

Banca de Economii S.A.

Financial Statements

For the year ended 31 December 2011

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 – 58



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Independent Auditors' Report to the Shareholders of Banca de Economii S.A.

We have audited the accompanying financial statements of Banca de Economii S.A. ("the Bank"), which comprise the statement of financial position as at 31 December 2011 and statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation 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 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 audit opinion.



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Continued

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matters

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 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.

31 May 2012

Grant Thornton Audit S.R.L.
Chisinau, Republic of Moldova

Banca de Economii S.A.
STATEMENT OF FINANCIAL POSITION
As at 31 December 2011

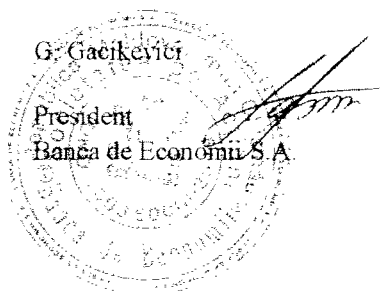
	Notes	2011 MDL'000	2010* MDL'000
ASSETS			
Cash on hand	5	389,618	336,219
Balances with National Bank of Moldova	6	654,583	432,736
Placements with banks	7	338,715	273,238
Loans and advances to customers, net	8	2,763,853	2,637,136
Financial assets available for sale	9	8,990	8,990
Investments held to maturity	9	1,232,986	501,286
Property and equipment	10	264,221	284,083
Intangible assets	11	44,160	37,727
Other assets	12	473,838	823,438
Total assets		6,170,964	5,334,853
LIABILITIES			
Deposits from banks	13	761	77,421
Other borrowings	14	411,419	632,618
Deposits from customers	15	4,496,040	3,674,794
Deferred tax liability	16	24,320	-
Other liabilities	17	71,411	62,220
Total liabilities		5,003,951	4,447,053
SHAREHOLDERS' EQUITY			
Share capital - ordinary shares	18	117,034	117,034
Share capital - preference shares	18	303	303
Reserves	19	18,752	18,752
Retained earnings		1,030,924	751,711
Total shareholders' equity		1,167,013	887,800
Total liabilities and shareholders' equity		6,170,964	5,334,853

* Presented as restated. For details see note 3 (x).

Notes from pages 7 to 58 are an integral part of these financial statements.

The financial statements were authorized for issue on 31 May 2012 by the management of the Bank represented by:

G. Gaeikayici
 President
 Banca de Economii S.A.



Banca de Economii S.A.
STATEMENT OF COMPREHENSIVE INCOME
For the Year Ended 31 December 2011

	Notes	2011 MDL'000	2010* MDL'000
Interest income	22	471,984	387,072
Interest expense	22	(193,665)	(146,178)
Net interest income		278,319	240,894
Fee and commission income	23	146,237	151,457
Fee and commission expense	23	(14,658)	(18,618)
Net fee and commission income		131,579	132,839
Net foreign currency gain	24	71,647	82,766
Other operating income	25	10,237	9,289
Total other operating income		81,884	92,055
Total operating income		491,782	465,788
Impairment and fair value losses	8, 12	102,471	(188,406)
Net operating income		594,253	277,382
Personnel and related expenses	26	(137,953)	(123,203)
General and administrative expenses	27	(116,795)	(82,034)
Depreciation and amortization expenses	10, 11	(32,382)	(30,348)
Total operating expenses		(287,130)	(235,585)
Profit before tax		307,123	41,797
Income tax expense for the year	16	(24,324)	-
Total comprehensive income of the year		282,799	41,797
Earnings per share (MDL)	31	12.08	1.48

* Presented as restated. For details see note 3 (x).

Notes from pages 7 to 58 are an integral part of these financial statements.

The financial statements were authorized for issue on 31 May 2012 by the management of the Bank represented by:

G. Gacikevici

President

Banca de Economii S.A.

Banca de Economii S.A.
STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
For the Year Ended 31 December 2011

	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 2011	117,034	303	18,752	751,711	887,800
Total comprehensive income for the year					
Profit for the year				282,799	282,799
Transactions with owners					
Issued shares	-	-	-	-	-
Transfers between reserves	-	-	-	-	-
Dividends	-	-	-	(3,586)	(3,586)
Total transactions with owners	-	-	-	(3,586)	(3,586)
Balance at 31 December 2011	117,034	303	18,752	1,030,924	1,167,013
Balance at 1 January 2010	29,258	76	18,752	805,075	853,161
Total comprehensive income for the year					
Profit for the year*	-	-	-	41,797	41,797
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	751,711	887,800

* Presented as restated. For details see note 3 (N).

Notes from pages 7 to 58 are an integral part of these financial statements.

Banca de Economii S.A.
STATEMENT OF CASH FLOWS
For the Year Ended 31 December 2011

	Notes	2011 MDL'000	2010 MDL'000
Cash flows from operating activities			
Interest receipts		450,890	397,937
Interest payments		(197,448)	(143,715)
Net fee and commission income		131,578	113,844
Net financial and other operating income		100,399	130,839
Staff costs paid		(129,417)	(119,162)
Payments of general and administrative expenses		(160,836)	(82,034)
Operating profit before changes in current assets		195,166	297,709
<i>(Increase) decrease in current assets:</i>			
Balances with National Bank of Moldova		(171,847)	(116,438)
Current accounts and deposits with banks		81	(2,236)
Loans and advances to banks		-	10
Loans and advances to customers, net		(232,539)	(1,024,994)
Other assets		249,360	85,899
<i>Increase (decrease) in current liabilities:</i>			
Deposits from banks		(74,463)	72,875
Deposits from customers		822,201	551,409
Other liabilities		767	5,136
Net cash (used in)/from operating activities before income tax		788,726	(130,630)
Income tax paid			-
Net cash (used in)/from operating activities		788,726	(130,630)
Cash flows from investing activities			
Purchase of property and equipment and repairment		(7,277)	(36,595)
Purchase of intangible assets and repairment		(11,714)	(14,044)
Proceeds from disposal of property and equipment		66	45
Purchase/(Receipt) of investment securities		39,262	212,885
Purchase of other investments		-	(12)
Net cash from/(used in) investing activities		20,337	162,279
Cash flows from financing activities			
Repayment of loans and borrowings		(238,459)	(495,682)
Proceeds from loans and borrowings received		17,888	35,898
Dividends paid		(3,701)	(6,960)
Net cash (used in)/from financing activities		(224,272)	(466,744)
Net foreign exchange difference		(18,547)	(15,605)
Net (decrease)/increase in cash and cash equivalents		566,244	(450,700)
Cash and cash equivalents at 1 January		909,853	1,360,553
Cash and cash equivalents at 31 December	21	1,476,097	909,853

