# Banca de Economii S.A.

**Separate Financial Statements**
**For the Year Ended 31 December 2009**
**Prepared in Accordance with**
**International Financial Reporting Standards**

*CONTENTS*

Ernst & Young

Ernst & Young SRL

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS
OF BANCA DE ECONOMII SA

We have audited the accompanying separate financial statements of Banca de Economii SA ("the Bank"), which comprise the statement of financial position as of 31 December 2009 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 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.

*Opinion*
In our opinion the separate financial statements give a true and fair view of the financial position of the Bank as of 31 December 2009 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.

12 October 2010

Ernst & Young

Ernst & Young SRL
Chisinau, Republic of Moldova

**Banca de Economii S.A.**
**STATEMENT OF FINANCIAL POSITION**
**As at 31 December 2009**

| | Notes | 2009 MDL'000 | 2008 MDL'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash on hand | 4 | 360,205 | 413,028 |
| Balances with National Bank of Moldova | 5 | 286,298 | 430,996 |
| Placements with banks | 6 | 391,066 | 142,149 |
| Financial assets held for trading | | - | 329 |
| Loans and advances to banks | | 10 | - |
| Loans and advances to customers, net | 7 | 1,974,605 | 1,876,909 |
| Financial investments – available-for-sale | 8 | 8,977 | 8,059 |
| Financial investments – held-to-maturity | 8 | 1,054,467 | 283,081 |
| Property and equipment | 9 | 272,270 | 202,748 |
| Intangible assets | 10 | 28,009 | 16,610 |
| Other assets | 11 | 747,969 | 150,250 |
| **Total assets** | | **5,123,876** | **3,524,159** |
| **LIABILITIES** | | | |
| Deposits from banks | 12 | 2,984 | 21,178 |
| Other borrowings | 13 | 1,093,503 | 7,036 |
| Deposits from customers | 14 | 3,121,382 | 2,622,499 |
| Other liabilities | 16 | 52,846 | 59,160 |
| **Total liabilities** | | **4,270,715** | **2,709,873** |
| **SHAREHOLDERS' EQUITY** | | | |
| Ordinary shares | 17 | 29,258 | 29,258 |
| Preference shares | 17 | 76 | 76 |
| Statutory reserve | 18 | 18,752 | 18,752 |
| Retained earnings | 19 | 805,075 | 766,200 |
| **Total shareholders' equity** | | **853,161** | **814,286** |
| **Total liabilities and shareholders' equity** | | **5,123,876** | **3,524,159** |

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

The financial statements were authorized for issue on 12 October 2010 by the President of the Bank represented by:

G. Gacikevici
President
Banca de Economii S.A

| | Notes | 2009 MDL'000 | 2008 MDL'000 |
|---|---|---|---|
| Interest income | 22 | 366,571 | 379,118 |
| Interest expense | 22 | (226,278) | (169,421) |
| **Net interest income** | | **140,293** | **209,697** |
| Fee and commission income | | 120,987 | 122,297 |
| Fee and commission expense | | (12,991) | (13,563) |
| **Net fee and commission income** | 23 | **107,996** | **108,734** |
| Net foreign currency gain | 24 | 98,219 | 144,171 |
| Other operating income | 25 | 18,866 | 22,854 |
| **Total other operating income** | | **117,085** | **167,025** |
| **Total operating income** | | **365,374** | **485,456** |
| Impairment of loans | 7 | (60,902) | (73,993) |
| **Net operating income** | | **304,472** | **411,463** |
| Personnel expenses | 26 | (125,214) | (124,185) |
| General and administrative expenses | 27 | (111,006) | (111,104) |
| Depreciation and amortization expenses | 28 | (24,335) | (19,183) |
| **Total operating expenses** | | **(260,555)** | **(254,472)** |
| **Profit before tax** | | **43,917** | **156,991** |
| Income tax expense for the year | 15 | (5,023) | (2,081) |
| **Total comprehensive income of the period** | | **38,894** | **154,910** |
| Earnings per share | 32 | 6.65 | 26.47 |

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

The financial statements were authorized for issue on 12 October 2010 by the President of the Bank represented by:

G. Gacikevici
President
Banca de Economii S.A

| | Notes | 2009 MDL'000 | 2008 MDL'000 |
|---|---|---|---|
| **Share capital** | | | |
| Balance as at Beginning of the Period | | 29,334 | 29,334 |
| Issued shares | | - | - |
| Balance as at Year End | **17** | **29,334** | **29,334** |
| **Statutory reserves** | | | |
| Balance as at Beginning of the Period | | 18,752 | 18,752 |
| Allocated for the year | | - | - |
| Balance as at Year End | **18** | **18,752** | **18,752** |
| **Retained earnings** | | | |
| Balance as at Beginning of the Period | | 766,200 | 611,309 |
| Total comprehensive income for the period | | 38,894 | 154,910 |
| Transfers between reserves | | - | - |
| Dividends | | (19) | (19) |
| Balance as at Year End | **19** | **805,075** | **766,200** |
| **Total shareholders' equity** | | **853,161** | **814,286** |

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

**Banca de Economii S.A.**
**STATEMENT OF CASH FLOWS**
**For the Year Ended 31 December 2009**

| | Notes | 2009 MDL'000 | 2008 MDL'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest receipts | | 361,582 | 369,945 |
| Interest payments | | (228,562) | (156,715) |
| Net fee and commission income | | 107,996 | 110,639 |
| Net financial and other operating income | | 123,929 | 177,265 |
| Staff costs paid | | (128,107) | (118,586) |
| Payments of general and administrative expenses | | (111,006) | (110,079) |
| **Operating profit before changes in operating assets** | | **125,832** | **272,469** |
| *(Increase)/decrease in operating assets:* | | | |
| Balances with NBM | | 264,698 | 3,981 |
| Current accounts and deposits with banks | | 19,679 | (4,464) |
| Loans and advances to banks | | 960 | - |
| Treasury bill over 90 days | | 306,777 | 126,654 |
| Loans to customers | | (156,713) | (341,419) |
| Other assets | | (597,720) | (115,634) |
| *Increase/(decrease) in operating liabilities:* | | | |
| Deposits from banks | | (16,125) | 3,867 |
| Deposits from customers | | 498,952 | 333,879 |
| Other liabilities | | (6,370) | (7,864) |
| **Net cash from/(used in) operating activities before income tax** | | **439,970** | **271,469** |
| Income tax paid | | (2,081) | (32,818) |
| **Net cash from/(used in) operating activities** | | **437,889** | **238,651** |
| **Cash flows from investing activities** | | | |
| Purchase of property and equipment | | (91,351) | (72,788) |
| Purchase of intangible assets | | (14,088) | (13,345) |
| Proceeds from disposal of property and equipment | | - | 137 |
| Purchase of financial investments | | (767,269) | (40,863) |
| Purchase of other investments | | (918) | (100) |
| Proceeds from disposal of other investments | | - | - |
| **Net cash used in investing activities** | | **(873,626)** | **(126,959)** |
| **Cash flows from financing activities** | | | |
| Repayment of loans and borrowings | | (67,101) | (10,966) |
| Proceeds from loans and borrowings | | 1,153,716 | 3,470 |
| Dividends paid | | (13) | (24) |
| **Net cash (used in) financing activities** | | **1,086,602** | **(7,520)** |
| Net foreign exchange difference | | (2,145) | (9,742) |
| **Net increase/(decrease) in cash and cash equivalents** | | **648,720** | **94,430** |
| Cash and cash equivalents at 1 January | | 711,833 | 617,403 |
| **Cash and cash equivalents at 31 December** | **21** | **1,360,553** | **711,833** |

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

## 1. Corporate information

Banca de Economii S.A. ("the Bank") was created on 18 September 1996 as the successor of "Banca de Economii a Moldovei" which was established in 1992 following the restructuring of the Republican Bank of Moldova under the Saving Bank of the USSR into the State Commercial Bank "Banca de Economii a Moldovei".

Currently the Government of the Republic of Moldova owns 56.13% of the ordinary shares of the Bank. The remainder shares are split between a large number of companies and individuals. The Bank's shares are listed on the Moldovan Stock Exchange.

At 31 December 2009 the Bank possessed the license A MMII nr.004454, granted on 26 June 2008 by the National Bank of Moldova, 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 deposit taking, cash management, lending, and foreign trade finance. It offers the traditional range of banking services and products associated with foreign trade transactions including payment orders, documentary collections and issuance of letters of credit and guarantees. The Bank also offers a comprehensive range of retail banking services for individuals: saving accounts, demand and time deposits, loans and domestic and international fund transfers.

The Bank operates through its head office located in Chisinau and 37 branches and 425 representative offices (31 December 2008: 37 branches and 434 representative offices) located in Moldova.

The registered office of the Bank is located at Columna Street 115, Chisinau, Republic of Moldova.

As at 31 December 2009 the Bank has 2,472 employees (2008: 2,468 employees).

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

## 2. Accounting policies

### 2.1 Basis of preparation

The separate financial statements have been prepared on a historical cost basis except for held for trading financial assets measured at fair value. The separate financial statements are presented in Moldovan Lei (MDL) and all values are rounded to the nearest thousand except when otherwise indicated.

***Statement of compliance***
The separate financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). The Bank prepares these separate financial statements based on the requirements of the shareholders and Executives of the Bank. In addition to these separate IFRS financial statements the Bank also prepares and issues consolidated financial statements incorporating also the accounts of its subsidiary company up to the date of loss of control.

### 2.2 Significant accounting judgments and estimates

The preparation of separate financial statements in accordance with International Financial Reporting Standards requires management to make estimates and assumptions that affect the amounts and balances reported in the financial statements and accompanying notes.

***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 the resources to continue in 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.

***Impairment losses on loans and advances***
The Bank reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances against individually significant loans and advances, the Bank also makes a collective impairment allowance against exposures, which although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This take into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weakness or deterioration in cash flows.

***Impairment of equity investments***
The Bank treats equity investments as impaired when objective evidence of impairment exists. As there is no active market available, it is impracticable to determine the fair value of equity investments held by the Bank. The impairment is assessed by comparing the Bank's share in net assets based on annual audited financial statements of investees to the carrying value of these investments.

## 2. Accounting policies (continued)

### 2.3 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except that the Bank has adopted those new and amended IFRS and IFRIC interpretations as of 1 January 2009.

- IFRIC 13 *Customer Loyalty Programmes effective 1 July 2008*
- IFRIC 15 *Agreements for the Construction of Real Estate effective 1 January 2009*
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation effective 1 October 2008*
- IFRIC 9 *Remeasurement of Embedded Derivatives (Amended) and IAS 39 Financial Instruments: Recognition and Measurement (Amended) effective for periods ending on or after 30 June 2009*
- IFRS 1 *First-time Adoption of International Financial Reporting Standards (Amended) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 January 2009*
- IFRS 2 *Share-based Payment: Vesting Conditions and Cancellations (Amended) effective 1 January 2009*
- IFRS 8 *Operating Segments effective 1 January 2009*
- IFRS 7 *Financial Instruments: Disclosures (Amended) effective 1 January 2009*
- IAS 1 *Presentation of Financial Statements (Revised) effective 1 January 2009*
- IAS 32 *Financial Instruments: Presentation (Amended) and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation (Amended) effective 1 January 2009*
- IAS 23 *Borrowing Costs (Revised) effective 1 January 2009*
- Improvements to IFRSs (May 2008)
- IFRIC 18 *Transfers of Assets from Customers effective 1 July 2009*

The impact on the financial statements or performance of the Bank, of the adoption of the standard or interpretation is described below:

- **IFRIC 13 Customer Loyalty Programmes**
  This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. IFRIC 13 is not relevant for the activity of the Group.

- **IFRIC 15 Agreements for the Construction of Real Estate**
  This Interpretation provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of IAS 11 'Construction Contracts' or IAS 18 'Revenue' and, accordingly, when revenue from such construction should be recognized. IFRIC 15 is not relevant to the Group's operations.

- **IFRIC 16 Hedges of a Net Investment in a foreign operation**
  This interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risk that qualifies for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how the entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. IFRIC 16 had no impact on the financial statements of the Group.

