BC “Moldindconbank” SA
Financial Statements
For the Year Ended at December 31, 2015

Prepared in Accordance with
International Financial Reporting Standards

CONTENTS

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INDEPENDENT AUDITORS' REPORT

To the members of BC MOLDINDCONBANK SA

Report on the Financial Statements

[1] We have audited the financial statements of BC MOLDINDCONBANK SA (the "Bank"), which comprise the statement of financial position as at 31 December 2015 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management Responsibility for the Financial Statements

[2] The Bank Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such internal control as the Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

[3] Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

[4] An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

[6] As disclosed in note 20 "Capital management", the Bank was subject to control from the National Bank of Moldova ('NBM'), which on 2 March 2016 issued the Act of Executive Committee of NBM no. 45 (the 'Act'). According to the Act the Bank was penalized for its actions connected with inadequate classification of several loans, granting of loans to groups of persons that act under common interests, exceeding the normative limit of 15% of Bank exposure to one group and not respecting remediation actions set by NBM based on NBM Decision No. 195 from 2 October 2014. As result, the Bank recorded additional reserves for losses from impairment amounting to MDL 239,512 thousand which are reflected in Bank Normative Capital as at 31 March 2016. We were unable to obtain sufficient and appropriate audit evidence to assess whether the events, that were relevant to the Bank's decision to record the additional reserve, represent adjusting events or non-adjusting events in accordance with International Accounting Standard 10 'Events after the reporting period'.

[7] The Bank's internal control system and current regulatory framework does not allow the management of the Bank to identify and account for all related parties transactions in accordance with the requirements of IAS 24 "Related parties" and to evaluate if the loans granted are on an arm's length basis. Moreover, for the year ended 31 December 2015, the Bank registered reserves for impairment losses amounting to MDL 711,131 thousand (2014: MDL 55,266 thousand). In this respect, we were not able to determine if note 33 "Transactions and Balances with related parties" is complete and whether any adjustments to Related parties disclosure were necessary.

[8] As at 31 December 2015 the Bank holds receivables from sale of assets received in possession amounting to MDL 85,936 thousand. We were unable to obtain sufficient and appropriate audit evidence to assess the value of these assets, due to the fact that there is no liquid market for similar assets, there are no recent transactions performed by the Bank with similar assets as well as a significant period of time elapsed from the moment when the assets were received in possession and the date of the financial position of the Bank. Therefore, we were unable to determine whether adjustments are needed to be registered for other assets, receivables resulting from current income tax, payables resulting from current income tax, and the current result as at 31 December 2015, as well as, for losses from impairment of assets (expenses/income) relating to income tax and net profit of the period ended 31 December 2015.

[9] In respect of the petty cash of the Bank presented in the statement of financial position at the value of MDL 635,987 thousands, the audit evidence we had available was limited because we were not able to observe the internal controls relating to cash count at 31 December 2015, as that date was prior to our appointment as auditor of the Bank. Due to this matter, we were unable to obtain sufficient and appropriate audit evidence as to the completeness, existence and value of the petty cash balance.

Qualified Opinion

[10] In our opinion, except for the effects of any adjustments that could have been determined to be necessary had we been able to satisfy ourselves as to the matters described in the Basis for qualified opinion paragraphs, the financial statements, give a true and fair view of the financial position of BC MOLDINDCONBANK SA as at 31 December 2015 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the IASB.

Emphasis of Matter

[11] Without qualifying our opinion we draw attention to the following

a. As presented in note 36 "Reputation risk" the Bank has not complied with the requirements of prevention and combating of money laundering and terrorism financing. In this respect, the management of the Bank has took action to improve the existing control system subsequent to the year-end. The effect of these measures on the financial statements cannot be determined.

b. As presented in note 36 "Reputation risk", that describes the Decision no.156 from 11.09.2015, no. 26 from 11.09.2015, no 140 from 14.12.2015 and no. 53 from 09.03.2016 of the Executive Committee of the National Bank of Moldova, set a special supervision for BC MOLDINDCONBANK SA from 11 June 2015. The action of the supervision continues until audit date.

c. As presented in note 37 "Political environment", that describes the political situation of the Republic of Moldova, as well as recent events from the banking sector that severely impacted the activity of the Bank, creating a disturbance in the economic system, as result decreasing the GDP by 0.5%, decreasing significantly the national currency, destabilizing the financial market, as well as increasing the interbank rate to 19.5%. The effect of the political situation on the financial statements cannot be determined.