Notes from pages 7 to 58 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 the Ministry of Finance through Government representative.

As at 31 December 2011 the Bank is listed on Moldova Stock Exchange with the following exchange symbols: MD14BECM1002 and MD24BECM1000. As at 31 December 2011 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 538 representative offices (31 December 2010: 37 branches and 424 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 2011 the Bank has 2,481 employees (31 December 2010: 2,462 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 judgements 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:

	2011		2010	
	USD	Euro	USD	Euro
Average for the period	11.7370	16.3369	12.3663	16.3995
Year end	11.7154	15.0737	12.1539	16.1045

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:

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.

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 both 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 2011 and 31 December 2010, the instruments held by the Bank which is 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).

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.

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.

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.

3. Significant accounting policies (continued)

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 2011 and 31 December 31 2010 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 (continued)

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.

3. Significant accounting policies (continued)

o. 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.

p. 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.

q. 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 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.

r. 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 it 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)

s. 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.

t. 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 or indirectly.

u. 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.

v. 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.

w. Standards and interpretations issued but not yet effective

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by 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. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Bank's financial statements.

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

The IASB aims to replace IAS 39 *Financial Instruments: Recognition and Measurement* in its entirety. 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. Further chapters dealing with impairment methodology and hedge accounting are still being developed. The Bank's management have yet to assess the impact of this new standard on the Bank's financial statements. However, they do not expect to implement IFRS 9 until all of its chapters have been published and they can comprehensively assess the impact of all changes.

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

➤ **Consolidation Standards**

A package of consolidation standards are effective for annual periods beginning or after 1 January 2013. Information on these new standards is presented below. The Bank's management have yet to assess the impact of these new and revised standards on the Bank's financial statements.

IFRS 10 Consolidated Financial Statements (IFRS 10)

IFRS 10 supersedes IAS 27 Consolidated and Separate Financial Statements (IAS 27) and SIC 12 Consolidation – Special Purpose Entities. It revised the definition of control together with accompanying guidance to identify an interest in a subsidiary. However, the requirements and mechanics of consolidation and the accounting for any non-controlling interests and changes in control remain the same.

IFRS 11 Joint Arrangements (IFRS 11)

IFRS 11 supersedes IAS 31 Interests in Joint Ventures (IAS 31). It aligns more closely the accounting by the investors with their rights and obligations relating to the joint arrangement. In addition, IAS 31's option of using proportionate consolidation for joint ventures has been eliminated. IFRS 11 now requires the use of the equity accounting method, which is currently used for investments in associates.

IFRS 12 Disclosure of Interests in Other Entities (IFRS 12)

IFRS 12 integrates and makes consistent the disclosure requirements for various types of investments, including unconsolidated structured entities. It introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.

Consequential amendments to IAS 27 and IAS 28 Investments in Associates and Joint Ventures (IAS 28)

IAS 27 now only deals with separate financial statements. IAS 28 brings investments in joint ventures into its scope. However, IAS 28's equity accounting methodology remains unchanged.

➤ **IFRS 13 Fair Value Measurement (effective on or after 1 January 2013)**

IFRS 13 does not affect which items are required to be fair-valued, but clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It is applicable for annual periods beginning on or after 1 January 2013. The Bank's management have yet to assess the impact of this new standard.

➤ **Amendments to IAS 1 Presentation of Financial Statements (effective on or after 1 July 2012)**

The IAS 1 Amendments require an entity to group items presented in other comprehensive income into those that, in accordance with other IFRSs: (a) will not be reclassified subsequently to profit or loss and (b) will be reclassified subsequently to profit or loss when specific conditions are met. It is applicable for annual periods beginning on or after 1 July 2012. The Bank's management expects this will change the current presentation of items in other comprehensive income; however, it will not affect the measurement or recognition of such items.

➤ **Amendments to IAS 19 Employee Benefits (effective on or after 1 January 2013)**

The IAS 19 Amendments include a number of targeted improvements throughout the Standard. The main changes relate to defined benefit plans. They:

- eliminate the 'corridor method', requiring entities to recognise all gains and losses arising in the reporting period
- streamline the presentation of changes in plan assets and liabilities
- enhance the disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in them.

Banca de Economii S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 Decembre 2011

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

The amended version of IAS 19 is effective for financial years beginning on or after 1 January 2013. The Bank's management have yet to assess the impact of this revised standard on the Bank's financial statements.

➤ **Disclosures – Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7**

The amendment requires disclosures that enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The Bank is not expecting to have any impact on its financial statements.

➤ **Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32**

The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. The Bank is considering the implications of the amendment, the impact on the Bank and the timing of its adoption by the Bank.

➤ **Other revised standards and interpretations**

The amendments to IFRS 1 "First time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, will not have any impact on these financial statements. The amendment to IAS 12 "Income taxes", which introduces a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, will not have any impact on these financial statements. IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine, considers when and how to account for the benefits arising from the stripping activity in mining industry.

x. Accounting errors

As at 31 December 2010 the Bank, in estimating the loan loss provision on loans to customers, has provided for the balance of accrued interest amounting to MDL'000 12,295 which was already written off due to its unrecoverability.

