MDL varied from 1% to 8.5% (in 2016 from 2 % to 12%) and in foreign currency varied from 0.25% to 5% (in 2016 from 0.2% to 7%).

15. Taxation

The main components of tax expenses and reconciliations of theoretical tax spending based on the effective tax rate of 12% (2016: 12%) and tax expenses reported in the profit or loss are presented below:

	31 December 2017 MDL’000	31 December 2015 MDL’000
Profit before tax	9,462	14,305
Income tax rate in the Republic of Moldova	12%	12%
Theoretical income tax	**1,135**	**1,717**
The impact of differences between IFRS and tax law provisions	(1,682)	(1,467)
Impact of tax rate change	-	-
Actual expenses on income tax	**(547)**	**250**
Income tax expense includes:		
Current tax expenses	-	250
Deferred tax expense:		
- Relating to origins and reversal of temporary differences	(547)	-
Income tax expense	**(547)**	**250**

15. Taxation (continued)

	31 December 2017 MDL'000	31 December 2016 MDL'000
Current tax liabilities	-	-
Deferred tax liabilities	2,801	3,536
	2,801	**3,536**

16. Other liabilities

	31 December 2017 MDL'000	31 December 2016 MDL'000
Settlements with other individuals and legal entities	20	45
Clearing amounts	2,572	1,402
Provisions with Bank employee benefits	2,880	1,504
Other liabilities	545	453
	6,018	**3,404**

Clearing amounts represent cash transfers not settled, received in favour of Bank's customers, not yet paid or waiting for customers' instructions.

17. Share capital

As of December 31, 2017 the Bank's share capital constituted 13,800,000 of authorized shares issued in circulation at the nominal value of MDL 10 per share (2016: 13,800,000 shares).

	Number of shares	Total value MDL' 000
As of January 1, 2016	**13,800,000**	**138,000**
Placed shares	-	-
As of December 31, 2017	**13,800,000**	**138,000**

The shareholders whose equity share exceeds 5% are presented below:

	31 December 2017			31 December 2016		
	Equity share %	Share Number	Value MDL'000	Equity share %	Share Numbers	Value MDL'000
Zissi Mariana, Greece	46.45	6,410,459	64,105	46.45	6,410,459	64,105
Mahmood M.S.M.	42.19	5,822,653	58,227	41.23	5,689,725	56,897
Other shareholders (equity interest less than 5%)	11.35	1,566,888	15,669	12.33	1,699,816	16,998
	100	**13,800,000**	**138,000**	**100**	**13,800,000**	**138,000**

On November, 21, 2017 Mr. Mahmood Mohammed Shakir Mahmood has increased, by purchasing, his share of participation in the equity capital of the Bank by 0.96% or 132,928 shares, thereby increasing its participation in the equity capital to 42.19%.

As of December 31, 2017 the Bank's stock of 0.06 % was held by legal entities and of 99.94% by individuals.
The total number of shareholders is 106(31 December 2016: 108 shareholders) out of which 100 shareholders are individuals and 6 legal entities (31 December 2016: 101 individuals and 7 companies).

17. Share capital(continued)

Reserves

	31 December 2017 MDL'000	31 December 2016 MDL'000
Reserve capital	12,393	11,690
Retained earnings and other	86,481	83,291
General reserves for banking risks	24,245	15,781
	123,119	**110,762**

In compliance with the Law on Joint-Stock Companies no. 1134-XIII of April 2, 1997, 5% of the net profit of the Bank is to be allocated to the reserve capital until this reserve reaches the size of 10% of the share capital of the Bank. As of December 31, 2017 these reserves are in the process of being achieved. The reserve capital cannot be subject of distribution to the shareholders.

General reserves for banking risks include amounts resulting from the differences between the amount of impairment of assets under IFRS and the amount calculated but unformed, of allowances for losses on assets and conditional commitments according to the prudential regulations (NBM).
Revaluation reserves include amounts from revaluation of fixed assets. These reserves cannot be distributed to shareholders.

Differences from revaluation of tangible assets
As of December 31, 2017 the amount concerning the re-evaluation of tangible assets constituted MDL'000 36,707 (2016: MDL'000 39,427).

18. Cash and cash equivalents

	Note	31 December 2017 MDL'000	31 December 2016 MDL'000
Cash on hand	**4**	77,987	69,400
Accounts with National Bank of Moldova	**5**	149,417	78,370
Current accounts and deposits with banks	**6**	33,606	36,967
Financialinvestments-heldtomaturity	**7**	10,847	62,990
		271,857	**247,728**

19. Interest income

	2017 MDL'000	2016 MDL'000
Cash and investments at the Central Bank	3,190	4,740
Loans and advances to banks	37	326
Loans and advances to clients	32,921	27,039
Investments held-to-maturity	8,195	20,588
	44,344	**52,693**

20. Interest expense

	2017 MDL'000	2016 MDL'000
Deposits and loans from banks	71	47
Borrowings from financial institutions	1,094	515
Deposits from customers	10,073	15,321
	11,238	**15,883**

21. Fee and commission income

	2017 MDL'000	2016 MDL'000
Commissions from rendering of services for loans	353	188
Commissions on clients' accounts servicing	4,284	3,844
International transfers through international payment systems	8,804	10,139
Transactions with debit cards	3,697	3,354
Cash withdrawals	3,040	1,483
Other commissions	42	47
	20,220	**19,056**

