Banca de Economii S.A.

Financial Statements

For the year ended 31 December 2010

Prepared in Accordance with

International Financial Reporting Standards

CONTENTS

Independent auditors' report

Statement of financial position	3
Statement of comprehensive income	4
Statement of changes in shareholder's equity	5
Statement of cash flows	6
Notes to the financial statements	7 – 57

KPMG Moldova SRL
Str Stefan cel Mare 202
Et 9, MD-2004
Chisinau
Moldova

Tel +373 (22) 580 580
Fax +373 (22) 540 499
www.kpmg.md

Independent Auditors' Report

The Shareholders' of
BC Banca de Economii SA

Report on the Financial Statements

1 We have audited the accompanying financial statements of BC Banca de Economii S.A. („the Bank"), which comprise the statement of financial position as at 31 December 2010 and the related statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

2 Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards 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.

Auditors' Responsibility

3 Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 our 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, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 management, as well as evaluating the overall presentation of the financial statements.

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

CF

Opinion

5 In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2010 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

6 Without qualifying our opinion, we draw attention to Notes 4 and 34.5 to the financial statements which describe uncertainties existing on local financial market regarding the operating economic environment in which the Bank's borrowers operate and assets valuations and their potential impact over estimation of impairment provision for loans and advances to customers.

Other Matters

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

8 The financial statements of the Bank for the year ended 31 December 2009 were audited by other auditors whose report dated 12 October 2010 expressed an unqualified opinion on those financial statements prepared in accordance with International Financial Reporting Standards.

KPMG

KPMG Moldova SRL

30 November 2011

Chisinau, Republic of Moldova

Ref: 11034

Banca de Economii S.A.
STATEMENT OF FINANCIAL POSITION
As at 31 December

	Notes	2010 MDL'000	2009 MDL'000
ASSETS			
Cash on hand	5	336,219	360,205
Balances with National Bank of Moldova	6	432,736	286,298
Placements with banks	7	273,238	391,066
Loans and advances to customers, net	8	2,624,841	1,974,605
Financial assets available for sale	9	8,990	8,977
Investments held to maturity	9	501,286	1,054,467
Property and equipment	10	284,083	272,270
Intangible assets	11	37,727	28,009
Other assets	12	823,438	747,979
Total assets		**5,322,558**	**5,123,876**
LIABILITIES			
Deposits from banks	13	77,421	2,984
Other borrowings	14	632,618	1,093,503
Deposits from customers	15	3,674,794	3,121,382
Other liabilities	17	62,220	52,846
Total liabilities		**4,447,053**	**4,270,715**
SHAREHOLDERS' EQUITY			
Share capital - ordinary shares	18	117,034	29,258
Share capital - preference shares	18	303	76
Reserves	19	18,752	18,752
Retained earnings		739,416	805,075
Total shareholders' equity		**875,505**	**853,161**
Total liabilities and shareholders' equity		**5,322,558**	**5,123,876**

Notes from pages 7 to 57 are an integral part of these financial statements.

The financial statements were authorized for issue on 30 November 2011 by the management of the Bank represented by:

G. Gacikevici

President
Banca de Economii S.A.

Semnat pentru identificare
KPMG
30 NOV. 2011
Initialised for identification

	Notes	2010 MDL'000	2009 MDL'000
Interest income	22	387,072	362,515
Interest expense	22	(146,178)	(226,278)
Net interest income		**240,894**	**136,237**
Fee and commission income	23	151,457	137,818
Fee and commission expense	23	(18,618)	(12,991)
Net fee and commission income		**132,839**	**124,827**
Net foreign currency gain	24	82,766	98,219
Other operating income	25	9,289	6,091
Total other operating income		**92,055**	**104,310**
Total operating income		**465,788**	**365,374**
Provision for loans and advances to customers	8	(200,701)	(60,902)
Net operating income		**265,087**	**304,472**
Personnel and related expenses	26	(123,203)	(125,214)
General and administrative expenses	27	(82,034)	(111,006)
Depreciation and amortization expenses	10/11	(30,348)	(24,335)
Total operating expenses		**(235,585)**	**(260,555)**
Profit before tax		**29,502**	**43,917**
Income tax expense for the year	16	-	(5,023)
Total comprehensive income of the year		**29,502**	**38,894**
Earnings per share (MDL)	31	1.26	1.66

Notes from pages 7 to 57 are an integral part of these financial statements.

The financial statements were authorized for issue on 30 November 2011 by the management of the Bank represented by:

G. Gacikevici

President
Banca de Economii S.A.

Semnat pentru identificare
KPMG
30 NOV. 2011
Initialised for identification

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
For the Year Ended 31 December 2010

	Share capital - Ordinary shares MDL'000	Share capital - Preference shares MDL'000	Reserves MDL'000	Retained earnings MDL'000	Total equity MDL'000
Balance at 1 January 2009	29,258	76	18,752	766,200	814,286
Total comprehensive income for the year					
Profit for the year	-	-	-	38,894	38,894
Transactions with owners					
Issued shares	-	-	-	-	-
Transfers between reserves	-	-	-	-	-
Dividends	-	-	-	(19)	(19)
Total transactions with owners	**-**	**-**	**-**	**(19)**	**(19)**
Balance at 31 December 2009	29,258	76	18,752	805,075	853,161
Balance at 1 January 2010	29,258	76	18,752	805,075	853,161
Total comprehensive income for the year					
Profit for the year	-	-	-	29,502	29,502
Transactions with owners					
Issued shares	87,776	227	-	(88,003)	-
Transfers between reserves	-	-	-	-	-
Dividends	-	-	-	(7,158)	(7,158)
Total transactions with owners	**87,776**	**227**	**-**	**(95,161)**	**(7,158)**
Balance at 31 December 2010	117,034	303	18,752	739,416	875,505

Notes from pages 7 to 57 are an integral part of these financial statements.

Semnat pentru identificare
KPMG
30 NOV 2011
Initialised for identification

Banca de Economii S.A.
STATEMENT OF CASH FLOWS
For the Year Ended 31 December 2010

	Notes	2010 MDL'000	2009 MDL'000
Cash flows from operating activities			
Interest receipts		397,937	361,582
Interest payments		(143,715)	(228,562)
Net fee and commission income		113,844	107,996
Net financial and other operating income		130,839	123,929
Staff costs paid		(119,162)	(128,107)
Payments of general and administrative expenses		(82,034)	(111,006)
Operating profit before changes in current assets		**297,709**	**125,832**
(Increase)/decrease in current assets:			
Balances with National Bank of Moldova		(116,438)	264,698
Current accounts and deposits with banks		(2,246)	19,679
Loans and advances to banks		10	960
Treasury bill with maturity over 90 days		657	306,777
Loans and advances to customers, net		(1,024,994)	(156,713)
Other assets		85,253	(597,720)
Increase/(decrease) in current liabilities:			
Deposits from banks		72,875	(16,125)
Deposits from customers		551,409	498,952
Other liabilities		5,136	(6,370)
Net cash (used in)/from operating activities before income tax		**(130,630)**	**439,970**
Income tax paid		-	(2,081)
Net cash (used in)/from operating activities		**(130,630)**	**437,889**
Cash flows from investing activities			
Purchase of property and equipment and repairment		(36,595)	(91,351)
Purchase of intangible assets and repairment		(14,044)	(14,089)
Proceeds from disposal of property and equipment		45	-
Purchase/(Receipt) of investment securities		212,885	(767,268)
Purchase of other investments		(12)	(918)
Net cash from/(used in) investing activities		**162,279**	**(873,626)**
Cash flows from financing activities			
Repayment of loans and borrowings		(495,682)	(67,101)
Proceeds from loans and borrowings received		35,898	1,153,716
Dividends paid		(6,960)	(13)
Net cash (used in)/from financing activities		**(466,744)**	**1,086,602**
Net foreign exchange difference		(15,605)	(2,145)
Net (decrease)/increase in cash and cash equivalents		**(450,700)**	**648,720**
Cash and cash equivalents at 1 January		1,360,553	711,833
Cash and cash equivalents at 31 December	**21**	**909,853**	**1,360,553**

Semnat pentru identificare
KPMG
30 NOV. 2011
Initialised for identification

Notes from pages 7 to 57 are an integral part of these financial statements.

1. Reporting entity

Banca de Economii S.A. (henceforth referred to as "the Bank") was established on 18th of September 1996 as the successor of "Banca de Economii a Moldovei" which was established in 1992 following the restructuring of the Banca de Economii of USSR, into the State Commercial Bank "Banca de Economii a Moldovei".

Currently the Government of the Republic of Moldova holds 56.13% of the ordinary shares of the Bank. The remaining shares are held by a large number of companies and individuals. By means of a contract signed between Public Property Agency and Ministry of Finance, the Government share of 56.13% is managed by Ministry of Finance through Government representative.

As at 31 December 2010 the Bank is listed on Moldova Stock Exchange with following exchange symbols: MD14BECM1002 and MD24BECM1000. As at 31 December 2010 the Bank possessed the banking license A MMII nr.004454 issued on 26 June 2008 by the National Bank of Moldova (NBM), which allows the Bank to be engaged in the following banking activities: both corporate and retail banking operations for individuals and small, micro and medium sized enterprises. The Bank's corporate banking activities consist in attracting deposit, cash management, lending and financing foreign trade operations. It offers the traditional range of banking services and products associated with foreign trade transactions including payment orders, documentation and issuing letters of credit and guarantees. The Bank also offers a comprehensive range of retail banking services for individuals: savings accounts, demand deposits and time deposits, loans and transfers of domestic and international funds.

The Bank operates through its head office located in Chisinau, 37 branches and 424 representative offices (31 December 2009: 37 branches and 425 representative offices) located in Republic of Moldova.

The registered head office of the Bank is located at 115 Columna Street, MD-2012, Chisinau.

As at 31 December 2010 the Bank has 2,462 employees (31 December 2009: 2,472 employees).

2. Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") effective at the date of reporting of financial statements, adopted by International Accounting Standards Board ("IASB").

2.2 Basis of measurement

The financial statements have been prepared on a historical cost basis or amortised cost except for assets available for sale and repossessed assets, measured at fair value.

2.3 Functional and presentation currency

The financial statements are presented in Moldovan Lei (MDL), rounded to thousands except when otherwise indicated. Financial statements are prepared in thousand MDL which is the Bank's functional and presentation currency.

2.4 Use of estimates and judgments

The preparation of financial statements in compliance with IFRSs requires management to make estimates and assumptions that affect the amounts and balances reported in the financial statements and accompanying notes. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Use of estimates and judgments is mainly discussed in Note 4 and 34.

2. Basis of preparation (continued)

2.4 Significant accounting judgments and estimates (continued)

Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has sufficient resources to continue its business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

3. Significant accounting policies

a. Foreign currency transactions

Foreign currency transactions incurred during the reporting period are recorded at the rate of exchange on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the official rates prevailing on the balance sheet date. 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 statement of comprehensive income.

The exchange rates applicable for year-end and average rates for the year were as follows:

	2010		2009	
	USD	**Euro**	**USD**	**Euro**
Average for the period	12.3663	16.3995	11.1134	15.5248
Year end	12.1539	16.1045	12.3017	17.6252

Exchange differences arising on the settlement of the transactions at rates different from those at the date of the transaction, and unrealized foreign exchange differences on unsettled foreign currency monetary assets and liabilities, are recognized in statement of comprehensive income.

Non-monetary assets and liabilities recorded at historical cost in foreign currency are retranslated using the exchange rates as at the dates of the initial transactions.

b. Loans and advances granted by the Bank

The Bank loans are loans which funds are delivered to the debtor and are recognized in the statement of financial position when funds are available for borrowers' use. These loans are initially recognised at fair value of the funds disbursed, and are subsequently measured at amortized cost using the effective interest rate method.

The Bank presents the information regarding its loan portfolio and the provision for loan and advances to customers impairment based on the following classification of customers:

- corporate;
- retail individuals.

3 Significant accounting policies (continued)

c. Financial assets and liabilities

(i) Recognition

Financial assets and financial liabilities are initially recognised at fair value, plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date that they are originated. Purchases and sales of financial assets are recognised on the trade date at which the Bank commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

(ii) Classification

The Bank classifies its financial assets and liabilities in the following categories:

Financial assets or financial liabilities at fair value through profit or loss. This category has two sub-categories: financial assets or financial liabilities held for trading, and those designated at fair value through profit or loss at inception. A financial instrument is classified in this category if acquired mainly for the purpose of short term profit-making or if so designated by management. Derivatives are also categorized as held for trading unless the derivative is a designated and effective hedging instrument. The financial instruments at fair value through profit or loss comprise listed equity securities of other entities and derivatives instruments.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Bank intends to sell immediately or in the near term, those that the Bank, upon initial recognition, designates as at fair value through profit and loss, those that the Bank, upon initial recognition, designates as available for sale or those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration. Loans and receivables comprise loans and advances to banks and customers.