The effect of the restatement on the financial statements is summarised below:

	As previously reported MDL'000	Adjustments MDL'000	As restated MDL'000
Loans and advances to customers, net	2,624,841	12,295	2,637,136
Retained earnings	739,416	12,295	751,711
Provision for loans and advances to customers	200,701	(12,295)	188,406

4. Critical accounting estimates and judgments

Preparing financial statement in accordance with IFRS implies the Bank to make estimates and judgments in determining amounts to be recorded in financial statements. The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continuously 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 the 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 an 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.

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.

Banca de Economii S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 Decembre 2011

5. Cash on hand

	31 December 2011	31 December 2010
	MDL'000	MDL'000
Cash	389,302	335,984
Travellers' cheques	277	196
Other	39	39
	389,618	336,219

6. Balances with National Bank of Moldova

	31 December 2011	31 December 2010
	MDL'000	MDL'000
Current account	209,634	168,690
Obligatory reserves in foreign currency	244,949	114,046
Overnight placements	200,000	150,000
	654,583	432,736

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 2011 the rate for calculation of the minimum compulsory reserve in all currencies was 14.0% (31 December 2010: 8.0%).

The interest paid by NBM on the compulsory reserves during 2011 varied between 0.09% and 0.15% per annum for reserves in foreign currency and 4.81%-7% for reserves in MDL (2010: 2%-4% in MDL and 0.18% - 0.39% 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 2011	31 December 2010
	MDL'000	MDL'000
Deposits in banks (term guarantee)	2,165	2,246
Overnight placements	19,841	194,088
Current accounts in banks from OECD countries	309,888	71,237
Current accounts in banks from non-OECD	4,686	3,744
Current accounts with local banks	2,135	1,923
	338,715	273,238

Banca de Economii S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 Decembre 2011

8. Loans and advances to customers, net

	31 December 2011 MDL'000	31 December 2010 MDL'000
Corporate clients	2,907,220	2,875,295
Retail	59,506	127,863
Gross loans	2,966,726	3,003,158
Less: Allowance for impairment losses	(202,873)	(366,022)
	2,763,853	2,637,136

Loans granted to related parties amounting MDL'000 7,751 (2010: MDL'000 1,178) (Please refer to Note 33) are included in Loans and advances to customers.

Analysis of loan portfolio by industry is presented below:

	31 December 2011 MDL'000	31 December 2010 MDL'000
Industry and commerce	1,265,096	1,678,379
Agriculture and food industry	448,277	307,418
Construction	445,697	390,428
Real estate	42,165	125,677
Fuel and energy	474,995	211,479
Consumer	17,340	69,645
Government	63	2,333
Transportation and road construction	203,991	183,151
Financial activities	45,249	494
Others	23,853	34,154
	2,966,726	3,003,158

Interest rates on loans and advances to customers vary between 9.5% and 28.8% p.a. for loans and advances in Moldovan Lei (2010: 7% and 28.8%), and for loans and advances in foreign currency the average interest rates vary between 6.15% and 18.5% (2010: 8% and 14.0%).

Interest income for individually impaired loans for 2011 was MDL'000 53,448 (2010: MDL'000 88,837).

Banca de Economii S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 Decembre 2011

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

The movement in provision for impairment of loans during the years 2011 and 2010 are presented below:

	31 December 2011 MDL'000	31 December 2010 MDL'000
At the beginning of the period	366,022	176,356
Write-offs	(58,061)	-
Recoveries	41,425	1,260
Charge/(release) for the period	(146,513)	188,406
At the end of the period	202,873	366,022
Individual impairment	160,057	311,181
Collective impairment	42,816	54,841
	202,873	366,022

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'000 329,636. 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.

Banca de Economii S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 Decembre 2011

9. Financial investments

	31 December 2011	31 December 2010
	MDL'000	MDL'000
Held-to-maturity investments	1,232,986	501,286
Available-for-sale investments	8,990	8,990
	1,241,976	510,276

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

	31 December 2011	31 December 2010
	MDL'000	MDL'000
<i>Held-to-maturity investments</i>		
Balance as at 1 January	501,286	1,054,467
Additions	8,994,383	15,818,469
Disposals	(8,262,683)	(16,371,650)
Balance as at 31 December	1,232,986	501,286
<i>Available for sale investments</i>		
Balance as at 1 January	8,990	8,977
Additions	-	13
Disposals	-	-
Balance as at 31 December	8,990	8,990
	1,241,976	510,276

Held-to-maturity investments:

	31 December 2011	31 December 2011
	MDL'000	MDL'000
Treasury bills (ii)	684,360	361,424
NBM certificates (i)	548,626	139,862
	1,232,986	501,286

- (i) The certificates issued by the NBM as at 31 December 2011 represent certificates with a maturity up to one month in MDL with an interest rate of 9.5% (2010: 7%).
- (ii) State Securities include bonds and government securities.
 Bonds at 31 December 2011 represent MDL treasury bonds with maturity of 22-1460 days issued by the Ministry of Finance of the Republic of Moldova with a coupon rate of 8.68% - 14.02% (2010: 7.60% - 8.51%). Treasury bills represent MDL securities of 5 and 364 maturity days issued by the Ministry of Finance of the Republic of Moldova with an interest rate between 7.46% 13.56% (2010: between 5.37% and 9.50%).