22. Fee and commission expense

	2017 MDL'000	2016 MDL'000
Expenses on cards operations	4,405	4,858
Commissions on interbank transfers	864	515
Cash transactions with foreign currency	2,997	3,662
Expenses for servicing Loro accounts	46	278
Other	1,763	2,272
	10,075	**11,584**

23. Income from foreign currency operations

	2017 MDL'000	2016 MDL'000
Income arising from sale, net	26,729	31,225
Losses from currency revaluation	(2,337)	(3,105)
Income (losses) from revaluation of assets and liabilities in MDL	(1,817)	976
	22,574	**27,143**

24. Other operating income

	2017 MDL'000	2016 MDL'000
Income arising from rent	1,551	1,503
Fines and penalties	1,101	1,187
Other operating income	704	698
	3,356	**3,389**

25. Personnel Expenses

	2017 MDL'000	2016 MDL'000
Salaries	25,351	24,507
Premiums and bonuses	4,334	5,253
Social insurance contributions	6,257	6,248
Medical insurance	1,222	1,260
Other expenditure on salaries and wages	208	433
Provision for employees benefits	455	201
	37,828	**37,901**

26. General and administrative expenses

	2017 MDL'000	2016 MDL'000
Rent Expenses	4,334	4,454
Expenditure on telecommunications, post and telegraph	2,054	2,054
Utilities (electricity, heating and water supply)	1,976	1,898
Repair and maintenance of vehicles	1,283	1,258
Advertising expenses	1,387	1,424
Repair and maintenance of furniture and equipment	949	1,048
Expenses with security services	983	875
Office expenses, printing	510	539
Expenses related to amortization of assets of small value and short-term	338	308
Consulting and auditing services	93	485
Other expenses for repair and maintenance of buildings	232	244
Payments and contributions to deposit guarantee fund	244	230
Other expenses	3,277	3,075
	17,658	**17,891**

27. Earnings per share (MDL)

	2017 MDL'000	2016 MDL'000
Net profit attributable to shareholders, MDL'000	10,008	14,055
Weighted average of ordinary shares, thousand shares	13,800	13,800
Earnings per share basic MDL / shares	**0.73**	**1.02**

28. Commitments on Loans, Other Assets and Contingent Liabilities

Commitments on loans include liabilities on credits, guarantees and letters of credit.
The risk related to letters of guarantees issued is similar to the risk arising from credit granting.
The value of guarantees, commitments and of other off-balance items as of December 31, 2017 and 2016 is presented as follows:

	2017 MDL'000	2016 MDL'000
Commitments on credit granting, including	18,152	9,259
Issued guarantees	1,311	3,507
	19,464	**12,767**

Commitments for capital investments

As of 31 December 2017 and 2016, the Bank had no commitments for capital investments.

Operational lease commitments
Future minimum payments under operating rent contracts on buildings and vehicles are the following:

	2017 MDL'000	2016 MDL'000
Up to 1 year	1,859	1,798
From 1 to 5 years	1,979	4,730
	3,838	**1,798**

29. Contingent liabilities

On 31 December 2017 and 2016, the Bank is involved as a complainant in several lawsuits arising from the ordinary corporate activity. In the opinion of Management and the Bank's legal department the probability of losses is low.

30. Related parties

When examining each possible related party relationship, special attention is drawn to the substance of the relationship and not merely the legal form. Details of transactions between the Bank and other related parties are disclosed below:

	Key management personnel of the entity or its parent company		**Other related parties**	
	2017	**2016**	**2017**	**2016**
(MDL'000)				
Interest income	58	122	2,139	3,846
Revenue from fees and commissions	1	3	122	195
Interest expense	153	100	256	641
Remuneration expenses	3,756	3,971	5,242	4,134

The following amounts which arose due to transactions with related parties are included in the income statement for the years ended 31 December 2017 and 2016:

	Key management personnel of the entity or its parent company		**Other related parties**	
	2017	**2016**	**2017**	**2016**
(MDL'000)				
Assets				
Loans and advances	413	490	13,472	15,864
Liabilities				
Deposits	4,471	3,017	19,527	5,941
Financing commitments, financial guarantees and other commitments [notional value]				
Given	14	3	94	81
Received	-	-	-	-

31. Fair value of the financial instruments

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
Level3:techniqueswhichuseinputswhichhaveasignificanteffectontherecordedfairvalue thatare notbased onobservable marketdata.

Thefollowingtablesummarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's balance sheet at their fair value:

	2017					**2016**				
(MDL'000)	**Total carrying amount**	**Level 1**	**Level2**	**Level 3**	**Fair value**	**Total carrying amount**	**Level 1**	**Level2**	**Level 3**	**Fair value**
Financial assets										
Cash and accounts with the NBM	254,860	-	254,860	-	**254,860**	170,734	-	170,734	-	**170,734**
Loans and advances to banks	33,606	-	33,606	-	**33,606**	36,967	-	36,967	-	**36,967**
Financial assets available for sale	165	-	165	-	**165**	164	-	164	-	**164**
Investment securities held to maturity	49,316	49,316	-	-	**49,316**	132,725	132,725	-	-	**132,725**
Loans and advances to customers	348,001	-	-	355,610	**355,610**	225,638	-	-	233,503	**233,503**
Financial liabilities										
Due to banks	-	-	-	-	**-**	-	-	-	-	**-**
Loans	13,579	-	-	13,579	**13,579**	12,276	-	-	12,276	**12,276**
Due to clients	449,337	-	-	450,165	**450,165**	339,109	-	-	339,466	**339,466**

31. Fair value of the financial instruments (continued)

(i) Investment securities held to maturity
The fair value of held to maturity securities approximates the balance sheet value. These investments are mainly State Securities and certificates issued by Bank.