- **IFRIC 18 Transfers of Assets from Customers**
  This interpretation provides guidance on how to account for items of property, plant and equipment received from customers or cash that is received and used to acquire or construct specific assets. It is only applicable to such assets that are used to connect the customer to a network or to provide ongoing access to a supply of goods or services or both. This amendment had no impact on the Group's financial statements.

2. Accounting policies (continued)

2.3 Changes in accounting policies (continued):

- **IAS 39 Financial Instruments: Recognition and Measurement and IFRIC 9 Reassessment of embedded derivatives (Amended)**
  The amendment to IFRIC 9 requires an entity to assess whether an embedded derivative must be separated from the host contract when the entity reclassifies a hybrid financial asset out of the 'fair value through profit or loss' category. This assessment is to be based on circumstances that existed on the later of the date the entity first came party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 now states that if an embedded derivative cannot be reliably measured the entire hybrid instrument can remain classified at fair value through profit and loss. This amendment had no impact on the Group's financial statements.

- **IFRS 2 Share-based Payments (Amended)**
  The amendment clarifies two issues. The definition of 'vesting condition', introduces the term 'non-vesting condition' for conditions other than service conditions and performance conditions. It also clarifies that the same accounting treatment applies to awards that are effectively cancelled by either the entity or the counterparty. This amendment did not have any impact on the financial statements.

- **IFRS 8 Operating Segments**
  This Standard replaces IAS 14 'Segment reporting'. IFRS 8 adopts a management approach to segment reporting. The Group concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14.

- **IFRS 7 Financial Instruments: Disclosures (Amended)**
  The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by the source of inputs, using a three-level hierarchy, by class, for all financial instruments recognized at fair value. In addition, the reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between the levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The liquidity risk disclosures are not significantly impacted by the amendments.

- **IAS 1 Presentation of Financial Statements (Revised)**
  The revised standard requires that the statement of changes in equity includes only transactions with shareholders; introduces a new statement of comprehensive income that combines all items of income and expense recognized in profit or loss together with "other comprehensive income" (either in one single statement or in two linked statements); and requires the inclusion of a third column on the statement of financial position to present the effect of restatements of financial statements or retrospective application of a new accounting policy as at the beginning of the earliest comparative period. The Group made the necessary changes to the presentation of its financial statements in 2009 and has elected to present a single statement of comprehensive income.

- **IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and obligations arising on liquidation (Amended)**
  The standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if certain criteria are met. This amendment did not have any impact on the financial statements.

**2. Accounting policies (continued)**

**2.3 Changes in accounting policies (continued):**

- **IAS 23 Borrowing Costs (Revised)**
  The benchmark treatment in the existing standard of expensing all borrowing costs to the income statement is eliminated in the case of qualifying assets. All borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset must be capitalized. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. This amendment did not have any impact on the financial statements.

**In May 2008 the IASB issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. The effective dates of the improvements are various and the earliest is for the financial year beginning 1 January 2009.**

- **IFRS 5 Non-current Assets Held for Sale and Discontinued Operations**
  The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale, under IFRS 5, even when the entity will retain a non-controlling interest in the subsidiary after the sale.

- **IFRS 7 Financial Instruments: Disclosures**
  This amendment removes the reference to 'total interest income' as a component of finance costs.

- **IAS 1 Presentation of Financial Statements**
  This amendment clarifies that assets and liabilities classified as held for trading in accordance with IAS 39 Financial Instruments: Recognition and Measurement are not automatically classified as current in the statement of financial position.

- **IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors**
  This amendment clarifies that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.

- **IAS 10 Events after the Reporting Period**
  This amendment clarifies that dividends declared after the end of the reporting period are not obligations.

- **IAS 16 Property, Plant and Equipment**
  This amendment clarifies that items of property, plant & equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Proceeds on sale are subsequently shown as revenue. IAS 7 Statement of cash flows is also revised, to require cash payments to manufacture or acquire such items to be classified as cash flows from operating activities. The cash receipts from rents and subsequent sales of such assets are also shown as cash flows from operating activities.

- **IAS 18 Revenue**
  This amendment replaces the term 'direct costs' with 'transaction costs' as defined in IAS 39.

- **IAS 19 Employee Benefits**
  This amendment revises the definitions of 'past service costs', 'return on plan assets' and 'short-term' and 'other long term' employee benefits to focus on the point in time at which the liability is due to be settled.

- **IAS 20 Accounting for Government Grants and Disclosure of Government Assistance**
  Loans granted with no or low interest rates are not exempt from the requirement to impute interest. Interest is to be imputed on loans granted with below-market interest rates, thereby being consistent with IAS 39. The difference between the amount received and the discounted amount is accounted for as a government grant. To be applied prospectively – to government loans received on or after 1 January 2009.

## 2. Accounting policies (continued)

### 2.3. Changes in accounting policies (continued)

- **IAS 23 Borrowing Costs**
  The amendment revises the definition of borrowing costs to consolidate the types of items that are considered components of 'borrowing costs' into one – the interest expense calculated using the effective interest rate method as described in IAS 39.

- **IAS 27 Consolidated and Separate Financial Statements**
  When a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.

- **IAS 28 Investment in Associates**
  This interpretation clarifies that (i) if an associate is accounted for at fair value in accordance with IAS 39 only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies and (ii) an investment in an associate is a single asset for the purpose of conducting the impairment test – including any reversal of impairment. Therefore, any impairment is not separately allocated to the goodwill included in the investment balance and any impairment is reversed if the recoverable amount of the associate increases.

- **IAS 29 Financial Reporting in Hyperinflationary Economies**
  This amendment revises the reference to the exception to measure assets and liabilities at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list.

- **IAS 31 Interest in Joint ventures**
  This amendment clarifies that if a joint venture is accounted for at fair value, in accordance with IAS 39 only the requirements of IAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expenses will apply.

- **IAS 34 Interim Financial Reporting**
  This amendment clarifies that earnings per share is disclosed in interim financial reports if an entity is within the scope of IAS 33.

- **IAS 36 Impairment of assets**
  This amendment clarifies that when discounted cash flows are used to estimate 'fair value less costs to sell', the same disclosure is required as when discounted cash flows are used to estimate 'value in use'.

- **IAS 38 Intangible Assets**
  Expenditure on advertising and promotional activities is recognized as an expense when the entity either has the right to access the goods or has received the services.
  Deletes references to there being rarely, if ever, persuasive evidence to support an amortisation method for finite life intangible assets that results in a lower amount of accumulated amortisation than under the straight-line method, thereby effectively allowing the use of the unit of production method.
  A prepayment may only be recognized in the event that payment has been made in advance to obtaining right of access to goods or receipt of services

**2. Accounting policies (continued)**

**2.3 Changes in accounting policies (continued)**

- **IAS 39 Financial instruments recognition and measurement**

Clarifies that changes in circumstances relating to derivatives – specifically derivatives designated or de-designated as hedging instruments after initial recognition – are not reclassifications. Thus, a derivative may be either removed from, or included in, the 'fair value through profit or loss' classification after initial recognition. Similarly, when financial assets are reclassified as a result of an insurance company changing its accounting policy in accordance with paragraph 45 of IFRS 4 Insurance Contracts, this is a change in circumstance, not a reclassification.

Requires use of the revised effective interest rate (rather than the original effective interest rate) when remeasuring a debt instrument on the cessation of fair value hedge accounting.

- **IAS 40 Investment property**

Revises the scope (and the scope of IAS 16) such that property that is being constructed or developed for future use as an investment property is classified as investment property. If an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete. Clarifies that the carrying amount of investment property held under lease is the valuation obtained increased by any recognized liability.

- **IAS 41 Agriculture**

- Replaces the term 'point-of-sale costs' with 'costs to sell'.
- Removes the reference to the use of a pre-tax discount rate to determine fair value, thereby allowing use of either a pre-tax or post-tax discount rate depending on the valuation methodology used.
- Removes the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Rather, cash flows that are expected to be generated in the 'most relevant market' are taken into account.

## 2. Accounting policies (continued)

### 2.4 Significant accounting policies

**a. Foreign currency translation**

Foreign currency transactions are recorded at the rate of exchange on the date of the transaction. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are reported using the closing exchange rate. The year-end and average rates for the year were:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | USD | Euro | USD | Euro |
| Average for the period | 11.1134 | 15.5248 | 10.3895 | 15.2916 |
| Year end | 12.3017 | 17.6252 | 10.4002 | 14.7408 |

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 the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions

**b. Deposits with banks**

These are stated at amortized cost, less any provisions for impairment.

**c. Loans and advances originated by the Bank**

Loans originated by the Bank represent loans where money is provided directly to the borrower and are recognized when the cash is advanced to borrowers. They are initially recorded at the fair value of the cash 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 impairment based on the following classification of clients:

- corporate,
- retail individuals.

**d. Impairment of loans**

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

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

**2. Accounting policies (continued)**

**2.4 Significant accounting policies (continued)**

**d. Impairment of loans (continued)**

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

The carrying amount of the asset is reduced to its estimated recoverable amount by a charge to income through the use of a provision for loan impairment account. A write off is made when all or part of a loan is deemed uncollectible. Write offs are charged against previously established provisions and reduce the principal amount of a loan. Recoveries of loans written off in earlier periods are included in income through the movement in the impairment provision.

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

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

**e. Renegotiated loans**

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

**f. Financial assets held for trading**

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. They are recorded in the balance sheet at fair value and the changes in fair value between trade and settlement date are recognized in the income statement as "Other operating income".

**g. Financial investments**

***Held-to-maturity financial investments***

Held-to-maturity financial investments are those which carry fixed or determinable payments and have fixed maturities and which the Bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments 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 and similar income" in the income statement. The losses arising from impairment of such investments are recognized in the income statement line "Impairment losses on financial investments".

## 2. Accounting policies (continued)

### 2.4. Significant accounting policies (continued)

*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 recognized at their cost (including transaction costs), as their fair value cannot be reliably determined.

**h. Property and equipment**

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

Expenses for repairs and maintenance are charged to operating expenses as incurred. Subsequent expenditure on property and equipment is only recognized as an asset when the expenditure improves the condition of the asset beyond the originally assessed standard of performance.

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

Depreciation is computed on a straight-line basis 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 |

**i. Intangible assets**

Intangibles represent costs incurred for acquisition of computer software and are amortized using the straight-line method over the best estimate of their useful lives, which vary between 1 and 20 years.
Where the carrying amount of an asset is greater than the estimated recoverable amount, it is written down to its recoverable amount.

**j. Borrowings**

Borrowings are initially recognized at cost, being their issue proceeds net of transaction costs incurred. Subsequently borrowings are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the income statement over the period to maturity using the effective yield method.

**k. Offsetting financial assets and liabilities**

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

## 2. Accounting policies (continued)

### 2.4 Significant accounting policies (continued)

**l. Sale and repurchase agreements**

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

**m. Financial guarantee contracts**

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognized in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortization calculated to recognize in the income statement the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of Management. Any increase in the liability relating to guarantees is taken to the income statement under other operating expenses.

**n. Recognition of income and expense**

Interest income and expense are recognized in the income statement for all interest bearing instruments, including loans that are classified as non-performing, on an accrual basis using the effective yield method. Interest income includes coupons earned on fixed income investment and trading securities and accrued discount and premium on treasury bills and other discounted instruments.
Fees and direct costs relating to loan origination are deferred and amortized to interest income over the life of the loan using the straight line method which approximates to the effective interest rate method.

Commission income and fees for various banking services are recorded as income when collected. Dividends are recognized when the shareholders' right to receive the payments is established.

**o. Cash and cash equivalents**

For the purpose of the cash flow statement, 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 maturity from the date of acquisition.

**p. Contingencies**

Contingent liabilities are not recognized in the financial statements but they are disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote.
Contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

## 2. Accounting policies (continued)

### 2.4 Significant accounting policies (continued)

**q. Provisions**

The Bank recognizes provisions when it has a present legal or constructive obligation to transfer economic benefits as a result of past events and a reasonable estimate of the obligation can be made.

**r. Pension costs and employees' benefits**

The Bank makes contributions to the funds set up by the State of Moldova for pensions, health care and unemployment benefits calculated on the basis of salaries of all employees of the Bank. The Bank does not operate any other retirement plan and has no obligation to provide further benefits to current or former employees.