Banca de Economii S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 Decembre 2011

9. Financial investments (continued)

Available for sale investments:

As at 31 December 2011 and 2010, the Bank investment securities comprise:

	Field of activity	Ownership 2011 %	31 December 2011 MDL'000	31 December 2010 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	19
Magistrala SA	Road construction	2.27	473	473
Autobank SA. Moscow	Banking	0.01	49	49
Moldmedia Card SRL	Transactions processing	0.44	40	40
SRL "Biroul de credit"	Data processing	6.70	1,018	1,018
			8,990	8,990

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 2011 and 31 December 2010 there is no internal or external evidence that the assets are impaired.

Banca de Economii S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 Decembre 2011

10. Property and equipment

	Land and buildings	Furniture and equipment	Motor vehicles	Improve- ments of leasehold assets	Assets under construction	Total
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Cost						
At 1 January 2011	216,796	156,313	17,297	7,257	8,627	406,290
Additions	369	524	1	14	6,489	7,397
Transfers	5,828	4,537	2,361	-	(12,726)	-
Disposals	(16)	(2,334)	(772)	(29)	(120)	(3,271)
At 31 December 2011	222,977	159,040	18,887	7,242	2,270	410,416

**Accumulated
depreciation**

At 1 January 2011	23,153	85,616	10,548	2,890	-	122,207
Charge for the year	5,393	18,162	2,054	1,491	-	27,100
Disposals	(6)	(2,308)	(772)	(26)	-	(3,112)
At 31 December 2011	28,540	101,470	11,830	4,355	-	146,195

Net book value

At 31 December 2011	194,437	57,570	7,057	2,887	2,270	264,221
At 31 December 2010	193,643	70,697	6,749	4,367	8,627	284,083

	Land and buildings	Furniture and equipment	Motor vehicles	Improve- ments of leasehold assets	Assets under construction	Total
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	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)	(4,626)	(1,182)	(111)	-	(5,986)
At 31 December 2010	23,153	85,616	10,548	2,890	-	122,207

Net book value

At 31 December 2010	193,643	70,697	6,749	4,367	8,627	284,083
At 31 December 2009	158,584	74,142	8,139	5,909	25,496	272,270

As at 31 December 2011 the total amount of depreciated property and equipment still in use amounted to MDL'000 51,441 (2010: MDL'000 45,322).

Banca de Economii S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 Decembre 2011

10. Property and equipment (continued)

Non-cancellable operating future lease payments (rent contracts) are payable as follows:

	31 December 2011 MDL'000	31 December 2010 MDL'000
Less than one year	4,496	5,356
Between one year and five	698	1,120
More than five years	-	-
	5,194	6,476

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 2011	39,105	13,629	52,734
Additions	468	11,254	11,722
Transfer	6,480	(6,480)	-
Disposals	(768)	-	(768)
At 31 December 2011	45,285	18,403	63,688
Accumulated depreciation			
At 1 January 2011	15,007	-	15,007
Charge for the year	5,282	-	5,282
Disposals	(761)	-	(761)
At 31 December 2011	19,528	-	19,528
Net book value			
At 31 December 2011	25,757	18,403	44,160
At 31 December 2010	24,098	13,629	37,727
	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

Banca de Economii S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 Decembre 2011

12. Other assets

	31 December 2011 MDL'000	31 December 2010 MDL'000
Receivables from Western Union	6,152	5,170
Inventory and other items	6,318	4,445
Transit and suspended accounts	11	5,597
Reposessed assets (1)	490,289	258,036
Due from budget	276	21
Debtors on capital investments	212	210
Prepaid expenses (2)	4,551	14,522
Non-interest-related calculated incomes	6,749	7,546
Receivables from BC Investprivatbank in the process of liquidation (3)	-	507,883
Other assets	8,718	25,405
	523,276	828,835
Less: allowance for losses on other assets (4)	(49,439)	(5,397)
	473,837	823,438

- (1) Assets for resale include foreclosed collateral on non-performing loans.
- (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 2,809 (2010: MDL'000 11,984).
- (3) The amount was fully repaid in 2011 by transfer from Deposit guarantee fund in amount of MDL'000 48,092 and by issue of treasury shares by Ministry of Finance in the amount of remaining debt.
- (4) Amount of MDL'000 49,439 represents fair value losses on reposessed assets.

The movement of provision for impairment of other assets in 2011 and 2010 is presented below:

	2011 MDL'000	2010 MDL'000
Balance at beginning of the year	5,397	5,463
Writes off	-	(66)
Recoveries	-	-
Annual charge	44,042	-
Balance at the end of the period	49,439	5,397

Banca de Economii S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 Decembre 2011

13. Deposits from banks

	31 December 2011	31 December 2010
	MDL'000	MDL'000
Loans and deposits from other banks		
Loro accounts	761	859
Short term deposits	-	76,562
	761	77,421

14. Other borrowings

	31 December 2011	31 December 2010
	MDL'000	MDL'000
Loans and deposits from other banks (1)		
NBM loans with fix rate due 2011/2012	372,567	507,887
NBM loans with floating rate due 2011/2012	-	99,685
	372,567	607,572
Subsidiary borrowings (2)		
IFAD loans with floating rate due 2011/2022	27,604	12,654
RISP loans with floating rate due 2013/2024	11,248	12,392
	38,852	25,046
	411,419	632,618

(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.

Banca de Economii S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 Decembre 2011

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 2.5% - 10.24%.

15. Deposits from customers

	31 December 2011	31 December 2010
	MDL'000	MDL'000
<i>Payable on demand</i>		
Corporate customers	591,444	737,975
Public Institutions	597,234	364,473
Individuals	900,308	749,937
	2,088,986	1,852,385
<i>Term deposits</i>		
Corporate customers	68,484	106,337
Individuals	2,338,570	1,716,072
	2,407,054	1,822,409
	4,496,040	3,674,794

As at 31 December 2011 the amount of deposits pledged as collateral for the loans originated by the Bank was MDL'000 45,050 (31 December 2010: MDL'000 89,596).