(ii) Loans and advances to customers
Loans and advances to customers are presented at their net value of provision for impairment of loans. The estimated fair value of loans to customers represents the present value of estimated future cash flows. Future cash flows are updated according to the market rates, in order to determine the fair value of credit and advances to customers.

(iii) Financial liabilities, including due to other banks, due to customers and other borrowed funds
The fair value of floating rate borrowings are equal to their balance sheet value. The estimated fair value of fixed rate deposits and other borrowings, for which no market prices are determined based on discounted future cash flows using interest rates for new instruments with similar remaining maturity.

32. Risk management

Risk management policy
The Bank is subjects to the following risks as a result of use of financial instruments:

- Credit risk;
- Currency risk;
- Liquidity risk;
- Interest rate risk;
- Market risk;
- Operating risk.

This note presents information regarding the fact that the Bank is exposed to all above-mentioned risks depending on Bank's objectives, policies on evaluation and management of risks, as well as bank management of capital.

The Bank pays particular attention to prudent management of risks connected to the activities performed. Risk management policy is a part of the bank's development strategy. It establishes programs and procedures designed to generate maximum possible profit and reduce losses or additional expenses incurred by the Bank as a result of potential risk exposure.

The policy determines the principles and stages of risk management, sets out the competences and credentials of Bank's governing bodies and subdivisions in the process of risk management and internal control procedures.

The management of risks includes all policies, procedures, systems and actions which the bank apply to ensure a reasonable management of all risks related to transactions concluded and executed and to ensure that all transactions are concluded in accordance with the bank's preference and tolerance for risk.

Risk management policy is performed by means of the following instruments:

- The system of limits;
- The system of powers and decisions-making;
- The system of risk management;
- The policy of communication (including informational system);
- The system of measures for crisis situations;
- The system of controls.

The risk management system is based on the following principles related to the organization of internal controls – diversification of internal controls, carrying out of control procedures within all organizational structures and subdivisions of the Bank at different levels.

The system of risk control represents the principal element in the internal control system of the Bank. The risk control system assumes several levels of control, namely:

- First level (lower): is controlled by the managers of the Bank's branches,
- Second level – Risk Management Department, the CALM, Committee of loans;
- Third level (superior) - Bank's Management,
- Exceptional level – Bank's Board.

32. Risk management (continued)

(a) Credit risk

Credit risk is conditional on the probability ofthe failure of the Bank's debtorsto fulfill their obligations, usually by not returning (complete or partial) of the basic amount of the loan and the interest within the deadlines set in the contract.

Fair assessment of loan risk is very important for the Bank. In order to assess independently the credit risk for each product, the Bank calculates the following main ratios: the probability of default, exposure to risk at the moment of default and maturity period. The calculation of the probability of default and the loss given default is made based on the internal systems of credit rating.

In order to determine the credit risk, a detailed analysis of business and financial situation of the debtor is performed. In order to reduce the credit risk, the Bank creates and maintains the allowances for assets losses. The classification of assets is made taking into account the valuation of customers' financial results and their ability to repay the debt at maturity.

The bank in its activity has two principles of loans' evaluation, depending on the individual and/ or group of entities acting in common, for whom the total Bank's exposure:

- is higher than MDL '000 2,000, and are considered to be impaired – the Bank will apply the individual principle;
- all remaining loans, including individually assessed loans, which have no evidence of impairment – are collectively evaluated.

Collectively evaluated loans

The impairment is collectively evaluated based on type of loan products and on the number of days past due where objective impairment indicators exists.

The level of allowances (provision matrix) for impairment of collectively evaluated loans is determined on basis of loss history (according to the bank' statistics) by the Credit Risks Division based on information transmitted by Bank's branches. The provision matrix can be modified at the beginning of every year depending on the statistical data from the previous year. At the end of every month, this matrix is applied to the collectively evaluated loans and large loans with no days past due.

The provision matrix will be utilized for separate groups of loans that are grouped together according to credit risks:

1. Legal entities, grouped as follows: "Investitional", "Credite de tip Retail";
2. Individuals, grouped as follow: "Casa Mea","Auto - Standard", "Credite de tip Retail".

Individually evaluated loans

Firstly, for individually evaluated loans the Bank will determine the presence of impairment factors. In case of days past due for interest and principal payment, automatically the loan will be considered as impaired. For impairment evaluation, the monthly-expected cash flows of loan performance shall be drawn, including cash flows from selling of collateral. The cash flows are discounted using the effective interest rate.

Individual significant loans (with outstanding higher than MDL'000 2,000 at evaluation date) are individually analysed and the capacity and willingness of the Debtor to perform its obligations towards the bank is assessed. Individual impairment takes into consideration the total Debtor's exposure, including other credit product such as credit lines, overdrafts, etc.

The main criteria for individual evaluation of significant loans are:

- viability of client's business model, its capacity to generate sufficient cash flows to perform its obligations and personal needs;
- company capacity to adapt to the changes in the business environment;
- one or more Debtor's loan registered days past due, more than 30 days;
- extension of other creditors' commitments with greater rank and probability that other creditors will continue to sustain the Debtor;
- any other event of loss which the Debtor has dealt with and was recognized as having an impact over the expected future cash flows of the Debtor.

