

2010

ANNUAL REPORT

KEY FIGURES

	Parameter	2006	2007	2008	2009	2010
1	Number of branches	13	14	15	15	15
2	Number of representations	17	22	52	63	29
3	Staff number	409	502	610	619	542
4	Number of shareholders	120	189	128	135	135
5	Number of clients	61 376	74 194	90 224	87500	91900
6	Number of Bank accounts	68 911	82 355	99 798	101 335	87398
7	Statutory Capital, MDL thou.	92 900.0	129 544.0	129 544.2	131 544.2	131 544.2
8	Normative Capital, MDL thou.	182 311.4	306 304.5	327 053.0	326 635.3	242 063.7
9	Total Assets, MDL thou.	1181951.9	1698725.3	1 785 702.5	1 866 376.6	1 634 202.1
10	Total Loans, MDL thou.	655 181.9	995 735.7	1 129 934.4	908 378.8	908 017.0
11	Total Deposits, MDL thou.	861490.7	1115826.6	1 077 290.7	1 085 415.3	958 773.2
12	Profit, MDL thou.	36 492.1	41 100.1	60 683.6	5 844.4	-83 776.4

FINCOMBANK AT A GLANCE

OUR PROFILE

FinComBank is a universal bank of the Republic of Moldova. FinComBank provides a wide range of corporate and investment banking services to Moldovan and foreign clients. We will concentrate on our position as a commercial bank for microenterprises and SMEs, while creating comfortable service of our individual clients.

OUR MISSION

To establish mutually beneficial partnership with the clients by granting them highly professional banking services that correspond to their entrepreneurial, investment and consumer needs, as well as to achieve maximal profitability and high reliability of the Bank.

OUR VISION

To become one of the leading financial institutions with high reputation and positions in the banking sector of Moldova, provide its clients with top quality banking services and products which fully satisfy clients' needs and exceed their expectations. We intend to further the development of business environment, expansion of infrastructure of entrepreneurship support and improvement of SMEs access to financial resources.

OUR CORPORATE RESPONSIBILITY

FinComBank builds its future on sustainable profit based on:

- **Competence**
In our activity we base on best standards of financial services and accurate market analysis; we constantly perfect ourselves in that and support our employees' creative initiative and professionalism.
- **Client Orientation**
We adhere to the partnership philosophy as a base of our relationships with the clients. We strive for being a sample of reliability and efficiency for everyone who cooperates with us.
- **Honesty and Confidentiality**
We are honest and correct with all our employees, contractors and competitors. We are governed not only by the letter of the law but by its spirit.
- **Information openness**
Our information openness serves as a basis for high confidence of our clients and partners to the Bank. We maintain efficient data exchange within the Bank and open relations with the external interested parties.
- **Social Responsibility**
We contribute to the well-being of people, providing our clients with A-class economic opportunities and implementing social programs, educational and cultural projects.

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FINANCIAL STATEMENTS AND AUDITORS' REPORT

For the Year Ended 31 December 2010

Prepared in Accordance with International Financial Reporting Standards.....1-63

Letter to Stockholders

Dear shareholders,

The year 2010 was yet another challenging year for the financial sector, FinComBank and our customers. We came through the worst year in our history with net losses of MDL 83.7 million. Unstable political situation and slow economic recovery strongly affected business development. Moldovan banking system lacked eligible and sustainable borrowers. At the same time, we faced high credit costs in 2010, as provision expense for the year totaled MDL 85.5 million, while most credit quality metrics had continued to worsen.

Despite all political and economic calamities in Moldova we continued our institutional development by implementing a new automated banking system, introducing a range of new products for microenterprises and natural persons, strengthening our ability to offer a tailored service to small and medium-sized enterprise clients. Our elevated focus on risk, capital and liquidity remained an important part of our day-to-day management. We believe the changes we're making now will put us in a much better position to see and respond to macroeconomic risks in the future.

Much in our environment may change. However, our commitment to our clients, stakeholders and partners will not change. We continue to believe that our long-term success lies in delivery of outstanding service to our clients. We continue to invest in the skills and the future development of our employee base. And we will continue to strive to deliver sustainable value for you, our shareholders. Thank you for your loyalty and support.

Yours sincerely,



*Victor Khvorostovsky
President of the Bank*

Directors and Executive Officers

The following Table sets forth certain information concerning FinComBank's directors and executive officers as of December 31, 2010.

MEMBERS OF THE COUNCIL (BOARD OF DIRECTORS)

Oleg VORONIN	Chairman of the Council
Cristina HAREA	Member of the Council
Iurii BLASHCHUK	Member of the Council
Vitalie BODEA	Member of the Council
Igor ANGLICEV	Member of the Council
Dumitru COJOCARU	Member of the Council

EXECUTIVE OFFICERS

Victor KHVOROSTOVSKY	President
Iurii SALAMAHA	First Vice-President
Larisa RUDENCO	Vice-President
CHIEF ACCOUNTANT	
Serghei Socolov	Director of the Accounting Organization and Control Department, Chief Accountant

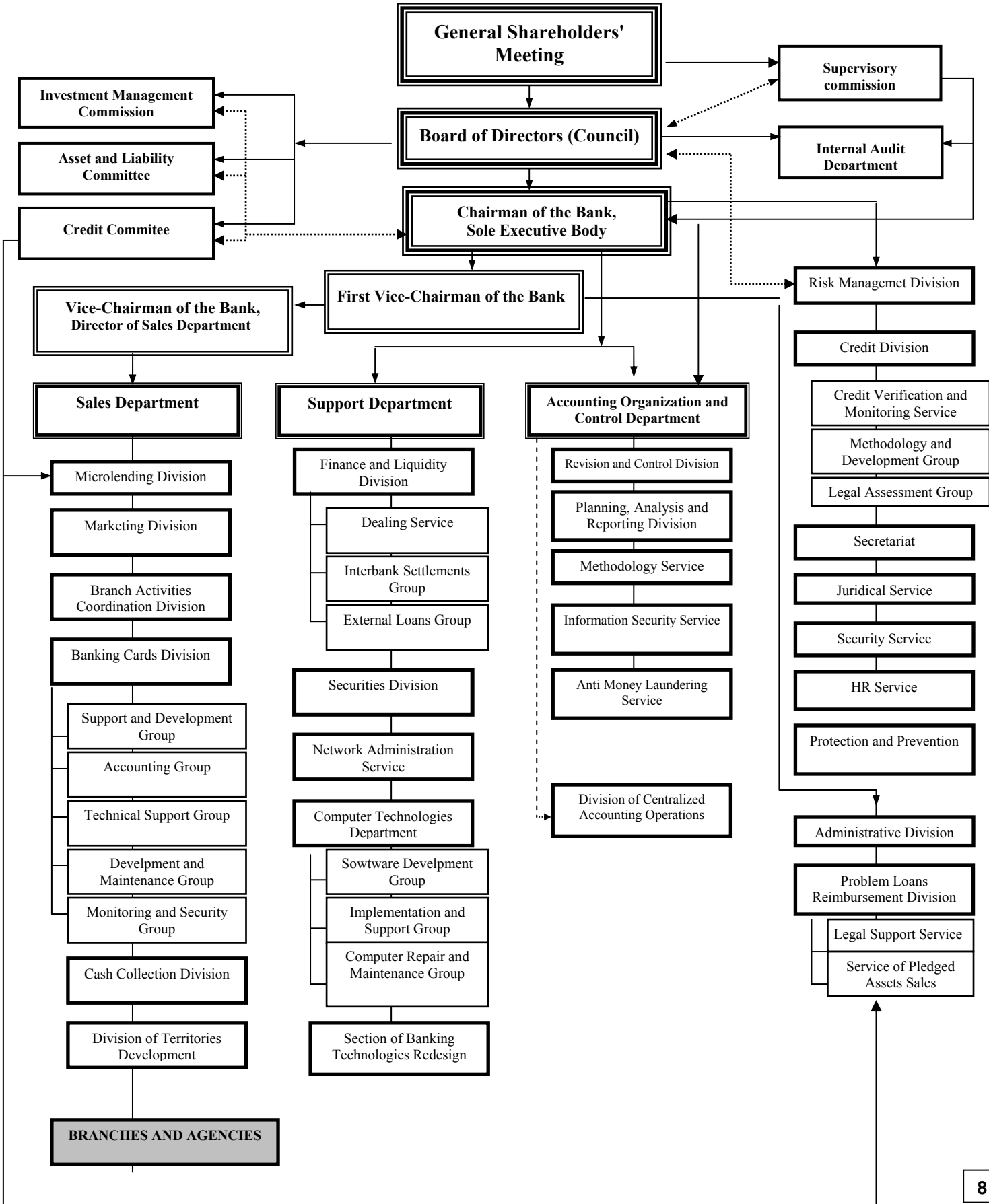
Shareholders

The following Table contains data about shareholders owing a considerable quote (more than 5%) of common stocks of the Bank as of December 31, 2010.

Holding is calculated based on total number of common stocks owned by FinComBank shareholders or 1 351 442 units:

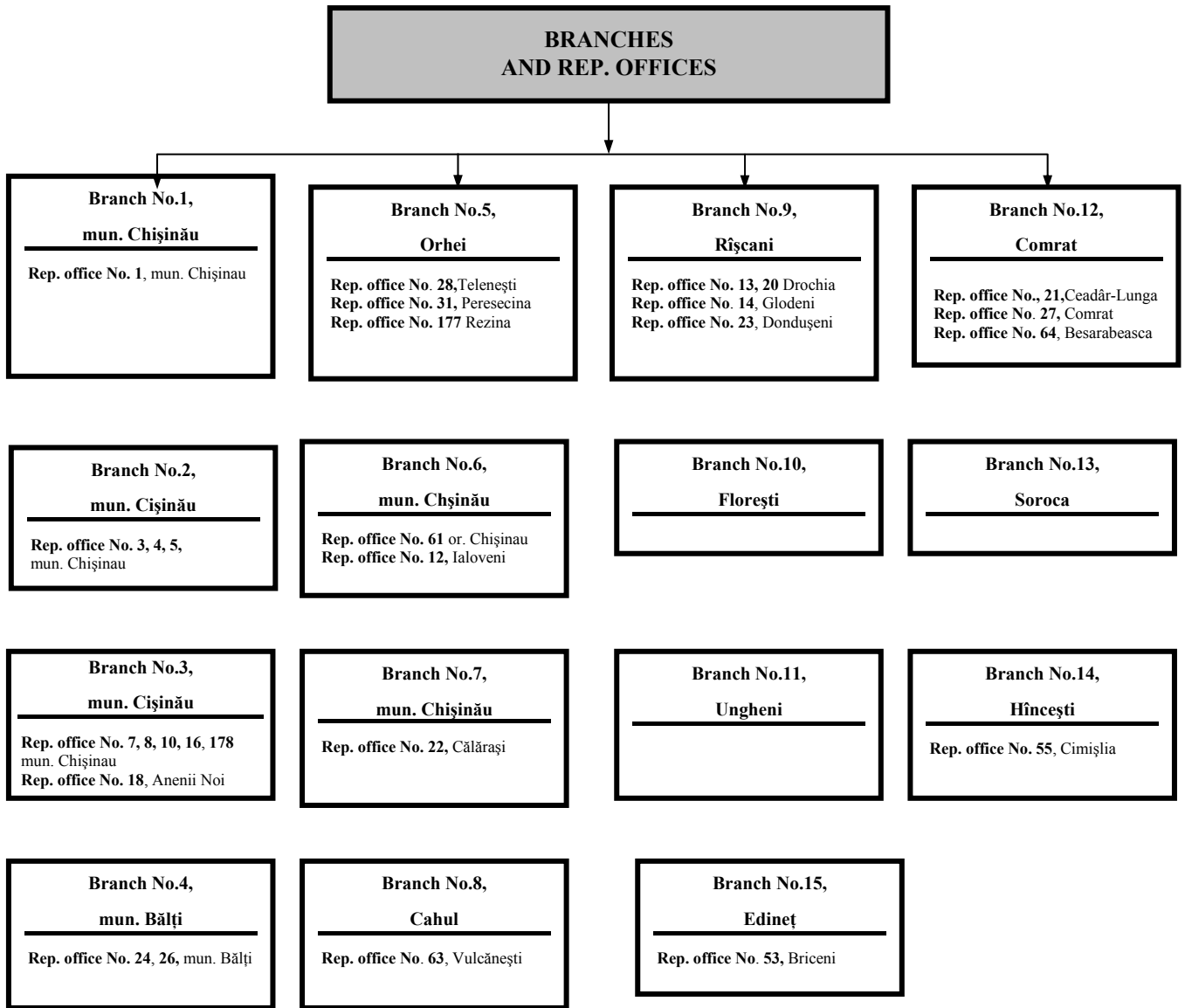
	FINCOMBANK S.A. PRINCIPAL SHAREHOLDERS	NO. OF SHARES	%
1	Western NIS Enterprise Fund	323 897	24.62
2	Voronin O.V. (interest group)	264 310	20.09
3	Antoci I.E.	90 392	6.87
4	Biotex-Com SRL	89 758	6.82
5	Avicomagro SRL	89 740	6.82
6	Tatar D.	88 641	6.74
7	Khvorostovsky V.I. (interest group)	74 370	5.64
	TOTAL:	1 021 108	77.60%
	Shareholders' Equity (shares)	1 351 442	100%

FINCOMBANK S.A. ORGANIZATIONAL STRUCTURE



BRANCH NETWORK

By December 31, 2010 FinComBank network of branches and outlets numbered 15 branches and 29 representations decreasing by 34 rep. offices compared to year 2009 because of loss of contract with The State Enterprise “State Information Resources Center “Registru” and closure of few unprofitable outlets.



CLIENTS

Analysis of the client base reflects negative processes in the economy of the country. In spite of the fact that during 12 months period total number of clients has even increased from 87.5 up to 91.9 thousand clients, balances on their accounts have decreased.

The most active clients of the bank deal with wholesale and retail trade and processing industry, which corresponds to the distribution of economic agents of Moldova by types of economic activities on the basis of data of the National Interadministrative Registry of the Republic of Moldova. Significant growth of trade and agriculture segments demonstrates that FinComBank became more active in microlending and rural areas.

Changes in the structure of legal persons by types of their activities based on turnover of their accounts may be traced in the following table:

Type of activity	31.12.2007	31.12.2008	31.12.2009	31.12.2010
Trade	35.2%	36.6%	35.9%	46.8%
Processing Industry	13.8%	11.0%	22.8%	18.2%
Transport and Communication	14.7%	13.9%	11.1%	10.9%
Real estate, rent, etc.	12.7%	10.1%	10.3%	8.3%
Construction	2.2%	3.0%	1.6%	1.9%
Energy, gas industry and water supply	12.4%	15.4%	10.6%	3.3%
Agriculture	1.9%	2.0%	3.2%	6.0%
Other	7.1%	7.9%	4.5%	4.6%

Building strong, lasting relationships with our customers, and welcoming new ones, is the key to growing revenues in a sustainable and profitable way. In a difficult environment, we act as a reliable partner to our customers, and we have proved our ability to provide constructive solutions which are tailored to their individual financial position. More than ever, we seek personal dialogue with our customers and recognize their desire for transparent banking products that are easy to understand. Our customers benefit directly from the experience we have gained in dealing with the recent crisis. Trust, expert advice and the ability not only to understand our customers' needs but also to meet them with first-class solutions benefits both parties: our customers' success is the essential basis of our own success.

STAFF

FinComBank staff has been and remains one of the major assets and competitive advantages of the Bank. Its personnel policy is aimed at creating efficient, professional and motivated team of employees in each of the departments and branches. In 2008 and 2010 FinComBank won the "Best Employer" title by results of the "Top 20 Employers" research conducted by the AXA Management Consulting Company.

Quantitative and qualitative composition of FinComBank staff as of December 31, 2010:

Number of employees				
	Total	Operating personnel	Men	Women
Total	* 531	81	141	461

* excluding employees on leave for child care. As of December 31, 2010 there was 71 such employee, which made up 11% of the total staff number.

Distribution of FinComBank staff by education and age				
Total excluding operating personnel	Education			Age average
	Higher education	vocational education	High education	
521	427	63	31	39,5

We recognize that our continued growth and success depends above all on the talent and commitment of our staff, and one of the ways in which we will achieve this goal is to continue investing significant amounts in high quality training for all employees. In 2010 481 employees (251 in 2009) of our Bank had a workout at different seminars and trainings.