Other Matter

[12] The financial statements of BC MOLDINDCONBANK SA for the year ended 31 December 2014, were audited by another auditor who expressed an unmodified opinion on those statements on 21 April 2015.

[13] This report, including the opinion, has been prepared and is intended solely for the information and use of the Bank members as a body. To the fullest extent permitted by the Law, our audit work has been undertaken so that we might report those matters that we are required to report in an Auditor's Report and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purposes or to any other person to whose knowledge this report may come to.

Moore Stephens

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Chişinău, Moldova

3 June 2016

Elena Panainte
Qualification certificate of auditor AG # 000278 as of 15 April 2011
Qualification certificate of auditor of financial institutions AIF # 0016 as of 24 August 2012

	Notes	*2015* MDL'000	*2014* MDL'000
ASSETS			
Cash and balances at National Bank	4	3,441,018	1,911,624
Current accounts and deposits at banks	5	1,296,886	1,113,581
Financial investments - held to maturity	6	1,262,939	1,011,792
Net Loans	7	8,951,640	8,590,948
Financial investments - available-for-sale	8	36,109	29,542
Tangible assets, net	9	232,519	201,281
Intangible assets, net	10	59,474	45,156
Investment property, net	11	-	9,638
Other assets, net	12	198,177	318,720
Total assets		**15,478,762**	**13,232,282**
LIABILITIES			
Due to banks	13	63,132	881,146
Other borrowings	14	1,740,994	1,656,993
Due to customers	15	11,768,727	8,888,492
Current income tax liability		844	17,626
Deferred tax liability	16	8,756	39,388
Other liabilities	17	116,532	86,789
Total liabilities		**13,698,985**	**11,570,434**
EQUITY			
Ordinary shares	18	494,466	494,466
Statutory reserves	19	223,972	311,016
Additional capital		5	5
Revaluation reserve		11,647	12,179
Retained earnings		1,049,687	844,182
Total shareholders' equity		**1,779,777**	**1,661,848**
Total liabilities and shareholders' equity		**15,478,762**	**13,232,282**

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

The financial statements were authorized for issue on 03 June 2016 by the Executives of the Bank represented by:

President
Leonid Talmaci ....

Chief Accountant
Nadejda Cuharschi ....

BC „Moldindconbank" S.A.
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2015

	Notes	2015 MDL'000	2014 MDL'000
Interest income		1,367,394	990,394
Interest expenses		-679,226	-503,236
Net interest income	**22**	**688,168**	**487,158**
Impairment losses	**23**	-711,131	-55,266
Net interest income after impairment loss		**-22,963**	**431,892**
Fee and commission income		241,305	187,536
Fee and commission expense		-40,553	-27,306
Net fee and commission income	**24**	**200,752**	**160,230**
Financial income, net	**25**	265,579	129,749
Income from disposal of on available-for-sale financial investments and income from dividends		13,121	5,788
Other operating income	**26**	53,111	35,975
Total operating income		**509,600**	**763,634**
Personnel expenses	**27**	-158,156	-126,966
General and administrative expenses	**28**	-204,351	-161,443
Depreciation and amortization	**9-11**	-29,530	-25,555
Total non-interest expense		**-392,037**	**-313,964**
Profit before income tax		**117,563**	**449,670**
Income tax expense	**16**	25,869	-52,153
Net profit for the year		**143,432**	**397,517**
Other comprehensive income			
Available-for-sale investments revaluation reserve		-323	-1,936
Deferred tax related to other comprehensive income	**16**	-209	168
Total other comprehensive income for the year, net of tax		**-532**	**-1,768**
Total comprehensive income for the year		**142,900**	**395,749**
Earnings per share (MDL)	**30**	**29**	**80**

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

The financial statements were authorized for issue on 03 June 2016 by the Executives of the Bank represented by:

President
Leonid Talmaci.......................................