Held-to-maturity investments 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 and which are not designated as at fair value through profit or loss or as available-for-sale.

Available-for-sale financial assets are those financial assets that are designated as available for sale or are not classified as loans and advances, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale instruments include treasury bonds and other bonds eligible for discounting with central banks, investments in unit funds, equity investments and other investment securities that are not at fair value through profit and loss or held-to-maturity.

Sale and repurchase agreements are securities sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized in the statement of financial position as securities and are measured in accordance with respective accounting policies. The liability for amounts received under these agreements are presented as due to banks and other financial institutions. The difference between sale and repurchase price is treated as interest expense using the effective interest rate method, and is recorded in statement of comprehensive income. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are recorded as loans and advances to other banks or customers, as appropriate.

Semnat pentru identificare
KPMG
30 NOV. 2011
Initialised for identification

3. Significant accounting policies (continued)

c. Financial assets and liabilities (continued)

(iii) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognised on its balance sheet, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the balance sheet. Transfers of assets with retention of all or substantially all risks and rewards include, for example, repurchase transactions.

Securities sold under reverse repurchase agreements are derecognised in the balance sheet and corresponding receivables from the buyer for the payment are recognised as at the date the Bank transfers the assets. The Bank uses the specific identification method to determine the gain or loss on derecognition.

(iv) Offsetting

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

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

(v) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the amount at maturity, minus any reduction for impairment.

(vi) Fair value measurement

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures which represent the best estimate of market value, financial instrument is initially recognised at transaction price and any change in value as result of measurement at fair value, is recognised in the statement of comprehensive income on appropriate basis during useful life of the instrument, but not later than when the instrument is derecognised. Where a fair value cannot be reliably estimated, unquoted equity instruments that do not have a quoted market price in an active market are measured at cost and periodically tested for impairment. As at 31 December 2010 and 31 December 2009, the instruments held by the Bank which are not quoted on an active market and their value could not be reliably estimated, are recorded at their cost minus their related depreciation.

3. Significant accounting policies (continued)

c. Financial assets and liabilities (continued)

(vii) Identification and measurement of impairment

At each balance sheet date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

The Bank considers evidence of impairment of assets both at individual and collective level. All individually significant financial assets are tested for impairment separately. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Objective evidence that financial assets (including equity securities) are impaired include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults within a group.

The Bank, based on its internal methodology of impairment evaluation, included observable data on the following loss events that come to its attention as objective evidence that loans to customers or groups of loans to customers are impaired:

1) significant financial difficulty of the issuer or obligor;
2) a breach of contract, such as a default or delinquency in interest or principal payments;
3) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
4) probability that the borrower will enter bankruptcy or other financial reorganisation;
5) the disappearance of an active market for that financial asset because of financial difficulties; or
6) observable data indicating that there is a measurable decrease in the estimated future cash flows of a certain group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
    a) adverse changes in the payment status of borrowers in the group, or
    b) national or local economic conditions that correlate with defaults on the assets in the group.
    c) evolution of debtors after the balance sheet date.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. 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 risk 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 recognised are not included in a collective assessment of impairment. The calculation of the present value of the estimated future cash flows of a collateralised loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective assessment for impairment, loans and advance to customers are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms (for example, on the basis of the Bank's credit risk evaluation or the Bank's grading process that considers the number of days of existing debt for each debtor/contract).

Semnat pentru identificare
KPMG
30 NOV. 2011
Initialised for identification

3. Significant accounting policies (continued)

c. Financial assets and liabilities (continued)

(vii) Identification and measurement of impairment (continued)

The characteristics chosen are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of loans to customers that are collectively evaluated for impairment are estimated on the basis of historical loss experience for loans with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that currently do not exist.

In case that subsequent events cause decrease of impairment loss, the impairment loss is reversed through profit and loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the acquisition cost and current fair value out of equity to profit or loss. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss.

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in equity.

The Bank reviews on a regular basis the methodology and assumptions used for estimating future cash flows in order to reduce any differences between estimated and effective loss.

Due to inherent limitation related to data structuring and current internal methodology of evaluation of impairment provisions of loans and advances to customers as at 31 December 2010, the estimated value may significantly differ from the value that would have been obtained if the Bank was supported by processing systems able to analyse in more details the historical data series. Bank is in process of implementing a new information system and work methodology which will permit better analysis of data presented above.

(viii) Designation at fair value through profit or loss

The Bank designates financial assets and liabilities at fair value through profit or loss when either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

As at 31 December 2010 and 2009 the Bank does not have financial assets or liabilities that have been designated at fair value through profit or loss.

d. Restructured 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 renegotiation of new loan terms. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews the 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 assessment.

3. Significant accounting policies (continued)

e. Financial assets held for sale, repossessed assets

Repossessed assets include collateral for non-performing loans. They are initially recorded in the statement of financial position at fair value and subsequently are assessed at minimum of balance sheet value and fair value less selling costs.

f. Financial investments

Investments held-to-maturity

Investments held-to-maturity are those financial assets which carry fixed or determinable payments and have fixed maturities and which the Bank has the intention and ability to hold to maturity. Those assets are initially recognised at fair value, plus related transaction costs. After initial measurement, investments held-to-maturity are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in "Interest income" in the statement of comprehensive income. The losses arising from impairment of such investments are recognized in the statement of comprehensive income line "Impairment losses on financial investments". Any sale or reclassification of less insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Bank from classifying investment securities as held-to-maturity for the current year and the two consecutive financial years.

Available- for- sale financial investments

All the investments which are not classified as held-to-maturity or financial assets held for trading are included in available-for-sale category. All purchases and sales of investments that require delivery within the time frame established by regulation or market convention are recognized at settlement date. Available for sale assets are initially recognized at fair value (including transaction costs). Subsequent to initial recognition they are measured at fair value or amortised cost, if their fair value cannot be reliably determined due to absence of an active market or after reliable valuation models. As at 31 December 2010 and 31 December 31 2009 the Bank had investments in shares of other entities that are held at cost value less impairment losses.

g. Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment loss.

Subsequent to initial recognition, expenses for repairs and maintenance are charged to operating expenses as incurred. Subsequent investments on property and equipment are recognized as an asset only when the investment improves the condition of the asset beyond the originally estimated value.

If the carrying amount of an asset is more than the estimated recoverable amount, the asset is written down to its recoverable amount. Gains and losses on disposals of property and equipment are determined by reference to their carrying amount and are recorded as income or expense in statement of comprehensive income.

Depreciation is calculated based on a straight-line method over the estimated useful life of the asset, as stated below:

Asset type	Years
Buildings	40-45
ATMs	10
Furniture and equipment	5 - 15
Computers	3
Vehicles	5 - 8

Useful life and residual value of assets is reviewed at each reporting date.

3. Significant accounting policies (continued)

h. Intangible assets

Intangible assets represent costs incurred for the acquisition of computer software, licenses and other intangible assets. These assets are initially recognized at cost less accumulated depreciation and impairment losses. Subsequent costs are capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenses are recorded as expenses of the period and recognized in the statement as incurred.

Intangible assets are amortized using the straight-line method over their estimated useful lives varying for computer software from 3 to 5 years and from 5 and 20 years for licenses. The amortisation license period cannot exceed their validity period.

If the carrying amount of an asset is greater than the estimated recoverable amount, it is written down to its recoverable amount.

i. Share capital

Ordinary and preferred shares
Ordinary and preferred shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Dividends
Dividends on ordinary shares are recognised as a liability in the period in which they are declared.

j. Borrowings and deposits attracted

Borrowings and deposits are initially recognized at fair value including direct costs on transactions. Subsequently borrowings and deposits are stated at amortized cost using the effective interest method and any difference between net proceeds and the redemption value is recognized in the statement of comprehensive income over the period to maturity using the effective yield method.

k. Financial guarantee contracts

Financial guarantee contracts are contracts that oblige the issuer to perform specific payments to reimburse to the holder the loss incurred in case the debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are offered 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 statement of financial position at fair value on the date the guarantee was issued. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the highest value of the initial measurement, less calculated amortization for the recognition in the statement of comprehensive income of the charged commission on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation occurred 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 Bank's Management. Any increase in the liability relating to such guarantees is recognised in the statement of comprehensive income as other operating expenses.

3. Significant accounting policies (continued)

k. Financial guarantee contracts

Off-Balance Sheet liabilities:

In the ordinary course of business, the Bank enters into guarantees recorded as off-balance items. Financial guarantees and letters of credit issued by the Bank represent forms of financial guarantees as a debtor has not paid the debt on time in accordance with the stipulations of the debt instrument. These financial liabilities are recorded in the Bank's statement of financial position if and when they become payment obligations.

l. Interest income and expenses

Interest income and expenses for financial instruments are recognised in the statement of comprehensive income at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and payments paid or received between contractual parties that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Interest income and expense presented in the statement of comprehensive income include interest on financial assets and liabilities at amortised cost on an effective interest rate basis, such as deposits, current accounts, placements and borrowings.

m. Fees and commissions

Fees and commissions income arises on financial services provided by the Bank including loan origination, commitment fees, fees related to operations with cards, cash management services, brokerage services.

Fees and commissions that directly relates to the generation of the asset or financial obligation (both income and expense) are recognised in the statement of comprehensive income as part to the effective interest rate calculation. Commitment fees on loans that are likely to be drawn down, are deferred, together with the related direct costs, and are recognised as part to the effective interest rate of the loan.

Other fees and commissions income incurred during the financial services provided by the Bank including cash management services and brokerage services are recognized in the statement of comprehensive income on the accrual basis, when the corresponding service is provided.

Other fees and commissions expense relates mainly to transaction and service fees, which are expensed as the services are provided.

n. Net trading income

Net trading income comprises all fair value changes of derivative instruments, income less the loss related to foreign exchange operations and net result on trading securities.

o. Dividend income

Dividend income is recognised in the statement of comprehensive income on the date that the dividend is declared.

3. Significant accounting policies (continued)

p. Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, current accounts and short-term placements at other banks, treasury bills and other short-term highly liquid investments, with less than 90 days initial maturity from the date of acquisition. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

q. Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

r. Pension costs and employees' benefits

Short term benefits
The Bank's short-term employment benefits include wages, bonuses, holiday pay and social security contributions. Short term employee benefits are measured on an un-discounted basis and are recognized as an expense as incurred.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Defined contribution plans
A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit or loss as incurred. The Bank, in the normal course of business makes payments to the National House of Social Insurance and to the National House of Medical Insurance on behalf of its Moldovan employees for pension, health care and unemployment benefit. All employees of the Bank are members and are also legally obliged to make defined contributions (included in the social security contributions) to the Moldovan State pension plan (a State defined contribution plan). All relevant contributions to the Moldovan State pension plan are recognised as an expense in the statement of comprehensive income as incurred. The Bank does not have any further obligations.

Bank obligation on long-term employee benefits represent an amount of future benefits that certain employees have earned her some in exchange for their services in current and previous periods, this benefit is discounted to determine its present value. Discount rate is the interest rate of the current account earned by the Bank. Any gains or losses are recognized in profit or loss in the period in they occur. The Bank has no such long-term benefits for its employees.

s. Taxation

A provision is made for all foreseeable taxation liabilities in accordance with domestic legislation currently in force.

Differences between financial reporting under IFRS and local tax regulations give rise to differences between the carrying value of certain assets and liabilities and their tax base. Deferred income tax is provided using the liability method, for all such temporary differences arising between the tax base of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax assets and liabilities are measured at tax rates that are expected to be applied to the period when the assets are realized or the liability is reimbursed, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilized. The income tax rate in force was set at 0% since 1 January 2008.