	Number of participants	Number of seminars	Duration (days)
2010	481	120	224
	254 on-line trainings		61

We strongly believe that our team's hard work and dedication will enable the bank to reach breakeven in 2011.



Macroeconomic Environment

In 2010, Moldova's economy continued to be affected by global economic crisis and recession of the world's major economies, coupled with political instability and social tensions within the country. Nevertheless real GDP rebounded by 6.9 percent in 2010, more than offsetting the economic contraction of 6 percent recorded in 2009. Inflation remained under control at around 8 percent in 2010, while core inflation declined below 5 percent despite adjustment of energy tariffs, depreciation of the leu, and higher excise rates.

The situation in the financial sector has improved as well, with domestic credit rebounding and nonperforming loans declining. After the decline of 2009, domestic bank credit expanded by about 13 percent in 2010, and interest rates have declined. Meanwhile, the share of nonperforming loans declined to 13.3 percent, in part reflecting write-offs. Moreover, banks maintain large liquidity and capital buffers, remaining resilient to potential risks.

Main Macroeconomic indicators of Moldova

	2006	2007	2008	2009	2010
I. Real Sector					
GDP					
GDP Real Growth	4,8%	3,0%	7,2%	-6,5%	6,9%
Nominal GDP (MDL mil.)	44 754,0	53 430,0	62 840,0	60 043,0	70 549,0
Inflation	14.1%	13.1%	7.3%	0.4%	8.1%
Monthly average salary (MDL)	1697,1	2063,0	2 528,6	2 748,4	2 972,2
II. Public Finance					
Money supply growth (M3)	37.5	39.8	15.9	-0.2	9.3
III. External Sector Indicators					
Trade balance (USD mil.)	-1 591	-706,5	-953,8	-1 980,6	-2 273,2
NBM official monetary reserves (USD mil.)	775,3	1 672,41	1 504,39	1 408,3	1 717,68
Remittances volume (USD mil.)	854,5	1 419,0	1 796,0	1 135,0	1 244,1
Direct foreign investments (USD mil.)	234,16	522,04	691,49	112,0	193,7
Exchange Rate (average annual) MDL/USD	13,13	12,14	10,39	11,10	12,3
Foreign debt (USD mil.)	2 528,11	3 355,92	4 106,08	4 368.83	4618.14

Source: NBM and National Bureau of Statistics Data

FinComBank's Current Position in the Market of Banking Services

The banking system of Moldova is two-tiered. The National Bank of Moldova is its central chain.

Commercial banks of Moldova represent the second chain of the banking system of Moldova. At the end of 2010 there were 15 banks operating in Moldova.

The share of foreign investment in banks capital constituted 77.0 percent, by 0.6 percentage points lower compared with the end of 2009, following the share capital increase at the expense of resident shareholders investment.

Share of foreign investments in Moldova's banking sector

31.12.06	31.12.07	31.12.08	31.12.09	31.12.10
60.67%	71.88%	74.05%	77.61%	77.00%

Source: NBM data

Assets

In 2010 total assets of the banking system of Moldova increased by 5.9% and made up MDL 42 billion 302.99 million (equivalent to USD 3.5 billion). Such growth rates were at 4.0% higher than in 2009 but much lower than in 2008 when total assets of the banking system had increased by more than 22.25%.

MOLDOVAN BANKS' ASSETS IN DYNAMICS

Bank	Total assets					
	31.12.2009	31.12.2010	growth, MDL thou.	growth, %	'09 market share, %	'10 market share, %
Banca de Economii	5 126 171.1	5 298 465.5	172 294.4	3.4	12.8	12.5
Banca Socială	2 479 824.9	2 828 646.8	348 821.9	14.1	6.2	6.7
BCR, Chisinau	2 016 556.8	1 228 939.0	-787 617.8	-39.1	5.1	2.9
Victoriabank	5 976 908.0	7 047 050.0	1 070 142.0	17.9	15.0	16.7
Eurocredibank	280 191.7	307 922.3	27 730.6	9.9	0.7	0.7
Commertbank	431 918.4	508 491.2	76 572.8	17.7	1.1	1.2
Mobiasbanca	3 199 705.6	2 905 397.8	-294 307.8	-9.2	8.0	6.9
Moldinconbank	4 555 345.2	5 116 243.5	560 898.3	12.3	11.4	12.1
Moldova Agroindbank	7 766 207.8	8 388 535.2	622 327.4	8.0	19.5	19.8
Procreditbank	577 812.0	1 326 709.0	748 897.0	129.6	1.4	3.1
Unibank	398 972.2	421 288.4	22 316.2	5.6	1.0	1.0
Universalbank	289 401.0	390 439.4	101 038.4	34.9	0.7	0.9
FinComBank	1 871 288.8	1 634 202.1	-237 086.7	-12.7	4.6	3.9
Eximbank	3 647 613.0	3 425 394.7	-222 218.3	-6.1	9.1	8.1
Energbank	1 297 089.8	1 475 194.7	178 104.9	13.7	3.2	3.5
Total	39 915 006.3	42 302 919.6	2 387 913.3	6.0	100.0	100.0

Reasoning from their assets volume the Moldovan banks may be divided into four groups:

1. "Extra Large" banks with assets exceeding 5.0 billion lei;
2. "Large" banks with assets between 2.0 and 3.0 billion lei;
3. "Middle" banks with assets from 1.0 to 2.0 billion lei; and
4. "Small" banks with assets less than MDL 1.0 billion lei;

	Assets as of 31.10.2010
"Extra Large" banks	24 971 453.0
Moldova Agroindbank	8 220 678.2
Victoriabank	6 487 292.0
Moldindconbank	5 186 147.4
Banca de Economii	5 077 335.4
"Large" banks	8 937 143.5
Eximbank	3 436 940.7
Mobiasbanca	2 761 071.3
Banca Socială	2 739 131.5
"Middle" banks	5 647 561.7
FinComBank	1 670 662.7
Energbank	1 419 068.5
BCR, Chişinău	1 337 674.5
ProCredit Bank	1 220 156.0
«Small» banks	1 551 266.9
Comertbank	465 369.2
Unibank	421 926.9
Universalbank	370 675.0
Eurocreditbank	293 268.8
TOTAL:	41 107 398.1

Source: NBM and Bank data

First group includes MoldovaAgroindbank, Victoriabank, Banca de Economii and Moldinconbank which joined this group in 2010 mainly due to large emission. The four of them hold more than a half (60.2%) of all banking assets, which is significantly more than in 2009 (47.2%).

Second group of banks (Banca Sociala, Mobiasbanca and Eximbank) decreased its share in assets from 28.5% to 21.7% on the score of Moldinconbank which had left it and because of its own losses, which made up MDL 649.2 mil. Mobiasbanca lost more than others and decreased its assets by

record 13.7% (MDL 438.6 mil.).

“Middle banks” group (BCR Fil. Chisinau - subsidiary of Romanian BCR, FinComBank, and Energbank), which gained accelerated ProCredit Bank, has 13.7% share in total assets (12.9% in 2009). Procredit Bank doubled its assets while BCR lost one third of them. FinComBank suffered 12.7% decrease of balance sheet in 2010 and lost 0.8% of its market share. With all that it contrived to move up from 9th to 8th position in the banks ranking.

The remained four banks (Unibank, Comertbank, Eurocreditbank and Universalbank), which belong to the “small banks” group by size of their assets (3.7% of all banking assets) added overall 151.0 million to their assets and slightly increased their joint market share by 1.35%.

Assets structure in the banking sector of the Republic of Moldova (2009-10)

Assets	2009	2010	Change
	%	%	p.p.
Cash	5.46	4.71	-0.75
Due from banks and NBM	14.1	11.53	- 2.57
Net Securities	15.16	15.72	+0.56
Loans and financial leasing, net	60.27	56.16	-4.11
Other assets	3.42	3.02	-0.40

Source: NBM data

Liabilities structure in the banking sector of the Republic of Moldova (2009-10)

Liabilities	2009	2010	Change
	%	%	p.p.
noninterest-bearing deposits of legal persons	6.72	7.62	+0.90
interest-bearing deposits of legal persons	17.55	20.24	+2.68
interest-bearing deposits of private persons	48.03	49.77	+1.74

Liabilities of the banks as of December 31, 2010 grew up by 6.0% (2009: +2.9%) mainly due to increase in noninterest-bearing deposits by 20.5% and interest-bearing deposits of legal persons by 22.3%. Deposits of private persons increased by MDL 1.1 bil. (6.8%) up to MDL 17.5 billion. Deposits of legal entities increased by MDL 1.2 bil. (+12.4%) up to MDL 11.1 billion. Total loans grew up by 13.7% compensating 9.5% loss in the 2009 and reached MDL 24.5 billion.

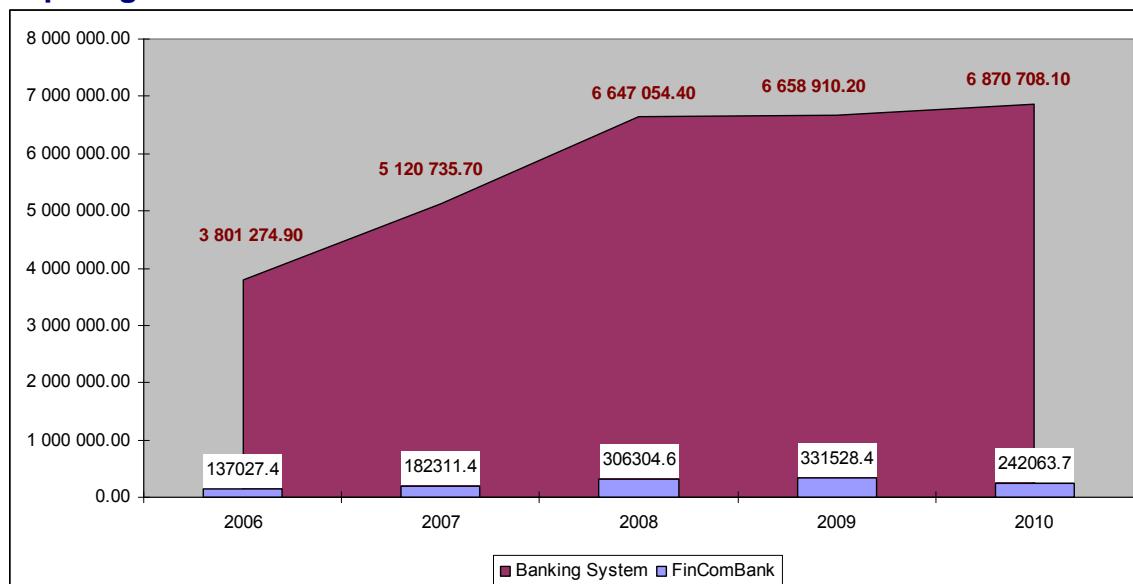
Capital

Shareholders of 8 Moldovan banks invested MDL 586.6 mil. in their statutory capital in 2010 out of which more than one third (MDL 220.0 mil.) was granted to BCR by its Austrian parent bank. However, these investments have been a compulsory measure for some of them because of the NBM's requirements to raise a statutory capital at a level not less than MDL 100.0 mil. by the end of 2010.

Aggregated normative capital (ANC) of the banks made up MDL 6.87 billion (up by 4.3% pp. y-o-y), and share of ANC of 5 banks with the largest capital has decreased during the year from 63.23% up to 62.45%.

Some of "Extra large" and "Large" banks demonstrated significant capital growth rates - MAIB + MDL 220.1 mil. (+19.0%), Moldincombank + MDL 97.0 mil. (+19.3%), Banca Sociala +MDL 63.7 mil. (+17.7%), Mobiasbanca +MDL 58.7 mil. (+10.9%). On the contrary Eximbank lost MDL 159.8 mil. (-20.0%) of its capital. In the group of 'Middle' banks Procredit Bank assured the largest growth rate within the system +69.1% (MDL 87.4 mil.). Energbank added MDL 36.1 mil. (+16.7%) to its capital, while BCR and FinComBank lost MDL 50.1 and 89.4 million correspondingly, or 18.3 and 27.0% of their capital. Group of "Small" banks demonstrated average capital growth results. Thus, Unibank Eurocreditbank and Comertbank increased their capital by MDL 19.3 million (+12.5%), MDL 11.0 million (+7.7%) and MDL 7.7 million (+4.4%), while Universalbank lost MDL 24.2 million (-18.6%).

Capital growth rate in 2006-10



Source: NBM and Bank data

The level of capitalization of the banking sector remains very high. The average capital adequacy ratio of banking institutions in Moldova was 31.6% in December 2010, slightly lower than its December 2009 level. As a consequence, the stability of the banking system as a whole is not a pressing concern.

Profitability

In 2010 the Moldovan banking system received MDL 291.1 million profit, compared to MDL 167.5 million losses in 2009 although 5 out of 15 banks had negative financial results. By the end of 2010 BCR and Eximbank found that they were MDL 190.9 and 146.9 million short. FinComBank, Universalbank and Procredit Bank losses made up MDL 83.7 mil., 27.0 mil. and 10.9 million. The largest profit was earned by “Extra large” banks – MAIB and Victoriabank, MDL 259.9 mil. and MDL 191.7.5 mil., correspondingly.

Profit (losses) of Moldovan banks in 2010

Position		Bank	Net Profit (MDL thou.)		Growth	
2009	2010		2009	2010	(MDL thou.)	(%)
4	10	Banca de Economii	27,345	5,888	(-)21,457	n/a
3	3	Banca Sociala	33,978	54,034	20,056	59.00%
15	15	BCR, Chisinau	(-)314,706	(-)190,971	n/a	n/a
10	9	Comertbank	6,371	8,399	2,028	31.90%
9	7	Energbank	7,961	15,853	7,892	99.10%
8	8	EuroCreditBank	10,644	10,230	(-)414	n/a
14	14	Eximbank	(-)58,158	(-)145,931	n/a	n/a
7	13	FinComBank	5,844	(-)83,766	n/a	n/a
6	4	Mobiasbanca	15,416	61,446	46,030	298.50%
5	5	Moldindconbank	20,337	51,378	31,041	152.60%
1	1	Moldova-Agroindbank	104,664	259,914	155,250	148.30%
12	11	Procreditbank	(-)35,323	(-)10,900	n/a	n/a
2	2	Victoriabank	65,543	191,739	126,196	192.50%
11	12	Universalbank	4,800	(-)27,233	n/a	n/a
13	6	Unibank	(-)45,270	19,035	n/a	n/a

Source: Banks' data

Deterioration in FinComBank asset quality resulted in the formation of adequate reserves to cover credit risks: in 2010 the amount of funds directed to the risk fund made up MDL 85.5 million (MDL 19.0 million in 2009). This sharp rise of expenses became a major factor of negative financial result - MDL 83.8 million. Accordingly, negative values were recorded in relative terms, characterizing the profitability of the Bank's financial activities in 2010:

Indicators	Bank			Group of "Middle banks" (assets up to MDL 3000 mil.)	Banking system
	2008	2009	2010		
				2000	2010
ROA	3.42%	0.34%	-4.82%	-1.38%	0.54%
ROE	18.73%	1.73%	-24.94%	-7.83%	3.04%

Source: NBM and Bank data

However, it should be noted that despite 2010 negative results the average amount of liquid assets (35.0-37.0% of total assets) and capital adequacy ratio (21.9% compared to a minimum 12.0%) confirm the Bank financial stability and its ability to meet its commitments towards the clients in time and in full.

Market of Deposits

By the end of 2010 balance of deposits of the banking system made up MDL 28,718.5 mil., increasing by 8.9% compared to 2009. This is much better than in 2009, when deposit portfolio lost 630.3 million lei, or 3.7%.