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:

	2011		2010	
	MDL	FCY	MDL	FCY
	%	%	%	%
Corporate customers				
Demand deposits	0.00 - 5.00	0.00 - 4.00	0.00 - 8.00	0.00 - 3.00
Term deposits up to 3 months	-	-	0.00 - 3.00	-
Term deposits >3 months <1 year	0.00 - 9.50	2.50 - 5.60	0.00 - 7.00	0.00 - 4.00
Term deposits over 1 year	0.00 - 13.00	4.00 - 9.00	0.00 - 13.00	0.00 - 9.00
Individuals				
Demand deposits	0.00 - 9.00	0.00 - 0.20	0.00 - 9.00	0.00 - 0.15
Term deposits up to 3 months	3.00 - 6.00	1.00 - 3.50	3.00 - 6.00	1.00 - 3.00
Term deposits >3 months <1 year	4.50 - 12.00	3.00 - 5.50	4.50 - 12.00	3.00 - 5.50
Term deposits over 1 year	9.00 - 16.50	2.70 - 6.75	9.00 - 16.5	3.50 - 6.00

Banca de Economii S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 Decembre 2011

16. Taxation

The major components of tax expense and the reconciliation of the expected tax expense based on the effective tax rate of 0% (2010: 0%) and the reported tax expense in profit or loss are as follows:

	2011 MDL'000	2010 MDL'000
Profit before tax	319,418	41,797
Moldovan statutory income tax rate	0%	0%
Expected tax expense	-	-
Income tax on amount exceeding limit for charity or sponsorship expenses	4	-
Impact of change in tax rate	24,320	-
Actual tax expense	24,324	-
Tax expense comprises:		
Current tax expense	4	-
Deferred tax expense:		
– Origination and reversal of temporary differences	24,320	-
Tax expense	24,324	-

Deferred taxes arising from temporary differences are summarized as follows:

Deferred tax assets (liabilities)	1 January 2011 MDL'000	Recognized in profit and loss MDL'000	31 December 2011 MDL'000
Assets			
Loans and advances to customers	-	(23,015)	(23,015)
Property and equipment	-	(5,262)	(5,262)
Other assets	-	2,684	2,684
Liabilities			
Other liabilities	-	1,492	1,492
Off-balance sheet			
Guarantees issued and commitments		(219)	(219)
	-	(24,320)	(24,320)
Recognised as:			
Deferred tax asset	-		4,176
Deferred tax liability	-		(28,496)

Deferred tax was calculated by applying the 2012 standard tax rate of 12% (2011: standard tax rate of 0%).

Banca de Economii S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 Decembre 2011

17. Other liabilities

	31 December 2011 MDL'000	31 December 2010 MDL'000
Payables on money transfer systems	28,048	43,140
Transit and suspense accounts	17,410	10,740
Income tax and other payable	1,377	1,019
Provision for unused vacation	12,435	4,036
Non-interest bearing accruals	6,946	2,176
Other liabilities	5,195	1,109
	71,411	62,220

18. Share capital

Share capital as at 31 December 2011 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 2010: 23,406,764 ordinary shares and 302,980 preference shares). The holders of ordinary shares are entitled to receive dividends as declared and have equal voting rights.

	31 December 2011		31 December 2010	
	Nr of Shares	MDL'000	Nr of Shares	MDL'000
Ordinary Shares	23,406,764	117,034	23,406,764	117,034
Preference Shares	302,980	303	302,980	303
		117,337		117,337

As at 31 December 2011 and 2010, the shareholders' structure of the Bank is as follows:

Shareholder	31 December 2011		31 December 2010	
	Share MDL'000	Share %	Share MDL'000	Share %
Public Property Agency	65,862	56	65,862	56
Minerva SRL	-	-	11,700	10
Sisteme Informationale Integrate SRL	11,470	10	11,470	10
Lectom Ltd	19,200	16	-	-
Rietel Limited	2,500	2	-	-
Intercontinent SRL	10,461	9	10,461	9
Zilena Com SRL	-	-	10,000	9
Others less than 5% ownership	7,844	6	7,844	6
Total	117,337	100	117,337	100

18. Share capital (continued)

According to the decision of National Commission of Financial Markets (NCFM) dated 24 August 2011, the shares held by Lectom Ltd were blocked. Based on the decision of NCFM were blocked the shares held by Rietel Limited. As at 31 December 2011 the shares held by the above mentioned shareholders were not cancelled, and do not have any voting rights.

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 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.

Banca de Economii S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 Decembre 2011

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'000 150,000), and maintain a ratio of total regulatory capital to the risk-weighted asset at minimum of 12%.

During 2011 and 2010, the Bank had complied in full with all its externally imposed capital requirements.

	31 December 2011 MDL'000	31 December 2010 MDL'000
Tier 1 capital		
Share capital, nominal	117,337	117,337
Retained earnings	1,030,924	751,711
Reserves	18,752	18,752
Less: net intangible assets	(44,160)	(37,727)
Total tier 1 capital	1,122,851	850,073
Tier 2 capital	-	-
Total capital	1,122,851	850,073
Risk weighted assets	2,373,217	3,142,253
Ratio for Tier 1 capital	47.31%	27.05%
Ratio for Tier 1 and 2	47.31%	27.05%

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.