3. Significant accounting policies (continued)

t. Operating leases – the Bank as a lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the purchased asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of comprehensive income on a straight-line basis over all lease period.

u. Related parties

During its ordinary course of business for the year the Bank performed a range of banking and non-banking transactions with related parties. These transactions include loan granting, deposits opening, finance of commerce, payments, transactions with foreign currency and procurement of goods and services from related parties.
Transactions with related parties represent a transfer of resources, services or obligations between parties. Regardless of whether a price is charged, loans and deposits are contracted at market rates.
Key management personnel comprise persons with authority and responsibility for planning, directing and controlling the activity of the Bank, directly of indirectly.

v. Segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity on operating decision factors in order to make decisions about resources allocations to the segment and assess its performance and for which distinct financial information is available.
Due to the fact that legislative environment, nature of services, Bank's activity, decision making process, type of clients for which services and Bank's products are offered, the models used for rendering services are the same for all banks activities, Bank is using one single segment of activity. Operating results are reviewed by management only at Bank's level, as single segment.

w. Subsequent events after the balance sheet date

Subsequent events after the balance sheet date are presented in financial statements if they provide additional information about the Bank's position at the balance sheet date (events that need to be adjusted) or indicate that the going concern assumption is not appropriate. If significant, subsequent events that do not need to be adjusted are disclosed in the notes to the financial statements.

x. Standards and interpretations issued but not yet effective

Several new standards, amendments and interpretations to existing standards have been published are mandatory for Bank's financial periods starting 1st of January 2011 or later periods and which the Bank has not adopted yet. Some new standards and interpretations have been issued, but are not expected to have a significant material effect on financial statements of the Bank.

Management anticipates that all of the relevant pronouncements will be adopted in the Bank's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Bank's financial statements is provided below.

- **Annual Improvements 2010 (effective from 1 July 2010)**
  The International Accounting Standards Board (IASB) has issued *Improvements to IFRS 2010* (2010 Improvements). Most part of these amendments becomes effective in annual periods beginning on or after 1 July 2010 or 1 January 2011. The 2010 Improvements amend certain provisions of IFRS 3, clarify presentation of the reconciliation of each of the components of other comprehensive income and clarify certain disclosure requirements for financial instruments. The Bank's preliminary assessments indicate that the 2010 Improvements will not have a material impact on the Bank's financial statements.

3. Significant accounting policies (continued)

x. Standards and interpretations issued but not yet effective (continued)

➢ **IFRS 9 *Financial Instruments* (effective from 1 January 2013)**

The IASB aims to replace IAS 39 *Financial Instruments: Recognition and Measurement* in its entirety. The replacement standard (IFRS 9) is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning 1 January 2013. Other chapters on methodology of depreciation (value loss) and hedge accounting are still under development.

The requirements of this standard represent a significant change to existing requirements in IAS 39 on financial assets. The standard includes two main categories of financial asset assessment: amortized cost and fair value. A financial asset is measured at amortized cost if it is held as a business model, whose goal is to have activities to build contractual cash flows and asset contractual terms provide certain data cash flows only as payment of principal and interest at the balance due. All other financial assets are measured at fair value. The Standard reliminates the following guidelines set out in IAS 39: financial assets held to maturity, financial assets available for sale, and loans and receivables. The standard is effective for one-year periods starting on or after 1 January 2013. Application before that date is allowed. Bank is currently assessing the effect of this standard. Given the nature of Bank's operations, the provisions of this standard may have an impact on its financial statements.

Management has not assessed yet the impact that this amendment is likely to have on the financial statements of the Bank. However, they do not expect to implement the amendments until all chapters of IFRS 9 have been published and they can comprehensively assess the impact of all changes.

➢ **Revised IAS 24 Related Party Disclosure** (effective for annual periods beginning on or after 1 January 2011, earlier application is permitted):

The amendment exempts government-related entities from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with (a) a government that has control, joint control or significant influence over the reporting entity; and (b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. The revised Standard requires specific disclosures to be provided if a reporting entity takes advantage of this exemption. The revised Standard also amends the definition of a related party which resulted in new relations being included in the definition, such as, associates of the controlling shareholder and entities controlled, or jointly controlled, by key management personnel. Currently, the Bank has adopted IAS 24 revised starting with 1 January 2010, thus, being government related entity, will use exemption from disclosure of transactions with government related entities, as specified in paragraph 25 of IAS 24 Related Party Disclosure.

➢ **Amendments to IAS 32 "Financial Instruments: Presentation – Classification of Rights Issues"** (effective for annual periods beginning on or after 1 February 2010).

This amendment provides that the rights, options or guarantees on the purchase of a fixed number of participation instruments for a fixed amount in any currency, represent participation instruments for the entity providing the rights, options or securities pro rata to all owners of the same class with their own its non-derivative equity instruments. Amendments to IAS 32 are not relevant to the individual financial statements of the Bank because it never issued such instruments.

➢ **Improvement of IFTS 2010 – IFRS 7 "Financial Instruments: Disclosures" (effective for financial years beginning on or after 1 January 2011).**

The amendments add an explicit requirement that the qualitative presentation must be linked to quantitative presentation, to give users the ability to assess the entity's exposures to risks related to financial instruments. In addition, the IASB amended and eliminated the existing disclosure requirements. Bank has not completed analysis of the impact of this standard modification.

Semnat pentru identificare KPMG 30 NOV. 2011 Initialised for identification

3. Significant accounting policies (continued)

x. Standards and interpretations issued but not yet effective (continued)

- **IFRIC 19 "Settlement of financial liabilities with equity instruments"** (applicable for financial years beginning on or after 1 July 2010).

This interpretation states that equity instruments issued by a creditor to settle a financial liability or part thereof, in a "debt for equity" swap are considered to be paid in accordance with IAS 39.41. Initial measurement of the equity instruments issued to settle a financial liability is the fair value of those equity instruments, unless fair value cannot be measured reliably, in which case equity instrument would be measured to reflect the fair value of closed financial liability. The difference between the carrying amount of the closed financial liability (or part of the financial liability) and the value measured initially issued equity instruments be recognized in profit or loss. Currently, the Bank is in the process of assessing the potential effects of this standard.

In 2010, the Bank didn't adopt in advance new or modified standards, except for **IAS 24 Related Party Disclosure.**

y. Reclassifications

The Bank made certain reclassifications within the statement of comprehensive income for the year ended 31 December 2009 to conform to the 2010 presentation. The management of the Bank considers that the new disclosure is more representative than the previous one. The corresponding figures have been adjusted to conform to the presentation of the current period amounts. The effect of the reclassification is as follows:

	As previously reported MDL'000	**Reclassification MDL'000**	**Adjusted MDL'000**
Fee and commission income	120,987	16,831	137,818
Other operating income	18,866	(16,831)	2,035

Reclassification amounting to 16,831 thousand MDL represents commission income for banking cards.

4. Critical accounting estimates and judgments

Preparing financial statement in accordance with IFRS implies Bank to make estimates and judgments in determining amounts to be recorded in financial statements. Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments 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. Thus, effective results may be different from estimates made by Bank. Use of estimates and judgments are mainly the following:

The fair value of financial instruments

When the fair value of assets and financial liabilities recorded in the statement of financial position cannot be determined with reference to active market, it is determined using various valuation techniques that include applying mathematical models. In case if it is not possible to identify such markets, fair value is determined by applying their reasoning. Judgments include data analysis related to liquidity and application of management approved models of its calculation. Bank management, following the analysis made considers that the short-term investments in banks that are not carried at fair value in financial statements taken as their fair value is not significantly different from the value registered in the statement of financial position. Also, management believes that the values of Bank bonds, at which they are registered in financial position approximates its fair value, due to short term at which they are placed and for which no active markets exists or reliable valuation method exist in order to determine its reliable fair value.

4. Critical accounting estimates and judgments (continued)

Impairment losses on loans and advances

Bank reviews its loans and advances at each reporting date to assess whether the impairment loss should be reflected in the statement of comprehensive income. In particular, management evaluates the value and future cash flow maturity when determining the provision at the reporting date. These estimates are based on estimates of several factors, and actual results may differ, which would lead to further changes in the provision for impairment loss.

Additionally to specific provision for individually significant loans and advances, the Bank made another collective provision for impairment of its exposures, which although not individually depreciated, contain a degree of credit risk higher than at the time of the granting the loan. It takes into consideration such factors as country risk, industry and technological obsolescence and structural weaknesses or deterioration of cash flows. Specific variables that affects impairment losses are present value of future cash flows from collateral (based on payment history) and net loss generated by defaults till the date of approving this financial statements, especially for individually significant loans, in which case estimated losses is considered to be equal with net exposure adjusted with value of collaterals.

The Bank has developed a methodology for assessing the impairment of loans and advances, which was limited to three years of historical data for the period of payment and amounts of future cash flows. Bank reviews methodology and assumptions used regularly to estimate future cash flows to reduce differences between estimated losses and actual losses. The Bank has estimated impairment losses on loans and advances granted to customers using internal methodology and determined that there is no need for any additional provision, other than already recorded in this financial statements. Due to inherent limitations of significant uncertainties which exist in the local and international financial markets of the economic environment in which Bank's clients operate and asset valuation, estimates made by Bank could be revised after approval of these financial statements. The estimates may differ from the amount that would have been obtained if sufficient historical experience for the payment period and expected cash flows in case would have been available.

Impairment of capital investments

Bank evaluates capital investment as impaired when there is objective evidence of impairment. As there is no active market, it is not practical to determine the fair value of equity investments held by the Bank. The provision is estimated by comparing the Bank's share of net assets of its investments that are based on audited annual reports of companies to the carrying amounts of the investments.

5. Cash on hand

	31 December 2010 MDL'000	31 December 2009 MDL'000
Cash	335,984	359,959
Travellers' cheques	196	206
Other	39	40
	336,219	**360,205**

Semnat pentru identificare
KPMG
3 0. NOV. 2011
Initialised for identification

6. Balances with National Bank of Moldova

	31 December 2010 MDL'000	31 December 2009 MDL'000
Current account	168,690	57,180
Obligatory reserves in foreign currency	114,046	109,118
Overnight placements	150,000	120,000
	432,736	286,298

Current account and required reserves

The National Bank of Moldova (NBM) requires commercial banks to maintain for liquidity purposes minimum reserves calculated at a certain rate of the average funds borrowed by Banks, including all customer deposits. Based on the decision Nr 85 by the Administrative Council of NBM dated 15 April 2004, the method for calculation and maintaining the compulsory reserves was changed. Funds attracted in Moldovan Lei (MDL) and in non-convertible currencies are reserved in MDL. Funds attracted in US Dollars (USD) and other freely convertible currencies are reserved in USD, funds attracted in EURO (EUR) are reserved in EUR. As at 31 December 2010 the rate for calculation of the minimum compulsory reserve in all currencies was 8.0% (31 December 2009: 8.0%).

The interest paid by NBM on the compulsory reserves during 2010 varied between 0.18% and 0.39% per annum for reserves in foreign currency and 2%-4% for reserves in MDL (2009: 2% in MDL and 0.22% - 1.04% in FC per annum). The compulsory reserves on funds attracted in USD and EUR are placed in Nostro accounts of NBM at correspondent banks incorporated in OECD countries. The compulsory reserves held in the current account at NBM are available for use in the Bank's day to day operations. The above mentioned overnight placements are not pledged.

7. Placements with banks

	31 December 2010 MDL'000	31 December 2009 MDL'000
Deposits in banks (term guarantee) (ii)	2,246	2,273
Overnight placements (i)	194,088	140,476
Current accounts in banks from OECD countries	71,237	242,225
Current accounts in banks from non-OECD	3,744	4,529
Current accounts with local banks	1,923	1,563
	273,238	391,066

7. Placements with banks (continued)

(i) Overnight placements include placements in Bank of New York Mellon, (New York), in amount of USD'000 703 with an interest rate of 0.025%, in Citibank (New York) in amount of USD'000 689 with an interest rate of 0.03%, in Commerzbank AG (Frankfurt am Main) in amount of EUR'000 11,000 with an interest rate of 0.30% (2009: Bank of New York Mellon (New York) USD'000 9,139 with an interest rate of 0.025% and Citibank (New York) USD'000 2,279 with an interest rate of 0.05%). Overnight placements are not pledged as at 31 December 2010 and 31 December 2009.

(ii) Placements in banks include restricted deposit in the amount of USD'000 185 (2009: USD'000 185) representing placements with HSBC London for fund transfers through MasterCard system.

8. Loans and advances to customers, net

	31 December 2010 MDL'000	31 December 2009 MDL'000
Corporate clients	2,875,295	1,932,374
Retail	127,863	218,587
Gross loans	3,003,158	2,150,961
Less: Allowance for impairment losses	(378,324)	(176,356)
	2,624,834	1,974,605

Loans granted to related parties amounting MDL'000 1,178 (2009: MDL'000 10,753) (Please refer to Note 33) are included in Loans and advances to customers.