**s. Repossessed assets**

Repossessed assets include foreclosed collateral on non-performing loans. They are initially recognized at cost and are subsequently measured at the lower of cost and net realisable value.

**t. Related parties**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Related party transactions represent a transfer of resources or obligations between related parties, regardless of whether a price is charged.

**u. 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 apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilized.

**v. Recognition and de-recognition of financial instruments**

The Bank recognizes a financial asset or a financial liability on its balance sheet when, and only when, the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized on the settlement date, i.e. the date that an asset is delivered to or by the Bank. Regular way purchases of sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

## 2. Accounting policies (continued)

### 2.4 Significant accounting policies (continued)

**v. Recognition and de-recognition of financial instruments (continued)**

A financial asset is derecognized where:

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

When the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

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

**w. Operating leases – the Bank as a lessee**

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

**x. Events subsequent to the balance sheet date**

Post-year-end events that provide additional information about the Bank's position at the balance sheet date (adjusting events) or those that indicate that the going concern assumption is not appropriate are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

## 2. Accounting policies (continued)

### 2.5 Standards and interpretations issued but not yet effective

Certain new standards and interpretations have been published that are mandatory for the Bank's accounting periods beginning after 1 January 2009 or later periods and which the Bank has not early adopted:

- **IFRIC 17 Distributions of Non-cash Assets to Owners**
  This interpretation is effective for annual periods beginning on or after 1 July 2009 with early application permitted. The interpretation provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability. The Bank does not expect IFRIC 17 to have an impact on the financial statements as the Bank has not made any non-cash distributions to shareholders in the past.

- **IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments**
  The interpretation is effective for annual periods beginning on or after 1 July 2010. This interpretation addresses the accounting treatment when there is a renegotiation between the entity and the creditor regarding the terms of a financial liability and the creditor agrees to accept the entity's equity instruments to settle the financial liability fully or partially. IFRIC 19 clarifies such equity instruments are "consideration paid" in accordance with paragraph 41 of IAS 39. As a result, the financial liability is derecognised and the equity instruments issued are treated as consideration paid to extinguish that financial liability. The Bank does not expect that the amendment will have impact on its financial.

- **IFRIC 14 Prepayments of a Minimum Funding Requirement (Amended)**
  The amendment is effective for annual periods beginning on or after 1 January 2011. The purpose of this amendment was to permit entities to recognise as an asset some voluntary prepayments for minimum funding contributions. This Earlier application permitted and must be applied retrospectively. The Bank does not expect that the amendment will have impact on the financial position or performance of the Bank.

- **IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)**
  The revision and amendment is effective for annual periods beginning on or after 1 July 2009. The revised IFRS 3 introduces a number of changes in the accounting for business combinations which will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. Such changes include the expensing of acquisition-related costs and recognizing subsequent changes in fair value of contingent consideration in the profit or loss (rather than by adjusting goodwill). The amended IAS 27 requires that a change in ownership interest of a subsidiary is accounted for as an equity transaction. Therefore such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by IFRS 3 (Revised) and IAS 27 (Amendment) must be applied prospectively.

**2. Accounting policies (continued)**

**2.5 Standards and interpretations issued but not yet effective (continued)**

- **IAS 39 Financial Instruments: Recognition and Measurement (Amended) – eligible hedged items**
  The amendment is effective for annual periods beginning on or after 1 July 2009.The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Bank does not expect that the amendment will have any impact on the financial position or performance of the Bank, as the Bank has not entered into any such hedges.

- **IFRS 9 Financial Instruments – Phase 1 financial assets, classification and measurement**
  The new standard is effective for annual periods beginning on or after 1 January 2013. Phase 1 of this new IFRS introduces new requirements for classifying and measuring financial assets. Early adoption is permitted. The Bank is in the process of assessing the impact of the new standard on its financial position or performance.

- **IFRS 2 Group Cash-settled Share-based Payment Transactions (Amended)**
  The amendment is effective for annual periods beginning on or after 1 January 2010. This amendment clarifies the accounting for group cash-settled share-based payment transactions and how such transactions should be arranged in the individual financial statements of the subsidiary. The Bank is in the process of assessing the impact of the new standard on its financial position or performance.

- **IAS 32 Classification on Rights Issues (Amended)**
  The amendment is effective for annual periods beginning on or after 1 February 2010. This amendment relates to the rights issues offered for a fixed amount of foreign currency which were treated as derivative liabilities by the existing standard. The amendment states that if certain criteria are met, these should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment is to be applied retrospectively The Bank is in the process of assessing the impact of the new standard on its financial position or performance.

- **IAS 24 Related Party Disclosures (Revised)**
  The revision is effective for annual periods beginning on or after 1 January 2011.This revision relates to the judgment which is required so as to assess whether a government and entities known to the reporting entity to be under the control of that government are considered a single customer. In assessing this, the reporting entity shall consider the extent of economic integration between those entities. Early application is permitted and adoption shall be applied retrospectively. The Bank is not expecting any impact of the new standard on its financial position or performance of the Bank

- **IFRS 1 Additional Exemptions for First-time Adopters (Amended)**
  The amendment is effective for annual periods beginning on or after 1 January 2010. The Bank is in the process of assessing the impact of the new standard on its financial position or performance.

  In April 2009 the IASB issued its second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. The effective dates of the improvements are various and the earliest is for the financial year beginning 1 July 2009.

## 2. Accounting policies (continued)

### 2.5 Standards and interpretations issued but not yet effective (continued)

- **IFRS 2 Share-based Payment,** effective for annual periods beginning on or after 1 July 2009. Clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of IFRS 2 even though they are out of scope of IFRS 3 (revised). If an entity applies IFRS 3 (revised) for an earlier period, the amendment shall also be applied for that earlier period.

- **IFRS 5 Non-current Assets Held for Sale and Discontinued Operations,** effective for annual periods beginning on or after 1 January 2010. Clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.

- **IFRS 8 Operating Segment Information,** effective for annual periods beginning on or after 1 January 2010. Clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

- **IAS 1 Presentation of Financial Statements,** effective for annual periods beginning on or after 1 January 2010. The terms of a liability that could result, at any time, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

- **IAS 7 Statement of Cash Flows,** effective for annual periods beginning on or after 1 January 2010. Explicitly states that only expenditure that results in recognizing an asset can be classified as a cash flow from investing activities. This amendment will impact the presentation in the statement of cash flows of the contingent consideration on the business combination completed in 2009 upon cash settlement.

- **IAS 17 Leases,** effective for annual periods beginning on or after 1 January 2009. The amendment removes the specific guidance on classifying land as a lease so that only the general guidance remains.

- **IAS 18 Revenue,** The Board has added guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity:

➢ Has primary responsibility for providing the goods or service
➢ Has inventory risk
➢ Has discretion in establishing prices
➢ Bears the credit risk

## 2. Accounting policies (continued)

### 2.5 Standards and interpretations issued but not yet effective (continued)

- **IAS 36 Impairment of Assets,** effective for annual periods beginning on or after 1 January 2010. The amendment clarified that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes.

- **IAS 38 Intangible Assets,** effective for annual periods beginning on or after 1 July 2009. Clarifies that if an intangible asset acquired in business combination is identifiable only with another intangible asset, the acquirer may recognise the group of intangible assets as a single asset provided the individual assets have similar useful lives. Also, clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used. If an entity applies IFRS 3 (revised) for an earlier period, the amendment shall also be applied for that earlier period.

- **IAS 39 Financial Instruments: Recognition and Measurement,** effective for annual periods beginning on or after 1 January 2010. The amendment clarifies that:

  - A prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract.
  - The scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date, applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken (Applicable to all unexpired contracts for annual periods beginning on or after 1 January 2010).
  - Gains and losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognised financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss (Applicable to all unexpired contracts for annual periods beginning on or after 1 January 2010).

- **IFRIC 9 Reassessment of Embedded Derivatives,** effective for annual periods beginning on or after 1 July 2009. The Board amended the scope paragraph of IFRIC 9 to clarify that it does not apply to possible reassessment, at the date of acquisition, to embedded derivatives in contracts acquired in a combination between entities or business under common control or the formation of a joint venture. If an entity applies IFRS 3 (revised) for an earlier period, the amendment shall also be applied for that earlier period.

- **IFRIC 16 Hedges of a Net Investment in a Foreign Operation**, effective for annual periods beginning on or after 1 July 2009. The amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied.

## 3. Segment information

***(i) Geographical segments***

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

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

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | **Total assets MDL'000** | **Total liabilities MDL'000** | **Total assets MDL'000** | **Total liabilities MDL'000** |
| Moldova | 4,736,653 | 4,270,101 | 3,404,977 | 2,702,857 |
| Germany | 232,719 | - | 49,860 | - |
| Great Britain | 6,819 | - | 7,457 | - |
| Russian | 3,053 | 1 | 2,690 | - |
| USA | 141,708 | - | 57,912 | - |
| Austria | 1,198 | - | 612 | - |
| Romania | 627 | 388 | 126 | - |
| Belarus | 115 | - | 249 | - |
| Belgium | 57 | - | 189 | - |
| Other countries | 927 | 225 | 87 | 7,016 |
| | **5,123,876** | **4,270,715** | **3,524,159** | **2,709,873** |

***(ii) Business segments***

The Bank operates within the single banking business segment and its activities are exclusively carried out in the Republic of Moldova.

## 4. Cash on hand

| | 2009 MDL'000 | 2008 MDL'000 |
|---|---|---|
| Cash | 359,959 | 412,639 |
| Travellers' cheques | 206 | 348 |
| Other | 40 | 41 |
| | **360,205** | **413,028** |

## 5. Balances with National Bank of Moldova

| | 2009 MDL'000 | 2008 MDL'000 |
|---|---|---|
| Current account | 57,180 | 237,856 |
| Obligatory reserves in FCC | 109,118 | 193,140 |
| Overnight placements | 120,000 | - |
| | **286,298** | **430,996** |

*Current account and obligatory 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 during the previous 15 days 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 of 31 December 2009 the rate for calculation of the minimum compulsory reserve in all currencies was 8.0% (31 December 2008: 17.5%).

The Bank maintains its compulsory reserves in a current account opened with the NBM in amount of 8% of funds attracted in Moldovan Lei and non-convertible currencies, 8% reserves on funds denominated in USD and EUR are held in a special compulsory reserve account with NBM.

The interest paid by NBM on the compulsory reserves during 2009 varied between 0.22% and 1.04% per annum for reserves in foreign currency (2008: 0.42% - 0.82% per annum) and 2.0% for reserves in MDL (2008: 2.0% 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.

## 6. Placements with banks

| | 2009<br>MDL'000 | 2008<br>MDL'000 |
|---|---|---|
| Deposits in banks (term guarantee) | 2,273 | 1,922 |
| Overnight placements | 140,476 | 93,720 |
| Current accounts in banks from OECD countries | 242,225 | 22,367 |
| Current accounts in banks from non-OECD | 4,529 | 3,097 |
| Current accounts with local banks | 1,563 | 21,043 |
| | **391,066** | **142,149** |

Overnight placements include placements in Bank of New York Mellon, (New York), in amount of USD'000 9,139 with an interest rate of 0.025%, in Citibank (New York) in amount of USD'000 2,279 with an interest rate of 0.05% (2008: Commerzbank (Frankfurt) EUR'000 2,500 with an interest rate of 1.6%, Bank of New York (New York) USD'000 5,398 with an interest rate of 0.025% and in Citibank (New York) in amount of USD'000 70 with an interest rate of 0.01%).

Placements in banks include restricted deposit in the amount of MDL'000 2,273 (2008: MDL'000 1,922) representing placements with HSBC London for fund transfers through MasterCard system.