Banca de Economii S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 Decembre 2011

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 2011 MDL'000	31 December 2010 MDL'000
Cash on hand	389,618	336,219
Overnight placements at National Bank of Moldova	200,000	150,000
Current accounts and deposits with banks	336,479	270,992
Treasury bills	550,000	152,642
	1,476,097	909,853

22. Interest income and expenses

	2011 MDL'000	2010 MDL'000
<i>Interest income</i>		
Due from NBM and other banks	13,465	7,321
Financial instruments – held to maturity	59,675	53,750
Loans and advances to banks	6	-
Loans and advances to customers	398,838	326,001
	471,984	387,072
<i>Interest expense</i>		
Deposits from banks	(678)	(1,562)
Other borrowings	(5,855)	(15,560)
Deposits from customers - individuals	(174,423)	(107,943)
Deposits from customers - companies	(12,709)	(21,113)
	(193,665)	(146,178)
Net interest income	278,319	240,894

Banca de Economii S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 Decembre 2011

23. Net fee and commission income

	2011 MDL'000	2010 MDL'000
<i>Commission Income</i>		
Money transfers	17,420	20,884
Transfers via Moldova-Express	4,852	10,806
SWIFT transfers of individuals	652	311
Commissions on customer accounts maintenance	18,130	23,894
Cash transactions	34,050	31,434
Commission on guarantees and letters of credit	1,820	3,209
Commission on sale/purchase of securities	11	80
Allowances	9,677	9,988
Pension	5,538	5,741
Salaries	892	1,046
Cash delivery services	27,431	19,484
Income from operations with cards	16,163	18,995
Other	9,601	5,585
	146,237	151,457
<i>Fee and commission expense</i>		
Cash withdrawals	(10,191)	(7,201)
Payment transactions	(4,467)	(11,417)
	(14,658)	(18,618)
Net fee and commission income	131,579	132,839

24. Net foreign currency gain

	2011 MDL'000	2010 MDL'000
Net result from currency trading	90,195	98,371
Net result from revaluation of monetary assets and liabilities in foreign currency	(18,548)	(15,605)
	71,647	82,766

25. Other operating income

	2011 MDL'000	2010 MDL'000
Revenue from disposal of repossessed assets	1,727	483
Income from rent	1,394	1,393
Income from fines and penalties	4,954	5,173
Revenues from disposal of tangibles	66	45
Revenues from disposal of other assets	71	2
Other	2,025	2,193
	10,237	9,289

Banca de Economii S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 Decembre 2011

26. Personnel expenses

	2011	2010
	MDL'000	MDL'000
Wages and salaries	82,686	78,243
Bonuses	4,667	4,591
Social insurance	22,191	21,108
Medical insurance	3,099	2,933
Provision for unused vacation	8,399	598
Other payments	16,911	15,730
	137,953	123,203

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

	2011	2010
	MDL'000	MDL'000
Administration and marketing	15,028	14,936
Communications	6,567	6,911
Repairs and maintenance	4,721	4,078
Utilities	9,312	7,830
Rent	18,564	18,835
Contributions to Deposit Guarantee Fund	5,588	5,130
Transportation expenses	5,943	5,299
Transactions with cards	6,741	6,919
Expenses related to taxes	5,296	1,583
Sponsorship	749	5,203
Repossessioned assets written off	23,476	1,394
Other expenses	14,810	3,916
	116,795	82,034

Banca de Economii S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 Decembre 2011

28. Guarantees and other commitments

The aggregate amounts of outstanding guarantees, commitments, and other off-balance sheet items as at 31 December 2011 and 31 December 2010 are as follows:

	31 December 2011 MDL'000	31 December 2010 MDL'000
Letters of credit	8,743	9,341
Guarantees	34,990	75,317
- guarantees for contract execution	18,885	59,098
- guarantees for participating in tenders	105	219
- guarantees to ensure customs duties	16,000	16,000
Commitments to lend funds	99,298	171,173
	143,031	255,831

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 2011 and 2010:

2011	Less than 1 month MDL'000	1 to 3 months MDL'000	3 months to 1 year MDL'000	1 to 5 years MDL'000	Over 5 years MDL'000	Total MDL'000
Letters of credit	-	-	-	8,743	-	8,743
Guarantees	84	15,583	19,323	-	-	34,990
Commitments to lend funds	649	400	18,238	80,011	-	99,298
Total	733	15,983	37,561	88,754	-	143,031

2010	Less than 1 month MDL'000	1 to 3 months MDL'000	3 months to 1 year MDL'000	1 to 5 years MDL'000	Over 5 years MDL'000	Total 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

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

Banca de Economii S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 Decembre 2011

29. Capital commitments

There were no capital commitments as at 31 December 2011 and 2010.

30. Contingencies

As at 31 December 2011 and 2010 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 MDL'000	Basic and diluted EPS MDL
As at 31 December 2011	23,406,764	282,799	12.08
As at 31 December 2010	23,406,764	41,797	1.48

Banca de Economii S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 Decembre 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.

	Carrying value 31 December 2011 MDL'000	Fair value 31 December 2011 MDL'000	Carrying value 31 December 2010 MDL'000	Fair value 31 December 2010 MDL'000
Financial assets				
Placements with banks	338,715	338,715	273,238	273,238
Loans and advances to customers	2,763,853	2,936,510	2,637,136	2,927,639
Investment securities – AFS	8,990	8,990	8,990	8,990
Financial liabilities				
Due to banks	761	761	77,421	77,421
Due to customers	4,496,040	4,627,593	3,674,794	3,652,829

(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) 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

(iv) Financial liabilities, 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 financial liabilities without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

Banca de Economii S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 Decembre 2011

32. Fair value of financial instruments (continued)

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

	%	%
	MDL	FCY
Loans to customers		
Corporate clients	13.04	7.43
Individuals	15.53	11.17
Deposits and current accounts		
Corporate clients	8.35	5.74
Individuals	11.90	5.71

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 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
2011	7,751	8,557	442	532	-
2010	1,178	8,041	178	317	7

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 2011, the Bank has not made doubtful debts relating to amounts owed by related parties (2010: Nil).

Directors' remuneration

As at 31 December 2011 the executive management received remuneration in total amount of MDL'000 6,382 (2010: MDL'000 7,659).

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 year ended 31 December 2010, 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.

34. Risk management

This 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. Risk management (continued)

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.

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 4,451 legal entities and individuals (2010: 6,796). 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 lending.

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.