Analysis of loan portfolio by industry is presented below:

	31 December 2010 MDL'000	31 December 2009 MDL'000
Industry and commerce	1,678,379	938,473
Agriculture and food industry	307,418	213,237
Construction	390,428	306,749
Real estate	125,677	121,545
Fuel and energy	211,479	225,550
Consumer	69,645	131,181
Government	2,333	8,240
Transportation and road construction	183,151	108,058
Financial activities / banks	494	2,247
Others	34,154	95,681
	3,003,158	2,150,961

Interest rates on loans and advances to customers vary between 7% and 28.8% p.a. for loans and advances in Moldovan Lei (2009: 9.5% and 28.8%), and for loans and advances in foreign currency the average interest rates vary between 8.0% and 14.0% (2009: 10.0% and 15.0%).

8. Loans and advances to customers, net (continued)

The movement in provision for impairment of loans during the years 2010 and 2009 are presented below:

	31 December 2010 MDL'000	31 December 2009 MDL'000
At the beginning of the period	176,356	115,637
Write-offs	-	(1,201)
Recoveries	1,267	1,018
Charge for the period	200,701	60,902
At the end of the period	378,324	176,356
Individual impairment	323,476	94,873
Collective impairment	54,848	81,483
	378,324	176,356

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write off policy

The Bank writes off a loan balance (and any related allowance for impairment losses) when the Bank determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Collateral repossessed

During the year, the Bank took possession of industrial buildings, dwellings and land from non execution of certain loan agreements, with an estimated value of MDL'000 152, 884 (in 2010 total fair value of repossessed but unsold assets was MDL '000 145,403). Repossessed properties are sold as soon as possible, with the proceeds used to reduce the outstanding indebtedness. Repossessed property is classified in the balance sheet within other assets.

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

	31 December 2010 MDL'000	31 December 2009 MDL'000
Corporate	378,428	483,515
Retail	421	2,151
	378,849	485,666

Semnat pentru identificare KPMG 30 NOV 2011 Initialised for identification

9. Financial investments

	31 December 2010 MDL'000	31 December 2009 MDL'000
Held-to-maturity investments	501,286	1,054,467
Available-for-sale investments	8,990	8,977
	510,276	**1,063,444**

The movement in equity investment portfolio of the Bank is presented below:

	31 December 2010 MDL'000	31 December 2009 MDL'000
Held-to-maturity investments		
Balance as at 1 January	1,054,467	283,081
Additions	15,818,469	3,871,513
Disposals	(16,371,622)	(3,071,929)
Effective interest rate adjustment	(28)	(28,198)
Balance as at 31 December	**501,286**	**1,054,467**
Available for sale investments		
Balance as at 1 January	8,977	8,059
Additions	13	918
Disposals	-	-
Balance as at 31 December	**8,990**	**8,977**
	510,276	**1,063,444**

Held-to-maturity investments:

	31 December 2010 MDL'000	31 December 2009 MDL'000
Treasury bills (ii)	361,424	625,102
NBM certificates (i)	139,862	429,365
	501,286	**1,054,467**

(i) The certificates issued by the NBM as at 31 December 2010 represent certificates with a maturity up to one month in MDL with an interest rate of 7% (2009: 5% - 5.38%).

(ii) State Securities include bonds and government securities.
Bonds at 31 December 2010 represent MDL treasury bonds with maturity of 25-437 days issued by the Ministry of Finance of the Republic of Moldova with a coupon rate of 7.60% - 8.51% (2009: 5.40% - 13.92%). Treasury bills represent MDL securities of 11 and 364 maturity days issued by the Ministry of Finance of the Republic of Moldova with an interest rate between 5.37% and 9.50% (2009: between 11.91% and 25.54%).

9. Financial investments (continued)

Available for sale investments:

As at 31 December 2010 and 2009, the Bank investment securities comprise:

	Field of activity	Ownership 2010 %	31 December 2010 MDL'000	31 December 2009 MDL'000
Moldova Stock Exchange	Financial investments	2.56	7	7
Garantinvest SRL	Insurance	9.92	440	440
ASPA SA	Metals processing	7.30	824	824
Moldasig SRL	Insurance	10.20	6,120	6,120
National depository	Securities	4.69	19	6
Magistrala SA	Road construction	2.27	473	473
Autobank SA, Moscow	Banking	0.01	49	49
MoldmediaCard SRL	Transactions processing	0.44	40	40
SRL "Biroul de credit"	Data processing	10.22	1,018	1,018
			8,990	**8,977**

All available for sale financial assets are carried at cost less impairment losses as there is no active market to determine reliably their fair value. The Bank assesses at each balance sheet date whether there is any objective evidence that the financial asset is impaired.

As at 31 December 2010 and 31 December 2009 there is no internal or external evidence that the assets are impaired.

10. Property and equipment

	Land and buildings MDL'000	Furniture and equipment MDL'000	Motor vehicles MDL'000	Improve ments of leasehold assets MDL'000	Assets under construction MDL'000	Total MDL'000
Cost						
At 1 January 2010	177,239	146,441	17,917	7,348	25,496	374,441
Additions	546	3,097	-	-	34,820	38,463
Transfers	39,142	11,676	562	11	(51,391)	-
Disposals	(131)	(4,901)	(1,182)	(102)	(298)	(6,614)
At 31 December 2010	**216,796**	**156,313**	**17,297**	**7,257**	**8,627**	**406,290**
Accumulated depreciation						
At 1 January 2010	18,655	72,299	9,778	1,439	-	102,171
Charge for the year	4,565	17,943	1,952	1,562	-	26,022
Disposals	(67)	(4,635)	(1,182)	(102)	-	(5,986)
At 31 December 2010	**23,153**	**85,607**	**10,548**	**2,899**	-	**122,207**
Net book value						
At 31 December 2010	**193,643**	**70,706**	**6,749**	**4,358**	**8,627**	**284,083**
At 31 December 2009	**158,584**	**74,142**	**8,139**	**5,909**	**25,496**	**272,270**

	Land and buildings MDL'000	Furniture and equipment MDL'000	Motor vehicles MDL'000	Improve-ments of leasehold assets MDL'000	Assets under construction MDL'000	Total MDL'000
Cost						
At 1 January 2009	131,541	121,236	14,571	4,873	17,839	290,060
Additions	4,471	5,331	-	3,255	79,102	92,159
Transfers	41,250	26,172	3,346	7	(70,775)	-
Disposals	(23)	(6,298)	-	(787)	(670)	(7,778)
At 31 December 2009	**177,239**	**146,441**	**17,917**	**7,348**	**25,496**	**374,441**
Accumulated depreciation						
At 1 January 2009	15,217	63,317	7,989	789	-	87,312
Charge for the year	3,454	15,078	1,789	1,325	-	21,646
Disposals	(16)	(6,096)	-	(675)	-	(6,787)
At 31 December 2009	**18,655**	**72,299**	**9,778**	**1,439**	-	**102,171**
Net book value						
At 31 December 2009	**158,584**	**74,142**	**8,139**	**5,909**	**25,496**	**272,270**
At 31 December 2008	**116,324**	**57,919**	**6,582**	**4,084**	**17,839**	**202,748**

As at 31 December 2010 the total amount of depreciated property and equipment still in use amounted MDL'000 45,322 (2009: MDL'000 42,730).

Semnat pentru identificare
30. NOV. 2011
Initialised for identification

11. Intangible assets

	Software, licences and other items in use MDL'000	Intangible assets under development MDL'000	Total MDL'000
Cost			
At 1 January 2010	31,769	6,938	38,707
Additions/transfers	7,353	13,056	20,409
Disposals/transfers	(17)	(6,365)	(6,382)
At 31 December 2010	**39,105**	**13,629**	**52,734**
Accumulated depreciation			
At 1 January 2010	10,698	-	10,698
Charge for the year	4,326	-	4,326
Disposals	(17)	-	(17)
At 31 December 2010	**15,007**	-	**15,007**
Net book value			
At 31 December 2010	**24,098**	**13,629**	**37,727**
At 31 December 2009	**21,071**	**6,938**	**28,009**

	Software, licences and other items in use MDL'000	Intangible assets under development MDL'000	Total MDL'000
Cost			
At 1 January 2009	21,398	3,239	24,637
Additions/transfers	10,389	14,052	24,441
Disposals/transfers	(18)	(10,353)	(10,371)
At 31 December 2009	**31,769**	**6,938**	**38,707**
Accumulated depreciation			
At 1 January 2009	8,027	-	8,027
Charge for the year	2,689	-	2,689
Disposals	(18)	-	(18)
At 31 December 2009	**10,698**	-	**10,698**
Net book value			
At 31 December 2009	**21,071**	**6,938**	**28,009**
At 31 December 2008	**13,371**	**3,239**	**16,610**

12. Other assets

	31 December 2010 MDL'000	31 December 2009 MDL'000
Receivables from Western Union	5,170	8,269
Inventory and other items	4,445	5,635
Transit and suspended accounts	5,597	5,664
Repossessed assets (1)	258,036	96,304
Due from budget	21	11
Debtors on capital investments	210	1,221
Prepaid expenses (2)	14,522	25,925
Non-interest-related calculated incomes	7,546	6,176
Receivables from BC Investprivatbank in the process of liquidation (3)	507,883	589,898
Other assets	25,405	14,339
	828,835	**753,442**
Less: allowance for losses on other assets	(5,397)	(5,463)
	823,438	747,979

(1) Assets for resale include foreclosed collateral on non-performing loans. In other assets is included equipment taken in possession in amount of MDL'000 9,000 from the winery Cojusna and equipment including securities taken in possession in amount of MDL'000 22,548; real estate in amount of MDL'000 66,452 from SE "Moldresurse"; real estate taken in possession from Bramius SRL in amount of MDL'000 21,058; real estate taken in possession from Acorex Wine Holding in the amount of MDL'000 56,405 and other real estate and current assets taken as collateral.

(2) Prepaid expenses represent mostly the advances paid for the rent of premises (104/1 Columna Street, representative offices 01/165 and 01/086) in the amount of MDL'000 11,984.

(3) In other receivables is included the receivable of BC "Investprivatbank in the process of liquidation" SA in the amount of MDL'000 507,883 which is to be reimbursed according to the agreement of intention concluded as at 30 June 2009 between the Bank and "Investprivatbank in the process of liquidation" SA. According to this agreement the Bank, at the request of the liquidator of "Investprivatbank in the process of liquidation" SA, has transferred the amount of MDL'000 589,898 during 2009 as payment for individuals deposits placed at "Investprivatbank in the process of liquidation" SA. In 2010 the Bank has cashed the amount of MDL'000 82,015 from the assets recoveries made by the liquidator of "Investprivatbank in the process of liquidation" SA, as payment for the debt due by "Investprivatbank in the process liquidation" SA. (refer also to Note 35)

The movement of provision for impairment of other assets in 2010 and 2009 is presented below:

	2010 MDL'000	2009 MDL'000
Balance at beginning of the year	5,463	4,618
Writes off	(66)	(300)
Recoveries	-	1,145
Annual charge	-	-
Balance at the end of the period	5,397	5,463

Semnat pentru identificare KPMG 30 NOV. 2011 Initialised for identification

13. Deposits from banks

	31 December 2010 MDL'000	31 December 2009 MDL'000
Loans and deposits from other banks		
Loro accounts	859	2,984
Short term deposits	76,562	-
	77,421	2,984

14. Other borrowings

	31 December 2010 MDL'000	31 December 2009 MDL'000
Loans and deposits from other banks (1)		
NBM loans with fix rate due 2011/2012	507,887	589,903
NBM loans with floating rate due 2011/2012	99,685	487,655
	607,572	1,077,558
Subsidiary borrowings (2)		
IFAD loans with floating rate due 2011/2022	12,654	11,321
RISP loans with floating rate due 2013/2024	12,392	4,624
	25,046	15,945
	632,618	1,093,503

(1) Loans from NBM

Loans from the National Bank of Moldova were received for completion of liquidity, crediting of industrial sector of the economy, purchase and/or take over in stages of the assets and liabilities of CB "Investprivatbank in the process of liquidation" SA. On 30 June 2009, the Bank signed the credit agreement no. 17 with the National Bank of Moldova for a maximum of MDL'000 650,000 for a 3-year period with a due date on 30 June 2012, payable in equal quarterly instalments. The loan has an interest rate of 0.01% per annum. The loan has been received by the Bank in order to ensure obligations to individual depositors of BC "Investprivatbank in the process of liquidation" SA.