## 7. Loans and advances to customers, net

| | 2009<br>MDL'000 | 2008<br>MDL'000 |
|---|---|---|
| Corporate clients | 1,932,374 | 1,686,466 |
| Individuals | 218,587 | 306,080 |
| **Gross loans** | **2,150,961** | **1,992,546** |
| Less: Allowance for impairment losses | (176,356) | (115,637) |
| | **1,974,605** | **1,876,909** |

Included in loans and advances to customers are loans granted to related parties amounting to MDL'000 10,152 (2008: MDL'000 7,526). (Please refer to Note 34)

### 7. Loans and advances to customers, net (continued)

Analysis of loan portfolio by industry is presented below:

| | 2009<br>MDL'000 | 2008<br>MDL'000 |
|---|---|---|
| Industry and commerce | 938,473 | 787,562 |
| Agriculture and food industry | 213,237 | 199,673 |
| Construction | 306,749 | 231,221 |
| Real estate | 121,545 | 139,409 |
| Fuel and energy | 225,550 | 144,175 |
| Consumer | 131,181 | 189,393 |
| Government | 8,240 | 32,802 |
| Transportation and road construction | 108,058 | 104,160 |
| Financial activities / banks | 2,247 | 5,029 |
| Others | 95,681 | 159,122 |
| | **2,150,961** | **1,992,546** |

Interest rates on loans and advances to customers vary between 9.5% and 28.8% p.a. for loans and advances in Moldovan Lei (the average interest rates quoted on the market based on NBM during 2009 vary between 10.7% and 31.6%) and from 10.0% to 15.0% p.a. for loans and advances in foreign currency (the average interest rates quoted on the market based on NBM during 2009 vary between 10.71% and 24.64%).

The movement in provision for impairment of loans during the years 2009 and 2008 are presented below:

| | 2009<br>MDL'000 | 2008<br>MDL'000 |
|---|---|---|
| At the beginning of the year | 115,637 | 41,350 |
| Write-offs | (1,201) | (1,481) |
| Recoveries | 1,018 | 1,775 |
| Charge for the year, net | 60,902 | 73,993 |
| At the end of the year | **176,356** | **115,637** |

**7. Loans and advances to customers, net (continued)**

Loans and advances are summarized as follows:

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | Corporate | Individuals | Total | Corporate | Individuals | Total |
| | | | MDL'000 | | | |
| Neither past due nor impaired | 1,176,399 | 209,480 | **1,385,879** | 1,413,071 | 302,012 | **1,715,083** |
| Past due but not impaired | 78,415 | 9,107 | **87,522** | 217,947 | 4,068 | **222,015** |
| Individually impaired | 677,560 | - | **677,560** | 55,448 | - | **55,448** |
| **Total** | **1,932,374** | **218,587** | **2,150,961** | **1,686,466** | **306,080** | **1,992,546** |

*(i) Loans and advances neither past due nor impaired*

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.

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

| **2008** | Standard | Watch | Sub-standard | Doubtful | Loss | Total |
|---|---|---|---|---|---|---|
| | | | MDL'000 | | | |
| Corporate | 1,084,908 | 232,638 | 95,525 | - | - | 1,413,071 |
| Individuals | 302,012 | - | - | - | - | 302,012 |
| **Total** | **1,386,920** | **232,638** | **95,525** | **-** | **-** | **1,715,083** |

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 unfavorable or worsening financial situation, insufficient or worsening collateral coverage, other unfavorable factors, that may lead to losses if such factors are not addressed.

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

**7. Loans and advances to customers, net (continued)**

*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.

*(ii) Loans and advances past due but not impaired*

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

| | 2009 | | | | |
|---|---|---|---|---|---|
| | 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 | 12,157 | 9,551 | 8,020 | 48,687 | 78,415 |
| Individuals | 2,390 | 1,116 | 4,236 | 1,365 | 9,107 |
| **Total** | **14,547** | **10,667** | **12,256** | **50,052** | **87,522** |

| | 2008 | | | | |
|---|---|---|---|---|---|
| | 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 | 127,331 | 41,318 | 49,298 | - | 217,947 |
| Individuals | - | 3,616 | 452 | - | 4,068 |
| **Total** | **127,331** | **44,934** | **49,750** | **-** | **222,015** |

The fair value of collateral that the Bank holds relating to past due loans at 31 December 2009 amounts to MDL'000 88,222 (2008: MDL'000 432,683). The collateral consists mainly of real estate and other properties, and cash deposits.

*(iii) Loans and advances individually impaired*

The Bank had individually impaired loans and advances to customers as at 31 December 2009 in amount of MDL'000 677,560 (2008: MDL'000 55,448). The fair value of collateral that the Bank holds relating to individually impaired at 31 December 2009 amounts to MDL'000 514,841 (2008: MDL'000 26,878). The collateral consists mainly of real estate and other properties, and ceded receivables.

**7. Loans and advances to customers, net (continued)**

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

| | 2009<br>MDL'000 | 2008<br>MDL'000 |
|---|---|---|
| Corporate clients | 483,515 | 133,379 |
| Individuals | 2,151 | 7 |
| | **485,666** | **133,386** |

**8. Financial investments**

| | 2009<br>MDL'000 | 2008<br>MDL'000 |
|---|---|---|
| Held-to-maturity investments | 1,054,467 | 283,081 |
| Available-for-sale investments | 8,977 | 8,059 |
| Investment in subsidiary (51%) | - | - |
| | **1,063,444** | **291,140** |

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

| | 2009<br>MDL'000 | 2008<br>MDL'000 |
|---|---|---|
| ***Held-to-maturity investments*** | | |
| Balance as at 1 January | 283,081 | 242,218 |
| Additions | 3,871,513 | 240,276 |
| Disposals | (3,071,929) | (191,977) |
| Effective interest rate adjustment | (28,198) | (7,436) |
| Balance as at 31 December | **1,054,467** | **283,081** |
| ***Available for sale investments*** | | |
| Balance as at 1 January | 8,059 | 1,839 |
| Additions | 918 | 6,220 |
| Disposals | - | - |
| Balance as at 31 December | **8,977** | **8,059** |
| ***Investment in subsidiary*** | | |
| Balance as at 1 January | - | 6,120 |
| Deemed disposal | - | (6,120) |
| Balance as at 31 December | - | - |
| | **1,063,444** | **291,140** |

**8. Financial investments (continued)**

***Held-to-maturity investments:***

| | 2009 MDL'000 | 2008 MDL'000 |
|---|---|---|
| Treasury bills | 625,102 | 148,796 |
| NBM certificates | 429,365 | 134,285 |
| | **1,054,467** | **283,081** |

Certificates issued by the NBM as at 31 December 2009 represent certificates with a maturity up to one month in MDL with an interest rate of 5% - 5.38% (2008: 13.97%).

Treasury bills represent MDL securities of 91 and 364 maturity days issued by the Ministry of Finance of the Republic of Moldova with an interest rate between 1.91% and 25.54% (2008: 13.97% and 22.20%).

***Available for sale investments:***

As at 31 December 2009 and 2008, the Bank investment securities comprise:

| | Field of activity | Ownership 2009, % | 2009 MDL'000 | 2008 MDL'000 |
|---|---|---|---|---|
| Bursa de Valori a Moldovei | Financial investments | 2.56 | 7 | 7 |
| SRL Garantinvest | Insurance | 9.92 | 440 | 440 |
| ASPA SA | Metals processing | 7.30 | 824 | 824 |
| Î.M.S.I.A „Moldasig" SRL | Insurance | 10.20 | 6,120 | 6,120 |
| Depozitarul Național | Securities | 3.13 | 6 | 6 |
| Magistrala SA | Road construction | 2.27 | 473 | 473 |
| Autobank SA, Moscow | Banking | 0.01 | 49 | 49 |
| MoldmediaCard SRL | Transactions processing | 0.44 | 40 | 40 |
| S.R.L."Biroul de credit" | Data processing | 10.22 | 1,018 | 100 |
| | | | **8,977** | **8,059** |

Available for sale financial investments are carried at cost as there is no active market to determine reliably their fair value. Subsequently the Bank assesses at each balance sheet date whether there is any objective evidence that the financial asset is impaired. As at the year end there is no internal or external evidence that the assets are impaired.

## 9. Property and equipment

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

9. Property and equipment (continued)

| | Land and buildings MDL'000 | Furniture and equipment MDL'000 | Motor vehicles MDL'000 | Improvements of leasehold assets MDL'000 | Assets under construction MDL'000 | Total MDL'000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Balance as at 1 January 2008 | 84,520 | 98,577 | 12,095 | 976 | 24,301 | 220,469 |
| Additions | 5,002 | 3,735 | 101 | 3,908 | 65,148 | 77,894 |
| Transfers | 42,046 | 21,642 | 3,041 | 20 | (66,749) | - |
| Disposals | (27) | (2,718) | (666) | (31) | (4,861) | (8,303) |
| Balance as at 31 December 2008 | **131,541** | **121,236** | **14,571** | **4,873** | **17,839** | **290,060** |
| **Accumulated depreciation** | | | | | | |
| Balance as at 1 January 2008 | 12,844 | 52,098 | 7,174 | 729 | - | 72,845 |
| Charge for the year | 2,373 | 13,772 | 1,449 | 70 | - | 17,664 |
| Disposals | - | (2,553) | (634) | (10) | - | (3,197) |
| Balance as at 31 December 2008 | **15,217** | **63,317** | **7,989** | **789** | - | **87,312** |
| **Net book value** | | | | | | |
| At 31 December 2008 | **116,324** | **57,919** | **6,582** | **4,084** | **17,839** | **202,748** |
| At 31 December 2007 | **71,676** | **46,479** | **4,921** | **247** | **24,301** | **147,624** |

As of 31 December 2009 the cost of fully depreciated property and equipment still in use amounted MDL'000 42,730 (2008: MDL'000 36,725).

## 10. Intangible assets

| Cost | Software in use MDL'000 | Software under development MDL'000 | Total MDL'000 |
|---|---|---|---|
| Balance as at 1 January 2009 | 21,398 | 3,239 | 24,637 |
| Additions | 36 | 14,052 | 14,088 |
| Transfers | 10,353 | (10,353) | - |
| Disposals | (18) | - | (18) |
| Balance as at 31 December 2009 | **31,769** | **6,938** | **38,707** |
| **Accumulated depreciation** | | | |
| Balance as at 1 January 2009 | 8,027 | - | 8,027 |
| Charge for the year | 2,689 | - | 2,689 |
| Disposals | (18) | - | (18) |
| Balance as at 31 December 2009 | **10,698** | - | **10,698** |
| **Net book value** | | | |
| At 31 December 2009 | **21,071** | **6,938** | **28,009** |
| At 31 December 2008 | **13,371** | **3,239** | **16,610** |

| Cost | Software in use MDL'000 | Software under development MDL'000 | Total MDL'000 |
|---|---|---|---|
| Balance as at 1 January 2008 | 15,675 | 17 | 15,692 |
| Additions | 9,946 | 3,222 | 13,168 |
| Disposals | (4,223) | - | (4,223) |
| Balance as at 31 December 2008 | **21,398** | **3,239** | **24,637** |
| **Accumulated depreciation** | | | |
| Balance as at 1 January 2008 | 10,731 | - | 10,731 |
| Charge for the year | 1,519 | - | 1,519 |
| Disposals | (4,223) | - | (4,223) |
| Balance as at 31 December 2008 | **8,027** | - | **8,027** |
| **Net book value** | | | |
| At 31 December 2008 | **13,371** | **3,239** | **16,610** |
| At 31 December 2007 | **4,944** | **17** | **4,961** |

## 11. Other assets

| | 2009<br>MDL'000 | 2008<br>MDL'000 |
|---|---|---|
| Receivables from Western Union | 8,269 | 6,849 |
| Inventory and other items | 5,635 | 4,625 |
| Transit and suspense accounts | 5,664 | 4,832 |
| Repossessed assets | 96,304 | 76,282 |
| Due from budget | 11 | 20 |
| Debtors on capital investments | 1,221 | 6,791 |
| Prepaid expenses | 25,925 | 38,509 |
| Non-interest-related calculated incomes | 6,176 | 5,221 |
| Advance payments for serviced to be received | - | 5,991 |
| Receivables from BC Investprivatbank in the process of liquidation | 589,898 | - |
| Other assets | 14,329 | 5,748 |
| | **753,432** | **154,868** |
| Less: allowance for losses on other assets | (5,463) | (4,618) |
| | **747,969** | **150,250** |

Prepaid expenses mostly consist of paid advances for rent amounting to MDL'000 24,121. Other receivables include BC "Investprivatbank- in the process of liquidation" bank's receivables: amounting to MDL'000 589,898.