Chief Accountant
Nadejda Cuharschi.......................

BC „Moldindconbank” S.A.
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2015

	Share capital	Share premium	Other reserves	General reserves for banking risks	Available-for-sale reserve	Retained earnings	Total
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Balance as at 1 January 2015	494,466	5	51,089	259,927	12,179	844,182	1,661,848
Distributed dividends						-24,971	-24,971
Transfers	-	-	-	-87,044	-	87,044	-
Transactions with owners	**494,466**	**5**	**51,089**	**172,883**	**12,179**	**906,255**	**1,636,877**
Net profit for the year	-	-	-	-	-	143,432	143,432
Other elements of comprehensive income for the year, net of tax							
Net change of available-for-sale financial investments	-	-	-	-	**-532**	-	**-532**
Balance as at 31 December 2015	**494,466**	**5**	**51,089**	**172,883**	**11,647**	**1,049,687**	**1,779,777**
Balance as at 1 January 2014	**494,466**	**5**	**51,089**	**222,336**	**13,947**	**536,264**	**1,318,107**
Dividends	-	-	-	-	-	-20.273	**-20,273**
Transfers	-	-	-	37,591		-37,591	-
Adjustment (note 35)						-31,735	**-31,735**
Transactions with owners	**494,466**	**5**	**51,089**	**259,927**	**13,947**	**446,665**	**1,266,098**
Net profit of the current year	-	-	-	-		**397,517**	397,517
Other elements of comprehensive income for the							
Net change of available-for-sale financial	-	-	-	-	-1,768	-	-1,768
Balance as at 31 December 2014	**494,466**	**5**	**51,089**	**259,927**	**12,179**	**844,182**	**1,661,848**

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

	Notes	2015 MDL'000	2014 MDL'000
Operating activities			
Interest receipts		1,374,597	985,500
Interest payments		-664,432	-517,276
Net fee and commission receipts		200,752	159,482
Net financial and other operating income		241,574	183,578
Staff costs paid		-159,464	-123,192
Payments of general and administrative expenses		-204,091	-159,510
Cash flows before working capital changes		**788,936**	**528,582**
(Increase) / decrease in operating assets:			
Due from NBM		518,672	-672,760
Current accounts and deposits with banks		-53,348	-28,488
Treasury bills over 90 days		-45,280	-59,020
Loans		-959,693	-1,324,274
Other assets		-19,955	-73,990
Increase /(decrease) in operating liabilities:			
Due to banks		-817,128	-152,035
Due to customers		2,785,572	100,644
Other liabilities		41,877	-42,512
Net cash flow from operating activities before income tax		**2,239,653**	**-1,723,854**
Payments on income tax		-45,327	-28,607
Net cash flow from operating activities		**2,194,326**	**-1,752,461**
Investing activities			
Purchase of intangible assets		-21,389	-
Purchase of property and equipment		-52,933	-13,321
Proceeds from disposal of property and equipment		64	-47,627
Proceeds from disposal of financial investments		18,505	2,787
Proceeds on investment securities		6,091	25,179
Net cash used in investing activities		**-49,662**	**-32,982**
Financing activities			
Proceeds from loans and borrowings		1,603,615	1,414,603
Repayment of loans and borrowings		-1,440,662	-1,272,550
Dividends paid		-24,971	-15,260
Net cash from financing activities		**137,982**	**126,793**
Profit or loss from net foreign exchange		-38,733	-19,839
Net increase in cash and cash equivalents		**2,243,913**	**-1,678,489**
Cash and cash equivalents at 1 January		**2,244,557**	**3,923,046**
Cash and cash equivalents at 31 December	**20**	**4,488,470**	**2,244,557**

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

1. Corporate information on the Bank

BC Moldindconbank SA (hereinafter the Bank) was founded on October 1991 as a commercial and savings Bank, offering a large spectrum of services and banking products for all client categories through its 63 branches (2014: 57 branches).