(2)

(i) Loans from RISP

The borrowings under the Rural Investment and Services Project (RISP) were received as a result of an agreement signed between the Ministry of Finance of Republic of Moldova and the World Bank, the Bank acting as an intermediary in the financing of the rural sector enterprises. Each withdrawal from the credit line has a grace period of 3 years. After the expiration of the grace period, the outstanding principal amount is reimbursed in semi-annual instalments on 1 April and, respectively, on 1 October of each year. RISP granted loans denominated in MDL.

(ii) Loans from IFAD

International Fund for Agricultural Development (IFAD) granted a loan to the Republic of Moldova for re-crediting the small rural businesses involved in agricultural sector. According to the agreement signed with the Ministry of Finance of the RM, the Bank acts as an intermediary and bears full credit risk related to individual loan agreements signed with end-borrowers. The loans are granted for a period of up to 15 years with a grace period of up to 3 years. Interest on these loans is variable and is paid according to reimbursement schedule for each separate contract. The Bank received loans from IFAD denominated in MDL.

14. Other borrowings (continued)

(ii) Loans from IFAD (continued)

IFAD and IDA resources are granted to farmers and companies which produce and sell agricultural products or provide agricultural services, which operate under any form of legal organization based on private property and engaged in economic activities in rural areas. The interest rate on these loans is variable and is determined once in a half a year. Interest rate varies between 3.7% - 9.68%.

15. Deposits from customers

	31 December 2010 MDL'000	31 December 2009 MDL'000
Payable on demand		
Corporate customers	737,975	576,415
Public Institutions	364,473	152,660
Individuals	749,937	626,737
	1,852,385	**1,355,812**
Term deposits		
Corporate customers	106,337	155,293
Public Institutions	-	-
Individuals	1,716,072	1,610,277
	1,822,409	**1,765,570**
	3,674,794	3,121,382

As at 31 December 2010 the amount of deposits pledged as collateral for the loans originated by the Bank was MDL'000 89,596 (31 December 2009: MDL'000 179,932).

The Bank's term deposit portfolio includes deposits with no rights to withdraw prior to maturity date. For such deposits, in case of premature withdrawal, the interest rate is decreased to the rate applied for demand deposits and is recalculated for the whole term of the deposit. However there are deposits that as per the placement agreement, in case of premature withdrawal allow interest computation at a reduced rate. The annual interest rates paid by the Bank for the MDL and FCY deposits of customers ranged as follows:

	2010 MDL %	2010 FCY %	2009 MDL %	2009 FCY %
Corporate customers				
Demand deposits	0.00 - 8.00	0.00 - 3.00	0.00 - 25.00	0.00 - 7.00
Term deposits up to 3 months	0.00 - 3.00	-	-	-
Term deposits >3 months < 1 year	0.00 -7.00	0.00 - 4.00	0.00 - 12.00	0.00 - 7.50
Term deposits over 1 year	0.00 - 13.00	0.00 - 9.00	0.00 - 13.00	3.50 - 9.00
Individuals				
Demand deposits	0.00 – 9.00	0.00 - 0.15	0.00 - 9.00	0.00 - 0.15
Term deposits up to 3 months	3.00 - 6.00	1.00 - 3.00	3.00 - 4.00	1.00 - 1.50
Term deposits >3 months < 1 year	4.50 - 12.00	3.00 - 5.50	4.50 - 13.50	3.50 - 5.00
Term deposits over 1 year	9.00 - 16.5	3.50 - 6.00	10.00 - 16.50	2.70 - 6.00

Semnat pentru identificare
KPMG
30 NOV. 2011
Initialised for identification

16. Taxation

	2010 MDL'000	2009 MDL'000
Current income tax		
Current income tax	-	5,023
Adjustment in respect of current income tax of prior years	-	-
	-	5,023
Income tax expense for the year	-	5,023

Current income tax is calculated on the taxable income per statutory financial statements. For tax purposes, the deductibility of certain expenses, for example entertainment costs, is limited to a percentage of profit, specified in the tax law.

The standard income tax rate in 2010 was 0% (2009: 0%).

The reconciliation between income tax expense reflected in the financial statements and the amounts calculated at the standard tax rate of 0% (2009: 0%) is as follows:

	2010 MDL'000	2009 MDL'000
Accounting profit before tax	**29,502**	**43,917**
At Moldovan statutory income tax rate of 0% (2009 – 0%)	-	-
Excess over the limit for charity expenses	-	5,023
Adjustment in respect of current income tax of prior years	-	-
At the effective income tax rate of 0% (2009: 11.44%)	29,502	5,023

Deferred tax will be zero by applying the income tax rate of 0%, effective for 2011 (2009: standard income tax rate of 0% for 2010).

17. Other liabilities

	31 December 2010 MDL'000	31 December 2009 MDL'000
Payables on Moldova-Express system	37,946	25,434
Payables on Moldova-Express Plus system	5,194	3,556
Transit and suspense accounts	10,740	10,447
Income tax and other payable	1,019	6,045
Provision for unused vacation	4,036	3,438
Non-interest bearing accruals	2,176	2,158
Other liabilities	1,109	1,768
	62,220	52,846

Semnat pentru identificare
KPMG
30 NOV. 2011
Initialised for identification

18. Share capital - ordinary and preference shares

Share capital as at 31 December 2010 constituted 23,406,764 ordinary authorized shares and 302,980 preference shares, issued in circulation with the nominal value of MDL 5 and respectively MDL 1 per share (31 December 2009: 5,851,691 ordinary shares and 75,745 preference shares). The holders of ordinary shares are entitled to receive dividends as declared and have equal voting rights. Number of shares was increased in December 2010.

	31 December 2010		31 December 2009	
	Nr of Shares	**MDL'000**	**Nr of Shares**	**MDL'000**
Ordinary Shares	23,406,764	117,034	5,851,691	29,258
Preference Shares	302,980	303	75,745	76
		117,337		29,334

As at 31 December 2010 and 2009, the shareholders' structure of the Bank is as follows:

	31 December 2010		31 December 2009	
Shareholder	**Share MDL'000**	**Share %**	**Share MDL'000**	**Share %**
Public Property Agency	65,862	56	16,466	56
Minerva SRL	11,700	10	2,925	10
Sisteme Informationale Integrate SRL	11,470	10	2,867	10
Intercontinent SRL	10,461	9	2,615	9
Zilena Com SRL	10,000	9	2,500	9
Others less than 5% ownership	7,844	6	1,961	6
Total	**117,337**	**100**	**29,334**	**100**

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at the General Meeting of the Shareholders of the Bank.

Preference shares have a nominal value of MDL 1 and have priority when dividends are declared and in case of liquidation. Preference shares do not bear voting rights. All shares rank equally with regard to the Bank's residual assets, except that preference shareholders participate to a proportional extent of the face value of the share.

19. Reserves

In accordance with the legislation of Republic of Moldova, 5% of the Bank's net profit must be transferred to a non-distributable statutory reserve until such time as this represents 10% of the share capital of the Bank. General reserve cannot be distributed among the shareholders. The reserve capital is used only to cover losses of the current financial year or to increase share capital.

20. Capital management

The Bank's objective when managing its capital is to protect the Bank's ability to continue as going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce its cost.

In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividends paid to shareholders, withdraw capital, issue new shares or sell assets to reduce debt. No changes were made in the objectives, policies and processes from the previous years.

Capital adequacy and the use of regulatory capital are monitored by the Bank's management, using techniques based on the guidelines developed by the National Bank of Moldova.

The National Bank of Moldova requires each bank to hold the minimum level of the regulatory capital (MDL'000 100,000), and maintain a ratio of total regulatory capital to the risk-weighted asset at minimum of 12%.

During 2010 and 2009, the Bank had complied in full with all its externally imposed capital requirements.

	31 December 2010 MDL'000	31 December 2009 MDL'000
Tier 1 capital		
Share capital, nominal	117,337	29,334
Retained earnings, statutory	711,140	799,728
Reserves	18,752	18,752
Less: net intangible assets	(37,727)	(28,009)
Total tier 1 capital, statutory	**809,502**	**819,805**
Tier 2 capital	-	-
Total capital, statutory	**809,502**	**819,805**
Risk weighted assets	**3,142,253**	**2,644,568**
Ratio for Tier 1capital, statutory	25.76%	31.00%
Ration for Tier 1 and 2, statutory	25.76%	31.00%

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, reserves and retained earnings after deductions for intangible assets, recognised based on National Accounting Standards and instructions and regulations of National Bank of Moldova. The other component of regulatory capital is Tier 2 capital, which includes revaluation reserves.

Semnat pentru identificare KPMG 30 NOV. 2011 Initialised for identification

21. Cash and cash equivalents

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

	31 December 2010 MDL'000	31 December 2009 MDL'000
Cash on hand	336,219	360,205
Overnight placements at National Bank of Moldova	150,000	120,000
Current accounts and deposits with banks	270,992	391,066
Treasury bills	152,642	489,282
	909,853	**1,360,553**

22. Interest income and expenses

	2010 MDL'000	2009 MDL'000
Interest income		
Due from NBM and other banks	7,321	9,206
Financial instruments – held to maturity	53,750	56,474
Loans and advances to banks	-	247
Loans and advances to customers	326,001	296,588
	387,072	**362,515**
Interest expense		
Deposits from banks	(1,562)	(1,362)
Other borrowings	(15,560)	(23,088)
Deposits from customers - individuals	(107,943)	(174,472)
Deposits from customers - companies	(21,113)	(27,356)
	(146,178)	**(226,278)**
Net interest income	**240,894**	**136,237**

Semnat pentru identificare KPMG 30. NOV. 2011 Initialised for identification

23. Net fee and commission income

	2010 MDL'000	2009 MDL'000
Commission Income		
Money transfers	20,884	21,601
Transfers via Moldova-Express	10,806	9,439
SWIFT transfers of individuals	311	666
Commissions on customer accounts maintenance	23,894	18,758
Cash transactions	31,434	32,578
Commission on guarantees and letters of credit	3,209	1,919
Commission on sale/purchase of securities	80	9
Allowances	9,988	6,791
Pension	5,741	5,250
Salaries	1,046	903
Cash delivery services	19,484	17,342
Income from operations with cards	18,995	16,831
Other	5,585	5,731
	151,457	**137,818**
Fee and commission expense		
Cash withdrawals	(7,201)	(8,616)
Payment transactions	(11,417)	(4,375)
	(18,618)	**(12,991)**
Net fee and commission income	**132,839**	**124,827**

24. Net foreign currency gain

	2010 MDL'000	2009 MDL'000
Net result from currency trading	98,371	96,074
Net result from revaluation of monetary assets and liabilities in foreign currency	(15,605)	2,145
	82,766	**98,219**

25. Other operating income

	2010 MDL'000	2009 MDL'000
Revenue from disposal of repossessed assets	483	2
Income from rent	1,393	1,762
Income from fines and penalties received	5,173	1,804
Revenues from disposal of tangibles	45	-
Revenues from disposal of other assets	2	-
Other	2,193	2,523
	9,289	**6,091**

26. Personnel expenses

	2010 MDL'000	2009 MDL'000
Wages and salaries	78,243	80,994
Bonuses	4,591	6,443
Social insurance	21,108	20,319
Medical insurance	2,933	3,100
Provision for unused vacation	598	(2,161)
Other payments	15,730	16,519
	123,203	**125,214**

The Bank makes contributions to the State Pension Fund of the Republic of Moldova, which are calculated as a percentage of gross salary and other rewards. These contributions are included into the statement of comprehensive income in the period in which the related salary was received by the employee.

27. General and administrative expenses

	2010 MDL'000	2009 MDL'000
Administration and marketing	19,442	20,724
Communications	6,911	6,722
Repairs and maintenance	4,078	3,907
Utilities	3,324	3,323
Rent	18,835	19,243
Contributions to Deposit Guarantee Fund	5,130	4,600
Transportation expenses	5,299	4,932
Transactions with cards	6,919	5,964
Expenses related to taxes	1,583	1,792
Sponsorship	5,203	35,877
Other expenses	5,310	3,922
	82,034	**111,006**

28. Guarantees and other commitments

The aggregate amounts of outstanding guarantees, commitments, and other off-balance sheet items as at 31 December 2010 and 31 December 2009 are as follows:

	31 December 2010 MDL'000	31 December 2009 MDL'000
Letters of credit	9,341	10,223
Guarantees	75,317	67,272
- guarantees for contract execution	59,098	42,283
- guarantees for participating in tenders	219	989
- guarantees to ensure customs duties	16,000	24,000
Commitments to lend funds	171,173	129,044
	255,831	206,539

28. Guarantees and other commitments (continued)

In the ordinary course of business, the Bank issues its guarantees and letters of credit on behalf of its customers. The credit risk on guarantees is similar to the risk arising from granting loans. In case of a claim on the Bank as a result of a customer's non-compliance on a guarantee, these instruments also have a certain degree of liquidity risk for the Bank.