The movement of provision of impairment of other assets in 2009 and 2008 is presented below:

| | 2009<br>MDL'000 | 2008<br>MDL'000 |
|---|---|---|
| Balance at beginning of the year | **4,618** | **3,770** |
| Write-offs | (300) | (10,862) |
| Recoveries | 1,145 | 10,556 |
| Adjustments | - | 1,154 |
| **Balance at the end of the period** | **5,463** | **4,618** |

## 11. Other assets (continuation)

| Counter party | Type of asset | 2009 MDL'000 | 2008 MDL'000 |
|---|---|---|---|
| SA Fabrica de fermentare a tutunului | Real Estate and Other Collateral | - | 2,930 |
| IM Acorex Wine Holding SA | Real Estate and Other Collateral | 59,116 | 62,138 |
| SRL Serulung | Real Estate | 85 | 85 |
| SA Margaritar | Real Estate and Other Collateral | 3,285 | 10,740 |
| IM Ziatovin SRL | Real Estate and Other Collateral | 3,241 | - |
| Gagauz Petrol | Real Estate and Other Collateral | 9,969 | - |
| II Vartic | Real Estate | 5,375 | - |
| Va ban Est | Real Estate and Other Collateral | 7,695 | - |
| CA CIFCI | Real Estate | 486 | - |
| II Lisnica Ala | Real Estate | 218 | - |
| Feliseta SRL | Real Estate | 3,300 | - |
| Roza Sor SRL | Real Estate | 454 | - |
| Edinji Alianța | Real Estate | 249 | - |
| Rom Product service | Real Estate | 456 | - |
| Vectar SRL | Real Estate | 444 | - |
| GT Iasan Vasile | Real Estate and Other Collateral | 353 | - |
| BTA-27 Glodeni | Real Estate | 141 | - |
| Camoros Com SRL | Real Estate | 118 | - |
| I. Mogorean | Real Estate | 381 | - |
| Individuals | Real Estate and Other Collateral | 669 | 21 |
| Other | Real Estate and Other Collateral | 269 | 368 |
| | | **96,304** | **76,282** |

## 12. Deposits from Banks

| | 2009 MDL'000 | 2008 MDL'000 |
|---|---|---|
| *Loans and deposits from other banks* | | |
| Loro accounts | 2,984 | 378 |
| Short term deposits | - | 20,800 |
| | **2,984** | **21,178** |

## 13. Other borrowings

| | 2009<br>MDL'000 | 2008<br>MDL'000 |
|---|---|---|
| ***Loans and deposits from other banks*** | | |
| NBM | 1,077,558 | - |
| | **1,077,558** | - |
| ***Borrowings from other international financial*** | | |
| IFAD | 11,321 | 4,466 |
| RISP | 4,624 | 2,570 |
| | **15,945** | **7,036** |
| | **1,093,503** | **7,036** |

The table below presents the borrowings from the National Bank of Moldova received for completion of liquidity, crediting of the industrial sector of the economy, purchase and/or take over in stages of the assets and liabilities of CB "Investprivatbank" SA in process of liquidation and from the Ministry of Finance received through the Credit Line Directorate Line (DLC) representative at the Ministry of Finance of the Republic of Moldova (resources: World Bank, RISP), International Fund for Agricultural Development IFAD (UCIP-IFAD) at the Ministry of Finance of the Republic of Moldova (resources IFAD).

### 13. Other borrowings (continued)

| Creditor | Final Maturity | Original Currency | Contract Amount in original currency ('000) | Interest Rate % | Amount (MDL'000) |
|---|---|---|---|---|---|
| NBM, contr.nr.2 din 27.03.2009 | 27.03.2010 | MDL | 300,000 | 5.0 | 301,274 |
| NBM, contr.nr.8 din 26.05.2009 | 26.05.2010 | MDL | 100,000 | 5.0 | 88,567 |
| NBM, contr.nr.17 din 30.06.2009 | 30.06.2012 | MDL | 650,000 | 0.01 | 589,903 |
| NBM, contr.nr.20 din 20.07.2009 | 20.07.2010 | MDL | 100,000 | 5.0 | 97,814 |
| **TOTAL , NBM** | | | **1,150,000** | x | **1,077,558** |
| | | | | | |
| DLC, AIÎ nr. BEM-08/O5; 4.03.2005 | 04.03.2010 | MDL | 580 | 3.7 | 131 |
| **TOTAL contr. 50-OL; 30.12.2002** | x | x | **580** | x | **131** |
| DLC, AIÎ nr. 19; 30.03.2007 | 15.05.2014 | MDL | 1,250 | 5.1 | 1,258 |
| DLC, AIÎ nr. 48; 01.08.2007 | 15.11.2022 | MDL | 1,200 | 5.1 | 1,208 |
| DLC, AII nr.154/08;16.12.2008 | 15.11.2013 | MDL | 300 | 6.54 | 285 |
| DLC, AII nr. 153/08; 16.12.2008 | 15.11.2011 | MDL | 300 | 6.54 | 271 |
| DLC, AII nr.160/08;16.12.2008 | 15.11.2013 | MDL | 300 | 6.54 | 285 |
| DLC, AII nr. 24/09; 10.03.2009 | 15.11.2013 | MDL | 299 | 6.54 | 290 |
| DLC, AII nr. 6/09; 21.04.2009 | 15.05.2016 | MDL | 700 | 5.1 | 705 |
| DLC, AII nr. 4/09; 10.04.2009 | 15.05.2016 | MDL | 1,000 | 5.1 | 1,007 |
| DLC, AII nr. 23/09; 02.07.2009 | 15.05.2016 | MDL | 115 | 5.1 | 116 |
| DLC, AII nr. 80/09; 18.05.2009 | 15.05.2014 | MDL | 300 | 6.54 | 292 |
| DLC, AII nr. 86/09; 19.05.2009 | 15.05.2014 | MDL | 295 | 6.54 | 297 |
| DLC, AII nr. 53/09, 29.12.2009 | 15.11.2012 | MDL | 981 | 5.1 | 981 |
| **TOTAL contr. IFAD-R7; 30.01.2006** | x | x | **7,040** | x | **6,995** |
| DLC, AII nr. 10/09; 10.04.2009 | 15.01.2016 | MDL | 1,000 | 6.45 | 1,027 |
| DLC, AII nr. 15/09; 16.07.2009 | 15.07.2016 | MDL | 115 | 6.45 | 118 |
| DLC, AII nr. 22/09; 02.12.2009 | 15.01.2013 | MDL | 1,000 | 6.45 | 1,005 |
| **TOTAL contr. IFAD PRA R9; 02.03.2009** | x | x | **2,115** | x | **2,150** |
| DLC, AII nr. 17/09; 16.07.2009 | 15.07.2016 | MDL | 1,670 | 7.54 | 1,729 |
| DLC, AII nr. 23/09; 12.12.2009 | 15.01.2017 | MDL | 200 | 7.54 | 201 |
| **TOTAL contr. IFAD PDAR R10; 02.03.2009** | x | x | **1,870** | x | **1,930** |
| DLC, payment obligation nr.90/08r 06.10.2008 | 01.10.2023 | MDL | 1,026 | 7.54 | 1,046 |
| DLC, payment obligation nr. 89/08r 06.10.2008 | 01.10.2023 | MDL | 1,543 | 7.54 | 1,573 |
| DLX, payment obligation nr. 32/09r 28.10.2009 | 01.10.2014 | MDL | 375 | 7.54 | 380 |
| **TOTAL contr. 6R RISP 2 03.10.2008** | x | x | **2,944** | x | **2,999** |
| DLC, AII nr. 21/09; 09.06.2009 | 01.10.2015 | MDL | 1,679 | 5.96 | 1,740 |
| **TOTAL contr. RISP R8 25.11.2004** | x | x | **1,679** | x | **1,740** |
| **Total** | | | *16,228* | | *15,945* |

## 13. Other borrowings (continued)

***Loan 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, and the Bank is acting as an intermediary in financing 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 24 semi-annual instalments on 1 April and 1 October of each year. The Bank received loans from RISP denominated in MDL. Interest on MDL loans is 5.96% (2008: 11.2%)

***Loan 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 of 30 December 2002, the Bank is an intermediate and bears full credit risk related to individual loan agreements signed with end-borrowers. The loans are granted for a period of 7 years with a grace period of up to 3 years. Interest on these loans is variable and is determined at each 15 May and 15 November according to reimbursement schedule for each contract apart. The Bank received loans from IFAD denominated in MDL, bearing an interest of 5.1% - 7.54% (2008: 9.8% - 11.3%).

## 14. Deposits from customers

| | 2009<br>MDL'000 | 2008<br>MDL'000 |
|---|---|---|
| **Payable on demand** | | |
| Corporate customers | 576,415 | 578,425 |
| Public Institutions | 152,660 | 78,382 |
| Individuals | 626,737 | 545,748 |
| | **1,355,812** | **1,202,555** |
| **Term deposits** | | |
| Corporate customers | 155,293 | 129,880 |
| Public Institutions | - | - |
| Individuals | 1,610,277 | 1,290,064 |
| | **1,765,570** | **1,419,944** |
| | **3,121,382** | **2,622,499** |

The Bank's term deposit portfolio includes deposits with no rights to withdraw prior to maturity. Should the deposit be withdrawn prior to maturity the interest rate is decreased to the rate applied for demand deposits and is recalculated for the whole term of the deposit. However there are deposits that as per the placement agreement, in case of premature withdrawal allow interest computation at a reduced rate.

## 14. Deposits from customers (continued)

The annual interest rates paid by the Bank for the MDL and FCY deposits of customers ranged as follows:

| | 2009 | | | | | | | | | | 2008 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | MDL | | | FCY | | | | | MDL | | | | FCY | | | |
| | % | | % | % | | % | | | % | | % | | % | | % | |
| **Corporate customers** | | | | | | | | | | | | | | | | |
| Demand deposits | 0.0 | - | 2.0 | 0.0 | - | 0.0 | | | 0.0 | - | 5.0 | | 0.0 | - | 0.0 | |
| Term deposits >3 months< 1 year | 0.0 | - | 12.0 | 0.0 | - | 7.5 | | | 0.0 | - | 17.5 | | 4.0 | - | 9.0 | |
| Term deposits over 1 year | 0.0 | - | 13.0 | 3.5 | - | 9.0 | | | - | - | - | | 5.0 | - | 9.0 | |
| **Public institutions** | | | | | | | | | | | | | | | | |
| Demand deposits | 0.0 | - | 25.0 | 0.0 | - | 7.0 | | | 0.0 | - | 12.0 | | 0.0 | - | 5.1 | |
| **Individuals** | | | | | | | | | | | | | | | | |
| Demand deposits | 0.0 | - | 9.0 | 0.0 | - | 0.15 | | | 0.0 | - | 9.0 | | 0.0 | - | 1.0 | |
| Term deposits up to 3 months | 3.0 | - | 4.0 | 1.0 | - | 1.5 | | | 3.0 | - | 18.0 | | 2.0 | - | 6.0 | |
| Term deposits >3 months< 1 year | 4.5 | - | 13.5 | 3.5 | - | 5.0 | | | 4.5 | - | 23.0 | | 3.5 | - | 13.0 | |
| Term deposits over 1 year | 10.0 | - | 16.50 | 2.7 | - | 6.0 | | | 10.0 | - | 23.0 | | 2.7 | - | 13.0 | |

## 15. Taxation

| | 2009 MDL'000 | 2008 MDL'000 |
|---|---|---|
| *Current income tax* | | |
| Current income tax | 5,023 | 1,301 |
| Adjustment in respect of current income tax of prior years | - | 780 |
| | 5,023 | 2,081 |
| **Income tax expense for the year** | **5,023** | **2,081** |

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

Starting from 1 January 2009, the income tax rate is 0% (2008: 0%)

The reconciliation between income tax expense reflected in the financial statements and the amounts calculated at the standard tax rate of 0% (2008: 0%) is as follows:

| | 2009 MDL'000 | 2008 MDL'000 |
|---|---|---|
| Accounting profit before tax | **43,917** | **156,991** |
| At Moldovan statutory income tax rate of 0% (2008 – 0%) | - | - |
| Excess over the limit for charity expenses | 5,023 | 1,301 |
| Adjustment in respect of current income tax of prior years | - | 780 |
| **At the effective income tax rate of 11.5% (2008 – 1.3%)** | **5,023** | **2,081** |

Deferred tax will be zero by applying of 0% income tax rate, effective for 2010 (2008: standard income tax rate of 2009 of 0%). Since major part of temporary differences have a maturity of more than one year, the full rate was applied for calculation of deferred tax as of 31 December 2009.