Deposit Portfolio Growth Rate

	FinComBank		Banking System	
	2009	2010	2009	2010
Total Deposits	-3.9%	-11.7%	-3.1%	8.9%
Natural Persons' Deposits	-9.1%	0.4%	-3.7%	6.8%

Source: NBM and Bank data

MANAGEMENT REPORT 2010

Next table reflects changes in the structure of the deposit portfolio:

Relative Indicators of Deposit Portfolio

	FinComBank	Banking System	FinComBank	Banking System
Indicators	31.12.09	31.12.09	31.12.10	31.12.10
Natural Persons' Deposits /Total Deposits	67,02%	62,93%	72,14%	63,56%
Legal Persons' Deposits /Total Deposits	37,82%	28,99%	27,72%	32,10%
Deposits of Natural and Legal Persons/Total Assets	56,19%	61,31%	55,92%	63,73%
Currency deposits/Total deposits	37,52%	53,19%	37,64%	48,09%

Source: NBM and Bank data

Nine out of 15 banks managed to increase their market share. Others, including FinComBank (-0.78% of its 2009 market share), lost part of their depositors, mainly legal persons.

Market share of Moldovan commercial banks after evaluations of deposits

Bank	31/12/09		31/12/10		Dynamics in comparison with 31.12.2009 p. p. (+/-)
	MDL	%	MDL	Bank	MDL
Banca de Economii	3 122 171.7	11.80%	3 746 459.9	13.05%	1.25%
Banca Sociala	1 514 077.8	5.70%	1 793 762.3	6.25%	0.55%
BCR, Chisinau	1 674 728.5	6.40%	884 782.8	3.08%	-3.22%
Victoriabank	4 757 412.0	18.00%	5 849 487.0	20.37%	2.37%
EuroCreditBank	115 743.5	0.40%	126 673.1	0.44%	0.04%
Comertbank	247 507.4	0.90%	311 134.8	1.08%	0.18%
Mobiasbanca	1 940 742.4	7.40%	1 956 310.9	6.81%	-0.59%
Moldindconbank	3 552 264.7	13.50%	3 822 971.3	13.31%	-0.19%
Moldova-Agroindbank	5 283 726.0	20.00%	5 503 110.9	19.16%	-0.84%
Procreditbank	258 271.0	0.98%	411 362.0	1.43%	0.45%
Unibank	234 641.8	0.89%	230 809.3	0.80%	-0.09%
Universalbank	83 350.7	0.32%	205 032.1	0.71%	0.39%
FinComBank	1 085 415.4	4.12%	958 773.2	3.34%	-0.78%
Eximbank	1 559 917.9	5.92%	1 857 103.1	6.47%	0.55%
Energbank	933 776.0	3.50%	1 060 752.1	3.69%	0.19%

Source: NBM data

3-6 and 6-12 months term deposits continued to prevail in the deposit portfolio of Moldovan banks, however compared to 2009 share of lei deposits from 6 to 12 months decreased from 35.2% to 29.7% and vice versa share of lei deposits more than 12 months increased from 3.2% up to 8.1%. On the contrary in FinComBank share of 6-12 month lei term deposits increased significantly from 44.1% up to 73.0%, while share of 3-6 month deposits reduced more than in half from 54.3% down to 25.9%.

Structure of private term deposits attracted in 2010

	Banking system, %		FinComBank, %	
	In MDL	In foreign currency	In MDL	In foreign currency
Up to 1 month	1.3%	4.2%	0.0%	0.0%
1-3 months	2.7%	8.8%	0.6%	1.9%
3-6 months	52.6%	45.8%	25.9%	31.2%
6-12 months	35.2%	36.7%	44.1%	64.0%
More than 12 months	8.1%	4.6%	0.2%	3.0%

Source: NBM and Bank data

Market share of FinComBank in private term deposits in 2010

	In MDL		In foreign currency	
	2010	2009	2010	2009
Up to 1 month	0.81%	0.00%	0.62%	0.00%
1-3 months	0.29%	0.82%	0.31%	0.40%
3-6 months	3.49%	1.87%	1.71%	1.29%
6-12 months	5.18%	7.85%	3.76%	3.30%
More than 12 months	0.19%	0.25%	0.81%	1.22%
Total:	3.49%	3.79%	1.97%	1.89%

Source: Bank data

In 2010 average interest rate on lei and currency deposits decreased drastically from 17.5% and 9.3% down to 7.7% and 3.0% correspondingly.

Comparative analysis of average interest rates on deposits

	2009		2010	
	Banking system	FinComBank	Banking system	FinComBank
In MDL	17.5%	19.7%	9.3%	11.9%
In foreign currency	7.7%	9.3%	3.0%	4.5%

Source: NBM and Bank data

In 2010 FinComBank's average interest rates on term deposits were slightly higher than average interest rates within the banking system, although dynamics of deposits growth depends not only on the interest value. Political and economic factors affect population's attitude to the banks and, consequently, dynamics of deposits growth.

Market of credits

In 2010 net credit portfolio of Moldovan banks increased by 13.7% and reached MDL 30.6 billion. As a result, by the end of 2010 share of credits in their assets made up 46.8% (45.3% at the beginning of the year). Highest growth rates of credit portfolios demonstrated Procreditbank: + 157.2% or MDL 622.0 mil., Eurocreditbank: + 79.8% or MDL 62.7 mil., and BEM: +40.4% or MDL 867.2 mil. MAIB with the 'modest' 25.6% increase of its credit portfolio has attracted record MDL 1.1 billion of new loans.

FinComBank has preserved its loan portfolio (compared to 15.8% decrease in 2009) at the level of MDL 908.0 million; however the Bank lost 0.49 percent of its market share.

Market share of Moldovan commercial banks after evaluations of loans

Bank	31/12/09		31/12/10		Dynamics in comparison with 31.12.2009 p. p. (+/-) MDL
	MDL	%	MDL	Bank	
Banca de Economii	2 149 192.3	9.58%	3 016 429.9	11.83%	2.25%
Banca Sociala	1 605 045.3	7.16%	1 889 418.4	7.41%	0.25%
BCR, Chisinau	1 321 995.0	5.89%	617 106.5	2.42%	-3.44%
Victoriabank	3 283 504.0	14.64%	4 027 366.0	15.79%	1.15%
EuroCreditBank	78 742.6	0.35%	141 540.9	0.56%	0.21%
Comertbank	189 069.9	0.84%	240 235.6	0.94%	0.10%
Mobiasbanca	1 894 683.9	8.45%	1 524 196.5	5.98%	-2.59%
Moldindconbank	2 787 524.8	12.43%	3 000 571.4	11.77%	-0.66%
Moldova-Agroindbank	4 323 566.8	19.28%	5 432 297.4	21.30%	2.02%
Procreditbank	395 645.0	1.76%	1 017 646.0	3.99%	2.23%
Unibank	183 234.0	0.82%	180 595.5	0.71%	-0.11%
Universalbank	168 904.2	0.75%	204 900.9	0.80%	0.05%
FinComBank	908 378.8	4.05%	908 017.0	3.56%	-0.49%
Eximbank	2 492 049.2	11.11%	2 553 698.3	10.02%	-1.09%
Energbank	647 070.8	2.89%	743 887.0	2.92%	0.03%

Source: NBM data

This result was the consequence of a very tough credit policy pursued by the Bank during the year. All credit projects were thoroughly examined and assessed from the point of view of the associated credit risks. In order to better avoid concentration of credit risk, preference was given to the loans to micro, small and medium-sized enterprises.

As a result, the volume of loans (about MDL 698.1 million, which is 23.7% more than the volume of loans issued in 2009), was almost equal to the amount of the repaid loans (698.5 million lei). It should be also noted that the number of loans issued in 2010 amounted to about 2,8 thousand, which is by 11.2% more than in 2009.

In 2010 the crediting of the economy recorded an upward trend of 64.5 percent, compared with 48.8 percent decline registered in 2009. Loans to industry and commerce remained dominant (51.1%) although slightly decreased by 0.19% at the year end. Growth of loans volume to for roads construction and transportation made up 2.12 per cent, while loans to agriculture and food industry dropped by 1.03% compared to the end of 2009. FinComBank's loan portfolio sectoral structure mostly corresponded to that one of the banking system with the exception that the share of loans to agriculture and food industry was much higher (24.41% compared to 14.85%) and the share of consumer loans was much lower (1.61% compared to 8.40%). That might be explained from one side by the fact that FinComBank is very active in rural regions and from the other side unlike many other banks in Moldova, it does not promote consumer lending considering it a by-product.

Loans Structure as of 31.12.2010

	System	Dynamics in comparison with 31.12.2009 percentage points (+/-)	FinComBank	Dynamics in comparison with 31.12.2009 percentage points (+/-)
Loans to agriculture and food industry	14.85%	-1.03	24.41%	0.17
Loans for real estate, construction and development	12.33%	-0.21	12.32%	-0.89
Consumer loans	8.40%	-0.33	1.61%	-0.14
Loans to energy and fuel industry	3.61%	0.32	1.93%	-0.09%
Loans to banks	0.08%	0.02	0.00%	-0.08%
Loans to Government	0.00%	0.01	0.00%	0.00
Loans to industry and commerce	51.41%	-0.19	58.01%	2.56%
Loans for roads construction and transportation	3.54%	2.12	0.06%	0.00%
Other loans	5.70%	-0.70	1.66%	-1.62%
Loans in foreign currency/Total Loans	43.28%	-3.03	27.70%	1.96%

Source: NBM and Bank data

In the context of currencies FinComBank's loan portfolio structure remained stable, preserving 72.3% for loans in local currency and 27.7% for loans in foreign currencies, while banking system in general decreased share of loans in foreign currencies by 3.03% up to 43.28 per cent.

FinComBank's credit policy defines micro, small and medium-sized enterprises as the Bank's main target group. The volume of loans granted to such clients range in recent years at the level of 60-65%.

To implement this policy, the Bank created a separate microlending unit. This program had been started in March 2009 and by December 31, 2010 it was introduced in 10 branches (in another 2 branches client relationship managers function as microlending officers also). Number of loans issued in 2010 increased in 2.3 times compared to 2009. The volume of loans in 2010 rose 2.2 times over the level at the end of 2009 (MDL 10.0 million in 2009 vs. MDL 20.32 million in 2010). In 2010 the total volume of microloan portfolio increased in 2.1 times and amounted to MDL 19.0 million.

The structure of corporate loans somewhat changed compared to 2009. Moldovan business began to show more thirst to the loans more than 12 months.

Structure of corporate loans

	Banking system				FinComBank			
	2009		2010		2009		2010	
	In MDL	In f.cur.	In MDL	In f.cur.	In MDL	In f.cur.	In MDL	In f.cur.
Up to 1 month	11.5%	11.5%	11.4%	9.6%	0.5%	10.7%	0.5%	0.9%
1-3 months	3.7%	3.7%	3.3%	2.2%	3.4%	4.4%	3.5%	1.5%
3-6 months	1.6%	1.6%	2.3%	1.7%	4.4%	0.9%	6.5%	3.6%
6-12 months	29.5%	29.5%	20.1%	13.5%	33.0%	15.4%	25.8%	13.6%
More than 12 months	53.6%	53.6%	63.0%	73.0%	58.7%	68.7%	63.8%	80.4%

Source: NBM and Bank data

In 2010 average interest rates on credits to legal and natural persons in lei and in foreign currency somewhat reduced:

Comparative analysis of average interest rates on credits

	2009		2010	
	Banking system	FinComBank	Banking system	FinComBank
In MDL:	20.98%	18.01%	16.08%	14.66%
-natural persons	24.04%	21.91%	18.66%	17.91%
-legal persons	20.44%	17.83%	15.50%	14.47%
In foreign currency:	12.51%	13.00%	10.14%	9.94%
-natural persons	21.89%	13.55%	14.03%	11.57%
-legal persons	12.33%	12.97%	9.63%	9.94%

Source: NBM and Bank data

FinComBank participation in different projects of international organizations serves as important factor of its loan portfolio growth. External loans received within IFAD and RISP programs, which purpose consists in financing of the new projects investments and development of existing ones in rural area, make up 50.4% of total external loans amount. Thus, by means of these long-term funds FinComBank favors realization of the national strategy of rural development.

External loan dynamics

2009		2010		Lenders
Share, %	Amount, MDL mil.	Share, %	Amount, MDL mil.	
22.02%	86,7	20.64%	82,4	IFAD - International Fund for Agricultural Development
28.41%	111,9	29.74%	118,7	RISP - World Bank Rural Investment and Services Project
0.21%	0,8	3.37%	13,5	KFW - Kreditanstalt für Wiederaufbau - a German government-owned development bank
15.61%	61,5	9.14%	36,5	EFSE – European Fund for Southeast Europe
12.49%	49,2	9.64%	38,4	WNISEF - Western NIS Enterprise Fund
6.25%	24,6	17.42%	69,5	OPIC - Overseas Private Investment Corporation
14.08%	55,4	10.04%	40,1	BNM
0.94%	3,7	0.0%	0,0	Others
100%	393.8	100%	399.1	

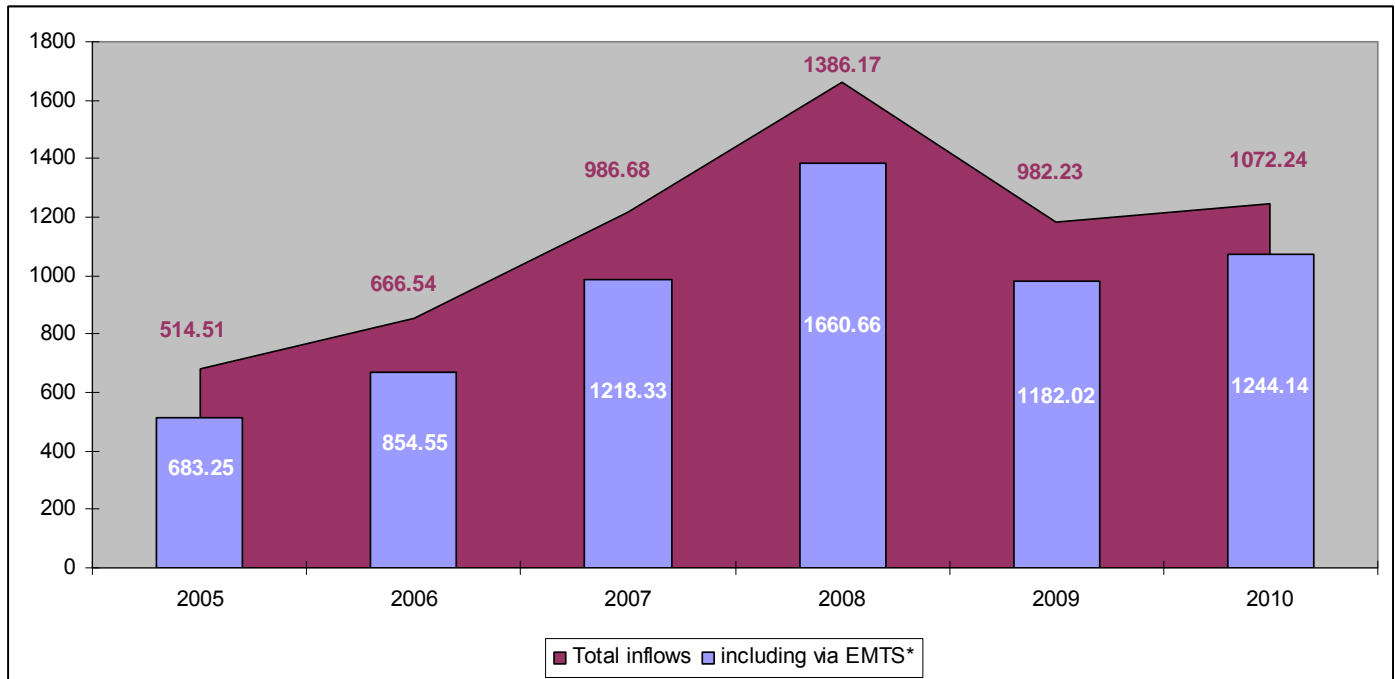
Source: Bank data

With these funds due to extensive use of internal resources of special lines refinancing, in 2010 FinComBank financed 257 projects in the amount of MDL 132.5 million and USD 5.4 million compared to 258 projects in the amount of MDL 119 million and USD 6.55 million in 2009.

Market of money transfers

For Moldova remittances still remain a more important source of external financing than development aid or foreign direct investment. In 2010 a volume of money transfers from abroad by natural persons via Moldovan commercial banks made up USD 1.2 billion (up 5.2% y-o-y). In accordance with the NBM's data 86.1 percent (USD 1,07 billion) of total currency inflows have been made through express money transfer systems (2009: 83.1%). 51.6% of these transfers have been made in USD, 38.7% - in EURO, and 9.7% - in Russian rubles. Russia and Italy headed the list of money-sending countries to Moldova.

