

**BC MOLDOVA AGROINDBANK SA**

**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
31 DECEMBER 2010**

**PREPARED IN ACCORDANCE WITH  
INTERNATIONAL FINANCIAL  
REPORTING STANDARDS**

# BC MOLDOVA AGROINDBANK SA

## FINANCIAL STATEMENTS

31 DECEMBER 2010

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BC MOLDOVA AGROINDBANK SA

STATEMENT OF COMPREHENSIVE INCOME

AS AT 31 DECEMBER 2010

(All amounts in MDL thousand unless otherwise stated)

	Notes	2010 MDL'000	2009 MDL'000
Interest and similar income	22	687,464	806,464
Interest and similar expense	22	(262,125)	(500,058)
<b>Net interest income</b>		425,339	306,406
Impairment losses on loans and advances	8	(86,167)	(116,058)
<b>Net interest income after the impairment on loans</b>		339,172	190,348
Fee and commission income		144,672	135,889
Fee and commission expense		(26,022)	(23,983)
<b>Net fee and commission income</b>	23	118,650	111,906
Trading result	24	113,482	121,559
Gain on revaluation of financial assets held for trading		10,188	2,750
Dividends received		2,566	-
Other operating income	25	4,116	4,644
<b>Total non-interest income</b>		249,002	240,859
Personnel expenses	26	(156,857)	(121,206)
General and administrative expense	27	(101,507)	(103,909)
Depreciation and amortization	10, 11	(50,060)	(52,130)
<b>Total non - interest expense</b>		(308,424)	(277,245)
<b>Profit before tax</b>		279,750	153,962
Tax expense	16	(43)	(29)
<b>Net profit for the year</b>		279,707	153,933
<b>Other comprehensive income</b>			
Revaluation of land and buildings		-	68,235
Gain less losses on available for sale financial assets arising during the year		38,317	-
Income tax related to other comprehensive income		-	-
<b>Other comprehensive income, net</b>		38,317	68,235
<b>Total comprehensive income of the period</b>		318,024	222,168

The financial statements were authorized for issue on 8 April 2011 by the Executives of the Bank represented by:

President of the Board  
Mrs. Natalia Vrabie



Vice President of the Board  
Mrs. Larisa Rudeva

**BC MOLDOVA AGROINDBANK SA**

**STATEMENT OF FINANCIAL POSITION**

**FOR THE YEAR ENDED 31 DECEMBER 2010**

*(All amounts in MDL thousand unless otherwise stated)*

	Notes	2010 <u>MDL'000</u>	2009 <u>MDL'000</u>
<b>ASSETS</b>			
Cash on hand	4	220,909	234,503
Balances with National Bank	5	479,728	799,162
Due from banks	6	760,061	961,909
Financial assets held for trading	7	106,825	131,886
Loans and advances to customers	8	5,150,313	4,115,906
Financial investments – available-for-sale	9	83,022	43,669
Financial investments – held to maturity	9	1,269,326	1,147,144
Investments in associates	9	2,283	2,400
Investments in subsidiaries	9	67,414	66,936
Property and equipment	10	370,485	391,835
Intangible assets	11	26,745	25,176
Other assets	12	<u>37,085</u>	<u>32,919</u>
<b>Total assets</b>		<b><u>8,574,196</u></b>	<b><u>7,953,445</u></b>
<b>LIABILITIES</b>			
Due to banks	13	328,650	250,078
Other borrowings	14	892,546	832,057
Due to customers	15	5,527,380	5,310,177
Other liabilities	17	<u>23,474</u>	<u>38,076</u>
<b>Total liabilities</b>		<b><u>6,772,050</u></b>	<b><u>6,430,388</u></b>
<b>SHAREHOLDERS' EQUITY</b>			
Ordinary shares	18	207,527	207,527
Treasury shares	18	(12,854)	(12,854)
Share premium		31,037	31,037
Available for sale reserve		54,486	16,169
Revaluation of land and buildings reserve		194,009	194,009
Retained earnings	19	<u>1,327,941</u>	<u>1,087,169</u>
<b>Total shareholders' equity</b>		<b><u>1,802,146</u></b>	<b><u>1,523,057</u></b>
<b>Total equity and liabilities</b>		<b><u>8,574,196</u></b>	<b><u>7,953,445</u></b>