## 16. Other liabilities

| | 2009 MDL'000 | 2008 MDL'000 |
|---|---|---|
| Payables on Moldova-Express system | 25,434 | 35,182 |
| Payables on Moldova-Express Plus system | 3,556 | 4,297 |
| Transit and suspense accounts | 10,447 | 7,559 |
| Income tax and other payable | 6,045 | 2,287 |
| Provision for unused vacation | 3,438 | 5,599 |
| Non interest bearing accruals | 2,158 | 2,398 |
| Other liabilities | 1,768 | 1,838 |
| | **52,846** | **59,160** |

## 17. Ordinary shares

Share capital as of 31 December 2009 constituted 5,851,691 ordinary authorized shares and 75,745 preference shares, issued in circulation with the nominal value of MDL 5 and respectively MDL 1 per share (31 December 2008: 5,851,691 ordinary authorized shares and 75,745 preferential shares). The holders of ordinary shares are entitled to receive dividends as declared and have equal voting rights.

| | Nr of Shares | 2009 MDL'000 | Nr of Shares | 2008 MDL'000 |
|---|---|---|---|---|
| Ordinary Shares | 5,851,691 | 29,258 | 5,851,691 | 29,258 |
| Preference Shares | 75,745 | 76 | 75,745 | 76 |
| | | **29,334** | | **29,334** |

As of 31 December 2009 and 2008, the shareholders' structure of the Bank is as follows:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| **Shareholder** | **Share MDL'000** | **Share %** | **Share MDL'000** | **Share %** |
| Public Property Agency | 16,466 | 56.13 | 16,466 | 56.13 |
| Minerva SRL | 2,925 | 9.97 | 2,925 | 9.97 |
| Sisteme Informationale Integrate SRL | 2,867 | 9.78 | 2,867 | 9.78 |
| Intercontinent SRL | 2,615 | 8.92 | 2,615 | 8.92 |
| Zilena Com SRL | 2,500 | 8.52 | 2,500 | 8.52 |
| Others less than 5% ownership | 1,961 | 6.68 | 1,961 | 6.68 |
| **Total** | **29,334** | **100.00** | **29,334** | **100.00** |

### 17. Ordinary shares (continued)

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.

### 18. Statutory reserves

In accordance with the local legislation, 5% of the net profit of the Bank is required to be transferred to a non-distributable statutory reserve until such time as this represents 15% of the share capital of the Bank. General reserve cannot be distributed among the shareholders.

### 19. Reconciliation of the statutory retained earnings to IFRS retained earnings

A reconciliation of retained earnings and net income of the Bank under Moldovan and International Financial Reporting Standards is given below:

| | Retained earnings 2009 MDL'000 | Net profit 2009 MDL'000 | Retained earnings 2008 MDL'000 | Net profit 2008 MDL'000 |
|---|---|---|---|---|
| **Per statutory financial statements** | **799,728** | **23,748** | **775,999** | **209,915** |
| ***Adjustments to IFRS*** | | | | |
| Unamortised commission | (5,719) | 6,242 | (11,961) | (424) |
| Fair value loss on securities | (4,516) | (4,056) | (460) | 1,532 |
| The accumulated amount for the estimated possible loan losses | 2,714 | (1,558) | 4,272 | (47,364) |
| Reversal of provision on other assets | 14,020 | 11,594 | 2,426 | (1,160) |
| Provision for unused vacations | (3,438) | 2,161 | (5,599) | (3,386) |
| Provision on contingent commitments | 2,286 | (142) | 2,428 | (569) |
| Deferred income tax adjustments | - | - | - | (2,432) |
| Prior year income tax correction | - | - | - | (297) |
| Cut-off adjustments | - | 905 | (905) | (905) |
| Total adjustments | 5,347 | 15,146 | (9,799) | (55,005) |
| **Per IFRS** | **805,075** | **38,894** | **766,200** | **154,910** |

## 20. Capital adequacy

The table below presents the computation of capital adequacy starting from IFRS figures, in accordance with the guidelines (July 1988) of the Bank for International Settlements for capital adequacy computation:

| | Nominal amount | | | Risk weighted amount | |
|---|---|---|---|---|---|
| | **2009** | **2008** | | **2009** | **2008** |
| | **MDL'000** | **MDL'000** | | **MDL'000** | **MDL'000** |
| **Balance sheet assets (net of reserves)** | | | | | |
| Cash on hand | 360,205 | 413,028 | 0% | - | - |
| Balances with National Bank | 286,298 | 430,996 | 0% | - | - |
| Placements with banks | 391,066 | 142,149 | 20% | 78,213 | 28,430 |
| Financial assets held for trading | - | 329 | 0% | - | - |
| Loans and advances to banks | 10 | - | 0% | - | - |
| Loans from customers, with mortgage | 1,063,313 | 985,516 | 50% | 531,657 | 492,758 |
| Loans from customers, without mortgage | 911,292 | 891,393 | 100% | 911,292 | 891,393 |
| Financial investments — available-for-sale | 8,977 | 8,059 | 100% | 8,977 | 8,059 |
| Financial investments — held-to-maturity | 1,054,467 | 283,081 | 0% | - | - |
| Property and equipment | 272,270 | 202,748 | 100% | 272,270 | 202,748 |
| Intangible assets | 28,009 | 16,610 | 100% | 28,009 | 16,610 |
| Other assets | 747,969 | 150,250 | 100% | 747,969 | 150,250 |
| **Total balance sheet items** | **5,123,876** | **3,524,159** | | **2,578,387** | **1,790,248** |
| **Off-balance sheet items** | | | | | |
| Letters of credit | 10,223 | 20,080 | 100% | 10,223 | 20,080 |
| Guarantees issued | 67,272 | 28,893 | 100% | 67,272 | 28,893 |
| Commitments to lend funds | 129,044 | 174,797 | 50% | 64,522 | 87,399 |
| **Total off-balance sheet position** | **206,539** | **223,770** | | **142,017** | **136,372** |
| **Total** | **5,330,415** | **3,747,929** | | **2,720,404** | **1,926,620** |

## 20. Capital adequacy (continued)

| | 2009 MDL'000 | 2008 MDL'000 |
|---|---|---|
| **Tier 1 capital** | | |
| Share capital, nominal | 29,334 | 29,334 |
| Retained earnings | 805,075 | 766,200 |
| Less: net intangible assets | (28,009) | (16,610) |
| **Total tier 1 capital** | **806,400** | **778,924** |
| **Tier 2 capital** | | |
| Statutory reserves | 18,752 | 18,752 |
| **Total tier 2 capital** | **18,752** | **18,752** |
| **Total capital** | **825,152** | **797,676** |
| Tier 1 ratio | 29.64% | 40.43% |
| Tier 1 and 2 ratio | 30.33% | 41.40% |

During 2009 and 2008 the Bank complied in full with the capital requirements imposed by the National Bank of Moldova set at the minimum level of 12%.

## 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:

| | Balance as of 31 December | | Change | |
|---|---|---|---|---|
| | 2009 MDL'000 | 2008 MDL'000 | 2009 MDL'000 | 2008 MDL'000 |
| Cash on hand | 360,205 | 413,028 | (52,823) | 82,913 |
| Balances with National Bank (<90 days) | 120,000 | - | 120,000 | (50,000) |
| Current accounts and deposits with banks (<90 days) | 391,066 | 122,470 | 268,596 | (64,163) |
| Treasury bills (<90 days) | 489,282 | 41,335 | 447,947 | (9,320) |
| Securities issued by NBM | - | 135,000 | (135,000) | 135,000- |
| | **1,360,553** | **711,833** | **648,720** | **(94,430)** |

## 22. Interest income and expenses

| | 2009 MDL'000 | 2008 MDL'000 |
|---|---|---|
| ***Interest income*** | | |
| Due from NBM and other banks | 9,206 | 10,840 |
| Financial instruments – held to maturity | 60,530 | 72,530 |
| Loans and advances to banks | 247 | 267 |
| Loans and advances to customers | 296,588 | 295,481 |
| | **366,571** | **379,118** |
| ***Interest expense*** | | |
| Deposits from banks | (1,362) | (1,319) |
| Other borrowings | (23,088) | (833) |
| Deposits from customers-individuals | (174,472) | (152,055) |
| Deposits from customers-companies | (27,356) | (15,214) |
| | **(226,278)** | **(169,421)** |
| **Net interest income** | **140,293** | **209,697** |

## 23. Net fee and commission income

| | 2009 MDL'000 | 2008 MDL'000 |
|---|---|---|
| ***Fee and commission income*** | | |
| Transfers via Western Union | 13,077 | 20,430 |
| Transfers via Moldova-Express | 15,483 | 18,588 |
| SWIFT transfers of individuals | 666 | 2,145 |
| Transfers via Unistream | 2,480 | 1,169 |
| Cash transactions | 32,578 | 30,587 |
| Commission on guarantees and letters of credit | 1,919 | 2,255 |
| Commission on sale/purchase of securities | 19 | 87 |
| Allowances | 6,661 | 5,021 |
| Pension | 5,250 | 4,875 |
| Salaries | 903 | 726 |
| Cash delivery service | 34,661 | 35,836 |
| Other | 7,290 | 578 |
| | **120,987** | **122,297** |
| ***Fee and commission expense*** | | |
| Cash withdrawals | (8,616) | (11,308) |
| Payment transactions | (4,375) | (2,255) |
| | **(12,991)** | **(13,563)** |
| **Net fee and commission income** | **107,996** | **108,734** |

## 24. Net foreign currency gain

| | 2009 MDL'000 | 2008 MDL'000 |
|---|---|---|
| Net result from currency trading | 96,074 | 153,912 |
| Net result from revaluation of monetary assets and liabilities | 2,145 | (9,741) |
| | **98,219** | **144,171** |

## 25. Other operating income

| | 2009 MDL'000 | 2008 MDL'000 |
|---|---|---|
| Income from card operations | 16,831 | 14,611 |
| Revenue from disposal of repossessed assets | 2 | 1,423 |
| Income from rent | 1,762 | 1,420 |
| Income from fines and penalties received | 1,804 | 934 |
| Revenues from disposal of tangibles | - | 137 |
| Revenues from disposal of other assets | - | 836 |
| Changes in fair value of securities | (4,056) | 1,532 |
| Other | 2,523 | 1,961 |
| | **18,866** | **22,854** |

## 26. Personnel expenses

| | 2009 MDL'000 | 2008 MDL'000 |
|---|---|---|
| Wages and salaries | 80,994 | 72,432 |
| Bonuses | 6,443 | 10,329 |
| Social insurance | 20,319 | 20,297 |
| Medical insurance | 3,100 | 2,553 |
| Provision for unused vacation | (2,161) | 3,386 |
| Other payments | 16,519 | 15,188 |
| | **125,214** | **124,185** |

The Bank makes contributions to the State pension system of the Republic of Moldova calculated as a percentage of gross salary. These contributions are charged to the income statement in the period in which the related salary is earned by the employee.

## 27. General and administrative expenses

| | 2009<br>MDL'000 | 2008<br>MDL'000 |
|---|---|---|
| Administration and marketing | 20,724 | 19,574 |
| Communications | 6,722 | 8,856 |
| Repairs and maintenance | 3,907 | 4,389 |
| Utilities | 3,323 | 3,522 |
| Rent | 19,243 | 10,576 |
| Contributions to Deposit Guarantee Fund | 4,600 | 3,723 |
| Transportation expenses | 4,932 | 6,619 |
| Transactions with cards | 5,964 | 4,531 |
| Expenses related to taxes | 1,792 | 2,894 |
| Sponsorship | 35,877 | 41,514 |
| Impairment of other assets | - | 1,154 |
| Other expenses | 3,922 | 3,752 |
| | **111,006** | **111,104** |

Sponsorship expenses mainly include expenses for repair workings of Presidency and Parliament's buildings in in amount of MDL'000 30,000 and sponsorship of "MARTISOR" Festival in amount of MDL'000 4,000.