Banca de Economii S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 Decembre 2011

34. Risk management (continued)

34.1 Credit risk (continued)

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

	Notes	31 December 2011 MDL'000	31 December 2010 MDL'000
Balances with National Bank	6	654,583	432,736
Placements with banks	7	338,715	273,238
Loans and advances to customers, net	8	2,763,853	2,637,136
Financial investments – held-to-maturity	9	1,232,359	501,286
Other assets	12	15,366	550,854
Total		5,004,876	4,395,250
Letters of credit	28	8,743	9,341
Guarantees	28	34,990	75,317
Financing commitments	28	99,298	171,173
Total		143,031	255,831
Total credit risk exposure		5,147,907	4,651,081

The above table represents a worst-case scenario of credit risk exposure to the Bank at 31 December 2011 and 2010, 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, 54% of the total maximum exposure is derived from loans and advances to banks and customers (2010: 57%); 24% represents investments held to maturity (2010: 11%).

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 2011 was MDL'000 99,700 (as at 31 December 2010: MDL'000 129,620) 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 2011			31 December 2010		
	Corporate MDL'000	Individuals MDL'000	Total MDL'000	Corporate MDL'000	Individuals MDL'000	Total MDL'000
Neither past due nor individually impaired	2,253,238	52,866	2,306,104	1,987,154	120,343	2,107,497
Past due but not individually impaired	112,151	5,856	118,007	69,531	7,520	77,051
Individually impaired	541,831	784	542,615	818,610	-	818,610
Total	2,907,220	59,506	2,966,726	2,875,295	127,863	3,003,158

Banca de Economii S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 Decembre 2011

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, 2011, the Bank had individually impaired loans and advances in amount of MDL'000 542.615 (2010: MDL'000 818.610). The fair value of collateral that the Bank holds relating to individually impaired loans at 31 December 2011 is MDL'000 682.451 (2010: MDL'000 942.226). 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 2011	Standard MDL'000	Watch MDL'000	Sub- standard MDL'000	Doubtful MDL'000	Loss MDL'000	Total MDL'000
Corporate	5,057	305,051	266,524	-	-	576,632
Retail	950	1,859	-	-	-	2,809
Total	6,007	306,910	266,524	-	-	579,441

31 December 2010	Standard MDL'000	Watch MDL'000	Sub- standard MDL'000	Doubtful MDL'000	Loss MDL'000	Total MDL'000
Corporate	742,617	1,238,819	5,719	-	-	1,987,155
Retail	113,380	4,037	2,925	-	-	120,342
Total	855,997	1,242,856	8,644	-	-	2,107,497

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.

Banca de Economii S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 Decembre 2011

34 Risk management (continued)

34.1 Credit risk (continued)

Loans and advances past due but not individually impaired

Loans and advances 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 2011	Less than 30 days MDL'000	From 31 to 60 days MDL'000	From 61 to 90 days MDL'000	Over 91 days MDL'000	Total MDL'000
Corporate	1,282	36,429	932	73,508	112,151
Retail	1,731	931	504	2,690	5,856
Total	3,013	37,360	1,436	76,198	118,007

31 December 2010	Less than 30 days MDL'000	From 31 to 60 days MDL'000	From 61 to 90 days MDL'000	Over 91 days MDL'000	Total 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

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 2011 MDL'000	31 December 2010 MDL'000
Real estate	2,887,088	2,514,654
Equipment	347,519	786,269
Cars	48,080	101,859
Working capital	236,479	183,107
Cash deposits	45,638	84,243
Other	190	460,527
	3,564,994	4,130,658

Banca de Economii S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 Decembre 2011

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 2011 and 31 December 2010. 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 2011		31 December 2010	
	Total assets	Total liabilities	Total assets	Total liabilities
	MDL'000	MDL'000	MDL'000	MDL'000
Moldova	5,833,614	4,981,614	5,027,417	4,437,142
European Union	308,438	4,973	261,982	1,387
Russia	5,635	13,815	8,632	5,080
USA	20,948	964	23,266	377
Other countries	2,329	2,238	13,556	3,067
	6,170,964	5,003,604	5,334,853	4,447,053

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.

Banca de Economii S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 Decembre 2011

34 Risk management (continued)

34.2 Market risk (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 2011, 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 2011, 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 2011 and as at 31 December 2010, 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 Bank'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 2011					
EUR	(51,736)	5%	(2,587)	-5%	2,587
USD	39,972	5%	1,999	-5%	(1,999)
As at 31 December 2010					
EUR	(28,390)	5%	(1,420)	-5%	1,420
USD	(34,108)	5%	(1,705)	-5%	1,705

Banca de Economii S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 Decembre 2011

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 2011				
	Total MDL'000	MDL MDL'000	EUR MDL'000	USD MDL'000	Other MDL'000
ASSETS					
Cash on hand	389,618	272,513	66,902	35,860	14,343
Balances with National Bank	654,583	409,634	165,963	78,986	-
Placements with banks	338,715	-	299,023	23,896	15,796
Loans and advances to customers	2,763,853	1,563,333	831,259	369,261	-
Financial investments – available-for-sale	8,990	8,990	-	-	-
Financial investments – held-to-maturity	1,232,986	1,232,986	-	-	-
Property and equipment	264,221	264,221	-	-	-
Intangible assets	44,160	44,160	-	-	-
Other assets	473,838	465,675	2,481	5,036	646
Total assets	6,170,964	4,261,512	1,369,718	513,039	30,785
LIABILITIES					
Deposits from banks	761	12	-	749	-
Other borrowings	411,419	405,562	-	5,857	-
Deposits from customers	4,496,040	2,604,688	1,413,649	464,822	12,881
Other liabilities	71,411	65,724	3,715	1,639	333
Total liabilities	4,979,631	3,075,986	1,417,364	473,067	13,214
GAP	1,191,333	1,185,526	(47,646)	39,972	17,571

Banca de Economii S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 Decembre 2011

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 2010				
	Total MDL'000	MDL MDL'000	EUR MDL'000	USD MDL'000	Other 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 customers	2,637,136	1,631,508	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	5,334,853	3,784,847	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	887,800	942,012	(28,390)	(34,108)	8,286

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.