Remittances from abroad by natural persons via commercial banks of Moldova (in USD mln.)



* EMTS – express money transfer systems: Anelik, Avers, Blizko, Coinstar Money Transfer, InterExpress, Contact, Leader, Migom, Allure, MoneyGram, Privat Money, RIA Money Transfer, Xpress Money, Zolotaya Korona, Unistream, Western Union, Poșta Rapidă, Smith&Smith, Strada Italia etc.

Source: NBM data

To date Moldovan banks cooperate with more than twenty international express systems, four of which — Western Union, MoneyGram, Unistream and Zolotaya Korona — accounted for more than 80% of the market share in Moldova.

No.	Payment Systems	Moldinban k	Banca Socială	Eurocreditban k	Universalbank	Victoriabank	Enerbank	Eximbank	Unibank	Comertbank	MAIB	FinComBank	Mobiasbanca	Banca de Economii	BCR	ProcreditBank	TOTAL
1	UNISTREAM																14
2	WESTERN UNION																13
3	CONTACT											1					12
4	ANELIK																11
5	BYSTRAYA POCHTA																11
6	LEADER																9
7	Zolotaya Korona																7
8	MONEYGRAM																6
9	MIGOM																6
10	BLIZKO																6
11	PRIVAT MONEY																4
12	INTEREXPRESS																3
13	COINSTAR/TRAVELEX																3
14	ALLURE																3
15	RIA Money Transfer																3
16	AVERS																2
17	INTELEXPRESS																2
18	GetMomeytoFamily																2
19	Smith&Smith																1
20	Sberbank																1
21	TRABEX																1
22	BESXpress																1
23	Grecia Transfer																1
24	Turkiye Express																1
25	Banco Popolare																1
26	Strada Italia																1
	TOTAL	15	13	13	13	11	10	9	8	7	7	6	5	3	3	2	125

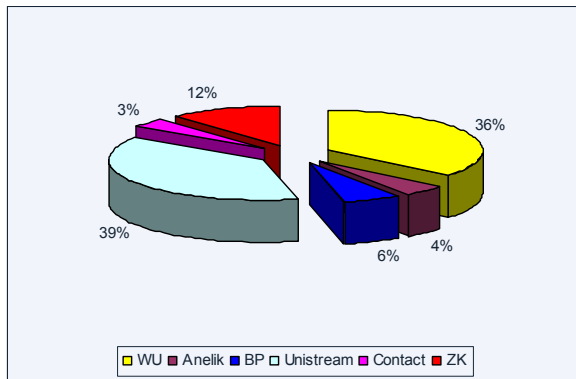
Source: Banks data

MANAGEMENT REPORT 2010

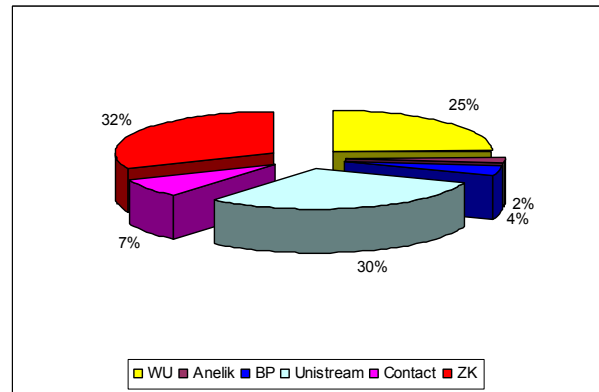
FinComBank started to cooperate with Zolotaya Korona 18 months ago. Only in 1.5 year this system got 32% of FinComBank EMTS portfolio and became its leader. Unistream lost 9% of its share as much as Western Union.

Share of EMTS in FinComBank's portfolio

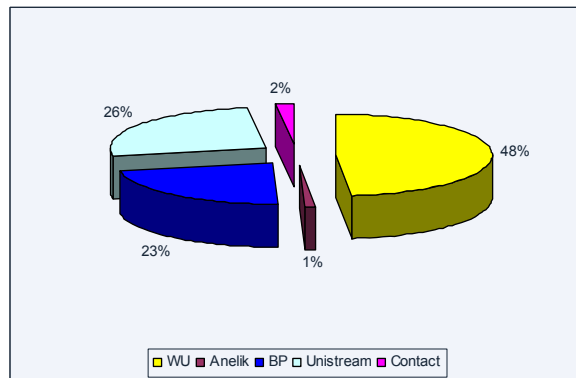
2009 Incoming



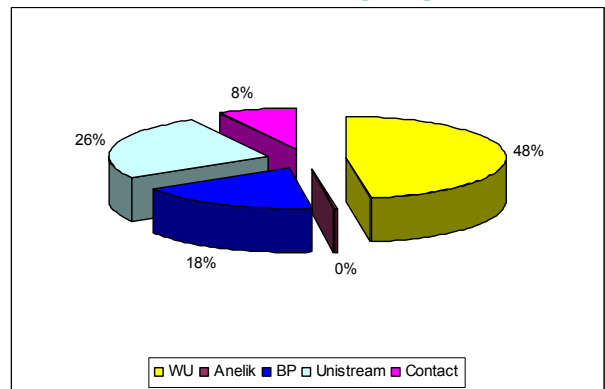
2010 Incoming



2009 Outgoing



2010 Outgoing



Source: Bank data

In 2010 FinComBank continued its active marketing policy, which made it possible to increase the Bank's market share from 6.98% in 2009 up to 7.78% in 2010.

Market of Banking Cards

FinComBank has been in card business since 2000, when it received a membership with MasterCard International and license for issuance of Cirrus, Maestro and Mastercard cards as well as for servicing the cards via the Bank's ATMs and POS terminals. In 2001 the Bank received associated membership with Visa International under sponsorship of Victoriabank, which also is a provider of cards processing services to the Bank, and in 2002 started servicing Visa cards in its network of ATMs and POS terminals.

In 2009 all 15 banks of the Republic of Moldova were in card business: two of them had been working with MoldCardSystem local payment system, one – with Unicard cards, nine – with Visa International cards and 12 – with MasterCard International cards.

By the end of 2010 there were 817 520 banking cards in circulation in Moldova, which is by 71 905 cards more than in 2009.

In 2010 FinComBank's market share in total number of non-cash transactions performed in the Republic of Moldova by means of cards increased from 9.33% up to 11.40%, while its share in total volume of non-cash operations somehow decreased from 10.94% up to 10.43%.

In 2010 FinComBank issued 17 338 banking cards (5.64% of total number of cards issued by Moldovan banks), initiated 53 payroll projects and switched 787 of its clients to FinComPay Payment System (twice as much than in 2009). By the end of 2010 the Bank served 773 POS-terminals (515 in sales outlets, 200 in post offices and 58 in the Bank's branches and rep. offices).

The Bank ATMs' network consists of 57 automatic cash terminals, out of which 31 ATMs are located in Chisinau, three in Balti, and others in Ungheni, Orhei, Floresti, Comrat, Ciadir Lunga, Aneni Noi, Edinet, Riscani, Drochia, Glodeni, Soroca, Hincesti, Causeni, Singerei, Calaras, Vulcanesti, Cahul, Rezina, Telenesti, Soldanesti and Varnita.

Risk Management

Risk management in banking was always the most important thing in all kind of operations. Final scope of risk management consists in gaining of maximal income while preserving optimal and eligible balance between profit and risk. The Business Model of FinComBank rests on the principle of earning above average interest margin on the funds invested in high quality assets above the costs of collected deposits. The bank seeks to boost interest margin by investing in longer duration (loans) assets that yields higher rates from the relatively short term deposits base at the same time trying to maintain sufficient liquidity to meet all liability claims that may fall due.

Based on general risk categories the bank is exposed to Market, Credit, Currency, Interest Rate, Country, Liquidity and Operational Risks.

Market risk

Market risk is the risk of general economic environment of the Moldova's economy, stemming from potential adverse influence of deterioration in economic conditions and/or currency fluctuations on financial service industry. Following the financial turmoil in recent months, the bank is operating in a vastly changed and rapidly changing environment. Credit and liquidity risks have risen, and markets in general have become more volatile. The bank should consider how recent events have affected and could affect it and attempt to estimate or model these effects.

Credit Risk

The Credit Risk refers to the potential inability of a counterparty to service obligations when due. The degree of credit risk increases with duration of a loan due to the bank. The key elements of the Bank's credit risk management are the provisioning against potential credit risks, which is done in accordance with the National Bank of Moldova guidelines for loan portfolio risk classification; maintenance of positions limits, such as limits by credit products, industries/sectors, limits on large exposures to a client or group of related parties; collateralization or guarantee requirements; regular monitoring of financial conditions of every borrower , including monitoring of the state of collaterals.

Interest Rate Risk

Competent interest risk management was one of the most important directions of

FinComBank's risk management in 2010, since net interest income made up a significant part of its profit. There are two components of the Interest Rate risk, namely reprisal risk - the risk of changing value of assets and liabilities due to the changes in market interest rate risk; and cash flow risk- the risk of cash flow fluctuations from assets or to liabilities due to changes in market interest rates. The risk is managed via specific position limits (e.g. Interest Rate gaps) for every standard maturity date (e.g. up to 1 month, from 1 month to 3 months, 3 months to 1 year, 1 year to 5 years, over 5 years), which are monitored on a daily basis.

Currency Risk

The Currency Risk refers to the potential adverse effect of currency fluctuation on the bank's assets and liabilities and cash flows. USD and EUR are the two largest foreign currencies which taken together account for a third of the loan portfolio of the Bank. The risk is mitigated by matching, to the extent possible, assets and liabilities in foreign currencies and limiting open currency positions to 10% ("±" - depending on position) of the regulatory capital for each currency and 20% for all currencies. The position limits are monitored on a daily basis.

Country Risk

Country risk arises when the Bank performs international operations and it determines the risk of negative affect of certain economic, political and social conditions and events upon the Bank's financial interests. Deterioration of the economic situation of a certain country, political and social shocks may adversely affect the level of borrowers' solvency. Besides, country risk also includes possibility of nationalization and expropriation of assets, annulment of external liabilities by the government, changes in currency regulations, etc.

Taking into consideration level of liability to the country risk, the Bank considers it necessary to use evaluations and ratings of well-known international agencies and financial institutions as an alternative to creation of its own mechanism of analysis of political and economic indicators of the countries which determine the country risk rating. The Bank uses evaluations and sovereign ratings of following international rating agencies: Standard and Poor's, Moody's, Fitch, as well as country risk information presented by IMF, World Bank and PRS Group.

Liquidity Risk

The bank is exposed to a daily demand for its cash resources from maturing deposits, current

accounts, loan draw-down and guarantees. ALCO and Credit Committee of the bank determine limits on the minimal level of maturing funds that must be available to meet liquidity calls as well as maximal level of interbank loans and other facilities that can be used to supplement internal liquidity constraints should there be an unexpected funds withdrawal.

There are two imperative liquidity principles the bank adheres to: (1) LT liquidity – total assets with 2 and more years of maturity should not exceed its sources; (2) Current Liquidity - Liquid Assets to Total Assets ratio must be above 20%.

Operational Risk

The operational risk deals with shortcomings in operational and business procedures and processes, staff mistakes and IT failure or breakdowns. This area is covered by internal control department, headed by the CFO, and partially by Internal Audit of the bank. The IT risk is limited to the prevention of unauthorized access to the bank's network via firewall.

FINCOMBANK SA

**Financial Statements
For the Year Ended 31 December 2010**

**Prepared in Accordance with
International Financial Reporting Standards**

FINCOMBANK SA

FINANCIAL STATEMENTS

For the Year Ended 31 December 2010

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FINANCIAL STATEMENTS

For the Year Ended 31 December 2010



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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF FINCOMBANK S.A.

We have audited the accompanying financial statements of Fincombank S.A. ("the Bank"), which comprise the statement of financial position as at 31 December 2010 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 information.

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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

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 Banks' 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 Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

FINANCIAL STATEMENTS

For the Year Ended 31 December 2010



Statement of financial position

As at 31 December 2010

	Notes	2010 MDL'000	2009 MDL'000
ASSETS			
Cash and balances with National Bank	3	225,569	312,386
Current accounts and deposits with banks	4	123,790	244,845
Financial investments, debt securities – available-for-	5	295,411	199,736
Loans, net	6	854,140	881,094
Financial investments, equity securities – available-	7	7,300	7,658
Intangible assets	8	16,331	11,385
Property and equipment	9	166,335	194,420
Other assets	10	42,434	38,551
Total assets		1,731,310	1,890,075
LIABILITIES			
Due to banks	11	787	13,749
Due to customers	12	960,115	1,075,309
Other borrowings	13	405,095	398,249
Other liabilities	14	6,203	11,745
Total liabilities		1,372,200	1,499,052
SHAREHOLDERS' EQUITY			
Ordinary shares	16	131,544	131,544
Share premium		73,306	73,306
Property revaluation reserve	17	29,788	48,103
Available-for-sale investments revaluation reserve		1,410	1,255
Statutory reserves	17	52,618	52,618
Retained earnings		70,444	84,197
Total shareholders' equity		359,110	391,023
Total liabilities and shareholders' equity		1,731,310	1,890,075

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

The financial statements were authorized for issue on 31 March 2010 by the Executives of the Bank represented by:

Prime-Vice-President

Mr. Yuri Salamakha

Chief Accountant

Mr. Serghei

Socolov

Statement of comprehensive income

For the Year Ended 31 December 2010

	Notes	2010 MDL'000	2009 MDL'000
Interest and similar income	21	130,361	181,080
Interest and similar expense	21	(90,113)	(134,785)
Net interest and similar income		40,248	46,295
Fee and commission income	22	45,526	49,960
Fee and commission expense	22	(12,342)	(12,295)
Net fee and commission income		33,184	37,665
Financial income, net	23	32,728	16,602
Other operating income	24	5,807	5,581
Total operating income		111,967	106,143
Impairment of loans	6	(36,519)	(7,701)
Net operating income		75,448	98,442
Personnel expenses	25	(42,115)	(45,436)
General and administrative expenses	26	(37,967)	(49,956)
Depreciation and amortization	8, 9	(8,896)	(8,893)
Total operating expenses		(88,978)	(104,285)
(Loss) / profit before tax		(13,530)	(5,843)
Income tax expense	15	(223)	-
Net (loss) / profit for the year		(13,753)	(5,843)
Other comprehensive income			
Net gain/loss on available for sale investments	5	155	1,591
Revaluation of land and buildings		(18,315)	42,796
Other comprehensive income for the year		(18,160)	44,387
Total comprehensive income for the year		(31,913)	38,544

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

The financial statements were authorized for issue on 31 March 2010 by the Executives of the Bank represented by:

Prime-Vice-President

Mr. Yuri Salamakha

Chief Accountant

Mr. Serghei Socolov

Statement of Changes in Equity

For the Year Ended 31 December 2010

	Ordinary shares MDL'000	Share premium MDL'000	Property revaluation reserve MDL'000	Available for sale investments revaluation reserve MDL'000	Statutory reserves MDL'000	Retained earnings MDL'000	Total MDL'000
Balance at 1 January 2010	131,544	73,306	48,103	1,255	52,618	84,197	391,023
Net change in available for sale investments (Note 5)	-	-	-	155	-	-	155
Revaluation of land and buildings	-	-	(18,315)	-	-	-	(18,315)
Loss for the year	-	-	-	-	-	(13,753)	(13,753)
Total comprehensive income	-	-	(18,315)	155	-	(13,753)	(31,913)
Balance at 31 December 2010	131,544	73,306	29,788	1,410	52,618	70,444	359,110
Balance at 1 January 2009	129,544	73,306	5,307	(336)	20,000	122,658	350,479
Net change in available for sale investments (Note 5)	-	-	-	1,591	-	-	1,591
Revaluation of land and buildings	-	-	42,796	-	-	-	42,796
Loss for the year	-	-	-	-	-	(5,843)	(5,843)
Total comprehensive income	-	-	42,796	1,591	-	(5,843)	38,544
Transfer to statutory reserves	-	-	-	-	32,618	(32,618)	-
Dividends paid (Note 18)	2,000	-	-	-	-	-	2,000
Balance at 31 December 2009	131,544	73,306	48,103	1,255	52,618	84,197	391,023