The financial statements were authorized for issue on 8 April 2011 by the Executives of the Bank represented by:

President of the Board  
Mrs. Natalia Vrabie



Vice President of the Board  
Mrs. Larisa Rudeva

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

BC MOLDOVA AGROINDBANK SA

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

*(All amounts in MDL thousand unless otherwise stated)*

	<u>Ordinary shares</u> <u>MDL'000</u>	<u>Treasury shares</u> <u>MDL'000</u>	<u>Share premium</u> <u>MDL'000</u>	<u>Available for sale reserve</u> <u>MDL'000</u>	<u>Revaluation reserve</u> <u>MDL'000</u>	<u>Retained earnings</u> <u>MDL'000</u>	<u>Total equity</u> <u>MDL'000</u>
<b>Balance as at 1 January 2010</b>	207,527	(12,854)	31,037	16,169	194,009	1,087,169	1,523,057
Total comprehensive income	-	-	-	38,317	-	279,707	318,024
Dividends paid	-	-	-	-	-	(38,935)	(38,935)
<b>Balance as at 31 December 2010</b>	<u>207,527</u>	<u>(12,854)</u>	<u>31,037</u>	<u>54,486</u>	<u>194,009</u>	<u>1,327,941</u>	<u>1,802,146</u>
<b>Balance as at 1 January 2009</b>	207,527	(12,854)	31,037	16,169	125,261	968,790	1,335,930
Total comprehensive income	-	-	-	-	68,235	153,933	222,168
Dividends paid	-	-	-	-	-	(35,041)	(35,041)
Revaluation of land and buildings	-	-	-	-	513	(513)	-
<b>Balance as at 31 December 2009</b>	<u>207,527</u>	<u>(12,854)</u>	<u>31,037</u>	<u>16,169</u>	<u>194,009</u>	<u>1,087,169</u>	<u>1,523,057</u>

As of 31 December 2010, the statutory non - distributable reserves amounted to MDL'000 378,992 (2009: MDL'000 335,443).

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

**BC MOLDOVA AGROINDBANK SA****STATEMENT OF CASH FLOWS****FOR THE YEAR ENDED 31 DECEMBER 2010*****(All amounts in MDL thousand unless otherwise stated)***

	Notes	2010	2009
		<u>MDL'000</u>	<u>MDL'000</u>
<b>Cash flows from operating activities</b>			
Interest receipts		665,493	769,802
Interest payments		(255,481)	(530,022)
Commission receipts		144,672	111,906
Commission payments		(26,022)	(23,983)
Other operating income		134,629	179,929
Payments of general and administrative expenses		(101,507)	(104,259)
Staff costs paid		<u>(156,755)</u>	<u>(121,206)</u>
<b>Cash flow from operating activities before working capital changes</b>		405,029	282,167
<i>(Increase) / decrease in operating assets:</i>			
Due from banks		(7,238)	252,213
Financial assets held for trading		35,019	14,816
Financial investments held to maturity		(17,803)	(84)
Financial investments available for sale		(1,398)	-
Loans and advances to customers		(1,111,297)	784,480
Other assets		(3,511)	11,515
<i>Increase / (decrease) in operating liabilities:</i>			
Due to banks		79,736	140,072
Due to customers		217,736	(54,363)
Other liabilities		<u>(14,661)</u>	<u>20,596</u>
<b>Net cash (used in) / from operating activities before taxes</b>		(418,388)	1,451,412
Income tax paid		<u>(29)</u>	<u>(10)</u>
<b>Net cash (used in) / from operating activities</b>		(418,417)	1,451,402
<b>Cash flows from investing activities</b>			
Purchase of property and equipment and intangible assets		(30,279)	(82,888)
Proceeds from disposal of property and equipment		-	1,338
Purchase of investments securities		(52,737)	-
Dividends received		<u>2,566</u>	<u>-</u>
<b>Net cash from investing activities</b>		(80,450)	(81,550)
<b>Cash flows from financing activities</b>			
Repayment of borrowings		(449,911)	(151,283)
Proceeds from borrowings		502,058	251,514
Dividends paid		<u>(38,398)</u>	<u>(35,029)</u>
<b>Net cash used in financing activities</b>		13,749	65,202
Foreign currency differences		<u>(6,206)</u>	<u>(523)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>		<u>(491,324)</u>	<u>1,434,531</u>
<b>Cash and cash equivalents at 1 January</b>		<u>2,691,740</u>	<u>1,257,209</u>
<b>Cash and cash equivalents at 31 December</b>	21	<u>2,200,416</u>	<u>2,691,740</u>