## 28. Depreciation and amortization expenses

| | 2009<br>MDL'000 | 2008<br>MDL'000 |
|---|---|---|
| Depreciation | 21,646 | 17,664 |
| Amortisation | 2,689 | 1,519 |
| | **24,335** | **19,183** |

## 29. Guarantees and other commitments

The aggregate amounts of outstanding guarantees, commitments, and other off-balance sheet items as of 31 December 2009 and 2008 are:

| | 2009<br>MDL'000 | 2008<br>MDL'000 |
|---|---|---|
| Letters of credit | 10,223 | 20,080 |
| Guarantees | 67,272 | 28,893 |
| Commitments to lend funds | 129,044 | 174,797 |
| | **206,539** | **223,770** |

### 29. Guarantees and other commitments (continued)

In the normal course of business, the Bank issues guarantees and letters of credit on behalf of its customers. The credit risk on guarantees is similar to that arising from granting of loans. In the event of a claim on the Bank as a result of a customer's default on a guarantee these instruments also present a degree of liquidity risk to the Bank. No provision is required as of 31 December 2009.

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 of 31 December 2009 and 2008:

| 2009 | 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 | - | 10,223 | - | - | - | **10,223** |
| Guarantees | 17,262 | 19,805 | 30,205 | - | - | **67,272** |
| Commitments to lend funds | 2,860 | - | 32,470 | 93,714 | - | **129,044** |
| **Total** | **20,122** | **30,028** | **62,675** | **93,714** | - | **206,539** |

| 2008 | 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 | - | 11,530 | - | 8,550 | - | **20,080** |
| Guarantees | 96 | 28 | 7,462 | 21,307 | - | **28,893** |
| Commitments to lend funds | - | 19,253 | 36,431 | 118,963 | 150 | **174,797** |
| **Total** | **96** | **30,811** | **43,893** | **148,820** | **150** | **223,770** |

### Operating lease commitments – Bank as lessee

The Bank has entered into commercial leases on premises. These leases have an average life of between three and five years with no renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum lease payments under non-cancellable operating leases as at 31 December are as follows:

| | 2009 MDL'000 | 2008 MDL'000 |
|---|---|---|
| Within one year | 16 | 114 |
| After one year but not more than five years | - | 189 |
| | **16** | **303** |

### 30. Capital commitments

There were no capital commitments as of 31 December 2009 and 2008.

### 31. Contingencies

As of 31 December 2009 and 2008 the Bank is a defendant in a number of lawsuits arising out of normal corporate activities. In the opinion of Management and the Bank's legal department, the probability of loss is medium.

### 32. Earnings per share

| | Ordinary shares outstanding | Profit for the year MDL'000 | Basic and diluted EPS MDL |
|---|---|---|---|
| As of 31 December 2008 | 5,851,691 | 154,910 | 26.47 |
| As of 31 December 2009 | 5,851,691 | 38,894 | 6.65 |

### 33. Fair value of financial instruments

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

| | Carrying value 2009 MDL'000 | Fair value 2009 MDL'000 | Unrecognised gain / (loss) 2009 MDL'000 | Carrying value 2008 MDL'000 | Fair value 2008 MDL'000 | Unrecognised gain / (loss) 2008 MDL'000 |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Placements with banks | 391,006 | 391,006 | - | 142,149 | 142,149 | - |
| Financial assets held for trading | - | - | - | 329 | 329 | - |
| Loans and advances to banks | 10 | 10 | - | - | - | - |
| Loans and advances to customers | 1,974,605 | 1,723,981 | (250,624) | 1,876,909 | 1,720,574 | (156,335) |
| Investment securities – HTM | 1,054,467 | 1,060,462 | 5,995 | 283,081 | 273,761 | (9,320) |
| Investment securities – AFS | 8,977 | 8,977 | - | 8,059 | 8,059 | - |
| **Financial liabilities** | | | | | | |
| Due to banks | 2,984 | 2,984 | - | 21,178 | 21,178 | - |
| Due to customers | 3,121,382 | 3,083,976 | 37,406 | 2,622,499 | 2,512,360 | 110,139 |
| Other borrowings | 1,093,503 | 993,144 | 100,359 | 7,036 | 6,427 | 609 |
| **Total unrecognised gain** | | | **(106,864)** | - | - | **(54,907)** |

## 33. Fair value of financial instruments (continuation)

*(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 fixed interest bearing placements is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

*(ii) Loans and advances to customers*

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

*(iii) Borrowings, including due to other banks and due to customers*

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

## 34. Related parties

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

| Related party | | Loans outstanding as at the year end, net MDL'000 | Deposits at the year end MDL'000 | Interest and commission income MDL'000 | Interest and commission expenses MDL'000 | Non-interest income MDL'000 |
|---|---|---|---|---|---|---|
| Agenția Proprietății Publice de pe lângă Ministerul Economiei și Comerțului | 2009 | - | - | - | - | - |
| | 2008 | - | - | - | - | - |
| Minerva SRL | 2009 | - | 3 | - | - | - |
| | 2008 | - | 3 | - | - | - |
| Sisteme Informationale Integrate SRL | 2009 | - | - | - | - | - |
| | 2008 | - | 3 | - | - | - |
| Avicola Roso SL SA | 2009 | 552 | - | 182 | - | 2 |
| | 2008 | 1,429 | - | 125 | - | - |
| LKV-Service SRL | 2009 | - | - | 169 | - | - |
| | 2008 | 2,826 | - | 356 | - | - |
| Interbroker-Prim SRL | 2009 | 7,553 | - | - | - | - |
| | 2008 | - | - | - | - | - |
| Other administrators, members of credit committee and theirs affiliated parties | 2009 | 2,047 | 7,630 | 409 | 674 | 14 |
| | 2008 | 3,271 | - | 2,053 | - | - |
| **Total** | **2009** | **10,152** | **7,633** | **760** | **674** | **16** |
| **Total** | **2008** | **7,526** | **6** | **2,534** | **-** | **-** |

## 34. Related parties (continued)

*Directors' remuneration*

The executive management received remuneration in total amount of MDL'000 8,865 (2008: MDL'000 8,421). The non-executive members of the Bank Council received fees total amounted MDL'000 667 (2008: MDL'000 1,166).

## 35. Risk management

The Bank's activities expose it to a variety of financial risks and those activities involve the 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 analyse 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 to reflect changes in markets, products and emerging best practice.

### 35.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business; management therefore carefully manages 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 amount 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.

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 collateral and corporate and personal guarantees, but a significant portion is personal lending where no such facilities can be obtained.

## 35. Risk management (continued)

### 35.1 Credit risk (continued)

*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 less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit 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 to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

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

| | Notes | 2009<br>MDL'000 | 2008<br>MDL'000 |
|---|---|---|---|
| Balances with National Bank | 5 | 286,298 | 430,996 |
| Placements with banks | 6 | 391,066 | 142,149 |
| Financial assets held for trading | | - | 329 |
| Loans and advances to banks | | 10 | - |
| Loans and advances to customers, net | 7 | 1,974,605 | 1,876,909 |
| Financial investments – held-to-maturity | 8 | 1,054,467 | 283,081 |
| Other assets | 11 | 620,106 | 23,847 |
| **Total** | | **4,326,552** | **2,757,311** |
| Letters of credit | 29 | 10,223 | 20,080 |
| Guarantees | 29 | 67,272 | 28,893 |
| Financing and other commitments | | 129,056 | 174,827 |
| **Total** | | **206,551** | **223,800** |
| **Total credit risk exposure** | | **4,533,103** | **2,981,111** |

The above table represents a worst-case scenario of credit risk exposure to the Bank at 31 December 2009 and 2008, without taking account of 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, 43% of the total maximum exposure is derived from loans and advances to banks and customers (2008: 63%); 23% represents investments held to maturity (2008: 9%).

## 35. Risk management (continued)

### 35.1 Credit risk (continued)

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank.

Concentration of gross exposure as at 31 December 2009 for first ten debtor clients, presented in groups or individually:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | **MDL'000** | **in % to equity – MDL'000 853,161** | **MDL'000** | **in % to equity – MDL'000 814,286** |
| MOLDOVAGAZ SA | 92,959 | 10.90% | 120,000 | 14.74% |
| SANIN SRL, SANIN PLUS SRL | 91,795 | 10.76% | 73,602 | 9.04% |
| MELODIA SA | 89,451 | 10.48% | 83,445 | 10.25% |
| IS MOLDRESURSE | 89,000 | 10.43% | 89,000 | 10.93% |
| AMTAREX AND CO SRL | 82,447 | 9.66% | - | - |
| TOMAILI ARGO I.I. | 81,890 | 9.60% | 65,262 | 8.01% |
| RUSAGRO-PRIM SRL | 73,454 | 8.61% | 69,500 | 8.53% |
| AROMA SA | 60,195 | 7.06% | 58,839 | 7.23% |
| VALIEXCHIMP SRL | 57,000 | 6.68% | - | - |
| ICS EXDEZCOM SRL | 55,353 | 6.49% | - | - |
| AEROPORT INTERNATIONAL CHISINAU | - | - | 93,404 | 11.47% |
| CORPORATIA FINANCIARA RURALA | - | - | 70,000 | 8.60% |
| BASAVINEX SA,ROMANESTI SA | - | - | 50,052 | 6.15% |
| **Total** | **773,544** | **90.67%** | **773,104** | **94.95%** |

For significant credit risk concentration at the industry level, please refer to Note 7.

## 35. Risk management (continued)

### 35.2 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.

## 35. Risk management (continued)

### 35.2 Market risk (continued)

#### 35.2.1Currency risk

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

The national currency depreciated during 2009, thus the net assets expressed in MDL were exposed to value risk. The Bank maintains an 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 2009, showing how income statement 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 2009 and as at 31 December 2008, for the balance sheet items that are sensitive to the currency rates' modifications. The analysis demonstrates the effect of reasonably possible changes in currency rates against Moldovan Leu with all other variables held constant. Except for the effect presented below, there is no other impact on Company's equity:

| Currency Gap | Nominal value, equivalent MDL'000 | Possible rate increase, in % | Income/(Loss) effect MDL'000 | Possible rate decrease, in % | Income/(Loss) Effect MDL'000 |
|---|---|---|---|---|---|
| **As at 31 December 2009** | | | | | |
| EUR | (37,301) | +5% | (1,865) | -5% | 1,865 |
| USD | (13,652) | +5% | (683) | -5% | 683 |

| Currency Gap | Nominal value, equivalent MDL'000 | Possible rate increase, in % | Income/(Loss) effect MDL'000 | Possible rate decrease, in % | Income/(Loss) Effect MDL'000 |
|---|---|---|---|---|---|
| **As at 31 December 2008** | | | | | |
| EUR | (45,782) | +5% | (2,289) | -5% | 2,289 |
| USD | 921 | +5% | 46 | -5% | (46) |

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:

**35. Risk management (continued)**

**35.2 Market risk (continued)**

**35.2.1 Currency risk (continued)**

**Statement of financial position structure by currency**

| | 31 December 2009 | | | | |
|---|---|---|---|---|---|
| | **Total MDL'000** | **MDL MDL'000** | **EUR MDL'000** | **USD MDL'000** | **Other MDL'000** |
| **ASSETS** | | | | | |
| Cash on hand | 360,205 | 209,488 | 106,792 | 34,680 | 9.245 |
| Balances with National Bank | 286,298 | 177,179 | 71,223 | 37,896 | - |
| Placements with banks | 391,066 | 11 | 234,104 | 146,083 | 10,868 |
| Financial assets held for trading | - | - | - | - | - |
| Loans and advances to banks | 10 | 10 | - | - | - |
| Loans and advances to customers, net | 1,974,605 | 1,380,348 | 401,346 | 192,911 | - |
| Financial investments – available-for-sale | 8,977 | 8,977 | - | - | - |
| Financial investments – held-to-maturity | 1,054,467 | 1,054,467 | - | - | - |
| Property and equipment | 272,270 | 272,270 | | | |
| Intangible assets | 28,009 | 28,009 | | | |
| Other assets | 747,969 | 730,877 | 1,335 | 15,741 | 16 |
| **Total assets** | **5,123,876** | **3,861,636** | **814,800** | **427,311** | **20,129** |
| **LIABILITIES** | | | | | |
| Deposits from banks | 2,984 | 12 | - | 2,972 | - |
| Other borrowings | 1,093,503 | 1,093,503 | - | - | - |
| Deposits from customers | 3,121,382 | 1,829,592 | 844,628 | 434,547 | 12,615 |
| Other liabilities | 52,846 | 40,734 | 7,473 | 3,444 | 1,195 |
| **Total liabilities** | **4,270,715** | **2,963,841** | **852,101** | **440,963** | **13,810** |
| **GAP** | **853,161** | **897,795** | **(37,301)** | **(13,652)** | **6,319** |