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

Notes to the Financial Statements

For the Year Ended 31 December 2010

	Notes	2010 MDL'000	2009 MDL'000
Cash flows from operating activities			
Interest receipts		153,687	171,798
Interest payments		(89,952)	(138,318)
Net fee and commission receipts		33,184	37,665
Net financial and other operating income		38,315	23,322
Staff costs paid		(41,944)	(47,527)
Payments of general and administrative expenses		(34,645)	(25,717)
Income tax expense		(223)	-
Operating profit before working capital changes		58,422	21,223
<i>(Increase) / decrease in operating assets:</i>			
Due from NBM		1,702	148,017
Current accounts and deposits with banks		23,842	(5,909)
Available-for-sale debt securities over 90 days		(64,591)	(89,035)
Loans		(36,624)	140,049
Other assets		(570)	5,640
<i>Increase /(decrease) in operating liabilities:</i>			
Due to banks		(12,220)	(13,537)
Due to customers		(114,423)	(31,230)
Other liabilities		(3,146)	2,536
Net cash from operating activities before income tax		(147,608)	177,754
Income tax paid		(282)	(229)
Net cash from operating activities		(147,890)	177,525
Cash flows from investing activities			
Purchase of intangible assets		(6,455)	(7,802)
Purchase of property and equipment		(1,001)	(6,954)
Proceeds from disposal of property and equipment		116	54
Proceeds from disposal of intangible assets		-	-
Other investments, net		358	(924)
Net cash used in investing activities		(6,982)	(15,626)
Cash flows from financing activities			
Payments under finance lease		-	(27,659)
Proceeds from loans and borrowings		(102,314)	272,405
Repayment of loans and borrowings		107,485	(169,793)
Dividends paid		(23)	(33)
Issue of share capital		-	2,000
Net cash used in financing activities		5,148	76,920
Net foreign exchange difference		(150)	(2,784)
Net increase/(decrease) in cash and cash equivalents		(149,874)	236,035
Cash and cash equivalents at 1 January		501,875	265,840
Cash and cash equivalents at 31 December	20	352,001	501,875

Notes to the Financial Statements

For the Year Ended 31 December 2010

1. Corporate information

Fincombank SA (“the Bank”) was established in the Republic of Moldova in July 1993. The Bank is principally engaged in retail banking operations in the Republic of Moldova. The Bank operates through its head office located in Chisinau, 15 branches (15 branches as at 31 December 2009) and 29 representative offices (63 representative offices as at 31 December 2009) located throughout the country.

At year-end 2010 the Bank possessed a license granted by the National Bank of Moldova, which allows the Bank to be engaged in all banking activities.

The Bank also has a dormant leasing subsidiary which is not consolidated because it is not material for the Bank’s financial statements. The Bank is the ultimate parent of the group.

The number of employees employed by the Bank as at 31 December 2010 was 602 (619 as at 31 December 2009).

The registered office of the Bank is located at 26, Pushkin Street, Chisinau, Republic of Moldova.

As Bank’s operations do not have significantly different risks and returns and considering 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 and its activities are exclusively carried out in the Republic of Moldova.

The Board of Directors formulates policies for the operation of the Bank and supervises their implementation. The Board is composed of 6 members appointed by the General Meeting of Shareholders.

As at 31 December 2010 the Board of Directors comprised the following members:

- Mr. Oleg Voronin, Chairman of the Board;
- Mr. Dumitru Cojocaru, Member of the Board;
- Mr. Igor Anglicev, Member of the Board;
- Mr. Cristina Harea, Member of the Board;
- Mr. Vitalie Bodea, Member of the Board;
- Mr. Iurii Blashchuk, member of the Board.

Notes to the Financial Statements

For the Year Ended 31 December 2010

2. Accounting policies

2.1 Basis of preparation

The IFRS financial statements have been prepared on a historical cost basis, except for land and buildings and available-for-sale investments, other financial assets and liabilities held for trading, that have been measured at fair value. The financial statements are presented in Moldovan lei (“MDL”), the currency of the country in which the Bank operates and all values were rounded to the nearest thousand dollars, except when otherwise indicated. The Bank maintains its books and records in accordance with Moldovan banking regulations and prepares its statutory financial statements in accordance with Regulations on Accounting and Reporting issued by Ministry of Finance and National Bank of Moldova.

Statement of compliance

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

2.2 Significant accounting judgments and estimates

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

(i) Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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

(ii) Valuation of foreclosed collateral

The Bank carries foreclosed collateral at fair value, with changes in fair value being recognised in the income statement. The Bank used a valuation technique based on a discounted cash flow model as there is a lack of comparable market data because of the nature of the property.

(iii) 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.

Notes to the Financial Statements

For the Year Ended 31 December 2010

2. Accounting policies (continued)

(iv) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. The valuation of financial instruments is described in more detail in Note 31.

2.3 Change in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except that the Bank has adopted those new/revised standards mandatory for financial years beginning on or after 1 January 2010.

Amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the bank:

- IFRIC 17 Distributions of Non-cash Assets to Owners
- IAS 39 Financial Instruments: Recognition and Measurement (Amended) – eligible hedged items
- IFRS 2 Share-based payment: Group Cash-settled Share-based Payment Transactions (Amended)
- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended), effective 1 July 2009 including consequential amendments to IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39

Improvements to IFRSs (issued in May 2008)

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (effective 1 January 2010): clarifies when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction. The amendment is applied prospectively.

Improvements to IFRSs (issued in May 2008)

- IFRS 2 Share Based Payment
- IAS 1 Presentation of Financial Statements
- IAS 17 Leases
- IAS 38 Intangible Assets
- IAS 39 Financial Instruments: Recognition and Measurement
- IFRIC 9 Reassessment of Embedded Derivatives

When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Bank, its impact is described below:

- **IFRIC 17 Distributions of Non-cash Assets to Owners**
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.

Notes to the Financial Statements

For the Year Ended 31 December 2010

2. Accounting policies (continued)

2.3 Change in accounting policies (continued)

- **IAS 39 Financial Instruments: Recognition and Measurement (Amended) – eligible hedged items**
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.
- **IFRS 2 Group Cash-settled Share-based Payment Transactions (Amended)**
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.
- **IFRS 5 Non-current Assets Held for Sale and Discontinued Operations**
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**
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**
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**
Explicitly states that only expenditure that results in recognising 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**
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
- **IAS 36 Impairment of Assets**
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**
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.

Notes to the Financial Statements

For the Year Ended 31 December 2010

2. Accounting policies (continued)

2.3 Change in accounting policies (continued)

- **IAS 39 Financial Instruments: Recognition and Measurement**

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**

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**

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.

Notes to the Financial Statements

For the Year Ended 31 December 2010

2. Accounting policies (continued)

2.4 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

a. Foreign currency translation

The financial statements are presented in Moldovan lei (“MDL”), which is the Bank’s functional and presentational currency.

Transactions in foreign currency are initially recorded at the functional currency rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the statement of financial position date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in 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.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognized in profit or loss, and other changes in the carrying amount are recognized in equity.

Translation differences on non-monetary items, such as equity investments classified as available-for-sale financial assets, are included in the fair value reserve in equity. The year-end and average rates for the year were:

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

b. Financial instruments – initial recognition and subsequent measurement

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the bank becomes a party to the contractual provisions of the instrument. This includes “regular way trades”: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. The classification of financial instruments at initial recognition depends on the purpose and the management’s intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

Effective from 1 July 2008, the bank was permitted to reclassify, in certain circumstances, non-derivative financial assets out of the ‘Held-for-trading’ category and into the ‘Available-for-sale’, ‘Loans and receivables’, or ‘Held-to-maturity’ categories. From this date it was also permitted to reclassify, in certain circumstances, financial instruments out of the ‘Available-for-sale’ category and into the ‘Loans and receivables’ category.

Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

Notes to the Financial Statements

For the Year Ended 31 December 2010

2. Accounting policies (continued)

2.4 Summary of significant accounting policies

b. Financial instruments – initial recognition and subsequent measurement (continued)

For a financial asset reclassified out of the 'Available-for-sale' category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired then the amount recorded in equity is recycled to the income statement.

The bank may reclassify a non-derivative trading asset out of the 'Held-for-trading' category and into the 'Loans and receivables' category if it meets the definition of loans and receivables and the bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

c. Financial liabilities

The Bank's holding in financial liabilities is in financial liabilities at amortised cost. Financial liabilities measured at amortised cost are deposits from banks or customers, borrowings and subordinated debts.

Financial liabilities are derecognized when they are extinguished, that is, when the obligation is discharged, cancelled or expired.

d. Offsetting financial instruments

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

This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in statement of financial position

e. Interest and similar income and expense

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available-for-sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Other operating income'.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Notes to the Financial Statements

For the Year Ended 31 December 2010

2. Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

f. Fee and commission income

The bank earns fee and commission income from a diverse range of services it provides to its customers.

Fee income can be divided into the following two categories:

- ***Fee income earned from services that are provided over a certain period of time***

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

- ***Fee income from providing transaction services***

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

- ***Dividend income***

Dividend income is recognised when the bank's right to receive the payment is established.

- ***Net trading income***

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities 'held-for-trading'. This includes any ineffectiveness recorded in hedging transactions.

g. Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are classified in the financial statements as available-for-sale securities (treasury bills) and the counter party liability is included in amounts due to banks or customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Securities held by the Bank as collateral for lending activities with financial institutions are not recognized in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return them is recorded at fair value as a trading liability.

h. Sale and repurchase agreements

The bank assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Notes to the Financial Statements

For the Year Ended 31 December 2010

2. Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

h. Impairment of financial assets (continued)

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) *Financial assets carried at amortized cost*

The Bank's assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Downgrading below investment grade level.

The estimated period between a loss occurring and its identification is determined by management for each identified portfolio. In general, the periods vary from 6 months to 12 months.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

Notes to the Financial Statements

For the Year Ended 31 December 2010

2. Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

h. Impairment of financial assets (continued)

(i) *Assets carried at amortized cost (continued)*

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience. When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement in impairment change for credit losses.

Notes to the Financial Statements

For the Year Ended 31 December 2010

2. Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

h. Impairment of financial assets (continued)

(ii) Assets carried at fair value

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the income statement.

(iii) 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 any impairment is measured using the original EIR as calculated before the modification of terms and 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, calculated using the loan's original EIR.

h. Intangible assets

The bank's other intangible assets include the value of computer software and customer core deposits acquired in business combinations.

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the bank.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to the residual value over their estimated useful lives.

Notes to the Financial Statements

For the Year Ended 31 December 2010

2. Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

j. Property and equipment

Land and buildings are stated at revalued amounts less accumulated depreciation and less provision for impairment, where required. Other property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

In September 2010 the Bank's buildings and land were revalued by a local professional valuer Bursa "Lara".

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

Asset type	Years
Buildings	83
Leasehold improvement	over the period of the lease
Furniture and equipment	3-10
Motor vehicles	7

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

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in other operating income in the income statement in the year the asset is derecognised.

k. Leasing

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Bank as a lessee

Leases which do not transfer to the bank substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term. Contingent rental payable are recognised as an expense in the period in which they are incurred.

Notes to the Financial Statements

For the Year Ended 31 December 2010

2. Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

k. Leasing (continued)

Bank as a lessor

Leases where the Bank does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

l. Impairment of non – financial assets

The bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the bank estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

Impairment losses relating to goodwill cannot be reversed in future periods.

m. Cash and cash equivalents

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

n. Provisions

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

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

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

Notes to the Financial Statements

For the Year Ended 31 December 2010

2. Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

o. 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 recognise 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.

p. Employee benefits

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

q. Taxation

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

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

The principal temporary differences arise from depreciation of equipment, provisions for loans and advances to customers, other assets and other liabilities. The rates enacted or substantively enacted at the balance sheet date are used to determine deferred income tax. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss.

Deferred tax assets are recognized where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

r. Borrowings

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

Notes to the Financial Statements

For the Year Ended 31 December 2010

2. Accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

s. Dividends

Dividends are not accounted for until they have been approved at the Annual General Meeting.

t. Assets for resale

In certain circumstances, property is repossessed following the foreclosure on loans that are in default. Repossessed properties are measured at the lower of carrying amount and fair value less costs to sell and reported within other assets.

2.5 Standards issued but not yet effective

Certain new standards and interpretations have been published that are mandatory for the Bank's accounting periods beginning on or after 1 January 2010 or later periods and which the Bank has not early adopted:

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 the financial position or performance of the Bank.

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. The earlier application is 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 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 the financial position or performance of the Bank.

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 does not expect that this amendment will have an impact on the financial position or performance of the Bank.

Notes to the Financial Statements

For the Year Ended 31 December 2010

2. Accounting policies (continued)

2.5 Standards issued but not yet effective

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 does not expect that this amendment will have an impact on the 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 does not expect that this amendment will have an impact on the financial position or performance of the Bank.

In May 2010 the IASB issued its third 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 2010.

- **IFRS 1 First-time adoption**, effective for annual periods beginning on or after 1 January 2011.
This improvement clarifies the treatment of accounting policy changes in the year of adoption after publishing an interim financial report in accordance with IAS 34 Interim Financial Reporting, allows first-time adopters to use an event-driven fair value as deemed cost and expands the scope of 'deemed cost' for property, plant and equipment or intangible assets to include items used subject to rate regulated activities.
- **IFRS 3 Business Combinations**, effective for annual periods beginning on or after 1 July 2010
This improvement clarifies that the amendments to IFRS 7 Financial Instruments: Disclosures, IAS 32 Financial Instruments: Presentation and IAS 39 Financial Instruments: Recognition and Measurement, that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008).
Moreover, this improvement limits the scope of the measurement choices (fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets) only to the components of non-controlling interest that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets. Finally, it requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e., split between consideration and post combination expenses.
- **IFRS 7 Financial Instruments: Disclosures**, effective for annual periods beginning on or after 1 January 2011
This improvement gives clarifications of disclosures required by IFRS 7 and emphasises the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments.
- **IAS 1 Presentation of Financial Statements**, effective for annual periods beginning on or after 1 January 2011
This amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.

Notes to the Financial Statements

For the Year Ended 31 December 2010

- **IAS 27 Consolidated and Separate Financial Statements**, effective for annual periods beginning on or after 1 July 2010
This improvement clarifies that the consequential amendments from IAS 27 made to IAS 21 The Effect of Changes in Foreign Exchange Rates, IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures apply prospectively for annual periods beginning on or after 1 July 2009 or earlier when IAS 27 is applied earlier.
- **IAS 34 Interim Financial Reporting**, effective for annual periods beginning on or after 1 January 2011
This improvement provides guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements.
- **IFRIC 13 Customer Loyalty Programmes**, effective for annual periods beginning on or after 1 January 2011
This improvement clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.
- **IFRS 7 Financial Instruments: Disclosures as part of its comprehensive review of off balance sheet activities (Amended)**

The amendment is effective for annual periods beginning on or after 1 July 2011. The purpose of this amendment is to allow users of financial statements to improve their understanding of transfer transactions of financial assets (e.g. securitisations), including understanding the possible effects of any risks that may remain with the entity which transferred the assets. The amendment also requires additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. The amendments broadly align the relevant disclosure requirements of IFRSs and US GAAP.

Notes to the Financial Statements

For the Year Ended 31 December 2010

3. Cash and balances with National Bank

	2010 MDL'000	2009 MDL'000
Cash on hand	116,432	138,123
<i>Balances with National Bank</i>		
Overnight	-	87,000
Funds in excess/(deficit) of mandatory	2,381	(21,195)
Included in cash and cash equivalents (Note 20)	118,813	203,928
Current account with NBM:		
– mandatory reserve in foreign currency	40,688	45,854
– mandatory reserve in domestic currency	66,068	62,604
	106,756	108,458
	225,569	312,386

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 of the Administrative Council of the NBM dated 15 April 2004, the method for calculating 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 freely convertible currencies are reserved in US Dollars (USD) and/or EURO (EUR). As at 31 December 2010 the rate used for calculating the minimum compulsory reserve in all currencies was 8% (31 December 2009: 8%).

The Bank maintains its compulsory reserves in a current account opened with the NBM in amount of 8% of total 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.