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

# BC MOLDOVA AGROINDBANK SA

## NOTES TO THE FINANCIAL STATEMENTS

**FOR THE YEAR ENDED 31 DECEMBER 2010**

*(All amounts in MDL thousand unless otherwise stated)*

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### **1 GENERAL INFORMATION**

BC Moldova Agroindbank SA (“the Bank”) was established in 1991 and is a public limited liability commercial bank. The Bank operates through its head office located in Chisinau, through 70 branches (2009: 72 branches) including DOCCB (Bank Head office) and 24 representative offices (24 representative offices as of 31 December 2009) located throughout the country.

The Bank’s activity covers both corporate and retail banking operations for individuals and small, micro and medium sized enterprises. Corporate banking is supported by the Bank’s Business Centre, which started its operations in 2002.

The Bank’s corporate banking activities consist of deposit taking, cash management, lending, and foreign trade finance. It offers the traditional range of banking services and products associated with foreign trade transactions including payment orders, documentary collections and issuance of letters of credit and guarantees.

The Bank also offers a comprehensive range of retail banking services for individuals: saving accounts, demand and time deposits, loans and domestic and international fund transfers.

As of 31 December 2010, the Bank also holds 100% of share capital of MAIB Leasing SA (as of 31 December 2009: 100%), that is a leasing subsidiary which offers leasing products and 54.24% of the share capital of Moldmediacard SRL (as of 31 December 2009: 54.24%), that is a private limited company which offers processing services for card transactions.

The number of employees as of 31 December 2010 was 1,540 (1,514 as of 31 December 2009).

The registered office of the Bank is located at Cosmonautilor Street 9, Chisinau, Republic of Moldova.

**BC MOLDOVA AGROINDBANK SA**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2010**

***(All amounts in MDL thousand unless otherwise stated)***

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**1 GENERAL INFORMATION (CONTINUED)**

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

	<u><b>2010</b></u>	<u><b>2009</b></u>
Civil society of Bank shareholders and their affiliates	31.65%	31.65%
Poteza Adriatic Fund BV	4.72%	4.72%
Factor Banka D.D.	4.99%	4.99%
Activa Holding D.D.	4.99%	4.99%
Druga D.O.O.	4.32%	4.32%
Logar Milena	4.69%	4.69%
Treasury shares	6.20%	6.20%
Other	<u>38.44%</u>	<u>38.44%</u>
<b>Total</b>	<u><b>100.00%</b></u>	<u><b>100.00%</b></u>

As at 31 December 2010 the Civil society of Bank shareholders (CSSB) included 35 members, from which 19 members were from executive and non-executive management (2009: 19 members) and the remaining 16 members were management affiliates.

There are 3,196 other shareholders (31 December 2009 – 3,208) of which 2,810 represent individuals and 386 – Companies (31 December 2009: 2,820 individuals and 388 Companies).

At the Extraordinary General Meeting of shareholders on 22 October 2009, minute number 39, was approved the Statute of "Moldova – Agroindbank" then registered at the State Registration Chamber on 3 February 2010. Under the Statute of "Moldova - Agroindbank" was created the collegial executive body - the Bank's Executive Board.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

*(All amounts in MDL thousand unless otherwise stated)*

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These financial statements are presented in Moldovan lei (“MDL”), the currency of the economic environment in which the Bank operates (“the functional currency”). These financial statements have been prepared on a historical cost basis, except for available for sale investments and financial assets held for trading, which are measured at fair value and the land and buildings which are measured at depreciated revalued amount.

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). In addition to these separate IFRS financial statements the Bank also prepares and issues consolidated financial statements which include its subsidiaries. The separate financial statements should be read together with issued consolidated financial statements.