## 35. Risk management (continued)
## 35.2 Market risk (continued)

### 35.2.1 Currency risk (continued)

**Statement of financial position structure by currency (continued)**

| | 31 December 2008 | | | | |
|---|---|---|---|---|---|
| | Total MDL'000 | MDL MDL'000 | EUR MDL'000 | USD MDL'000 | Other MDL'000 |
| **ASSETS** | | | | | |
| Cash on hand | 413,028 | 327,294 | 62,933 | 15,017 | 7,784 |
| Balances with National Bank | 430,996 | 237,856 | 124,516 | 68,624 | - |
| Placements with banks | 142,149 | 21,782 | 50,327 | 59,840 | 10,200 |
| Financial assets held for trading | 329 | 329 | - | - | - |
| Loans and advances to banks | - | - | - | - | - |
| Loans and advances to customers, net | 1,876,909 | 1,310,445 | 367,005 | 199,459 | - |
| Financial investments – available-for-sale | 8,059 | 8,059 | - | - | - |
| Financial investments – held-to-maturity | 283,081 | 283,081 | - | - | - |
| Property and equipment | 202,748 | 202,748 | - | - | - |
| Intangible assets | 16,610 | 16,610 | - | - | - |
| Other assets | 150,250 | 119,862 | 12,693 | 17,695 | - |
| **Total assets** | **3,524,159** | **2,528,066** | **617,474** | **360,635** | **17,984** |
| **LIABILITIES** | | | | | |
| Deposits from banks | 21,178 | 82 | - | 21,096 | - |
| Other borrowings | 7,036 | 7,036 | - | - | - |
| Deposits from customers | 2,622,499 | 1,642,467 | 639,133 | 331,024 | 9,875 |
| Other liabilities | 59,160 | 25,746 | 24,123 | 7,594 | 1,697 |
| **Total liabilities** | **2,709,873** | **1,675,331** | **663,256** | **359,714** | **11,572** |
| **GAP** | **814,286** | **852,735** | **(45,782)** | **921** | **6,412** |

## 35. Risk management (continued)

### 35.2 Market risk (continued)

#### 35.2.2 Interest rate risk

Interest rate risk is the risk of loss resulting from changes in interest rates. Interest rate risk consists of the fluctuation risk in the value of 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. By these instruments the Bank secured additionally its exposure to interest rate risk and is able to manage the impact over income statement from the market.

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 +/- 1 and +/- 0.5 percent to be reasonable for 2009 and 2008:

| | Increase in percentage points | Sensitivity of Net Interest Income, MDL '000 | Decrease in basis points | Sensitivity of Net Interest Income, MDL '000 |
|---|---|---|---|---|
| **2009** | +1% | (7,919) | -1% | 7,919 |
| | +0.5% | (3,959) | -0.5% | 3,959 |
| **2008** | +1% | (6,586) | -1% | 6,586 |
| | +0.5% | (3,293) | -0.5% | 3,293 |

An illustration of the Bank's exposure to interest rate risks at 31 December 2009 and 31 December 2008 is presented below. The table below present the Bank's assets and liabilities at 31 December 2009 and 31 December 2008 at carrying amounts, categorized by the earlier of contractual reprising or maturity dates:

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

| 2008 | 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 | 413,028 | - | - | - | - | - | 413 028 |
| Balances with National Bank | 430,996 | 430,996 | - | - | - | - | - |
| Placements with banks | 142,149 | 142,149 | - | - | - | - | - |
| Financial assets held for trading | 329 | - | - | 329 | - | - | - |
| Loans and advances to banks | - | - | - | - | - | - | - |
| Loans with variable interest rate, net | 1,876,909 | 1,876,909 | - | - | - | - | - |
| Loans with fixed interest rate | - | - | - | - | - | - | - |
| Financial investments – available-for-sale | 8,059 | - | - | - | - | - | 8,059 |
| Financial investments – held-to-maturity | 283,081 | 152,703 | 30,608 | 80,521 | 11,771 | 7,478 | - |
| Property and equipment | 202,748 | - | - | - | - | - | 202,748 |
| Intangible assets | 16,610 | - | - | - | - | - | 16,610 |
| Other assets | 150,250 | - | - | - | - | - | 150,250 |
| **Total assets** | **3,524,159** | **2,602,757** | **30,608** | **80,850** | **11,771** | **7,478** | **790 695** |
| **LIABILITIES** | | | | | | | |
| Deposits from banks | 21,178 | - | - | 20,800 | - | - | 378 |
| Other borrowings | 7,036 | 101 | - | 198 | 3,235 | 3,502 | - |
| Deposits from customers (variable interest rate) | 2,620,343 | 2,620,343 | - | - | - | - | - |
| Deposits from customers (fixed interest rate) | 2,156 | 859 | 647 | 650 | - | - | - |
| Other liabilities | 59,160 | - | - | - | - | - | 59,160 |
| **Total liabilities** | **2,709,873** | **2,621,303** | **647** | **21,648** | **3,235** | **3,502** | **59,538** |
| **Interest gap** | **814,286** | **(18,546)** | **29,961** | **59,202** | **8,536** | **3,976** | **731,157** |
| **Cumulative interest gap** | | **(18,546)** | **11,415** | **70,617** | **79,153** | **83,129** | **814,286** |

### 35. Risk management (continued)

### 35.3 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 NBM.

### 35.4 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 borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The matching and controlled mismatching of the 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 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.

Management is confident that in spite of renewal rates level of resources base contracted from the customers, substantial portion of deposits having contractual maturity dates within three months, diversification of these deposits by number and type of deposits and the past experience of the Bank would indicate that these deposits provide a long-term and stable source of funding for the Bank.

The tables bellow analyses the Bank's assets and liabilities into relevant maturity grouping based on the remaining period at balance sheet date to the contractual maturity date.

| 2009 | Total | Less than 1 month | From 1 month to 3 months | From 3 months to 1 year | From 1 to 5 years | More than 5 years | Undefined maturity* |
|---|---|---|---|---|---|---|---|
| | MDL'000 | MDL'000 | MDL'000 | MDL'000 | MDL'000 | MDL'000 | MDL'000 |
| **ASSETS** | | | | | | | |
| Cash on hand | 360,205 | 360,205 | - | - | - | - | - |
| Balances with National Bank | 286,298 | 182,391 | 24,609 | 63,614 | 15,614 | 70 | - |
| Placements with banks | 391,066 | 391,066 | - | - | - | - | - |
| Financial assets held for sale | - | - | - | - | - | - | - |
| Loans and advances to banks | 10 | 10 | - | - | - | - | - |
| Loans and advances to customers, net | 1,974,605 | 99,306 | 155,108 | 775,997 | 744,336 | 26,523 | 173,335 |
| Financial investments – available-for-sale | 8,977 | - | - | - | - | - | 8,977 |
| Financial investments – held-to-maturity | 1,054,467 | 489,282 | 439,774 | 121,411 | 4,000 | - | - |
| Property and equipment | 272,270 | - | - | - | - | - | 272,270 |
| Intangible assets | 28,009 | - | - | - | - | - | 28,009 |
| Other assets | 747,969 | - | - | 147,475 | 442,424 | - | 158,070 |
| **Total assets** | **5,123,876** | **1,522,260** | **619,491** | **1,108,497** | **1,206,374** | **26,593** | **640,661** |
| **LIABILITIES** | | | | | | | |
| Deposits from banks | 2,984 | 2,984 | - | - | - | - | - |
| Other borrowings | 1,093,503 | 2,316 | 300,000 | 186,690 | 599,656 | 4,841 | - |
| Deposits from customers | 3,121,382 | 1,527,337 | 366,801 | 1,031,041 | 195,062 | 1,141 | - |
| Other liabilities | 52,846 | 46,801 | 6,045 | - | - | - | - |
| **Total liabilities** | **4,270,715** | **1,579,438** | **672,846** | **1,217,731** | **794,718** | **5,982** | - |
| **Maturity gap** | **853,161** | **(57,178)** | **(53,355)** | **(109,234)** | **411,656** | **20,611** | **640,661** |
| **Cumulative maturity gap** | | **(57,178)** | **(110,533)** | **(219,767)** | **191,889** | **212,500** | **853,161** |

| 2008 | Total | Less than 1 month | From 1 month to 3 months | From 3 months to 1 year | From 1 to 5 years | More than 5 years | Undefined maturity* |
|---|---|---|---|---|---|---|---|
| | MDL'000 | MDL'000 | MDL'000 | MDL'000 | MDL'000 | MDL'000 | MDL'000 |
| **ASSETS** | | | | | | | |
| Cash on hand | 413,028 | 413,028 | - | - | - | - | - |
| Balances with National Bank | 430,996 | 180,367 | 56,552 | 156,369 | 37,543 | 165 | - |
| Placements with banks | 142,149 | 122,470 | - | 19,679 | - | - | - |
| Financial assets held for sale | 329 | - | - | 329 | - | - | - |
| Loans and advances to customers, net | 1,876,909 | 17,660 | 154,924 | 341,975 | 1,300,130 | 45,081 | 17,139 |
| Financial investments – available-for-sale | 8,059 | - | - | - | - | - | 8,059 |
| Financial investments – held-to-maturity | 283,081 | 152,703 | 30,608 | 80,521 | 11,771 | 7,478 | - |
| Property and equipment | 202,748 | - | - | - | - | - | 202,748 |
| Intangible assets | 16,610 | - | - | - | - | - | 16,610 |
| Other assets | 150,250 | 35,047 | 8,904 | 30,243 | 25,036 | 3,209 | 47,811 |
| **Total assets** | **3,524,159** | **921,275** | **250,988** | **629,116** | **1,374,480** | **55,933** | **292,367** |
| **LIABILITIES** | | | | | | | |
| Deposits from banks | 21,178 | 378 | - | 20,800 | - | - | - |
| Other borrowings | 7,036 | 101 | - | 198 | 3,235 | 3,502 | - |
| Deposits from customers | 2,622,499 | 1,107,203 | 346,605 | 937,578 | 230,101 | 1,012 | - |
| Other liabilities | 59,160 | 57,814 | 40 | 1,194 | 93 | 19 | - |
| **Total liabilities** | **2,709,873** | **1,165,496** | **346,645** | **959,770** | **233,429** | **4,533** | **-** |
| **Maturity gap** | **814,286** | **(244,221)** | **(95,657)** | **(330,654)** | **1,141,051** | **51,400** | **292,367** |
| **Cumulative maturity gap** | | **(244,221)** | **(339,878)** | **(670,532)** | **470,519** | **521,919** | **814,286** |

## 35. Risk management (continued)

### 35.4 Liquidity risk (continued)

* Assets with undefined maturity include non-monetary assets, which are planned to be recovered through their use, as well as monetary assets the term of recovery of which is not determined as of the year end. Such assets include overdue loans and advances to customers and equity investments. Liabilities with undefined maturity include non-monetary liabilities.

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

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

| **2008** | **On demand** | **Less than 3 months** | **From 3 months to 1 year** | **From 1 to 5 years** | **More than 5 years** | **Total** |
|---|---|---|---|---|---|---|
| | **MDL'000** | **MDL'000** | **MDL'000** | **MDL'000** | **MDL'000** | **MDL'000** |
| **Financial liabilities** | | | | | | |
| Due to banks | 378 | - | 21,898 | - | - | 22,276 |
| Other borrowings | - | - | 1,272 | 5,107 | 5,441 | 11,820 |
| Due to customers | 1,131,369 | 376,925 | 974,082 | 285,621 | 1,860 | 2,769,857 |
| **Total undiscounted financial liabilities** | **1,131,747** | **376,925** | **997,252** | **290,728** | **7,301** | **2,803,953** |