As at 31 December 2010 the balance reserved in the current account held with the NBM amounted to MDL'000 66,068 (31 December 2009: MDL'000 62,604). This balance included compulsory reserve on funds attracted in Moldovan Lei and non-convertible currencies. The balance reserved on USD and EUR compulsory reserve accounts amounted to MDL'000 22,661 (USD'000 1,864) and MDL'000 18,027 (EUR'000 1,119), (31 December 2009: USD'000 2,422 and EUR'000 1,198).

The interest paid by NBM on the compulsory reserves during 2010 varied between 0.18% and 0.39% per annum for reserves in foreign currency (2009: 0.22% - 1.04% for reserves in foreign currency) and between 2.00% and 4.0% per annum for reserves in MDL (2009: 2.00% p.a.).

The compulsory reserves on funds attracted in USD and EUR are placed in Nostro accounts of NBM at correspondent banks incorporated in OECD countries.

Notes to the Financial Statements

For the Year Ended 31 December 2010

4. Current accounts and deposits with banks

	2010 MDL'000	2009 MDL'000
Current accounts	86,060	34,296
Overnight placements	32,840	57,355
Deposits	-	123,089
Included in cash and cash equivalents	118,900	214,740
Other placements	4,890	30,105
	123,790	244,845

The major part of current accounts and deposits are held with foreign banks. During 2010, the interest rate on current accounts ranged from 0% to 2.8% (2009: 0% to 2.5%).

As at 31 December 2010 the Bank has overnight contracts of MDL'000 13,394 (USD'000 1,102) (31 December 2009: MDL'000 32,380 (USD'000 2,632)) with Citibank and of MDL'000 19,446 (USD'000 1,600) (31 December 2009: MDL'000 24,975 (USD'000 2,030)) with the Bank of New York.

As at 31 December 2010 the Bank did not have deposits included in short-term placements (2009: MDL'000 24,675 (EUR'000 1,400) with Raiffeisen Zentralbank Osterreich AG maturing within one month and bearing an interest rate of 0.2%, of MDL'000 98,414 (USD'000 8,000) with Citibank maturing within one month and bearing an interest rate of 0.16%).

Other placements with banks include deposit in amount of MDL 4,219 (USD'000 347) with 'HSBC BANK PLC' London, Great Britain (2009: MDL'000 12,000 with BCR Chisinau SA with the original maturity of twelve months and bearing an interest rate of 16.5%). These placements also include restricted deposit amount of MDL'000 671 (USD'000 55) (2009: MDL'000 4,270 (2008: MDL'000 3,603)) representing placements with HSBC London for fund transfers through Europay system. This deposit does not have fixed maturity, however the Bank does not expect them to be withdrawn within the next 5 years.

Notes to the Financial Statements

For the Year Ended 31 December 2010

4. Current accounts and deposits with banks (continued)

Banks current accounts are presented in the table below:

	2010 MDL'000	2009 MDL'000
'COMMERZBANK AG', Frankfurt/Main, Germany	72,070	16,888
Raiffeisen Zentralbank Osterreich AG, Vienna, Austria	2,696	2,304
'UNICREDIT BANK', Moscow, Russia	2,813	2,667
FORTIS BANK N.A./S.V. Brussels, Belgium	2,734	1,097
BC 'VICTORIABANK' SA	1,692	5,519
'BANCA COMERCIALA ROMANA', 'RAIFFEISENBANK', Moscow, Russia	618	1,865
RUSSLAVBANK, Moscow, Russia	873	1,348
'CITIBANK N.A', New York, USA	671	214
VTB Bank (Austria) AG, Vienna, 'PRIVATBANK',	614	617
'VTB BANK', Moscow, Russia	535	592
'THE BANK OF NEW YORK	288	136
BC Banca Comerciala Romana Chisinau	249	361
'BELPROMSTROIIBANK', Minsk,	195	168
'MKB BANK NYRT', Budapest,	11	-
	1	1
	-	521
	86,060	34,296

5. Financial investments, debt securities – available-for-sale

	2010 MDL'000	2009 MDL'000
State securities	185,411	119,871
Certificates issued by the NBM	110,000	79,865
	295,411	199,736
Included in cash and cash equivalents	111,069	80,174
Available-for-sale debt securities with maturity over three months	184,342	119,562
	295,411	199,736

State securities as at 31 December 2010 represent MDL short and medium term discounted treasury bills issued by the Ministry of Finance of the Republic of Moldova with interest rate ranged from 2.96% și 9.30% per annum (2009: 2.06% to 18.80% p.a.).

Notes to the Financial Statements

For the Year Ended 31 December 2010

5. Financial investments, debt securities – available-for-sale (continued)

Certificates issued by the National Bank of Moldova as at 31 December 2010 are of 7 days original maturity bearing an interest rate ranged from 4.55 % and 7.00% per annum (2009: from 5% and 14.00% p.a.).

The movement in available-for-sale debt securities may be summarised as following:

	2010	2009
	MDL'000	MDL'000
Balance as at 1 January	199,736	52,531
Additions	267,498	533,302
Disposals	(171,826)	(387,688)
Gains from changes in fair value recognised in equity	155	1,255
Gains / (Losses) transferred to net profit upon derecognition	(152)	336
Balance at 31 December	295,411	199,736

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

Level 1: quoted prices in active markets for the same instrument (i.e., without modification or repackaging);

Level 2: quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

Level 3: valuation techniques for which any significant input is not based on observable market data.

As of 31 December 2010 and 2009 available-for-sale debt securities are considered Level 2 investments as the secondary market for such investments is not active.

As at 31 December 2010 securities at nominal value MDL'000 48,879 were pledged against loans from NBM.

Notes to the Financial Statements

For the Year Ended 31 December 2010

6. Loans, net

	2010	2009
	MDL'000	MDL'000
Loans	927,748	920,623
Less: Allowance for impairment losses	(73,608)	(39,529)
	854,140	881,094

For the year ended 31 December 2010 the interest accrued on impaired loans amounted to MDL'000 12,095 (2009: MDL'000 9,722).

Analysis of loan portfolio by industry is presented below:

	2010	2009
	MDL'000	MDL'000
Manufacturing and trade	529,736	513,408
Agriculture and food industry	225,358	222,142
Construction and land improvement	62,783	94,223
Real estate	53,194	30,686
Consumer loans	15,021	16,232
Transportation and road construction	18,123	546
Energy sector	17,739	18,337
Other	5,794	25,049
	927,748	920,623

The average interest rate during the year for loans granted in MDL is 18.17% (2009: 18.02%), in foreign currency 9.66% (2009: 13.0%). Borrowers have the right to repay loans in advance, subject to an early settlement option exercise price of up to 1.00% of the prepaid amount.

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

	2010	2009
	MDL'000	MDL'000
Balance as at 1 January	39,529	32,898
Write-offs	(2,546)	(1,121)
Recoveries	106	51
Charge for the year	36,519	7,701
Balance as at 31 December	73,608	39,529
Individual impairment	47,248	18,590
Collective impairment	26,360	20,939
	73,608	39,529

Notes to the Financial Statements

For the Year Ended 31 December 2010

6. Loans, net (continued)

Allowances for impairment

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

Write off policy

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

Collateral repossessed

During the year, the Bank took possession of dwellings, commercial buildings and fixed assets with an estimated value of MDL'000 30,009 (2009: MDL'000 25,922). Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed property is classified in the balance sheet within other assets.

Notes to the Financial Statements

For the Year Ended 31 December 2010

7. Financial investments, equity securities – available-for-sale

Available-for-sale investment securities include unlisted equity investments in local companies. The analysis of equity investments is as follows:

		Ownership		
	Field of activity	2010, %	2010	2009
			MDL'000	MDL'000
Floare-Carpet SA	Carpet production	16.81	6,162	6,162
MasterCard International	Financial services	-	-	358
Biroul de credit SRL	Credit history	10.22	1,019	1,019
Franzeluta SA	Bread production	0.11	60	60
Inlac SA	Dairy production	0.12	33	33
Bursa de valori a Moldovei	Stock exchange	2.56	7	7
Moldcomleasing SRL	Leasing	100	6	6
Depozitarul National al Valorilor Mobiliare SA	Depository	3.13	12	12
Other			1	1
			7,300	7,658

Moldcomleasing SA is not consolidated because it is not material for the Bank's financial statements and is dormant.

All available-for-sale investments as at 31 December 2010 and 2009 are carried at cost because there is no quoted market price in an active market for them and the fair value cannot be reliably determined. No impairment was assessed in respect of these investments as at 31 December 2010 and 2009.

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

	2010	2009
	MDL'000	MDL'000
Balance as at 1 January	7,658	6,734
Additions	-	925
Disposals	(358)	(1)
Balance as at 31 December	7,300	7,658

Notes to the Financial Statements

For the Year Ended 31 December 2010

8. Intangible assets

	Software in use MDL'000	Intangibles under construction MDL'000	Total MDL'000
Cost			
Balance as at 1 January 2010	8,741	4,307	13,048
Additions	-	6,454	6,454
Transfers	253	(253)	-
Disposals	(838)	-	(838)
Balance as at 31 December 2010	8,156	10,508	18,664
Accumulated depreciation			
Balance as at 1 January 2010	1,663	-	1,663
Charge for the year	1,348	-	1,348
Disposals	(678)	-	(678)
Balance as at 31 December 2010	2,333	-	2,333
Net book value			
At 31 December 2010	5,823	10,508	16,331
At 31 December 2009	7,078	4,307	11,385

	Software in use MDL'000	Intangibles under construction MDL'000	Total MDL'000
Cost			
Balance as at 1 January 2009	3,772	737	4,509
Additions	173	8,612	8,785
Transfers	5,042	(5,042)	-
Disposals	(246)	-	(246)
Balance as at 31 December 2009	8,741	4,307	13,048
Accumulated depreciation			
Balance as at 1 January 2009	1,386	-	1,386
Charge for the year	521	-	521
Disposals	(244)	-	(244)
Balance as at 31 December 2009	1,663	-	1,663
Net book value			
At 31 December 2009	7,078	4,307	11,385
At 31 December 2008	2,386	737	3,123

As at 31 December 2010 the cost of fully amortized intangible assets amounted to MDL'000 0 (as at 31 December 2009: MDL'000 14).

Notes to the Financial Statements

For the Year Ended 31 December 2010

9. Property and equipment

	Land and buildings MDL'000	Furniture and equipment MDL'000	Motor vehicles MDL'000	Improvement s of leasehold assets MDL'000	Assets under construction MDL'000	Total MDL'000
Cost or valuation						
Balance as at 1 January 2010	139,250	53,261	7,870	29,192	2,430	232,003
Additions	28	3	-	95	1,111	1,237
Revaluation	(19,612)	-	-	-	-	(19,612)
Impairment (Note 26)	(3,322)	-	-	-	-	(3,322)
Transfers	213	766	120	(3)	(1,096)	-
Disposals	-	(1,238)	-	(100)	-	(1,338)
Balance as at 31 December 2010	116,557	52,792	7990	29,184	2,472	208,976
Accumulated depreciation						
Balance as at 1 January 2010	-	33,099	4,267	217	-	37,583
Charge for the year	1,659	5,071	761	58	-	7,549
Revaluation	(1,297)	-	-	-	-	(1,297)
Transfers	-	5	-	(5)	-	-
Disposals	-	(1,107)	-	(95)	-	(1,202)
Balance as at 31 December 2010	362	37,068	5,028	175	-	42,633
Net book value						
At 31 December 2010	116,195	15,724	2,962	29,009	2,445	166,335
At 31 December 2009	139,250	20,162	3,603	28,975	2,430	194,420

As at 31 December 2010, the cost of fully depreciated property and equipment still used by the Bank amounted to MDL'000 19,098 (as at 31 December 2009: MDL'000 15,216).

Notes to the Financial Statements

For the Year Ended 31 December 2010

9. Property and equipment

	Land and buildings MDL'000	Furniture and equipment MDL'000	Motor vehicles MDL'000	Improvement s of leasehold assets MDL'000	Assets under construction MDL'000	Total MDL'000
Cost or valuation						
Balance as at 1 January 2009	102,088	49,906	7,849	79	23,604	183,526
Additions	7	29	1	-	35,938	35,975
Revaluation	37,616	-	-	-	-	37,616
Impairment (Note 26)	(24,239)	-	-	-	-	(24,239)
Transfers	23,778	3,994	168	29,113	(57,053)	-
Disposals	-	(668)	(148)	-	(59)	(875)
Balance as at 31 December 2009	139,250	53,261	7,870	29,192	2,430	232,003
Accumulated depreciation						
Balance as at 1 January 2009	3,575	27,861	3,636	35	-	35,107
Charge for the year	1,605	5,830	749	188	-	8,372
Revaluation	(5,180)	-	-	-	-	(5,180)
Transfers	-	6	-	(6)	-	-
Disposals	-	(598)	(118)	-	-	(716)
Balance as at 31 December 2009	-	33,099	4,267	217	-	37,583
Net book value						
At 31 December 2009	139,250	20,162	3,603	28,975	2,430	194,420
At 31 December 2008	98,513	22,045	4,213	44	23,604	148,419

Notes to the Financial Statements

For the Year Ended 31 December 2010

10. Other assets

	2010 MDL'000	2009 MDL'000
Due from money transfer systems (Note 20)	3,219	3,033
Debtors on capital investments	28,792	9
Assets for resale	1,781	25,528
Operations with banking cards	1,766	360
Inventory and spare parts	177	2,055
Settlements with other individuals	2,435	2,530
Prepayments	574	1,814
Other assets	3,688	3,222
	42,434	38,551

Assets for resale include foreclosed collateral on non-performing loans.

11. Due to banks

	2010 MDL'000	2009 MDL'000
Current accounts	787	705
Term deposits of banks	-	13,044
	787	13,749

All loans and deposits from banks are attracted without a pledge.

12. Due to customers

	2010 MDL'000	2009 MDL'000
Corporate customers		
Current accounts	194,824	230,046
Term deposits	38,118	151,686
	232,942	381,732
Individuals		
Current accounts	19,148	108,519
Term deposits	708,025	585,058
	727,173	693,577
	960,115	1,075,309

Notes to the Financial Statements

For the Year Ended 31 December 2010

12. Due to customers (continued)

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

	2010				2009							
	MDL		FCY		MDL		FCY					
	%	%	%	%	%	%	%	%				
Legal entities												
Demand deposits	0.5	-	1.0	0.15	-	0.15	0.5	-	3.0	0.15	-	1.0
Term deposits up to 3 months	3.0	-	4.0	0.5	-	1.0	4.0	-	12.0	1.0	-	3.0
Term deposits >3 months< 1	5.0	-	8.0	2.0	-	4.0	8.0	-	20.0	3.5	-	6.0
Term deposits over 1 year	9.0	-	12.0	3.5	-	5.5	12.0	-	20.0	5.5	-	7.0
Individuals												
Demand deposits	0.5	-	2.0	0.15	-	0.5	0.5	-	3.0	0.15	-	1.0
Term deposits up to 3 months	4.0	-	4.0	1.0	-	1.5	4.0	-	14.0	1.5	-	3.0
Term deposits >3 months< 1	7.0	-	14.5	2.5	-	6.5	9.0	-	24.0	3.5	-	15.0
Term deposits over 1 year	12.	-	15.5	4.0	-	6.0	15.5	-	25.0	6.0	-	9.5

13. Other borrowings

	2010	2009
	MDL'000	MDL'000
Loan from NBM	40,322	55,706
Loan from OPIC	69,742	24,682
Loan from EFSE	36,848	62,175
Loan from WNISEF	38,537	49,266
Loan from BC Universalbank SA	-	3,691
Subsidiary loans	219,646	202,729
	405,095	398,249

Loans from NBM

Funds from the National Bank were obtained under two agreements: the first one signed on 26 May 2009 in amount of MDL'000 50,000 and the second agreement signed on 31 July 2009 in the amount of MDL'000 10,000, the term of each credit lines is one year. Credit lines were granted for crediting the real sector of Moldovan economy. Interest rate equals to the base rate of the NBM.