At the end of 2015, the Bank held the license issued by the National Bank of Moldova (hereinafter NBM), which allowed it to perform the entire range of activities. The Bank has 1,373 employees as at 31 December 2015 (1,148 as at 31 December 2014).

The registered office of the Bank is located at 38, Armeneasca Street, Chisinau, Republic of Moldova. The Bank has a primary listing on the Stock Exchange of Moldova.

According to the Board of Directors and Executive Committee, the Bank did not have as at 31 December 2015 and 31 December 2014, as well as during these financial years an ultimate controlling party, i.e. an individual or a group of individuals who have a contractual arrangement to act together. The shareholders and their representatives in the Board of Directors and Executive Committee act in co-operation with each other as part of governing and implementing the financial and operating policies of the Bank.

As the Bank's operations do not have significantly different risks and returns and the regulatory environment, the nature of its services, the business process, as well as the types of customers for the products and services and the methods used to provide the services are homogenous for all Bank's activities, the Bank operates as a single business segment unit.

2. Basis of presentation

Declaration of conformity

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis of measurement

The financial statements have been prepared under the historic cost convention, except for derivative financial instruments and available-for-sale financial assets that have been measured at fair value.

Functional and presentation currency

The financial statements are presented in Moldovan lei ("MDL"), which is also its functional currency and the currency of the country in which the Bank operates. All the financial information presented in MDL has been rounded to the nearest thousands, except when otherwise indicated.

Accounting estimates

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

2. Basis of preparation (continued)

Impairment losses on loans and advances

The Bank reviews its loans and advances to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of one borrower in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Where the final outcome of these factors is different from the amounts that were initially recorded, such differences could materially impact the provision for loan impairment in the period in which such determination is made.

The loan loss is calculated for significant loans (to balance a further 1% of the loan portfolio) individually, and other loans in the portfolio basis. For loans individually evaluated, first is determined present impairment factors. In case of payment arrears of interest or loan, the loan is automatically deemed impaired. To assess impairment size, it makes up monthly cash flow table of expected credit performance, including flows from the realization of collateral, and flows updates using the effective interest rate.

For collectively assessed loans, applies forecasting matrix is calculated according to statistical data of the bank. Matrix forecasting shall be drawn to separate groups of loans, grouped according to risk lending. Collective impairment provision is calculated as the product EAD * PD * LGD

where EAD - the bank's loan portfolio, credit equal to the balance of the fee minus depreciation

PD - probability of default

LGD - expected loss rate of default.

Default probability is calculated based on the credit quality of bank data in the last 12 months prior to the calculation date. Loans separate portfolios according to section VI b fall into the following categories:

- Loans with delay from 0 to 30 days
- Loans with delay of 31 to 90 days
- Loans with delay of 91 to 180 days

Loans with more than 181 days late Monthly credit migration from one category to another and final probability of becoming a credit outstanding over 180 days is the probability of default.

The expected loss default rate (LGD) is calculated according to the statistics of realization of collateral, structure of the collateral portfolio and update of the recoverable amounts of the pledge by using the discount rate.

3. Significant accounting policies

(ii) Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The management uses its judgment to select the valuation method and make assumptions that are mainly based on market conditions existing at each balance sheet date. The valuation of the financial instruments is described in detail at note 32.

3.1 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year. The adoption of new standards and interpretations effective for the Bank from 1 January 2015 did not have any impact on the accounting policies, financial position or performance of the Bank.