32. Risk management (continued)
(a) Credit risk (continued)

In case when the loan has not suffered impairment this will be included in the insignificant loan portfolio and will be respectively evaluated together with the collective portfolio.

Maturity analysis of past due loans at the end of the reporting period but not impaired, as well an analysis of loans impaired individually described as collateral held by the bank as insurance rates are set forth below:

Credit quality of financial assets according to the class

In the table below is indicated according to class of credit quality of assets for all financial assets exposed to credit risk, based on internal classification system of the Bank. The amounts shown include reserves for impairment.

			2017		
	Note	**Neither past due nor impaired (MDL'000)**	**Past due but not impaired (MDL'000)**	**Individually impaired (MDL'000)**	**Total (MDL'000)**
Accounts with National Bank of Moldova	**5**	176,873	-	-	176,873
Current accounts and deposits with banks	**6**	33,606	-	-	33,606
Financialinvestments-heldtomaturity	**7**	49,316	-	-	49,316
Loans, net	**8**	311,531	6,371	30,099	348,001
Other financial assets	**9**	165	-	-	165
		571,490	**6,371**	**30,099**	**607,960**

			2016		
	Note	**Neither past due nor impaired (MDL'000)**	**Past due but not impaired (MDL'000)**	**Individually impaired (MDL'000)**	**Total (MDL'000)**
Accounts with National Bank of Moldova	**5**	101,334	-	-	**101,334**
Current accounts and deposits with banks	**6**	36,967	-	-	**36,967**
Financialinvestments-heldtomaturity	**7**	132,725	-	-	**132,725**
Loans, net	**8**	189,518	2,238	33,882	**225,638**
Other financial assets	**9**	164	-	-	**164**
		460,709	**2,238**	**33,882**	**496,828**

32. Risk management (continued)
(a) Credit risk (continued)

Loans and advances
Loans and advances are group as follows:

	2017		2016	
	Legal entities MDL'000	Individuals MDL'000	Legal entities MDL'000	Individuals MDL'000
Neither past due nor impaired	175,155	136,864	106,588	83,165
Past due but not impaired	149	6,683	213	2,304
Individually impaired	31,469	2,928	36,739	2,200
Total	**206,774**	**146,475**	**143,540**	**87,668**
Less: Allowance for impairment	(4,194)	(1,054)	(4,963)	(608)
Net	**202,580**	**145,421**	**138,577**	**87,061**

(i) Loans and advances neither past due nor impaired, brut

Quality portfolio of loans and advances which are neither past due nor impaired can be assessed with reference to the internal classification system adopted by the Bank.

	2017		2016	
	Legal entities MDL'000	Individuals MDL'000	Legal entities MDL'000	Individuals MDL'000
Standard	97,385	113,020	92,316	80,311
Overseen	77,770	22,919	14,272	2,106
Substandard	-	838	-	644
Doubtful	-	87	-	104
Compromise	-	-	-	-
	175,155	**136,864**	**106,588**	**83,165**

(ii) Loans and advances past due but not impaired, brut

Loans and advances that are past due but not impaired are not significantly impaired, unless contrary information is available. The gross amount of loans and advances past due but not impaired by type of customer is as follows:

	2017		2016	
	Legal entities MDL'000	Individuals MDL'000	Legal entities MDL'000	Individuals MDL'000
Overdue up to 30 days	15	5,284	-	1,520
Overdue 31-60 days	134	601	213	586
Overdue 61-90 days	-	460	-	20
More than 90 days	-	338	-	178
	149	**6,683**	**213**	**2,304**

32. Risk management (continued)
(a) Credit risk (continued)

The maximum exposure to credit risk without any guarantees held or improvement of the credit rating

	Note	2017 MDL'000	2016 MDL'000
Accounts with National Bank of Moldova	**5**	176,873	101,334
Current accounts and deposits with banks	**6**	33,606	36,967
Financialinvestments-heldtomaturity	**7**	49,316	132,725
Loans, net	**8**	348,001	225,638
Other assets	**9**	165	164
		607,960	**496,828**
Off-balance (conditional commitments)	**28**	19,464	12,767
Maximum exposure to credit risk		**627,424**	**509,595**

The concentration of maximum exposure to credit risk
The concentration risk of the Bank is managed at client / counterparty level and industry sector. The maximum exposure to credit risk for any client or contracting party on 31 December 2017 was MDL'000 9,386 (31 December 2016: MDL'000 7,880) without taking into consideration the collateral or any guaranties held.
Loans granted to top 10 major customers (Groups) of the Bank on 31 December 2017 amounted to MDL'000 76,193 which represents 23.26% of the gross loan portfolio of the Bank (31 December 2016: MDL'000 58,341or 25.23% of gross loan portfolio).
The share of collectively assessed loans in total loan portfolio at the end of the reporting period amounted 91% (2016:85%). There are no renegotiated loans. Impairment of other financial assets is insignificant.

(b) Currency risk

The Bank is exposed to currency risk on transactions in foreign currencies in exchange against MDL. Report on risk financial situation reflects the difference between the net monetary assets and liabilities in foreign currency will be higher in value when converted into MDL, due to fluctuations in exchange rates.
The main foreign currencies the Bank operates with are EURO and USA dollar. The Bank manages the exposure to foreign currency fluctuation by combining its assets and liabilities.
Open foreign exchange positions are a source of currency risk. In order to avoid losses as a result of different foreign currency fluctuation, the Bank follows at present the policy of maintenance of integral long foreign exchange position but within certain limits.
The Bank's exposure to risks related to the transactions causes gains or losses from currency exchange recognized in profit or loss. These exposures to risk include monetary assets and liabilities of the Bank that are not denominated at the evaluation of the Bank's currencies.