(a) *Standards effective for annual periods beginning on or after 1 January 2010*

The following new standards and interpretations became effective for the Bank from 1 January 2010:

- ***IFRIC 17, Distributions of Non-Cash Assets to Owners*** (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets should be recognised in profit or loss when the entity settles the dividend payable. The amendments have no impact on the Bank financial statements.
- ***IFRIC 18, Transfers of Assets from Customers*** (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. The amendments have no impact on the Bank financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

*(All amounts in MDL thousand unless otherwise stated)*

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(a) *Standards effective for annual periods beginning on or after 1 January 2010 (continued)*

- **IAS 27, Consolidated and Separate Financial Statements** (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously “minority interest”) even if this results in the non-controlling interests having a deficit balance (the previous standard required the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent’s ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary has to be measured at its fair value. The amendments have no significant impact on the Bank’s financial statements.
- **IFRS 3, Business Combinations** (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 allows entities to choose to measure non-controlling interests using the previous IFRS 3 method (proportionate share of the acquiree’s identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer has to premeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognises the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer has to recognise a liability for any contingent purchase consideration at the acquisition date. Changes in the value of that liability after the acquisition date are recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The amendments have no impact on the Bank’s financial statements.
- **Bank Cash-settled Share-based Payment Transactions - Amendments to IFRS 2, Share-based Payment** (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share - based payment awards in both consolidated and separate financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

*(All amounts in MDL thousand unless otherwise stated)*

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(a) *Standards effective for annual periods beginning on or after 1 January 2010 (continued)*

- The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The amendments have no impact on the Bank's financial statements.
- ***Eligible Hedged Items – Amendment to IAS 39, Financial Instruments: Recognition and Measurement*** (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendments have no material impact on the Bank's financial statements.
- ***IFRS 1, First - time Adoption of International Financial Reporting Standards*** (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The revised standard did not have a material impact on Bank's financial statements.
- ***Additional Exemptions for First - time Adopters - Amendments to IFRS 1, First-time Adoption of IFRS*** (effective for annual periods beginning on or after 1 January 2010). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments have no impact on the Bank's financial statements.
- ***Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010)***. The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2;

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

*(All amounts in MDL thousand unless otherwise stated)*

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(a) *Standards effective for annual periods beginning on or after 1 January 2010 (continued)*

- clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal Banks) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. In addition, the amendments clarifying classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary published as part of the *Annual Improvements to International Financial Reporting Standards*, which were issued in May 2008, are effective for annual periods beginning on or after 1 July 2009. The amendments did not have a material impact on Bank financial statements.

(b) *New standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2011 or later and which the Bank has not early adopted*

- **IFRS 9, Financial Instruments Part 1: Classification and Measurement.** IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Key features of the standard are as follows:

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

*(All amounts in MDL thousand unless otherwise stated)*

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(b) *New standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2011 or later and which the Bank has not early adopted (continued)*

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Bank is considering the implications of the standard, the impact on the Bank and the timing of its adoption by the Bank.

- ***Classification of Rights Issues - Amendment to IAS 32*** (issued on 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The Bank does not expect the amendments to have any material effect on its financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

*(All amounts in MDL thousand unless otherwise stated)*

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(b) *New standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2011 or later and which the Bank has not early adopted (continued)*

- ***Amendment to IAS 24, Related Party Disclosures*** (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Bank does not expect the amendments to have any material effect on its financial statements.
- ***IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments*** (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. The Bank does not expect IFRIC 19 to have any material effect on its financial statements.
- ***Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14*** (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The Bank does not expect the amendments to have any material effect on its financial statements.
- ***Improvements to International Financial Reporting Standards*** (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements;

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

*(All amounts in MDL thousand unless otherwise stated)*

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(b) *New standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2011 or later and which the Bank has not early adopted (continued)*

- IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Bank does not expect the amendments to have any material effect on its financial statements.
  
- ***Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1*** (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7, *Financial Instruments: Disclosures*. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The Bank does not expect the amendments to have any effect on its financial statements.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(b) *New standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2011 or later and which the Bank has not early adopted (continued)*

- ***Disclosures – Transfers of Financial Assets – Amendments to IFRS 7*** (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure are required to enable the effects of those risks to be understood. The Bank is currently assessing the impact of the amended standard on disclosures in its financial statements.
  
- ***Recovery of Underlying Assets – Amendments to IAS 12*** (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012). The amendments relate to measuring deferred tax liabilities and deferred tax assets relating to investment property measured using the fair value model in IAS 40, Investment Property and introduce a rebuttable presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. SIC-21, Income Taxes – Recovery of Revalued Non-Depreciable Assets which addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16, Property, Plant and Equipment was incorporate into IAS 12 after excluding guidance regarding investment property measured at fair value. The Bank does not expect the amendments to have any material effect on its financial statements.
  