Banca de Economii S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 Decembre 2011

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 2011 and 2010:

	Increase in basis points	Sensitivity of Net Interest Income MDL'000	Decrease in basis points	Sensitivity of Net Interest Income MDL'000
2011	+100	8,271	-100	(8,271)
	+50	4,136	-50	(4,136)
2010	+100	4,690	-100	(4,690)
	+50	2,345	-50	(2,345)

An illustration of the Bank's exposure to interest rate risks at 31 December 2011 and 31 December 2010 is presented below. The table presents the Bank's assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates:

Banca de Economii S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 Decembre 2011

34 Risk management (continued)

34.2 Market risk (continued)

34.2.2 Interest rate risk (continued)

31 December 2011

ASSETS

	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
Cash on hand	389,618	-	-	-	-	-	389,618
Balances with National Bank	654,583	654,583	-	-	-	-	-
Placements with banks, net	338,715	338,715	-	-	-	-	-
Loans with variable interest rate, net	2,763,853	2,763,853	-	-	-	-	-
Financial investments – available-for-sale	8,990	-	-	-	-	-	-
Financial investments – held-to-maturity, net	1,232,986	585,656	197,184	161,168	280,625	-	8,990
Property and equipment	264,221	-	-	-	-	-	8,353
Intangible assets	44,160	-	-	-	-	-	264,221
Other assets, net	473,838	-	-	-	-	-	44,160
Total assets	6,170,964	4,342,807	197,184	161,168	280,625	-	473,838
							1,189,180

LIABILITIES

Deposits from banks	761	-	-	-	-	-	761
Other borrowings	411,419	6,171	26,781	97,064	279,425	-	1,978
Deposits from customers (variable interest rate)	4,481,648	3,515,147	-	-	-	-	966,501
Deposits from customers (fixed interest rate)	14,392	14,392	-	-	-	-	-
Other liabilities	71,411	-	-	-	-	-	71,411
Total liabilities	4,979,631	3,535,710	26,781	97,064	279,425	-	1,040,651

Interest gap

	807,097	170,403	64,104	1,200	-	-	148,529
Cumulative interest gap	807,097	977,500	1,041,604	1,042,804	1,042,804	1,042,804	1,191,333

Banca de Economii S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2011

34 Risk management (continued)

34.2 Market risk (continued)

34.2.2 Interest rate risk (continued)

31 December 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 with variable interest rate, net	2,637,136	2,622,166	-	-	-	-	14,970
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	5,334,853	3,539,876	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

Cumulative interest gap	40,971	58,508	136,971	(498,251)	-	-	1,137,306
	53,266	111,774	248,745	(249,506)	(249,506)	-	887,800

34 Risk management (continued)

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.

Banca de Economii S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 Decembre 2011

34 Risk management (continued)

34.4 Liquidity risk (continued)

2011	Less than 12 months MDL'000	More than 12 months MDL'000	Total MDL'000
ASSETS			
Cash on hand	389,618	-	389,618
Balances with National Bank	654,583	-	654,583
Placements with banks	338,715	-	338,715
Loans and advances to customers	758,430	2,005,423	2,763,853
Financial investments – available-for-sale	-	8,990	8,990
Financial investments – held-to-maturity	948,942	284,044	1,232,986
Property and equipment	-	264,221	264,221
Intangible assets	-	44,160	44,160
Other assets	181,390	292,448	473,838
Total assets	3,271,678	2,899,285	6,170,964
LIABILITIES			
Deposits from banks	761	-	761
Other borrowings	99,046	312,373	411,419
Deposits from customers	3,967,949	528,091	4,496,040
Other liabilities	58,933	12,478	71,411
Total liabilities	4,126,689	852,942	4,979,631
Maturity gap	(855,011)	2,046,343	1,191,332

Banca de Economii S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 Decembre 2011

34 Risk management (continued)

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 customers	801,667	1,835,469	2,637,136
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	2,869,309	5,334,853
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)	2,108,633	887,800

Banca de Economii S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 Decembre 2011

34 Risk management (continued)

34.4 Liquidity risk (continued)

The table below summarizes the maturity profile of the Bank's financial liabilities at 31 December 2011 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.

2011	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	761	-	-	-	-	761
Other borrowings	-	24,159	77,530	312,804	4,681	419,174
Due to customers	2,086,022	614,702	1,340,988	537,709	135,176	4,714,597
	2,086,783	638,861	1,418,518	850,513	139,857	5,134,532

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

34.5 Business environment and country risk

The process of adjusting value based on risk which took place on financial markets in 2010 and 2011 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.

34 Risk management (continued)

34.5 Business environment and country risk (continued)

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 2011, entered in negative evolution of profitability indicators for banking system.

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 estimates that difficulties that affected economy in past years will not affect with same intensity during year 2012, however the net cost of credit/financing risk will impact significantly also in 2012 over financial results of finance - banking sector from the 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 2012, 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

In March 2012 the shares belonging to shareholders Lectom Ltd and Rietel Limited were sold to four companies from the Russian Federation. The new shareholders of the Bank became respectively: OOO "Energoremservis", ZAO "Iuridiceskaea Firma Edinoi Energeticeskoi Sistemi", OOO "Dmitrovskaea Energeticeskaea" and OOO "TopEnergoAudit". The share of each new shareholder of the Bank capital is of 4.62%. As at 27 April 2012, the above mentioned companies had all voting rights attributed to ordinary shares and were approved by the National Bank of Moldova.