32. Risk management (continued)
(b) Currency risk (continued)

The Bank considers foreign exchange risk based ratio between net monetary assets and liabilities in foreign currency to total regulatory capital, which must not exceed the limits set by BNM, at + 20% and -20% for long currency positions short respectively.
Risk minimization activities include analysis and monitoring in real-time, the currency exchange operations and foreign currency positions generated, ensuring operational adjustments necessary for complying with the limits of risk.
The information below presents the Bank's exposure to the currency risk as of December 31, 2017 and December 31, 2016. In this table, the assets and liabilities of the Bank are included at their carrying amount and are classified per currency.

	As of 31 December 2017				
	Total	MDL	EUR	USD	Other currencies
	(MDL’000)	(MDL’000)	(MDL’000)	(MDL’000)	(MDL’000)
ASSETS					
Cash and cash equivalents	77,987	30,569	11,455	30,623	5,340
Accounts with National Bank of Moldova	176,873	149,417	8,470	18,986	0
Current accounts and deposits with banks	33,606	26	18,875	14,058	648
Financial assets held to maturity	49,316	49,316	-	-	-
Loans to customers, net	348,001	295,887	5,845	46,269	-
Financial assets held for sell	165	165	-	-	-
Tangible assets, net	61,610	61,610	-	-	-
Intangible assets, net	1,494	1,494	-	-	-
Other assets	20,510	6,591	4,273	8,181	1,464
Total assets	**769,561**	**595,074**	**48,918**	**118,116**	**7,453**
LIABILITIES					
Borrowing	13,579	8,322	-	5,258	-
Due to clients	449,337	243,598	66,285	135,872	3,581
Deferred tax liabilities	2,801	2,801	-	-	-
Other financial liabilities	6,018	4,930	455	495	138
Total Liabilities	**471,735**	**259,651**	**66,740**	**141,625**	**3,719**
GAP	**297,826**	**335,423**	**(17,822)**	**(23,509)**	**3,734**

	As of 31 December 2016				
	Total	MDL	EUR	USD	Other currencies
	(MDL’000)	(MDL’000)	(MDL’000)	(MDL’000)	(MDL’000)
ASSETS					
Cash and cash equivalents	69,400	30,620	7,211	26,117	5,452
Accounts with National Bank of Moldova	101,334	78,370	8,570	14,394	0
Current accounts and deposits with banks	36,967	26	25,567	10,170	1,204
Financial assets held to maturity	132,725	132,725	-	-	-
Loans to customers, net	225,638	194,108	4,409	27,121	-
Financial assets held for sell	164	164	-	-	-
Tangible assets, net	62,563	62,563	-	-	-
Intangible assets, net	1,302	1,302	-	-	-
Other assets	16,421	4,726	4,296	5,033	2,366
Total assets	**646,515**	**504,605**	**50,053**	**82,835**	**9,022**
LIABILITIES					
Borrowing	12,276	10,166	84	2,026	-
Due to clients	339,109	172,227	61,872	101,643	3,367
Deferred tax liabilities	3,536	3,536	-	-	-
Other financial liabilities	3,404	2,445	361	465	134
	12,276	10,166	84	2,026	-
Total Liabilities	**358,326**	**188,374**	**62,317**	**104,133**	**3,501**
GAP	**288,189**	**316,231**	**(12,265)**	**(21,298)**	**5,521**

32. Risk management (continued)
(b) Currency risk(continued)

The ratio for open foreign exchange position as percentage ratio between the value of the open foreign exchange position and the value of the total regulatory capital of the bank was recognized as of December 31, 2017. The limit established by the National Bank of Moldova in amount of 20% was fulfilled, thus the position ratio for long open foreign exchange of the Bank was 1.59% (2015: 2.39%), and the short open foreign exchange was- 4.12% (2016 – 5.75%).

The table below shows the impact of changes in foreign exchange rates to local currency on the Bank's profit, if other market variables remain constant:

31 December 2017	**Possible rate increase %**	**Income/loss effect MDL'000**	**Possible rate decrease %**	**Income/loss effect MDL'000**
EUR	10%	(2,351)	-10%	2,351
USD	10%	(1,782)	-10%	1,782

31 December 2016	**Possible rate increase %**	**Income/loss effect MDL'000**	**Possible rate decrease %**	**Income/loss effect MDL'000**
EUR	10%	(2,130)	-10%	2,130
USD	10%	(1,226)	-10%	1,226

32. Risk management (continued)
(c) Liquidity risk

The Bank's policy in reference to liquidity resides in the fact that the Bank shall insure sufficient liquidity, as much as possible, so that upon fulfilment of commitments both in normal and difficult conditions, the Bank shall not incur inadmissible losses and Bank's reputation shall not be affected.

The Bank holds different assets portfolios of high liquidity in order to ensure the necessary solvability (state securities, short-term placements on the interbank market, etc.), which can be exchanged quickly in cash with minimum expenses in order to be used when necessary.

The Bank analyses daily the cash flow (inflows and outflows) in national and foreign currency and follows the structure of Bank's assets and liabilities depending on maturity.