- ***Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1*** (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment regarding severe hyperinflation creates an additional exemption when an entity that has been subject to severe hyperinflation resumes presenting or presents for the first time, financial statements in accordance with IFRSs. The exemption allows an entity to elect to measure certain assets and liabilities at fair value; and to use that fair value as the deemed cost in the opening IFRS statement of financial position.

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.1 Basis of preparation (continued)**

(b) *New standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2011 or later and which the Bank has not early adopted (continued)*

- The IASB has also amended IFRS 1 to eliminate references to fixed dates for one exception and one exemption, both dealing with financial assets and liabilities. The first change requires first-time adopters to apply the derecognition requirements of IFRS prospectively from the date of transition, rather than from 1 January 2004. The second amendment relates to financial assets or liabilities at fair value on initial recognition where the fair value is established through valuation techniques in the absence of an active market and allows the guidance to be applied prospectively from the date of transition to IFRS rather than from 25 October 2002 or 1 January 2004. This means that a first-time adopter does not need to determine the fair value of financial assets and liabilities for periods prior to the date of transition. IFRS 9 has also been amended to reflect these changes. The Bank does not expect the amendments to have any effect on its financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Bank's financial statements.

**2.2 Foreign currency translation**

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.3 Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money directly to a debtor with no intention of trading the receivable. Loans and receivables are initially recognized at fair value less transactions costs; subsequently they are measured at amortized cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate.

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

- corporate;
- retail entities;
- retail individuals.

Due from banks are classified as loans and receivables and are stated at amortised cost less any provision for impairment.

**2.4 Impairment of financial assets carried at amortised cost**

If there is objective evidence that the Bank will not be able to collect all amounts due (principal and interest) according to original contractual terms of the loans and receivables such assets are considered impaired.

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
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and / or
- Deterioration in the value of collateral.

The amount of the impairment loss is the difference between the loans and receivables carrying amount and the present value of expected future cash flows (including from collateral if the loans are feasible secured) discounted at the asset's original effective interest rate.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

*(All amounts in MDL thousand unless otherwise stated)*

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.4 Impairment of financial assets carried at amortised cost (continued)**

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

The present value of the estimated future cash flows is calculated based at the asset's original effective interest rate. If an asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced to its estimated recoverable amount by a charge to income through "Impairment losses on loans and advances". A write off is made when all or part of an asset is deemed uncollectible.

Write offs are charged against previously established provisions and reduce the principal amount of an asset. If a future write-off is later recovered, the recovery is credited to "Impairment of losses on loans and advances".

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the "Impairment of loans" expense account.

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

**2.5 Renegotiated loans**

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Financial investments

**Financial instruments - key measurement terms.** Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

*Fair value* is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Bank may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

**Financial instruments - key measurement terms.** Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

*Fair value* is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Bank may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flows models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

*Transaction costs* are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Financial investments (continued)

*Amortised cost* is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

*The effective interest method* is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument.

The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

***Financial assets at fair value through profit and loss***

Investments in securities classified as held for trading are included in the category “Financial assets at fair value through profit and loss”. Held for trading securities are securities, which were either acquired for generating a profit from short term fluctuations in price or dealer’s margin, or are securities included in a portfolio in which a pattern of short term profit taking exists. Trading securities are initially recorded at fair value. After initial recognition, trading securities are re-measured at fair value based on quoted bid prices.

All related realized and unrealized gains or losses are recognized in “Financial income” in the statement of comprehensive income. Interest income on trading securities is included in “Interest and similar income” in the statement of comprehensive income. All purchases and sales of trading securities that require delivery within the time frame established by regulation or market convention are recognized at settlement date.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Financial investments (continued)

*Available for sale investments*

All the investments which are not classified as held for trading or held to maturity investments or loans and advances are included in available for sale category. All purchases and sales of available for sale investments that require delivery within the time frame established by regulation or market convention are recognized at settlement date. Available for sale assets are recognized initially at the fair value plus transaction costs. Subsequent to initial recognition, they are re-measured at fair value unless fair value cannot be determined in which case they are carried at cost less any provision for impairment.