3.2 Summary of significant accounting policies

a. Foreign currency translation

Foreign currency transactions are translated into the functional currency, MDL, using the exchange rates prevailing at the dates of the transactions. At the Balance Sheet date monetary assets and liabilities denominated in foreign currency are translated in MDL using closing exchange rate. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Exchange rates and average rates per year were:

	2015		**2014**	
	USD	**Euro**	**USD**	**Euro**
Average for the period	18,8161	20,8980	14,0388	18,6321
Year end	19,6585	21,4779	15,6152	18,9966

b. Financial assets

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The Management determines the classification of its investments at initial recognition.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the entity upon initial recognition designates as available-for-sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of *credit deterioration.*

(ii) Held-to-maturity

Held-to-maturity investments (HTM) are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. If the Bank would sell a significant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale. Included in this category are, also, treasury bills issued by Moldovan Government.

Investment securities classified as HTM are carried at amortized cost using the effective yield method providing for any impairment that is other than temporary.

3. Significant accounting policies (continued)

3.2. Summary of significant accounting policies (continued)

b. Financial assets (continued)

(iii) Available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Available-for-sale financial assets include equity instruments. These instruments are valued at their fair value, revaluation result records available for sale financial assets are taken separately to reflect the change in capital value.

(iv) Derecognition of financial assets and liabilities

Financial assets are derecognized in the following cases:

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

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the Bank's continuing involvement in the assets. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

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

c. Impairment of loans

If there is objective evidence that the Bank will not be able to collect all amounts due (principal and interest) according to original contractual terms of the loan / receivables on financial leasing, such loans are considered impaired. The amount of the impairment loss is the difference between the loan's carrying amount and the present value of expected future cash flows discounted at the loan's original effective interest rate or is the difference between the carrying value of the loan and the fair value of collateral, if the loan / receivables on financial leasing is collateralised and foreclosure is probable.

Impairment and uncollectibility are measured and recognised individually for loans and receivables that are individually significant, and on a portfolio basis for a group of similar loans and receivables that are not individually identified as impaired. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

3. Significant accounting policies (continued)

3.2. Summary of significant accounting policies (continued)

c. Impairment of loans (continued)

The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced to its estimated recoverable amount by a charge to income through the use of a provision for loan impairment account. A write-off is made when all or part of a loan is deemed to be uncollectible. Write-offs are charged against previously established provisions and reduce the principal amount of a loan. If a future write-off is later recovered, the recovery is credited to "Impairment expense".

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the provision for loan losses expense.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit rating that considers credit risk characteristics such as industry, collateral type, past-due status and other relevant factors. Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

d. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

e. Derivative financial instruments

In the normal course of business, the Bank enters into contracts for financial instruments which represent instruments that require a very low or zero initial investment relative to the nominal value of the contracts. The derivative financial instruments used include interest rate and currency forward and swaps. These financial instruments are used by the Bank to hedge interest rate risk and currency exposures associated with its transactions in the financial markets. These instruments have not been designated as hedged items.

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3. Significant accounting policies (continued)

3.2. Summary of significant accounting policies (continued)

e. Derivative financial instruments (continued)

Derivative financial instruments are initially recognized in the balance sheet at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate. These assets and liabilities are classified as held for trading. Changes in the fair value of derivatives held for trading are directly included in the income statement.

f. Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment simultaneously.

g. Interest income and expense

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. Interest income includes coupon earned on fixed income investment and trading securities and accrued discount and premium on treasury bonds.

Accrued interest on treasury bonds is calculated based on the period between the purchase date and balance sheet date at their related interest rate, for each separate issue. Interest expense includes interest accrued on deposits, current accounts, Loro accounts as well as interest on borrowings.

h. Fee and commission income

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate on the loan.

Commission and fees arising from negotiating, or participating in the negotiation of a transaction for a third party - such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses - are recognized on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-apportionment basis.

3. Significant accounting policies (continued)

3.2. Summary of significant accounting policies (continued)

i. Tangible assets

All property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to other *operating expenses during the financial period in which they are incurred.*

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Asset type	Period (years)
Buildings	50-100
Furniture	5-15
Vehicles	5-15
Modernization performed leased assets	1-10
ATMs and POS terminals	5-20
Computers and other assets	3-10

Assets under construction are not depreciated until they are brought in use. The assets' residual value and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount. These are included in their operating expenses in the income statement.

j. Intangible assets

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized using the straight-line method on the basis of the expected useful lives (three to ten years).

Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Bank, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

3. Significant accounting policies (continued)

3.2. Summary of significant accounting policies (continued)

k. Leases

The leases entered into by the Bank are primarily operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

l. Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Subsequently, borrowings are stated at amortised cost and any difference between net proceeds and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

m. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity of the assets at acquisition dates including: cash, non -restricted balances with NBM, treasury bills, amounts due from other banks and amounts due from quick payment systems.

n. Provisions

Provisions and legal claims are recognized when the Bank has a present legal or constructive obligation to transfer economic benefits as a result of past events and it is more likely that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

o. Treasury shares

Own equity instruments of the Bank which are acquired by it (treasury shares) are deducted from equity and accounted for at weighted average cost. Consideration paid or received on the purchase, sale, issue or cancellation of the Bank's own equity instruments is recognized directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancelation of own equity instruments.

3. Significant accounting policies (continued)

3.2. Summary of significant accounting policies (continued)

p. Pension costs and employee benefits

The Bank, in the normal course of business makes payments to the Moldovan State funds on behalf of its employees for pension, health care and unemployment benefit. All employees of the Bank are members of the State pension plan. The Bank does not operate any other pension scheme and, consequently, has no further obligation in respect of pensions. The Bank does not operate any other defined benefit plan or postretirement benefit plan. The Bank has no obligation to provide further services to current or former employees.

q. Taxation

Income tax payable on profits, based on the applicable Moldovan tax law, is recognized as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognized as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

The principal temporary differences arise from depreciation of equipment, provisions for loans and advances to customers, other assets and other liabilities. The rates enacted or substantively enacted at the balance sheet date are used to determine deferred income tax. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred tax assets are recognized where it is probable that future taxable profit will be available against which the temporary differences can be utilised. The standard rate of income tax for 2015 of 12% (2014: 12%).

r. Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation.After initial recognition investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Rental income and operating expenses from investment property are reported within other revenue and other expenses respectively.

Bank's accounting policies do not expressly provide materiality of accounting elements. In order to ensure consistency of revenue and operating expenses related to investment properties materiality is determined based on professional judgment, taking into account the legal framework in force.

A person is affiliated with another person if their relationship is defined by at least one of the following cases:

1. Affiliated persons of legal entities, including bank, refers:

a) administrators of the legal person;

b) legal entities and / or individuals who directly or indirectly own or control one and more percent of the bank's capital. If the shares it owns or controls husband (wife) of such person or a first-degree relative, then it is deemed am shares owned and controlled by that person;

3. Significant accounting policies (continued)

c) any person who exercises control over the legal person or legal entity under the control of, or in concert with the legal entity under the control of another person;

d) persons affiliated persons specified in subparagraphs a) - c);

2. Affiliates to individual refers to:

a) any person who, under civil legislation is related to the individual by a ratio of first and second degree of kinship, and her husband, or is associated in a joint venture with the individual;

b) legal entity over which the individual or affiliated persons, exercising control or hold / hold joint ventures;

s. Events subsequent to the balance sheet date

Post year-end events that provide additional information about the Bank's position as of the balance sheet date (adjusting events) are reflected in the financial statements. Post-reporting date events that are not adjusting events are disclosed in the notes when they have material effect over the financial statements.

In accordance with decisions of 06.11.2015 No. 156, No. 26 of 11.09.2015, no.140 of 14.12.2015 and no. 03/09/2016 53 of the Executive Board of the National Bank has established special surveillance of BC "Moldindconbank" S.A. term of three months each. Special surveillance is set from *11 June 2015 until the* issuance date of the financial statements. The work of four oversight committees of the National Bank kept the situation analysis of the Bank's financial daily, applications and embodiments of various information (about the management of customer accounts, lending, money laundering, etc.), the participation of members oversight committee at some meetings of the management Board and the Bank Council and submission of recommendations related to enhancing the Bank's caution.