Another method of decrease in liquidity risk of the Bank is the maintenance of a range of deposit portfolio based on maturity, currency, deposit type and other criteria designed for decrease in risk of sudden withdrawal of deposits prior to maturity.

31 December 2017	**Total**	**less than 1 month**	**1-2 months**	**2 - 3 months**	**3 - 6 months**	**6 - 9 months**	**9 - 12 months**	**1 – 5 years**	**More than 5 years**
	MDL’000	**MDL’000**	**MDL’000**	**MDL’000**	**MDL’000**	**MDL’000**	**MDL’000**	**MDL’000**	**MDL’000**
ASSETS									
Cash and cash equivalents	77,987	77,987	-	-	-	-	-	-	-
Accounts with National Bank of Moldova	176,873	176,873	-	-	-	-	-	-	-
Current accounts and deposits with banks	33,606	33,606	-	-	-	-	-	-	-
Financialinvestments-heldtomaturity	49,316	5,298	8,248	12,539	13,064	4,834	5,034	300	-
Loans to customers, net	449,248	23,212	7,061	8,192	26,980	29,966	30,322	219,719	103,797
Financialinvestments-availableforsale	165	165	-	-	-	-	-	-	-
Other financial assets	17,634	17,634	-	-	-	-	-	-	-
Total financial assets	**804,829**	**334,774**	**15,308**	**20,731**	**40,044**	**34,800**	**35,355**	**220,019**	**103,797**
LIABILITIES									
Borrowing	16,301	196	135	50	13,496	147	147	1,944	187
Due to clients	459,470	225,044	21,375	20,119	53,169	38,369	37,799	63,375	218
Other financial liabilities	2,560	2,560	-	-	-	-	-	-	-
Total liabilities	**478,330**	**227,800**	**21,509**	**20,169**	**66,666**	**38,516**	**37,946**	**65,319**	**405**
GAP	**326,498**	**106,974**	**(6,201)**	**562**	**(26,622)**	**(3,716)**	**(2,591)**	**154,700**	**103,392**

32. Risk management (continued)
(c) Liquidity risk (continued)

December 31, 2016	Total MDL'000	less than 1 month MDL'000	1-2 months MDL'000	2 - 3 months MDL'000	3 - 6 months MDL'000	6 - 9 months MDL'000	9 - 12 months MDL'000	1 – 5 years MDL'000	More than 5 years MDL'000
ASSETS									
Cash and cash equivalents	69,400	69,400	-	-	-	-	-	-	-
Accounts with National Bank of Moldova	101,334	101,334	-	-	-	-	-	-	-
Current accounts and deposits with banks	36,967	36,967	-	-	-	-	-	-	-
Financial investments - held to maturity	135,689	61,600	4,073	24,584	28,432	8,500	8,500	-	-
Loans to customers, net	314,311	21,128	4,870	6,616	24,096	20,068	16,977	166,448	54,109
Financial investments - available for sale	164	164	-	-	-	-	-	-	165
Other financial assets	13,872	13,872	-	-	-	-	-	-	-
Total financial assets	**671,738**	**254,001**	**8,943**	**31,200**	**52,528**	**28,568**	**25,477**	**166,448**	**54,109**
LIABILITIES									
Due to other banks	-	-	-	-	-	-	-	-	-
Borrowing	12,234	81	-	-	921	90	952	7,873	2,213
Due to clients	348,625	177,045	15,839	20,680	43,702	26,388	14,437	49,896	638
Other financial liabilities	1,270	1,270	-	-	-	-	-	-	-
Total liabilities	**362,129**	**178,500**	**15,839**	**20,680**	**44,623**	**26,478**	**15,389**	**57,769**	**2,850**
Discrepancies of interest	**309,609**	**125,965**	**(6,896)**	**(10,520)**	**7,905**	**2,091**	**10,087**	**108,679**	**51,259**

32. Risk management (continued)
(c) Liquidity risk(continued)

The tables below show the expiration contracts after maturity of contingent liabilities and commitments:

	Less than 3 months	From 3 months to 1 year	From 1 to 5 years	More thank 5 years	Total
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
As of 31 December 2017	699	4,552	14,046	167	19,464
As of 31 December 2016	4,507	2,504	5,756	-	12,767

(d) Interest rate risk

Interest rate risk is the risk of losses arisen from fluctuation of future cash flows or fair value of financial instruments due to changes of the interest rates on the market. The interest rate risk is managed basically through monitoring of the imbalance of the interest rate, as well as through previous availability of limits approved for revaluation of domains. The control over correspondence to these limits is executed by CALM in cooperation with Direction of Risk Management under its activities of daily monitoring.

The Bank does not calculate any interest rates for financial assets and liabilities at fair value through profit or loss, and the Bank does not establish derivatives (swap on interest rate) as instrument of risk coverage in order to guarantee the model of accounting for fair value. Due to this, the modification of interest rate as of the date of preparation of financial statements shall not influence on the profit or loss.

The level of interest rate as of December 31, 2017 and December 31, 2016 is presented as follows:

	December 31, 2017	December 31, 2016
Financialassets		
Depositsduefrombanks	-0.4%- -0,6 %	-0.6%-1%
Loansandadvancestocustomers	2.95 %-23%	5%-23%
Investmentsecuritiesheldtomaturity	5.5 %-8.1 %	5.16%-26.5%
Financialliabilities		
Borrowings	1.55%-6.5 %	1.55%-7%
Client'sdeposits	0.2%-8.5 %	0.2%-7%

Information below presents data on the degree of Bank's exposure to the interest rate risk. Bank's assets and liabilities are classified according to nearest date between contractual date of change of interest rate or the maturity date.