Fair values are based on quoted bid prices or amounts derived from cash flow models and ratios which reflect the specific circumstances of the issuer. The changes in fair value for available for sale financial instruments are recognized in other comprehensive income (OCI). Interest earned on available for sale investments is reported as "Interest and similar income" in the statement of comprehensive income.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to profit or loss for the year.

*Determination of fair value*

The fair value for financial instruments traded in active markets at the balance sheet date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, credit models and other relevant valuation models. Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Bank's best estimate of the most appropriate model assumptions.

NOTES TO THE FINANCIAL STATEMENTS

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.6 Financial investments (continued)**

Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, counterparty credit and liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded ('Day 1' profit or loss) is deferred and recognised only when the inputs become observable or on derecognition of the instrument.

An analysis of fair values of financial and further details as to how they are measured are provided in Note 32.

***Held to maturity investments***

Held to maturity financial investments are those which carry fixed or determinable payments and have fixed maturities and which the Bank has the intention and ability to hold to maturity. After initial measurement, held to maturity financial investments are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate.

The amortization is included in interest income. The losses arising from impairment of such investments are recognized in the statement of comprehensive income.

***Investments in subsidiaries***

Subsidiaries are the entities controlled by the Bank. Investments in subsidiaries are recognized initially at cost (including transaction costs). Subsequent to initial recognition, they are measured at cost less any provision for impairment.

***Investments in associates***

An associate is an entity in which the Bank has significant influence and which is neither a subsidiary nor a joint venture. In the separate financial statements of the Bank, investments in associate are carried at cost less any impairment losses, if there are evidence of impairment.

**2.7 Property and equipment**

Property and equipment are stated at cost less accumulated depreciation and any impairment loss except the categories "Buildings and constructions" and "Land" – which are stated at revalued amounts.

NOTES TO THE FINANCIAL STATEMENTS

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.7 Property and equipment (continued)**

Land and buildings are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Expenses for repairs and maintenance are charged to operating expenses as incurred. Subsequent expenditure on property and equipment is only recognized as an asset when the expenditure improves the condition of the asset beyond the originally assessed standard of performance. Where the carrying amount of an asset is greater than the estimated recoverable amount, it is written down to its recoverable amount. Gains and losses on disposals of property and equipment are determined by reference to their carrying amount and are taken to other operating income.

Depreciation is computed on a straight-line basis over the estimated useful life of the asset, as stated below. The improvement of leasehold assets is depreciated over the shorter of lease term and useful life of the assets.

<b>Asset type</b>	<b><u>Years</u></b>
Land	indefinite
Buildings	33-50
Improvements of lease-hold assets	4-15
ATMs	4
Furniture and equipment	4-8
Computers	4
Vehicles	7

The revaluation surplus included in equity in respect of revalued assets is transferred to retained earnings when the asset is derecognized.

**2.8 Intangible assets**

Intangibles represent costs incurred for acquisition of computer software and are amortized using the straight-line method over the best estimate of their useful lives ranging from 2 to 12 years. The amortisation expense on intangible assets is recognised in the statement of comprehensive income.

**2.9 Borrowings**

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

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.10 Due to customers**

Due to customers are non - derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Included in due to customers are due to public authorities, which are current accounts of the Moldovan Ministry of Finance and deposit accounts of the Social Insurance Fund, which are stated at amortized cost, using the effective interest rate method.

**2.11 Offsetting financial assets and liabilities**

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

**2.12 Cash and cash equivalents**

For the purpose of the cash flow statement, cash and cash equivalents comprise cash in hand, current accounts and short-term placements at other banks, treasury bills and other short – term highly liquid investments, with less than 90 days maturity from the date of acquisition.

**2.13 Treasury shares**

Own equity instruments of the Bank which are acquired by it or by any of its subsidiaries (treasury shares) are deducted from equity and accounted for at weighted average cost.

Consideration paid or received on the purchase, sale, issue or cancellation of the Bank's own equity instruments is recognized directly in equity. No gain or loss is recognized in statement of comprehensive income on the purchase, sale, issue or cancellation of own equity instruments.

**2.14 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.

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.14 Impairment of non-financial assets (continued)**

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 or other available fair value indicators.

**2.15 Financial guarantees**

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances.

Financial guarantees are initially recognised in the financial statements (within 'Other liabilities') at fair value, being the premium received.

Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less, when appropriate, cumulative amortisation recognised in the statement of comprehensive income, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in the statement of comprehensive income as "Impairment losses on loans and advances".