3.3 New and revised standards that are effective for annual periods beginning on or after 1 January 2015

(a) Standards effective for annual periods beginning on or after 1 January 2015

IFRS 13 Fair value measurement. This improvement clarifies that the scope of the exception to the portfolio, as defined in paragraph 52 of IFRS 13 includes all contracts accounted for under the scope of IAS 39 Financial Instruments: Recognition and Measurement and IFRS 9 Financial Instruments, whether they are fulfilling the definition financial assets and financial liabilities as defined in IAS 32 financial instruments: presentation. This amendment had no material impact on the financial statements.

IAS 40 Investment Property. This improvement clarifies that, to determine whether a particular transaction meets both the definition of a business combination as defined in IFRS 3 Business Combinations and an investment property as defined in IAS 40 Investment Property requires that application of the two standards to be carried out independently of each other. This amendment had no material impact on the financial statements.

(b) Standards issued that are not yet effective and have not been early adopted

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective and have not yet been adopted by the Bank. Information on new standards, amendments and interpretations that are expected to be relevant to the Bank's financial statements are presented below.

Management anticipates that all relevant declarations will be adopted in the Bank's accounting policies for the period after the effective date of the declaration. Were issued other new standards and interpretations is not expected to have a significant material impact on the financial statements.

IFRS 9 Financial Instruments (effective date: annual period from 1 January 2018 with retrospective application with certain exceptions). This standard replaces the provisions of IAS 39 "Financial Instruments: Recognition and Measurement" on classification and measurement of financial assets, with the exception of aspects relating to hedge accounting in respect of which entities may choose to apply the old provisions of IAS 39 or to apply IFRS 9. the new standard introduces significant changes to the guidance provided in IAS 39 on the classification and measurement of assets and introduces a new model of "probable loan losses" for the impairment of financial assets the Bank does not intend to apply IFRS 9 to take effective date of the standard.

IFRS 15 Revenue from contracts with customers (effective for periods beginning on or after 1 January 2018). The Standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a new pattern of five steps that will apply for the recognition of revenue from a contract with a client (with limited exceptions), regardless of the type of transaction or industry. The new standard establishes a pattern of revenue recognition based on control and provides further guidance in several areas not covered thoroughly existing IFRSs, including accounting under agreements with multiple obligations performance varying prices, right of refund customers, the supplier redemption options, and other common complexities. Also standard requirements will apply to the recognition and measurement gains and losses from the sale of certain assets other than financial are not the result of ordinary activities of the entity (eg. Sale of tangible and intangible). Presentation will be provided extensive information including disaggregating total income, information about execution obligations, changes in the balances of assets and liabilities relating to contracts between periods and key judgments and estimates.
The Bank believes that this standard will not have a material effect on the financial statements as most contracts with customers are subject to other standards.

(b) Standards issued that are not yet effective and have not been early adopted (continued)

Amendments to IAS 16 and IAS 38 - Clarification of acceptable methods of depreciation and amortization (effective for annual periods beginning on or after 1 January 2016).

The change becomes effective for annual period beginning on or after 1 January 2016. The amendment provides additional guidance on how to calculate the depreciation of tangible and intangible assets. This amendment clarifies the principles of IAS 16 and IAS 38 Property, plant Intangible assets under which income reflects a pattern of economic benefits that are generated from a farm business (which includes asset) rather than economic benefits consumed by the asset. As a result, the ratio of revenue generated total revenue expected to be generated can not be used to cushion a clement of tangible and can be used only in extremely limited circumstances to amortize intangible assets.
The Bank believes that these amendments will not have a material effect on the financial statements as it does not apply depreciation on the basis of income.

Defined benefit complained IAS 19 (amendment): employee contributions. The change Becomes effective for annual period Beginning on or after 1 February 2015. Applies to amendment by Employees or third parties contributions to defined benefit plans. The objective of the amendment is to simplify accounting for contributions That is independent of seniority, for example, employee contributions have Calculated based on a fixed percentage of salary. The Bank Estimates That this amendment does not spring of Significant impact on the financial statements.