32. Risk management (continued)
(d) Interest rate risk(continued)

31 December 2017	Total	less than 1 month	1-2 months	2 - 3 months	3 - 6 months	6 - 9 months	9 - 12 months	1 – 5 years	More than 5 years	Non-interest bearing
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
ASSETS										
Cash and cash equivalents	77,987	77,987	-	-	-	-	-	-	-	-
Accounts with National Bank of Moldova	176,873	167,130	-	-	-	-	-	-	-	9,743
Current accounts and deposits with banks	33,606	-	-	-	-	-	-	-	-	33,606
Financialinvestments-heldtomaturity	49,316	3,308	10,236.38	12,538.95	13,064.02	4,833.95	5,034.50	300	-	-
Loans to customers, net	348,001	20,361	4,293	5,337	18,326	21,729	22,636	186,528	68,791	-
Financialinvestments-availableforsale	165	-	-	-	-	-	-	-	-	165
Cash and cash equivalents	17,634	-	-	-	-	-	-	-	-	17,634
Total financial assets	**703,581**	**268,785**	**14,529**	**17,876**	**31,390**	**26,563**	**27,671**	**186,828**	**68,791**	**61,148**
LIABILITIES										
Borrowing	13,579	146	85	-	13,348	-	-	-	-	-
Due to clients	449,337	43,633	20,581	19,384	51,347	37,016	36,881	59,845	108	180,541
Other financial liabilities	2,560	-	-	-	-	-	-	-	-	2,560
Total liabilities	**465,476**	**43,779**	**20,666**	**19,384**	**64,696**	**37,016**	**36,881**	**59,845**	**108**	**183,101**
GAP	**238,105**	**225,006**	**(6,136)**	**(1,508)**	**(33,306)**	**(10,454)**	**(9,211)**	**126,982**	**68,684**	**(121,953)**
Cumulative GAP		**225,006**	**218,870**	**217,362**	**184,056**	**173,602**	**164,392**	**291,374**	**360,058**	**238,105**

32. Risk management (continued)
(d) Interest rate risk(continued)

31 December 2016	Total	less than 1 month	1-2 months	2 - 3 months	3 - 6 months	6 - 9 months	9 - 12 months	1 – 5 years	More than 5 years	Non-interest bearing
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
ASSETS										
Cash and cash equivalents	69,400	69,400	-	-	-	-	-	-	-	-
Accounts with National Bank of Moldova	101,334	14,704	-	-	-	-	-	-	-	86,630
Current accounts and deposits with banks	36,967	-	-	-	-	-	-	-	-	36,967
Financialinvestments-heldtomaturity	132,724	61,500	4,031	23,850	27,375	7,973	7,996	-	-	-
Loans to customers, net	225,637	17,383	3,233	4,647	18,694	14,506	12,458	122,729	31,987	-
Financialinvestments-availableforsale	164	-	-	-	-	-	-	-	-	164
Cash and cash equivalents	13,872	-	-	-	-	-	-	-	-	13,872
Total financial assets	**580,099**	**162,988**	**7,264**	**28,497**	**46,069**	**22,479**	**20,453**	**122,729**	**31,987**	**137,633**
LIABILITIES										
Due to other banks	-	-	-	-	-	-	-	-	-	-
Borrowing	12,276	780	242	-	11,254	-	-	-	-	-
Due to clients	339,109	31,897	15,062	19,981	42,113	25,422	13,781	45,931	632	144,289
Other financial liabilities	1,270	-	-	-	-	-	-	-	-	1,270
					-	-	-			
Total liabilities	**352,655**	**32,677**	**15,304**	**19,981**	**53,367**	**25,422**	**13,781**	**45,931**	**632**	**145,559**
GAP	**227,444**	**130,311**	**(8,040)**	**8,516**	**(7,298)**	**2,944**	**(6,672)**	**87,252**	**31,356**	**7,926**
Cumulative GAP	**-**	**-**	**122,270**	**130,787**	**123,488**	**120,544**	**127,217**	**149,022**	**235,370**	**227,444**

32. Risk management (continued)
(d) Interest rate risk (continued)

According to the internal and external financial market, the Bank forecasts the evolution of interest rates for its assets and liabilities and the possible impact of these changes on net interest income. The bank estimates a fluctuation of +/- 100 and +/- 50 basis points:

	Increase in basis points	Sensitivity of net interest income MDL'000	Increase in basis points Increase in basis points	Sensitivity of net interest income, MDL'000
2017	100	3,601	-100	(3,601)
	50	1,800	-50	(1,800)
2016	100	2,354	-100	(2,354)
	50	952	-50	(1,177)

(e) Market Risk

The market risk is the risk that the fair value and the future cash flows of a financial instrument shall fluctuate depending upon changes in market prices.

The economy of the Republic of Moldova continues to be characterized by an instable market. The segment of financial services in the Republic of Moldova is vulnerable to adverse currency fluctuations and economic conditions.

The economic forecast in respect of stability in the Republic of Moldova depends to a large extent on the efficiency of economic measures assumed by the Government, together with the changes in the legal and regulatory framework.

The purpose for market risk management is managing and control over the market risks within admissible limits, enhancing at the same time the risk efficiency.
The market risk includes three types of risks: currency risk, interest rate risk and other risks related to the price.