Financing commitments represent the Bank's commitments to grant loans and advances to customers. Commitments to lend funds do not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded. The table below shows contractual expiry by maturity of Bank's guarantees and other financial commitments as at 31 December 2010 and 2009:

2010	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
	MDL'000	**MDL'000**	**MDL'000**	**MDL'000**	**MDL'000**	**MDL'000**
Letters of credit	-	9,341	-	-	-	**9,341**
Guarantees	8,118	15,945	51,254	-	-	**75,317**
Commitments to lend funds	183	515	46,847	123,628	-	**171,173**
Total	**8,301**	**25,801**	**98,101**	**123,628**	**-**	**255,831**

2009	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
	MDL'000	**MDL'000**	**MDL'000**	**MDL'000**	**MDL'000**	**MDL'000**
Letters of credit	-	10,223	-	-	-	**10,223**
Guarantees	17,262	19,805	30,205	-	-	**67,272**
Commitments to lend funds	2,860	-	32,470	93,714	-	**129,044**
Total	**20,122**	**30,028**	**62,675**	**93,714**	**-**	**206,539**

The Bank expects that not all of the contingent liabilities or commitments will be drawn before the commitments expire.

29. Capital commitments

There were no capital commitments as at 31 December 2010 and 2009.

30. Contingencies

As at 31 December 2010 and 2009 the Bank is acting as a defendant in a number of lawsuits arising from ordinary corporate activities. In the opinion of the Management and the Bank's legal department, the probability of loss is low.

31. Earnings per share

	Ordinary shares outstanding	**Profit for the year**	**Basic and diluted EPS**
		MDL'000	**MDL**
As at 31 December 2009 (revised) (i)	23,406,764	38,894	1.66
As at 31 December 2010	23,406,764	34,682	1.48

(i) In December 2010, the Bank increased its capital from retained earnings account, increasing at the same time the number of ordinary shares. In this context, the number of shares taken into account in determining earnings per share in 2009 was revised in order to present the comparative amounts with the year 2010.

30 NOV. 2011

32. Fair value of financial instruments

Fair value is the amount for which an instrument could be exchanged between knowledgeable and willing parties in an arm's length transaction. The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3: evaluation technique, for which their are no inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at 31 December 2010 and 2009 the Bank had only Level 2 held to maturity state securities and Level 3 available-for-sale equity investments.

	Carrying value 31 December 2010	Fair value 31 December 2010	Carrying value 31 December 2009	Fair value 31 December 2009
	MDL'000	MDL'000	MDL'000	MDL'000
Financial assets				
Placements with banks	273,238	273,238	391,066	391,066
Loans and advances to banks	-	-	10	10
Loans and advances to customers	2,624,841	2,927,639	1,974,605	1,723,981
Investment securities – AFS	8,990	8,990	8,977	8,977
Financial liabilities				
Due to banks	77,421	77,421	2,984	2,984
Due to customers	3,674,794	3,652,829	3,121,382	3,083,976
Other borrowings	632,618	581,055	1,093,503	993,144

(i) Loans and advances to banks
Loans and advances to banks include inter-bank placements and loans. The fair value of floating rate placements and overnight deposits approximates their carrying amount. The estimated fair value of investments with fixed interest is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

(ii) Loans and advances to customers
Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(iii) Borrowings, including due to other banks and due to customers
The fair value of floating rate borrowings approximates their carrying amount. The estimated fair value of fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

(iv) Held to maturity investments
The fair value of held to maturity investments approximates the book value. Mainly represent investments in securities issued by the National Bank of Moldova.

32. Fair value of financial instruments (continued)

The interest rates used to discount the future cash flows as at 31 December 2010 (average active market rate according to BNM statistics as at 31 December 2011) are presented below.

	% MDL	% FCY
Loans to customers		
Corporate clients	18.97	13.73
Individuals	14.04	9.19
Deposits and current accounts		
Corporate clients	11.04	4.58
Individuals	9.78	3.16

33. Related parties

During the year, in the normal course of business, the Bank held a number of banking and non-banking transactions with its related parties. These include loans granting, deposit taking, trade finance, payment settlement, foreign currency transactions and acquisition of services and goods from related parties. Loans to employees and other related parties were granted at market rates. Below is presented the balances and transactions with related parties during the year:

	Loans outstanding as at the year end, net MDL'000	Deposits at the year end MDL'000	Interest and commission income MDL'000	Interest and commission expenses MDL'000	Non-interest income MDL'000
2010	1,178	8,041	178	317	7
2009	10,152	7,633	760	674	16

All transactions and balances mentioned above were performed with Bank minority shareholders holding less than 5% from total shares.

Terms and conditions of transactions with related parties
The above mentioned outstanding balances arose from the ordinary course of business. The interest charged to and by related parties is at normal commercial rate. Loans to employees were granted at market rates. There have been no guarantees provided or received from any related parties receivables or payables. For the year ended 31 December 2010, the Bank has not made doubtful debts relating to amounts owed by related parties (2009: Nil).

Directors' remuneration
As at 31 December 2010 the executive management received remuneration in total amount of MDL'000 7,659 (2009: MDL'000 9,532).

Exposures to state enterprises
Government of Moldova has control and significant influence on bank activities through Public Property Agency (please see note 18). During the reporting period, the Bank entered into transactions related to capital increase with Public Property Agency, presented in Note 18. In addition, the Bank entered into a number of banking transactions the related parties in the ordinary course of business, which were carried on commercial terms and conditions and at market rate with state entities being together with the Bank under common control of the charter. These included settlements, loans granting, deposit taking, and foreign currency transactions.

33. Related parties (continued)

Maximum exposure, gross, for operations with related parties (government related entities) are reflected below:

MDL'000	31 December 2010	Share in total Balance Sheet	31 December 2009	Share in total Balance Sheet
Assets				
Loans and advances to customers, net	122,655	4%	87,765	4%
Held up to maturity (i)	361,424	72%	625,102	59%
Liabilities				
Amounts owed to customers (ii)	364,473	10%	152,660	5%

i. On December 31, 2010 investments held until maturity include bonds issued by the Ministry of Finance of the Republic of Moldova with an interest rate of 7.93% (20009: 11.77%);

ii. Include debts owed to customers of Moldova Express System on payments by the National Social Insurance House, which on December 31, 2010 are in the amount of MDL '000 29,188 (December 31, 2009 – MDL '000 19,294); Commission income from the payment of allowances for 2010 are MDL '000 9,988 (2009 MDL '000 6,791). Commission income for pension distributions MDL '000 5,741 (2009: '000 5,250).

34. Risk management

Section provides details on the Bank's exposure to risk and describes the methods used by management to control risks.

The Bank's activities expose it to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems in order to make sure that they reflect changes in markets, products and emerging best practice.

The Bank has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Currency risk
- Interest rate risk

34.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Bank by failing to discharge its obligations. Credit risk is the most important risk for the Bank's business; therefore, management carefully estimates its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments.

34 Risk management (continued)

34.1 Credit risk (continued)

The Bank structures the levels of credit risk it undertakes by placing limits on the level of risk accepted in relation to one borrower, or groups of borrowers, and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product and industry sector are approved quarterly by the Board of Directors.

The exposure to any borrower including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Bank enters into transactions only with those parties, who have demonstrated satisfactory reliability and after that, obtain necessary collateral. As part of the credit portfolio management, according to Bank lending policy, approved annually by the Bank, the Bank provides loans for which principal payments begin after a period of 6 to 12 months from date of award and also in certain cases some restructurings occurs, therefore extending the period of credit that were originally granted. In the period after the balance sheet date of these financial statements, including year 2011, Bank management estimates that there will occur a series of exposures that will be extended for periods that were originally granted. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining the collateral and the corporate and personal guarantees. Most credit risk concentrations are generated by location and type of client in relation to investments, loans and guarantees granted by the Bank. Bank lending is carried out in Moldova. Borrowers' ability to repay debt depends on a number of factors, including the financial solvency of the each debtor, and of the economy as a whole. The loan portfolio includes loans to 6,796 legal entities and individuals (2009: 7,849). Credit risk management is done regularly by careful monitoring of compliance with credit limits by assessing the creditworthiness of borrowers and adherence to conservative provisioning policy.

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit – which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties – carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry lower risk than a direct landing.

Commitments related to extension of credit represent unused portions of authorisations to provide credits in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments.

However, the likely amount of loss is less than the total unused commitments, as most commitments of credit extension are contingent upon customers maintaining specific credit standards. The Bank monitors the term of maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than short-term commitments.

Semnat pentru identificare
KPMG
30. NOV. 2011
Initialised for identification

34 Risk management (continued)

34.1 Credit risk (continued)

Maximum exposure to credit risk before collateral held or other credit enhancements:

	Notes	31 December 2010 MDL'000	31 December 2009 MDL'000
Balances with National Bank	6	432,736	286,298
Placements with banks	7	273,238	391,066
Loans and advances to customers, net	8	2,624,841	1,974,605
Financial investments – held-to-maturity	9	501,286	1,054,467
Other assets	12	550,854	620,116
Total		4,382,955	4,326,552
Letters of credit	28	9,341	10,223
Guarantees	28	75,317	67,272
Financing commitments	28	171,173	129,056
Total		255,831	206,551
Total credit risk exposure		4,638,786	4,533,103

The above table represents a worst-case scenario of credit risk exposure to the Bank at 31 December 2010 and 2009, without taking into account any collateral held or other credit enhancements attached. For on balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

As shown above, 57% of the total maximum exposure is derived from loans and advances to banks and customers (2009: 44%); 11% represents investments held to maturity (2009: 23%).

Risk concentrations of the maximum exposure to credit risk
The Bank's concentrations of risk are managed at individual level by client/counterparty and by industry sector. The maximum credit exposure to any client or counterparty as at 31 December 2010 was MDL'000 129,620 (as at 31 December 2009: MDL'000 92,959) before taking account of collateral or other credit enhancements.

For analysis of concentration per industry please refer to Note 8.
Loans and advances are summarized as follows:

	31 December 2010			31 December 2009		
	Corporate MDL'000	Individuals MDL'000	Total MDL'000	Corporate MDL'000	Individuals MDL'000	Total MDL'000
Neither past due nor individually impaired*	1,987,155	120,343	2, 107,497	1,176,399	209,480	1,385,879
Past due but not individually impaired*	69,531	7,520	77,051	78,415	9,107	87,522
Individually impaired	818,610	-	818,610	677,560	-	677,560
Total	2,875,295	127,863	3,003,158	1,932,374	218,587	2,150,961

* Also includes collectively impaired loans.

34 Risk management (continued)

34.1 Credit risk (continued)

(i)Loans and advances neither past due nor impaired on individual basis
The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Bank.

(ii)Loans and advances individually impaired

As at December 31, 2010, the Bank had individually impaired loans and advances to in amount of MDL'000 818,610 (2009: MDL'000 677,560). The fair value of collateral that the Bank holds relating to individually impaired loans at 31 December 2010 is MDL'000 942,226 (2009: MDL'000 514,841). The collateral consists mainly of real estate and other properties, as well as ceded receivables.

(iii) Loans and advances renegotiated/restructured

Table below comprise value of renegotiated/restructured loans held by Bank:

31 December 2010	**Standard**	**Watch**	**Sub-standard**	**Doubtful**	**Loss**	**Total**
	MDL'000	**MDL'000**	**MDL'000**	**MDL'000**	**MDL'000**	**MDL'000**
Corporate	742, 617	1,238, 819	5,719	-	-	1,987,155
Retail	113,380	4,037	2,925	-	-	120,343
Total	855,998	1,242,856	8,644	-	-	2, 107,497

31 December 2009	**Standard**	**Watch**	**Sub-standard**	**Doubtful**	**Loss**	**Total**
	MDL'000	**MDL'000**	**MDL'000**	**MDL'000**	**MDL'000**	**MDL'000**
Corporate	990,873	185,101	425	-	-	1,176,399
Retail	209,480	-	-	-	-	209,480
Total	1,200,353	185,101	425	-	-	1,385,879

Below is a brief description of the internal rating categories used by the Bank:

Standard – not overdue loans, for which all contractual conditions are fully met and there are no reasons that would indicate that the Bank currently or in the future would incur losses.