Loans from OPIC

The OPIC (Overseas Private Investment Corporation) funds were obtained based on the agreement signed on 20 February 2009 between the Bank and OPIC, the total amount is USD'000 6,000. Money within the first instalment in amount of USD'000 2,000 were received in June 2009. The loan was granted to finance small and medium enterprises in Moldova. The maturity of the loan is 15 September 2019. The interest rate is calculated based on the U.S. Treasury rate (10 year T-note) with a 3.0% margin.

Notes to the Financial Statements

For the Year Ended 31 December 2010

13. Other borrowings (continued)

Loan from EFSE

The credit line from EFSE (European Fund for Southeast Europe) in amount of USD'000 5,000 was obtained according to the agreement signed on 26 November 2007. This credit line is aimed to finance local small and medium size enterprises. The credit line bears interest rate of 3.3% p.a. over 6 months LIBOR. The final maturity is 22 September 2012.

Loans from WNISEF

The credit line from Western NIS Enterprise Fund (WNISEF) in amount of USD'000 5,000 was obtained according to agreement signed on 20 June 2008. The purpose of this credit line is to finance local small and medium size enterprises. The credit line bears interest rate of 3.5% p.a. over 6 months LIBOR. The final maturity is 20 December 2012.

Subsidiary loans

Subsidiary loans are presented as follows:

	2010	2009
	MDL'000	MDL'000
<i>Loan from IFAD</i>		
MDL	669	72,217
USD	-	15,940
	<u>669</u>	<u>88,157</u>
<i>Loan from RISF</i>		
MDL	183,346	104,595
USD	22,167	9,113
	<u>205,513</u>	<u>113,708</u>
<i>Loan from KfW Sudzucker</i>		
MDL	13,464	864
	<u>13,464</u>	<u>864</u>
	<u>219,646</u>	<u>202,729</u>

Loan from IFAD

The credit line from the International Fund for Agricultural Development ("IFAD") was obtained according to an agreement between the Ministry of Finance of Moldova and the Bank dated 26 March 2003 and represents a part from the total amount of SDR'000 5,800 obtained by the Republic of Moldova for development of small enterprises from the rural sector by means of Moldovan commercial banks under an agreement with IFAD dated 31 January 2000 and represent a part from the total amount of SDR'000 10,300, obtained by the Republic of Moldova for development of small enterprises from rural sector by means of Moldovan commercial banks under an agreement with IFAD dated 4 March 2004. The interest rate is equal for each bi-annual interest period to a margin of 1% p.a. over the inflation rate for the last 12 months period for the MDL part of the loan and 1% p.a. over LIBOR for USD part of the loan. The final maturity is 15 January 2021.

Notes to the Financial Statements

For the Year Ended 31 December 2010

13. Other borrowings (continued)

Loan from RISP

The credit line from Rural Investment and Services Project (“RISP”) under the International Development Agency (“IDA”) was obtained according to an agreement between the Ministry of Finance of Moldova and the Bank dated 31 December 2002 and represents a part from the total amount of SDR’000 8,300 obtained by the Republic of Moldova under an agreement with IDA dated 26 June 2002. This credit line is aimed to finance local small and medium size enterprises from the rural sector. The USD part of the loan bears an interest rate of 1% p.a. over 6 months LIBOR and the MDL part of the loan bears an interest rate of 2% p.a. over the inflation rate for the last 12 months period for each bi-annual interest period. The maturity and the amount granted under this loan is adjusted by the schedules of loans granted by the Bank at 15 July 2007 and represents a part from the total amount of SDR’000 10,400 obtained by the Republic of Moldova under an agreement with IDA dated 13 April 2007. The credit line was granted for development of small enterprises from rural sector. The interest rate is equal for each bi-annual interest period to a margin of 2% p.a. over the inflation rate for the last 12 months period for the MDL part of the loan and 1% p.a. over LIBOR for USD part of the loan. The final maturity is 1 October 2023.

Loan from KfW Sudzucker

The credit line from *KfW Sudzucker* was obtained according to an agreement between the Ministry of Finance of Moldova and the Bank dated 21 August 2007. This credit line is aimed to finance local small and medium size enterprises from the rural sector. The interest rate is equal to a margin of 1.4% p.a. over the inflation rate for the current year. The final maturity is 1 October 2013.

14. Other liabilities

	2010	2009
	MDL’000	MDL’000
Finance lease liabilities	95	1,285
Amounts in transit	515	2,545
Settlements with other individuals and companies	513	3,412
Creditors on documentary transactions	851	318
Other accrued expenses	2,864	2,301
Dividends payable	24	47
Other	1,341	1,837
	6,203	11,745

Notes to the Financial Statements

For the Year Ended 31 December 2010

14. Other liabilities (continued)

The Bank is the lessee of two buildings under MDL agreements expiring on 25 August 2011.

	2010 MDL'000	2009 MDL'000
Finance lease liabilities - minimum lease payments		
Not later than 1 year	102	1,376
Later than 1 year and not later than 5 years	-	-
Later than 5 years	-	-
	102	1,376
Future finance charges on finance lease liabilities	(7)	(91)
Present value of finance lease liabilities	95	1,285
The present value of finance lease liabilities is as follows		
Not later than 1 year	95	1,285
Later than 1 year and not later than 5 years	-	-
Later than 5 years	-	-
	95	1,285

15. Taxation

The taxation system in Moldova is at an early stage of development and is subject to varying interpretations. The standard income tax rate in 2010 was 0% (2009: 0%). In 2011 the income tax rate will continue to be 0%.

Income tax expenses occurred in 2010 in amount of MDL'000 223 are explained by 15% paid from charity expenses occurred.

16. Ordinary shares

	2010		2009	
	Number of shares	Amount MDL'000	Number of shares	Amount MDL'000
Balance as at 1 January	1,315,442	131,544	1,295,442	129,544
Issue of shares	-	-	20,000	2,000
Balance as at 31 December	1,315,442	131,544	1,315,442	131,544

In 2010 the Bank did not performed any issue of the Bank's ordinary shares (2009: 20,000 shares amounting to MDL'000 2,000).

The total authorised number of ordinary shares at the end of the year was 1,315,442 shares with a par value of MDL 100 per share (2009: 1,315,442 shares). All shares have equal voting rights and are fully paid.

Notes to the Financial Statements

For the Year Ended 31 December 2010

16. Ordinary shares (continued)

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

	2010	2009
	%	%
Western NIS Enterprise Fund	24.62	24.62
Voronin Oleg	12.47	12.47
Antoci Ivan	6.87	6.87
Biotex-Com SRL	6.83	6.83
Avicomagro SRL	6.83	6.83
Tatar Dumitru	6.74	6.74
Sisterov Alexandru	5.16	4.98
Hvorostovschii Victor	4.98	4.97
Voronina Taisia	4.02	4.02
Carabetchi Ilia	3.80	3.80
Koval Anatolie	3.50	3.50
Socolov Serghei	2.47	2.47
Rusu Valentina	2.46	2.46
Others	9.25	9.44
Total	100	100

There are 122 other shareholders (31 December 2009: 122) of which 113 represent individuals and 9 – enterprises (31 December 2009: 112 individuals and 10 enterprises).

17. Statutory reserves and revaluation reserve

In accordance with the local legislation, at least 5% of the net profit of the Bank is required to be transferred to a non-distributable statutory reserve until such time as this reserve represents no less than 10% of the share capital of the Bank.

Revaluation reserve relates to property and equipment. This reserve is non-distributable.

18. Dividends per share

In 2010 no dividends were declared.

Notes to the Financial Statements

For the Year Ended 31 December 2010

19. Capital management

The Bank's objectives when managing capital are to safeguard the Bank's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

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

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

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

As at 31 December 2010 and 2009, the Bank had complied in full with all its externally imposed capital requirements.

	2010	2009
	MDL'000	MDL'000
Tier 1 capital		
Share capital, nominal	131,544	131,544
Share premium	73,306	73,306
Statutory reserves	52,618	52,618
Retained earnings	74,934	84,197
Less intangible assets	(16,331)	(11,385)
Total tier 1 capital	316,071	330,280
Tier 2 capital		
Property revaluation reserve	29,788	48,103
Revaluation reserve - available-for-sale investments	1,410	1,255
Total tier 2 capital	31,198	49,358
Total capital	347,269	379,638
Risk weighted assets	1,111,298	1,303,349
Tier 1 ratio	28.44%	25.34%
Tier 1 and 2 ratio	31.25%	29.13%

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, statutory reserves and retained earnings after deductions for intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes. Certain adjustments are made to IFRS-based results and reserves. The other component of regulatory capital is Tier 2 capital, which includes revaluation reserves.

Notes to the Financial Statements

For the Year Ended 31 December 2010

20. Cash and cash equivalents

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

	Notes	2010 MDL'000	2009 MDL'000
Cash and balances with National Bank	3	118,813	203,928
Current accounts and deposits with banks	4	118,900	214,740
Available-for-sale debt securities	5	111,069	80,174
Other assets	10	3,219	3,033
		352,001	501,875

21. Interest and similar income and expense

	2010 MDL'000	2009 MDL'000
<i>Interest and similar income</i>		
Loans and advances to customers	111,304	160,875
Investments available-for-sale	16,319	15,390
Loans and advances to banks	2,738	4,815
	130,361	181,080
<i>Interest and similar expense</i>		
Deposits from individuals	(62,600)	(95,095)
Other borrowings	(20,678)	(23,722)
Deposits from corporate clients	(3,911)	(12,050)
Deposits and loans from banks	(2,924)	(3,852)
Other	-	(66)
	(90,113)	(134,785)
Net interest income	40,248	46,295

Notes to the Financial Statements

For the Year Ended 31 December 2010

22. Net fee and commission income

	2010 MDL'000	2009 MDL'000
<i>Fee and commission income</i>		
Processing of payments by clients	10,449	17,107
Foreign exchange operations	4,616	5,540
Transactions with debit cards	13,881	7,968
Commission on guarantees and letters of credit	1,900	3,763
SWIFT and money transfer systems	13,459	9,350
Other	1,221	6,232
	45,526	49,960
<i>Fee and commission expense</i>		
Commissions on debit card services	(5,042)	(4,793)
Payment transactions	(7,300)	(6,647)
Other	-	(855)
	(12,342)	(12,295)
Net fee and commission income	33,184	37,665

23. Financial income, net

	2010 MDL'000	2009 MDL'000
Gains on trading of foreign currency, net	28,697	30,935
Foreign exchange (losses)/ gains	2,087	(14,344)
Dividends received	2	4
Loss on disposal of financial investments	1,942	-
Other	-	7
	32,728	16,602

24. Other operating income

	2010 MDL'000	2009 MDL'000
Penalties and fines	1,034	1,306
Net change in available for sale investments	(1,224)	(336)
Other non-interest income	5,997	4,611
	5,807	5,581

Notes to the Financial Statements

For the Year Ended 31 December 2010

25. Personnel expenses

	2010	2009
	MDL'000	MDL'000
Salaries and bonuses	32,733	35,416
Social insurance and contributions	7,596	8,124
Medical insurance	1,170	1,244
Other personnel expenses	616	652
	42,115	45,436

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.

26. General and administrative expenses

	2010	2009
	MDL'000	MDL'000
Safeguarding of assets and security costs	5,769	6,580
Utilities and rent	4,163	3,877
Property, plant and equipment impairment losses	3,322	24,239
Repairs and maintenance	2,410	1,989
Postage and telephone	1,984	1,965
Transportation	1,973	1,802
Advertising and charity	1,938	1,724
Stationery and supplies	1,216	1,766
Contribution to Deposits Guarantee Fund	831	788
Professional services	655	1,238
Taxes and penalties	619	367
Training	671	297
Travel	242	255
Business promotion	123	134
Expenses from long-term material assets written-off	4,548	-
Other	7,503	2,935
	37,967	49,956

Other expenses include participation fees, losses on disposal of fixed assets, subscription, etc.

Notes to the Financial Statements

For the Year Ended 31 December 2010

27. Guarantees and other financial commitments

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

	2010	2009
	MDL'000	MDL'000
Letters of credit	17,297	9,255
Financial guarantees	26,175	92,625
Financing commitments and other	34,487	20,441
	77,959	122,321

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.

Financing commitments represent the Bank's commitments to grant loans and advances to customers. Financing commitments do not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

28. Capital commitments

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

29. Operating lease commitments

Where the Bank is lessee, the future minimum lease payments under non cancellable building and vehicles operating leases are as follows:

	2010	2009
	MDL'000	MDL'000
No later than 1 year	847	1,582
Later than 1 year and no later than 5 years	75	1,517
Later than 5 years	-	365
	922	3,464

30. Contingencies

As at 31 December 2010 and 2009 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 remote.

Notes to the Financial Statements

For the Year Ended 31 December 2010

31. 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.

	2010		2009	
	Carrying value MDL'000	Fair value MDL'000	Carrying value MDL'000	Fair value MDL'000
Financial assets				
Loans and advances to banks	123,790	123,790	244,845	244,845
Loans and advances to customers	854,140	743,954	881,094	823,340
Financial liabilities				
Due to banks	787	787	13,749	13,749
Due to customers	960,115	901,598	1,075,309	1,067,406
Other borrowed funds	405,095	330,030	398,249	373,695

(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, due to customers and other borrowed funds

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.

32. Related parties

The nature of the related party relationships for those related parties with whom the Bank entered into significant transactions or had significant balances outstanding at 31 December are detailed below. As at 31 December 2010 and 31 December 2009 the Bank had operations with the following related entities:

- Western Nis Enterprise Fund (WNISEF), USA – holds 24.62% in the share capital of the Bank;
- „Glass Container Company” SA – Western Nis Enterprise Fund (WNISEF), USA, holds 34.78% in the share capital of the Bank;
- „Floare-Carpet” SA – Bank holds 16.81% in the share capital of the Company.
- „Cablecom” SRL – Company is under the control of the Bank Manager;
- „Transline Exim” SRL – Company is under the control of the Bank Manager;

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 and foreign currency transactions.

Notes to the Financial Statements

For the Year Ended 31 December 2010

32. Related parties (continued)

Below we present the balances and transactions with related parties during the year:

	Directors and Executive Management		Related entities	
	2010 MDL'000	2009 MDL'000	2010 MDL'000	2009 MDL'000
Balance sheet				
Loans and advances to customers	1,793	2,433	48,299	20,450
Deposits from customers	11,173	31,141	5,620	114,604
Borrowings	-	-	38,487	49,266
Income statement				
Interest income	635	401	2,832	2,734
Interest expense (deposits)	411	5,414	1,270	4,303
Interest expense (borrowings)	-	-	2,052	2,819
Off-balance sheet				
Guarantees issued	-	923	8,000	33,396
Financing commitments and other	50	3,175	-	-

Terms and conditions of transactions with related parties

The above mentioned outstanding balances arose from the ordinary course of business. The interest charged to and by related parties are at normal commercial rates. Loans to employees were granted at market rates. Outstanding balances at the year end are unsecured. There have been no guarantees received from any related parties. For the year ended 31 December 2010, the Bank has not incurred doubtful debts relating to amounts owed by related parties (2009: nil).

The table below summarizes the remuneration and social contributions related to the executive management and Bank Council:

	2010 MDL'000	2009 MDL'000
Executive Management		
Remuneration	1,857	3,778
Obligatory state social contributions	427	869
Obligatory medical insurance	16	30
	2,300	4,677
Bank Council		
Remuneration	245	1,254
Obligatory state social contributions	56	288
Obligatory medical insurance	2	10
	303	1,552

Notes to the Financial Statements

For the Year Ended 31 December 2010

33. 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 minimize potential adverse effects on the Bank's financial performance.

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

Risk management is carried out by a central treasury department (Bank Treasury) under policies approved by the Board of Directors. Bank Treasury identifies, evaluates and hedges financial risks in close co-operation with the Bank's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

33.1 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 credit risk management and control are centralized in credit risk management team of Bank Treasury and reported to the Board of Directors and head of each business unit regularly.

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 one 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.

Notes to the Financial Statements

For the Year Ended 31 December 2010

33. Risk management (continued)

33.1 Credit risk (continued)

Credit quality by class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Bank's internal credit rating system. The amounts presented are gross of impairment allowances.