The market risk occurs as a result of open positions of interest rate, currency and equity items, all being exposed to general or specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit variety, foreign exchange rates and securities quotations.

The Bank delimitates the exposure to market risk into portfolio for trading and other than those for trading.

(f) Operational Risk

The operational risk is the risk of direct and indirect losses as a result of different cases arisen from Bank's processes, staff, technologies and infrastructure and, also, due to certain external factors, except for risk of credit, market and liquidity that results from legal and regulating requirements and from generally accepted behavior standards.

Operational risks are the result of all banking transactions and all commercial and industrial enterprises face them.
The Bank's purpose is to manage the operational risk so that to balance the avoidance of some financial losses and injury of Bank's reputation with the overall financial performance.

The main responsibility for development and execution of control over the operating risk is born by the company's management within each of its subsidiaries.

32. Risk management (continued)
(f) Operational risk(continued)

This responsibility is supported by implementation of the banking standards in order to manage the operating risks in the following areas:

- Appropriate segregation of tasks, including independent approval of the transactions;
- Coordinating and monitoring of transactions;
- Correspondence to legal and other regulating requirements;
- Documenting control means and procedures;
- Periodic assessing of operating risks the Bank is exposed to, as well as the degree of conformity of control means and procedures to the access of identified risks;
- Reporting the losses of exploitation and the suggested measures for recovery;
- Developing plans for additional unforeseen situations;
- Professional training and development (standards on ethics and business);
- Assuming necessary measures in order to manage efficiently and use of software and equipment means belonging to the Interbank Automatic Payment System, guarantee of business continuity in urgent situations, as well as the security of software components and of the equipment used at the working place with the aim of interaction with Interbank Automatic Payment System.
- Restricting the access to information both at technical level and of software;
- Developing within Bank’s employees of a operating culture which shall include a range of individual and corporate values, relations, knowledge and a conduct based on work-specific obligations and responsibilities ;
- Decreasing risks through different methods of protection (army security, video control system, alarm button and others).

33. Risk-weighted capital adequacy

Risk-weighted Assets are the bank’s assets and certain conditional accounts (representing a risk for the bank), that are classified in categories with specific risk weights. The risk weight assigned to a particular asset determines the percentage of that asset which is added with all other risk-weighted asset to determine the bank’s total Risk-Weighted Assets. The bank calculates the rate of Risk-weighted capital adequacy, pursuant to Regulation on risk-weighted capital adequacy, approved by Decision of the Council of Administration of the National Bank of Moldova no.269 of October 17, 2001 (with further amendments and completions).

Four categories are used for weighting at risk (0%, 20%, 50% and 100%). For example, cash and money market instruments are weighted with zero rate, which means there is no need for risk capital to maintain these assets. By mortgages and unsecured loans without interest, property and equipment apply a risk weight of 100%. Other asset categories have intermediate weight.

For liabilities reported as off-balance sheet credit items and forward and derivatives apply different categories of risk conversion factors, designed to translate these elements in balance equivalent. The equivalent loans items are then weighted to credit risk using the same coefficients as for the balance sheet assets.

33. Risk-weighted capital adequacy (continued)

The bank's position concerning the regulatory capital and risk-weighted capital adequacy as of December 31, 2017 and as of December 31, 2016 is presented below:

	2017 MDL'000	2016 MDL'000
Tier I capital		
Ordinary Shares	138,000	138,000
Non-cumulative preferred shares, issued with unlimited term	-	-
Capital surplus	-	-
Undistributed profit and reserves	123,119	110,762
The calculated amount but unreserved of the allowances for impairment losses on assets and conditional commitments	(24,245)	(15,781)
Total sum of the net intangible assets	(1,494)	(1,302)
Total Tier I capital	**235,380**	**231,680**
Tier II capital	-	-
Total Tier II capital	-	**-**
Total Tier I capital and total Tier II capital	**235,380**	**231,680**
Participation shares in the bank's capital	**-**	-
Total regulatory capital	**235,380**	**231,680**
Total risk weighted Assets	363,294	235,075
Capital Adequacy	**64.79%**	**98.56%**

According to the Regulation on risk-weighted capital adequacy, the Bank shall have and maintain the risk weighted adequacy ratio at a level at least of 16%. The Bank fulfilled the NBM's requirements concerning the risk-weighted capital adequacy during the reporting period. As of December 31, 2017 the risk weighted adequacy ratio constituted 64.79% (December 31, 2016: 98.56%).

The amount of the Minimum Required Capital for Tier I Capital as of December 31, 2017 constituted MDL'000 200,000 (2016: MDL'000 200,000). As of December 31, 2017 the Bank conformed to the requirements of the Regulation on risk-weighted capital adequacy, by having the Tier I Capital in sum of MDL'000 235,380. Therewith financial risks, at which the Bank is exposed, do not exceed allowable limits and are followed-up by the risk management system of the Bank.

34. Geographical concentration and business segments

Name of the country	At 31 December 2017		At 31 December 2016	
	Total assets (MDL'000)	**Total bonds (MDL'000)**	**Total assets (MDL'000)**	**Total bonds (MDL'000)**
Moldova	727,506	451,046	619,028	342,381
EUM Countries	24,420	2,219	14,928	3,674
Other countries EU members	40	3,687	110	658
USA	3,889	707	2,988	502
off-shore	-	1	-	2
Other Countries	13,706	14,075	9,462	11,108
	769,561	**471,735**	**646,515**	**358,326**

35. Subsequent events

There were no significant events having an impact on the financial statements.