Watch – loans with potential problems due to the financial situation of the counter party or the collateral coverage that need attention from the management of the Bank.

Sub-standard – loans with a higher degree of risk of losses due to the unfavourable or worsening financial situation, insufficient or worsening collateral coverage, other unfavourable factors that may lead to losses if such factors are not addressed.

Doubtful –problem loans that reduce the probability of fulfilling current and future obligations related to the loan in full based on current circumstances and conditions.

Loss – loans that cannot be reimbursed, as well as there is no possibility to execute the decision of juridical body to reimburse the loan due to the absence of assets to be realized in order to recover the loan or such assets are illiquid.

34 Risk management (continued)

34.1 Credit risk (continued)

Loans and advances past due but not individually impaired

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class of customers that were past due but not impaired were as follows:

31 December 2010	**Less than 30 days**	**From 31 to 60 days**	**From 61 to 90 days**	**Over 91 days**	**Total**
	MDL'000	**MDL'000**	**MDL'000**	**MDL'000**	**MDL'000**
Corporate	187	3,516	7,949	57, 879	69,531
Retail	51	2,736	1,186	3,547	7,520
Total	238	6,252	9,135	61,426	77,051

31 December 2009	**Less than 30 days**	**From 31 to 60 days**	**From 61 to 90 days**	**Over 91 days**	**Total**
	MDL'000	**MDL'000**	**MDL'000**	**MDL'000**	**MDL'000**
Corporate	12,157	9,551	8,020	48,687	78,415
Retail	2,390	1,116	4,236	1,365	9,107
Total	14,547	10,667	12,256	50,052	87,522

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, stock of materials and equipment as well as corporate guarantees and cash deposits. Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets.

The fair value of collateral is presented in the table below:

	31 December 2010	**31 December 2009**
	MDL'000	**MDL'000**
Real estate	2,514,654	1,502,733
Equipment	786,269	225,594
Cars	101,859	448,043
Working capital	183,107	276,130
Cash deposits	84,243	139,340
Other	460,527	378,470
	4,130,658	2,970,309

34 Risk management (continued)

34.1 Credit risk (continued)

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by geographical region as at 31 December 2010 and 31 December 2009. For this table, the Bank has allocated exposures to regions based on the country of domicile of its counterparties.

The Bank's concentration of assets and liabilities, by countries is set out in the table below:

	31 December 2010		31 December 2009	
	Total assets MDL'000	Total liabilities MDL'000	Total assets MDL'000	Total liabilities MDL'000
Moldova	5,027,417	4,437,142	4,736,653	4,270,101
European Union	261,982	1,387	241,420	388
Russia	8,632	5,080	3,053	1
USA	23,266	377	141,708	-
Other countries	1,261	3,067	1,042	225
	5,322,558	4,447,053	5,123,876	4,270,715

34.2 Market risk

The economy of the Republic of Moldova continues to display characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of the country; a low level of liquidity in the public and private debt and equity markets and relatively high inflation.

Additionally, the financial services sector in the Republic of Moldova is vulnerable to adverse currency fluctuations and economic conditions.

The prospects for future economic stability in the Republic of Moldova are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal and regulatory developments.

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Bank separates exposures to market risk into either trading or non-trading portfolios.

34 Risk management (continued)

34.2.1 Currency risk

Currency risk is the risk of loss resulting from changes in exchange rates.

The national currency did not suffer depreciation during 2010, thus the net assets expressed in MDL were not exposed to value risk. The Bank maintains a long equilibrated position between the assets and liabilities in currency in order to ensure against this risk.

Sensitivity analysis to currency risk

The Bank performed a sensitivity analysis to currency risk at which it is reasonably exposed at 31 December 2010, showing how statement of comprehensive income could have been affected as a result of possible changes in currency rates.

The tables below show the currencies for which the Bank has significant exposure to currency risk as at 31 December 2010 and as at 31 December 2009, for the balance sheet items that are sensitive to the currency rates' modifications. The analysis demonstrates the effect of reasonably possible changes in currency rates against Moldovan Leu with all other variables held constant. Except for the effect presented below, there is no other impact on Company's equity:

Net currency position	Nominal value	Possible rate increase, in	Income/(Loss) effect	Possible rate decrease, in	Income/(Loss) Effect
	MDL'000	%	MDL'000	%	MDL'000
As at 31 December 2010					
EUR	(28,390)	5%	(1,420)	-5%	1,420
USD	(34,108)	5%	(1,705)	-5%	1,705
As at 31 December 2009					
EUR	(37,301)	5%	(1,865)	-5%	1,865
USD	(13,652)	5%	(683)	-5%	683

Semnat pentru identificare KPMG 30 NOV. 2011 Initialised for identification

34. Risk management (continued)

34.2. Market risk (continued)

34.2.1 Currency risk (continued)

Statement of financial position structure by currency

The foreign currency breakdown of the Bank's assets and liabilities and the sensitivity analysis of Bank's exposure to currency risk is presented below:

	31 December 2010				
	Total	**MDL**	**EUR**	**USD**	**Other**
	MDL'000	**MDL'000**	**MDL'000**	**MDL'000**	**MDL'000**
ASSETS					
Cash on hand	336,219	217,885	77,454	31,159	9,721
Balances with National Bank	432,736	318,690	77,152	36,894	-
Placements with banks	273,238	31	220,478	23,073	29,656
Loans and advances to banks	-	-	-	-	-
Loans and advances to customers	2,624,841	1,619,213	684,045	321,583	-
Financial investments – available-for-sale	8,990	8,990	-	-	-
Financial investments – held-to-maturity	501,286	501,286	-	-	-
Property and equipment	284,083	284,083	-	-	-
Intangible assets	37,727	37,727	-	-	-
Other assets	823,438	784,647	19,373	19,405	13
Total assets	**5,322,558**	**3,772,552**	**1,078,502**	**432,114**	**39,390**
LIABILITIES					
Deposits from banks	77,421	76,574	-	847	-
Other borrowings	632,618	632,618	-	-	-
Deposits from customers	3,674,794	2,088,021	1,100,199	456,750	29,824
Other liabilities	62,220	45,622	6,693	8,625	1,280
Total liabilities	**4,447,053**	**2,842,835**	**1,106,892**	**466,222**	**31,104**
GAP	**875,505**	**929,717**	**-28,390**	**-34,108**	**8,286**

34 Risk management (continued)

34.2. Market risk (continued)

34.2.1 Currency risk (continued)

Statement of financial position structure by currency (continued)

	31 December 2009				
	Total MDL'000	**MDL MDL'000**	**EUR MDL'000**	**USD MDL'000**	**Other MDL'000**
ASSETS					
Cash on hand	360,205	209,488	106,792	34,680	9,245
Balances with National Bank	286,298	177,179	71,223	37,896	-
Placements with banks	391,066	11	234,104	146,083	10,868
Loans and advances to customers	1,974,605	1,380,348	401,346	192,911	-
Financial investments – available-for-sale	8,977	8,977	-	-	-
Financial investments – held-to-maturity	1,054,467	1,054,467	-	-	-
Property and equipment	272,270	272,270			
Intangible assets	28,009	28,009			
Other assets	747,979	730,887	1,335	15,741	16
Total assets	**5,123,876**	**3,861,636**	**814,800**	**427,311**	**20,129**
LIABILITIES					
Deposits from banks	2,984	12	-	2,972	-
Other borrowings	1,093,503	1,093,503	-	-	-
Deposits from customers	3,121,382	1,829,592	844,628	434,547	12,615
Other liabilities	52,846	40,734	7,473	3,444	1,195
Total liabilities	**4,270,715**	**2,963,841**	**852,101**	**440,963**	**13,810**
GAP	**853,161**	**897,795**	**(37,301)**	**(13,652)**	**6,319**

34.2.2 Interest rate risk

Interest rate risk is the risk of loss resulting from changes in interest rates. Interest rate risk consists of the risk of fluctuation in the value of a financial instrument, as a result of variation in interest rates on the inter-bank market and the GAP risk between maturities for interest bearing assets and liabilities.

Interest rate fluctuations can affect Bank's profit, assets economic value, liabilities and off-balance sheet items. Thus, the effective period of interest rate established for a financial instrument indicates the extent of Bank's risk toward interest rate risk. The bank re-establishes the cost of assets and liabilities. The financial instruments are bearing the interest market rate, thus the fair values do not differ significantly from the accounting values.

The Bank grants loans and accepts deposits at both fixed rates and variable ones. Loans at variable rates to clients as well as deposits from clients represent instruments for which the Bank has the right to modify unilaterally the rates as a consequence of possible changes on the market. Bank notifies its clients 15 days in advance of the changes. Using these instruments, the Bank secures additionally its exposure to interest rate risk and is able to manage the market impact over income statement.

34 Risk management (continued)

34.2 Market risk (continued)

34.2.2 Interest rate risk (continued)

According to the internal and external financial market evolution, the Bank forecasts the evolution of interest rates for its assets and liabilities and their impact on net interest income. The Bank estimates a fluctuation in interest rates of +/- 100 and +/-50 basis points to be reasonable for 2010 and 2009:

	Increase in basis points	Sensitivity of Net Interest Income MDL'000	Decrease in basis points	Sensitivity of Net Interest Income MDL'000
2010	+100	(26,180)	-100	26,180
	+50	(13,090)	-50	13,090
2009	+100	(7,919)	-100	7,919
	+50	(3,959)	-50	3,959

An illustration of the Bank's exposure to interest rate risks at 31 December 2010 and 31 December 2009 is presented below. The table presents the Bank's assets and liabilities at carrying amounts, categorized by the earlier of contractual reprising or maturity dates:

34.2 2 Interest rate risk (continued)

2010	Total MDL'000	Less than 1 month MDL'000	From 1 month to 3 months MDL'000	From 3 months to 1 year MDL'000	From 1 to 5 years MDL'000	More than 5 years MDL'000	Non-interest bearing items MDL'000
ASSETS							
Cash on hand	336,219	-	-	-	-	-	336,219
Balances with National Bank	432,736	432,736	-	-	-	-	-
Placements with banks, net	273,238	265,554	-	-	-	-	7,684
Loans and advances to banks, net	-	-	-	-	-	-	-
Loans with variable interest rate, net	2,624,841	2,609,871	-	-	-	-	14,970
Loans with fixed interest rate	-	-	-	-	-	-	-
Financial investments – available-for-sale	8,990	-	-	-	-	-	8,990
Financial investments – held-to-maturity, net	501,286	219,420	133,508	136,971	9,632	-	1,755
Property and equipment	284,083	-	-	-	-	-	284,083
Intangible assets	37,727	-	-	-	-	-	37,727
Other assets, net	823,438	-	-	-	-	-	823,438
Total assets	5,322,558	3,527,581	133,508	136,971	9,632	-	1,514,866
LIABILITIES							
Deposits from banks	77,421	-	75,000	-	-	-	2,421
Other borrowings	632,618	123,520	-	-	507,883	-	1,215
Deposits from customers (variable interest rate)	3,669,263	3,357,559	-	-	-	-	311,704
Deposits from customers (fixed interest rate)	5,531	5,531	-	-	-	-	-
Other liabilities	62,220	-	-	-	-	-	62,220
Total liabilities	4,447,053	3,486,610	75,000	-	507,883	-	377,560
Interest gap	875, 505	40,971	58,508	136,971	(498,251)	-	1,137,306
Cumulative interest gap		40,971	99,479	236,450	(261,801)	(261,801)	875, 505

Semnat pentru identificare
Initialised for identification
30 NOV. 2011

34.2 2 Interest rate risk (continued) 2009	Total MDL'000	Less than 1 month MDL'000	From 1 month to 3 months MDL'000	From 3 months to 1 year MDL'000	From 1 to 5 years MDL'000	More than 5 years MDL'000	Non-interest bearing items MDL'000
ASSETS							
Cash on hand	360,205	-	-	-	-	-	360,205
Balances with National Bank	286,298	286,298	-	-	-	-	-
Placements with banks, net	391,066	380,654	-	-	-	-	10,412
Loans with variable interest rate, net	1,974,605	1,692,019	-	-	-	-	282,586
Loans with fixed interest rate	-	-	-	-	-	-	-
Financial investments – available-for-sale	8,977	-	-	-	-	-	8,977
Financial investments – held-to-maturity, net	1,054,467	489,282	439,774	121,411	4,000	-	-
Property and equipment	272,270	-	-	-	-	-	272,270
Intangible assets	28,009	-	-	-	-	-	28,009
Other assets, net	747,979	10	-	-	-	-	747,969
Total assets	5,123,876	2,848,263	439,774	121,411	4,000	-	1,710,428
LIABILITIES							
Deposits from banks	2,984	2,984	-	-	-	-	-
Other borrowings	1,093,503	-	300,000	186,690	599,656	4,841	2,316
Deposits from customers (variable interest rate)	3,119,226	3,119,226	-	-	-	-	-
Deposits from customers (fixed interest rate)	2,156	2,041	115	-	-	-	-
Other liabilities	52,846	-	-	-	-	-	52,846
Total liabilities	4,270,715	3,124,251	300,115	186,690	599,656	4,841	55,162
Interest gap	853,161	(275,988)	139,659	(65,279)	(595,656)	(4,841)	1,655,266
Cumulative interest gap		(275,988)	(136,329)	(201,608)	(797,264)	(802,105)	853,161

Semnat pentru identificare KPMG 30 NOV 2011 Initialised for identification

34.3 Operational risk

The Bank has a rigorously conceived administration body. It includes a clear organizational structure with well defined responsibilities, transparent and coherent, efficient risk identification, administration, monitoring and reporting processes and adequate internal control mechanism, which include solid administration and accounting procedures.