		2010			
	Note	Neither past due nor impaired MDL'000	Past due but not impaired MDL'000	Individuall y impaired MDL'000	Total MDL'000
Balances with National Bank	3	109,137	-	-	109,137
Current accounts and deposits with banks	4	123,790	-	-	123,790
Financial investments, debt securities – available-for-sale	5	295,411	-	-	295,411
Loans	6	537,545	49,400	340,803	927,748
Other financial assets	10	10,348	-	-	10,348
		1,076,231	49,400	340,803	1,466,434
		2009			
	Note	Neither past due nor impaired MDL'000	Past due but not impaired MDL'000	Individuall y impaired MDL'000	Total MDL'000
Balances with National Bank	3	174,263	-	-	174,263
Current accounts and deposits with banks	4	244,845	-	-	244,845
Financial investments, debt securities – available-for-sale	5	199,736	-	-	199,736
Loans	6	688,697	187,493	44,433	920,623
Other financial assets	10	9,139	-	-	9,139
		1,316,680	187,493	44,433	1,548,606

Notes to the Financial Statements

For the Year Ended 31 December 2010

33. Risk management (continued)

33.1 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 authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralized 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 authorizations 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	2010 MDL'000	2009 MDL'000
Balances with National Bank	3	109,137	174,263
Current accounts and deposits with banks	4	123,790	244,845
Financial investments, debt securities – available-for-sale	5	295,411	199,736
Loans, net	6	854,140	881,094
Other financial assets	10	10,348	9,139
		1,392,826	1,509,077
Off-balance sheet items	27	77,959	122,321
Total credit risk exposure		1,470,785	1,631,398

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2010 and 2009, 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, 69.1% of the total maximum exposure is derived from loans and advances to banks and customers (2009: 69.0%); 21.2% represents investments in available-for-sale debt securities (2009: 12.2%).

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

Notes to the Financial Statements

For the Year Ended 31 December 2010

33. Risk management (continued)

33.1 Credit risk (continued)

Risk concentrations of the maximum exposure to credit risk

The Bank's concentrations of risk are managed by client/counterparty and by industry sector. The maximum credit exposure to any client or counterparty as at 31 December 2010 was MDL'000 45,456 (as at 31 December 2009: MDL'000 131,409) before taking account of collateral or other credit enhancements.

The loans granted to 20 major customers (Groups) of the Bank as at 31 December 2010 amounted at MDL'000 385,244 representing 41.5% of the Bank's gross loan portfolio (as at 31 December 2009: MDL'000 411,868 or 44.7%). These are analyzed by industries as follows:

	2010	2009
	MDL'000	MDL'000
Manufacturing and trade	264,835	249,027
Agriculture and food industry	73,659	97,239
Loans for energy resources and fuel	17,000	-
Construction and land improvement	-	40,488
Real estate	-	240
Transportation and road construction	-	-
Other	29,750	24,874
	385,244	411,868

For significant credit risk concentration at the industry level please refer to note 6.

Loans and advances

Loans and advances are summarized as follows:

	2010		2009	
	Enterprises	Individuals	Enterprises	Individuals
	MDL'000	MDL'000	MDL'000	MDL'000
Neither past due nor impaired	489,349	48,196	643,230	45,467
Past due but not impaired	41,455	7,945	181,043	6,450
Individually impaired	340,803	-	44,287	146
Gross	871,482	56,141	868,560	52,063
Less: allowances for impairment	(69,153)	(4,455)	(37,203)	(2,326)
Net	802,329	51,686	831,357	49,737

Notes to the Financial Statements

For the Year Ended 31 December 2010

33. Risk management (continued)

33.1 Credit risk (continued)

(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.

	2010		2009	
	Enterprises MDL'000	Individuals MDL'000	Enterprises MDL'000	Individuals MDL'000
Standard	389,311	39,975	486,403	42,780
Watch	100,038	8,221	156,827	2,679
Sub-standard	-	-	-	8
Doubtful	-	-	-	-
Loss	-	-	-	-
	489,349	48,196	643,230	45,467

(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 to customers that were past due but not impaired were as follows:

	2010		2009	
	Enterprises MDL'000	Individuals MDL'000	Enterprises MDL'000	Individuals MDL'000
Less than 30 days	23,984	3,432	74,024	2,323
31 to 60 days	14,625	855	65,848	1,399
More than 61 days	2,846	3,858	41,171	2,728
	41,455	7,945	181,043	6,450

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

(iii) Loans and advances individually impaired

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is MDL'000 340,803 (2009: MDL'000 44,433). The fair value of collateral relating to loans individually impaired is MDL'000 873,356 (2009: MDL'000 87,650).

Notes to the Financial Statements

For the Year Ended 31 December 2010

33. Risk management (continued)

33.1 Credit risk (continued)

(iv) Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Renegotiated loans that would otherwise be past due or impaired amounts to MDL'000 33,293 at 31 December 2010 (2009: MDL'000 27,978).

33.2 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.

The market risks arising from trading and non-trading activities are concentrated in Bank Treasury. Regular reports are submitted to the Board of Directors and heads of each business unit.

Trading portfolios include those positions arising from market-making transactions where the Bank acts as principal with clients or with the market.

Notes to the Financial Statements

For the Year Ended 31 December 2010

33. Risk management (continued)

33.2 Market risk (continued)

33.2.1 Foreign exchange risk

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

Sensitivity analysis to currency risk

The Bank performed a sensitivity analysis to currency risk at which it is reasonably exposed at 31 December 2010, showing how 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 2010 and as at 31 December 2009, for the balance sheet items that are sensitive to the currency rates' modifications. The analysis demonstrates the effect of reasonably possible changes in currency rates against Moldovan Leu with all other variables held constant:

31 December 2010	Increase in currency rates, %	Effect on PBT MDL'000	Decrease in currency rates, %	Effect on PBT MDL'000
EUR	+5%	(74)	-5%	74
USD	+5%	(2,670)	-5%	2,670

31 December 2009	Increase in currency rates, %	Effect on PBT MDL'000	Decrease in currency rates, %	Effect on PBT MDL'000
EUR	+5%	(1,916)	-5%	1,916
USD	+5%	(4,074)	-5%	4,074

The effect on equity is equal to the impact of these possible changes on the net financial income.

The tables below summarize the Bank's exposure to foreign currency exchange rate risk at 31 December 2010 and 31 December 2009. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by currency.

Notes to the Financial Statements

For the Year Ended 31 December 2010

33. Risk management (continued)

33.2 Market risk (continued)

33.2.1 Foreign exchange risk (continued)

	31 December 2010				
	Total MDL'000	MDL MDL'000	USD MDL'000	EUR MDL'000	Other MDL'000
ASSETS					
Cash and balances with National Bank	225,569	145,424	38,516	37,318	4,311
Current accounts and deposits with banks	123,790	11	40,236	79,693	3,850
Financial investments, debt securities – available-for-sale	295,411	295,411	-	-	-
Loans, net	854,140	606,025	139,149	108,966	-
Financial investments, equity securities – available-for-sale	7,300	7,300	-	-	-
Intangible assets	16,331	16,331	-	-	-
Property and equipment	166,335	166,335	-	-	-
Other assets	42,434	38,683	2,142	819	790
Total assets	1,731,310	1,275,520	220,043	226,796	8,951
LIABILITIES					
Due to banks	787	-	202	199	386
Due to customers	960,115	626,263	104,494	227,712	1,646
Other borrowings	405,095	237,801	167,294	-	-
Other liabilities	6,203	4,358	1,446	365	34
Total liabilities	1,372,200	868,422	273,436	228,276	2,066
GAP	359,110	407,098	(53,393)	(1,480)	6,883

Notes to the Financial Statements

For the Year Ended 31 December 2010

33. Risk management (continued)

33.2 Market risk (continued)

33.2.1 Foreign exchange risk (continued)

	31 December 2009				
	Total MDL'000	MDL MDL'000	USD MDL'000	EUR MDL'000	Other MDL'000
ASSETS					
Cash and balances with National Bank	312,386	218,127	39,917	51,091	3,251
Current accounts and deposits with banks	244,845	13,509	165,484	62,263	3,589
Financial investments, debt securities – available-for-sale	199,736	199,736	-	-	-
Loans, net	881,094	670,571	103,143	107,380	-
Financial investments, equity securities – available-for-sale	7,658	7,300	358	-	-
Intangible assets	11,385	11,385	-	-	-
Property and equipment	194,420	194,420	-	-	-
Current income tax asset	-	-	-	-	-
Other assets	38,551	35,645	1,837	959	110
Total assets	1,890,075	1,350,693	310,739	221,693	6,950
LIABILITIES					
Due to banks	13,749	-	13,367	237	145
Due to customers	1,075,309	604,994	210,705	258,786	824
Other borrowings	398,249	233,381	164,868	-	-
Other liabilities	11,745	6,870	3,280	994	601
Total liabilities	1,499,052	845,245	392,220	260,017	1,570
GAP	391,023	505,448	(81,481)	(38,324)	5,380

Other currencies mainly include Russian Rouble.

Notes to the Financial Statements

For the Year Ended 31 December 2010

33. Risk management (continued)

33.2 Market risk (continued)

33.2.2 Interest rate risk

Interest sensitivity of assets, liabilities and off balance sheet items – repricing analysis

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

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

	Increase in basis points	Sensitivity of Net Interest Income, MDL'000	Decrease in basis points	Sensitivity of Net Interest Income, MDL'000
2010	+100	3,712	-100	7,272
	+50	1,856	-50	3,636
2009	+100	2,136	-100	4,249
	+50	1,068	-50	2,125

The effect on equity is equal to the impact of these possible changes on the net interest income.

The tables below summarize the Bank's exposure to interest rate risks at 31 December 2010 and 31 December 2009. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

Notes to the Financial Statements

For the Year Ended 31 December 2010

31 December 2010	Total MDL'000	Less than 1 month MDL'000	From 1 month to 3 months MDL'000	From 3 months to 1 year MDL'000	From 1 to 5 years MDL'000	More than 5 years MDL'000	Non-interest bearing items MDL'000
ASSETS							
Cash and balances with National Bank	225,569	109,137	-	-	-	-	116,432
Current accounts and deposits with banks	123,790	123,790	-	-	-	-	-
Financial investments, debt securities – available-for-sale	295,411	227,066	56,931	85,897	5,717	-	-
Loans, net	854,140	2,213	219,634	27,569	390,878	158,294	55,551
Financial investments, equity securities – available-for-sale	7,300	-	-	-	-	-	7,300
Intangible assets	16,331	-	-	-	-	-	16,331
Property and equipment	166,335	-	-	-	-	-	166,335
Other assets	42,434	-	-	-	-	-	42,434
Total assets	1,731,310	462,206	276,565	113,466	396,595	158,294	404,383
LIABILITIES							
Due to banks	787	787	-	-	-	-	-
Due to customers	960,115	376,125	83,444	452,422	7,013	134	-
Other borrowings	405,095	158,770	104,449	74,571	30,674	30,674	5,957
Other liabilities	6,203	135	271	404	-	-	5,393
Total liabilities	1,372,200	535,817	188,164	527,397	37,687	30,808	11,350
Interest gap	359,110	(76,611)	88,401	(413,931)	358,908	127,486	393,033
Cumulative interest gap		(76,611)	11,790	(402,141)	(43,233)	84,253	477,286

Notes to the Financial Statements

For the Year Ended 31 December 2010

31 December 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 and balances with National Bank	312,386	174,263	-	-	-	-	138,123
Current accounts and deposits with banks	244,845	231,339	-	12,000	-	-	1,506
Financial investments, debt securities – available-for-sale	199,736	95,205	35,521	67,789	1,100	-	121
Loans, net	881,094	84,531	208,121	266,633	175,062	33,814	112,933
Financial investments, equity securities – available-for-sale	7,658	-	-	-	-	-	7,658
Intangible assets	11,385	-	-	-	-	-	11,385
Property and equipment	194,420	-	-	-	-	-	194,420
Other assets	38,551	-	-	-	-	-	38,551
Total assets	1,890,075	585,338	243,642	346,422	176,162	33,814	504,697
LIABILITIES							
Due to banks	13,749	-	-	12,302	-	-	1,447
Due to customers	1,075,309	225,645	111,433	468,109	4,917	94	265,111
Other borrowings	398,249	60,151	133,035	200,781	-	-	4,282
Other liabilities	11,745	143	286	857	-	-	10,459
Total liabilities	1,499,052	285,939	244,754	682,049	4,917	94	281,299
Interest gap	391,023	299,399	(1,112)	(335,627)	171,245	33,720	223,398
Cumulative interest gap		299,399	298,287	(37,340)	133,905	167,625	391,023

Notes to the Financial Statements

For the Year Ended 31 December 2010

33. Risk management (continued)

33.3 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 a 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 below analyse the Bank's assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

Notes to the Financial Statements

For the Year Ended 31 December 2010

31 December 2010	Less than 12 months MDL'000	Over 12 months MDL'000	Total MDL'000
ASSETS			
Cash and balances with National Bank	225,569	-	225,569
Current accounts and deposits with banks	123,790	-	123,790
Financial investments, debt securities – available-for-sale	292,211	3,200	295,411
Loans, net	327,187	526,953	854,140
Financial investments, equity securities – available-for-sale	7,300	-	7,300
Intangible assets	-	16,331	16,331
Property and equipment	-	166,335	166,335
Other assets	29,363	13,071	42,434
Total assets	1,005,420	725,890	1,731,310
LIABILITIES			
Due to banks	787	-	787
Due to customers	952,968	7,147	960,115
Other borrowings	123,250	281,845	405,095
Other liabilities	3,497	2,706	6,203
Total liabilities	1,080,502	291,698	1,372,200
Maturity gap	(75,082)	434,192	359,110

Notes to the Financial Statements

For the Year Ended 31 December 2010

31 December 2009	Less than 12 months MDL'000	Over 12 months MDL'000	Total MDL'000
ASSETS			
Cash and balances with National Bank	312,386	-	312,386
Current accounts and deposits with banks	225,349	19,496	244,845
Financial investments, debt securities – available-for-sale	198,636	1,100	199,736
Loans, net	465,921	415,173	881,094
Financial investments, equity securities – available-for-sale	7,658	-	7,658
Intangible assets	-	11,385	11,385
Property and equipment	-	194,420	194,420
Other assets	29,734	8,817	38,551
Total assets	1,239,684	650,391	1,890,075
LIABILITIES			
Due to banks	13,749	-	13,749
Due to customers	1,070,299	5,010	1,075,309
Other borrowings	103,871	294,378	398,249
Other liabilities	7,570	4,175	11,745
Total liabilities	1,195,489	303,563	1,499,052
Maturity gap	44,195	346,828	391,023

Notes to the Financial Statements

For the Year Ended 31 December 2010

33. Risk management (continued)

33.3 Liquidity risk (continued)

The tables below summarize the maturity profile of the Bank's financial liabilities at 31 December 2010 and 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.

31 December 2010	On demand MDL'000	Less than 3 months MDL'000	From 3	From 1 to 5	More than	Total MDL'000
			months to 1 year MDL'000	years MDL'000	5 years MDL'000	
Due to banks	787	-	-	-	-	787
Due to customers	291,115	171,988	516,473	11,400	170	991,146
Other borrowings	-	21,505	112,483	234,757	133,150	501,895
	291,902	193,493	628,956	246,157	133,320	1,493,828

31 December 2009	On demand MDL'000	Less than 3 months MDL'000	From 3	From 1 to 5	More than	Total MDL'000
			months to 1 year MDL'000	years MDL'000	5 years MDL'000	
Due to banks	705	-	13,289	-	-	13,994
Due to customers	363,576	274,372	479,309	7,879	122	1,125,258
Other borrowings	247	9,492	97,525	252,706	117,358	477,328
	364,528	283,864	590,123	260,585	117,480	1,616,580

The tables below show the contractual expiry by maturity of the Bank's contingent liabilities and commitments:

31 December 2010	Less than 3	From 3 months	From 1 to 5	More than	Total
	months	to 1 year	years	5 years	
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Commitments and guarantees	22,957	35,302	19,330	370	77,959
	22,957	35,302	19,330	370	77,959

31 December 2009	Less than 3	From 3 months	From 1 to 5	More than	Total
	months	to 1 year	years	5 years	
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Commitments and guarantees	24,012	68,962	29,347	-	122,321
	24,012	68,962	29,347	-	122,321

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

Notes to the Financial Statements

For the Year Ended 31 December 2010

33. Risk management (continued)

33.4 Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but it endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.