The Bank observes the stipulations for operational risk administration from the regulations and other documents, as well as the recommendations issued by the National Bank of Moldova.

34.4 Liquidity risk

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees. The Bank does not maintain cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other financial instruments that should be sufficient to cover withdrawals at unexpected levels of demand.

The control of matching or mismatching of maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for financial institutions to be completely matched, as transacted business is often of uncertainty term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

Considering the coefficients for the renewal of resources base contracted from the customers, in spite of substantial number of deposits having contractual maturity dates within three months, the diversification of these deposits by number and type, considering the Bank's past experience, would indicate that these deposits provide a long-term and stable source of funding for the Bank.

The tables below classify the Bank's assets and liabilities into relevant maturity groups based on the remaining period to the contractual maturity date.

34.4 Liquidity risk (continued)

2010	Less than 12 months MDL'000	More than 12 months MDL'000	Total MDL'000
ASSETS			
Cash on hand	336,219	-	336,219
Balances with National Bank	432,736	-	432,736
Placements with banks	273,238	-	273,238
Loans and advances to banks	-	-	-
Loans and advances to customers	801,667	1,823,174	2,624,841
Financial investments – available-for-sale	-	8,990	8,990
Financial investments – held-to-maturity	491,654	9,632	501,286
Property and equipment	-	284,083	284,083
Intangible assets	-	37,727	37,727
Other assets	130,030	693,408	823,438
Total assets	**2,465,544**	**2,857,014**	**5,322,558**
LIABILITIES			
Deposits from banks	77,421	-	77,421
Other borrowings	103,471	529,147	632,618
Deposits from customers	3,443,265	231,529	3,674,794
Other liabilities	62,220	-	62,220
Total liabilities	**3,686,377**	**760,676**	**4,447,053**
Maturity gap	**(1,220,833)**	**2,096,338**	**875, 505**

34.4 Liquidity risk (continued)

2009	Less than 12 months MDL'000	More than 12 months MDL'000	Total MDL'000
ASSETS			
Cash on hand	360,205	-	360,205
Balances with National Bank	270,614	15,684	286,298
Placements with banks	391,066	-	391,066
Loans and advances to customers	1,030,411	944,194	1,974,605
Financial investments – available-for-sale	-	8,977	8,977
Financial investments – held-to-maturity	1,050,467	4,000	1,054,467
Property and equipment	-	272,270	272,270
Intangible assets	-	28,009	28,009
Other assets	147,485	600,494	747,979
Total assets	**3,250,248**	**1,873,628**	**5,123,876**
LIABILITIES			
Deposits from banks	2,984	-	2,984
Other borrowings	489,006	604,497	1,093,503
Deposits from customers	2,925,179	196,203	3,121,382
Other liabilities	52,846	-	52,846
Total liabilities	**3,470,015**	**800'700**	**4,270,715**
Maturity gap	**(219,767)**	**1,072,928**	**853,161**

Semnat pentru identificare
KPMG
3 0. NOV. 2011
Initialised for identification

34.4 Liquidity risk (continued)

The table below summarizes the maturity profile of the Bank's financial liabilities at 31 December 2009 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment at the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

2010	**On demand MDL'000**	**Less than 3 months MDL'000**	**From 3 months to 1 year MDL'000**	**From 1 to 5 years MDL'000**	**More than 5 years MDL'000**	**Total MDL'000**
Due to banks	859	77,240	-	-	-	78,099
Other borrowings	-	3,600	104,928	527,977	7,961	644,466
Due to customers	1,847,639	470,475	1,166,249	240,989	58,149	3,783,501
	1,848,498	**551,315**	**1,271,177**	**768,966**	**66,110**	**4,506,066**

2009	**On demand MDL'000**	**Less than 3 months MDL'000**	**From 3 months to 1 year MDL'000**	**From 1 to 5 years MDL'000**	**More than 5 years MDL'000**	**Total MDL'000**
Due to banks	2,984	-	-	-	-	2,984
Other borrowings	-	305,197	192,747	609,895	5,822	1,113,661
Due to customers	1,301,148	590,440	1,084,158	230,634	1,846	3,208,226
	1,304,132	**895,637**	**1,276,905**	**840,529**	**7,668**	**4,324,871**

34.5 Business environment and country risk

The process of adjusting value based on risk which took place on financial markets in 2009 and 2010 affected performance of those markets, including finance-banking market from Republic of Moldova, leading to increased uncertainty concerning future economic evolution.

During past year, banking sector was affected by credit crisis, determined by increased public debts exposure for many European countries. The ongoing fears that such deteriorating financial conditions could contribute, at a later stage to a further retrenchment in confidence, prompted a coordinated effort of governments and Central Banks to adopt special measures aimed at countering a vicious circle of growing risk aversion and to helping maintain normal market functioning.

Current liquidity and credit crisis which began in 2008 lead to difficult access and at lower level to funds from capital markets, lower liquidity levels from banking sector. Significant losses which were incurred on international financial markets could affect Bank capacity to contract new borrowings and refinancing of existing one in conditions similar with those existing previously.

The identification and valuation of investments influenced by the illiquid market conditions, the determination of compliance with debt agreements and other contract covenants, and the evaluation of significant uncertainties, including uncertainties associated with an entities' ability to continue as going concern for a reasonable period of time, bring their own challenges.

Consumption decision was continuously influenced by limiting revenues received and pessimistic expectations regarding further financial situation and certainty on working place. For this reasons, overall at finance-banking sector were registered increase in overdue debts for loans/financing and of provisions created by banks, thus in 2010, entered in negative evolution of profitability indicators for banking system.

Semnat pentru identificare
30 NOV. 2011
Initialised for identification

34.5 Business environment and country risk (continued)

Deteriorating operating conditions for customers may also have an impact on the management cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has reflected revised estimates of expected future cash flows in its impairment assessment.

Bank's management estimate that difficulties that affected economy in past years will not affect with same intensity during year 2011, however the net cost of credit/financing risk will impact significantly also in 2011 over financial results of finance - banking sector from Republic of Moldova. Banks management could not estimate with certain high rank certainty events which could impact banking sector from Republic of Moldova and subsequently what effects it will have over financial statements.

Bank management estimates certain increased percentage of impairment losses, for 2011, for loans/ financing, with respective effects over financial statements of the Bank, however they could not estimate with certainty effects of liquidity deterioration, due to market decreasing liquidity, volatility of national currency and financial market.

Management is unable to predict all developments which could have an impact on the Moldovan financial institutions sector and consequently what effect, if any, they could have on these financial statements. Management believes it is taking all the necessary measures to support the sustainability and growth of the Bank's business in the current circumstances by:

- preparing of strategy of liquidity risk management in order to face liquidity crisis;
- forecasting on short-term basis its net liquidity position;
- constant liquidity monitoring
- examining terms and conditions of financing agreements and considering the implications of obligations imposed and risks identified such as approaching maturity dates or the implications of any terms or covenants that may have been breached or which may be breached in the foreseeable future.
- continuous improvement of risk management
- constant monitoring of relevant ratios for banks stability
- adequate provision policy , special actions for monitoring of quality of loan portfolio;

Given the fact that the market conditions and uncertainties are likely to continue to exist in 2011 and perhaps later, other negative effects may be felt beyond the dates of these financial statements.

35. Subsequent events

(1) During the year 2011, the Bank received MDL 31,291,306 as repayment of debt from BC Investprivatbank SA in the process of liquidation.

On 21 October 2011, the law Nr. 190 dated 30 September 2011 was published "Law regarding additional measures for the insuring of financial stability, through which additional measures were established that must be implemented by the state, banks, and the Deposit guarantee fund, in order to maintain the financial stability", approved by the Parliament of the Republic of Moldova.

Article 2 of the mentioned law specifies that the Deposit guarantee fund will transfer in the course of 5 days from the day the law takes effect to Banca de Economii SA the amount of MDL 48,091,754, which represents the total amount of the deposits of individuals paid by BC Investprivatbank SA in the process of liquidation, the payment to the depositors from the amounts granted as a credit by Banca de Economii. As a result of the transfer, the amount of the receivable of the Bank towards BC Investprivatbank SA in the process of liquidation will be decreased by the value of amount transferred.

35. Subsequent events (continued)

On 24 October 2011, was issued payment order nr. 123 for total amount of MDL 48,091,754 from Deposit guarantee fund to Banca de Economii SA, as payment specified in Law nr. 190 dated 30 September 2011.

Article 3 of this law mentions that in the course of 7 working days from the day the law comes into force, state bonds will be issued and delivered to Banca de Economii in order to assume the receivables of Banca de Economii towards BC Investprivatbank SA in process of liquidation, which resulted from payment of deposits to individuals of BC Investprivatbank SA in the process of liquidation. State bonds will be issued in the amount of MDL 436,908,300 nominal value, at the fixed interest rate of 0.01%, with the condition of redemption in quarterly rates until 30 December 2015. Volume of issued state obligations is equal the debt amount to be received by Banca de Economii SA from BC Investprivatbank SA in process of liquidation, at the moment of issuance of state obligations. As at 25 October 2011 debt balance was MDL 428,500,000. State obligations were issued on 25 October 2011 in amount of MDL 428,500,000.

The conditions for the issue and redemption of state bonds are set according to the agreement between the Ministry of Finance and Banca de Economii SA Nr. 63 dated 25 October 2011. Ministry of Finance will subrogate Banca de Economii in its reports related to the liabilities from BC Investprivatbank SA in process of liquidation. The Bank will transfer to the Ministry of Finance all the documents related to the mentioned debt. The Bank has obligation not to make any transactions on secondary market and no pledges are permitted according to the present agreement.

The number of issued state bonds will be equal to the amount of debt of BC Investprivatbank SA in process of liquidation towards Banca de Economii existing at the date of issue of state bonds.

Article 5 of this law mentions that for the period 2011-2014 a special annual fee is established for the banks to ensure financial stability, until the amount of MDL 100 million will be accumulated. This tax will be paid annually to the state budget.

(2) As at 31 December 2010 the amount of MDL'000 65,460, related to the contract Nr. 17 with National Bank of Moldova was not paid at its maturity. As at 03 January 2011, the outstanding amount of the loan of MDL'000 442,424 was received by the National Bank of Moldova from Bank's account, opened at the National Bank of Moldova.

As at 21 March 2011, the Administrative council of the National Bank of Moldova decided to extend for 3.5 years the period of the loan granted for the securing of the integrity of the bank sector, with a balance of MDL'000 442,424 at the date of extension and maturity set for 30 December 2015. The repayment of the loan was set quarterly, in equal amounts.

National Bank, through the "Regulation on Risk Weighted Capital Adequacy", required commercial banks to raise Tier I Capital until December 31, 2011 up to 150 million and up to 31 December 2012 until MDL 200 million.

(3) National Bank of Moldova, by mean of "Regulation for sufficiency of risk weighted capital", imposes to commercial banks to increase tier 1 capital up to MDL 150 million to 31 December 2011 and up to 200 million MDL until 31 December 2012.

Semnat pentru identificare
KPMG
30 NOV. 2011
Initialised for identification