The premium received is recognised in the statement of comprehensive income in as 'Fees and commission income' on a straight line basis over the life of the guarantee.

**2.16 Contingencies**

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

A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.17 Provisions**

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

**2.18 Pension costs and employees' benefits**

The Bank makes contributions to the funds set up by the State of Moldova for pensions, health care and unemployment benefits calculated on the basis of salaries of all employees of the Bank.

The Bank does not operate any other retirement plan and has no other obligation to provide further benefits to current or former employees.

**2.19 Related parties**

Party is considered to be related to the Bank if:

- a. directly, or indirectly through one or more intermediaries, the party:
  - controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);
  - has an interest in the entity that gives it significant influence over the entity; or
  - has joint control over the entity;
- b. the party is an associate (as defined in IAS 28 Investments in Associates) of the entity;
- c. the party is a joint venture in which the entity is a venturer (see IAS 31 Interests in Joint Ventures);
- d. the party is a member of the key management personnel of the entity or its parent;
- e. the party is a close member of the family of any individual referred to in (a) or (d);
- f. the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- g. the party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.20 Taxation**

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

Differences between financial reporting under IFRS and local tax regulations give rise to differences between the carrying value of certain assets and liabilities and their tax base. Deferred income tax is provided using the liability method, for all such temporary differences arising between the tax base of assets and liabilities and their carrying values for financial reporting purposes.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

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

**2.21 Recognition and derecognition of financial instruments**

The Bank recognizes a financial asset or a financial liability on its balance sheet when, and only when, the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized on the settlement date, i.e. the date that an asset is delivered to or by the Bank.

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

A financial asset is derecognized where:

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

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.21 Recognition and derecognition of financial instruments (continued)**

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

**2.22 Operating leases – the Bank as a lessee**

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

**2.23 Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the Bank's chief operating decisions maker. Segments whose revenue, result or assets are ten percent or more of all segments are reported separately. The information of segments is presented in Consolidated Financial Statements.

**3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

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

*Impairment losses on loans and advances*

Assets accounted for at amortized cost are evaluated for impairment on a basis described in accounting policy Note 2.5. The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about a counterparty's financial situation and the net realizable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Risk Management Department. Collectively assessed impairment allowances cover credit losses inherent in the portfolios of loans and advances with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans and advances, but the individual impaired items cannot yet be identified.

NOTES TO THE FINANCIAL STATEMENTS

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**3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (CONTINUED)**

In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions.

The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances. In collective assessment of loans impairment, the Bank considers groups with similar characteristics of credit risk assessment and their status. The value of the impairment loss constitutes the difference between the carrying amount of the loan and the present value of future cashflows (including from collateral) discounted at initial effective interest rate.

A 1% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of MDL 11,530 thousand (2009: MDL 10,241 thousand), respectively. Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realization of any assets held as collateral against the loans.

A 1% increase or decrease in the present value of the expected future cash flows compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase or decrease in loan impairment losses of MDL'000 1,506 (2009: MDL'000 1,368), respectively.

*Fair value of financial instruments*

Where the fair value of financial assets and liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using active techniques including the discounting of cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required to establish fair values.

The judgments include considerations of such inputs as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. In case the fair value cannot be reliably determined the available for sale investments are held at cost.

*Impairment of equity investments*

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performances, changes in technology, and operational and financing cash flows.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

*(All amounts in MDL thousand unless otherwise stated)*

**3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (CONTINUED)**

Taken into account that there is no active market for unquoted equity investments and data provided by the market cannot be used in forecasting and estimating of future cash flows, the determination of the fair value cannot be done reliably thus the impairment is determined through comparison of the Bank's share in net assets of investees from audited financial statements and the carrying amount of those investments.

*Held – to – maturity investments*

The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale.

**4 CASH ON HAND**

	<b>2010</b>	<b>2009</b>
	<b><u>MDL'000</u></b>	<b><u>MDL'000</u></b>
Cash	220,370	233,851
Travellers' cheques	529	648
Other	<u>10</u>	<u>4</u>
	<b><u>220,909</u></b>	<b><u>234,503</u></b>

**5 BALANCES WITH NATIONAL BANK OF MOLDOVA**

	<b>2010</b>	<b>2009</b>
	<b><u>MDL'000</u></b>	<b><u>MDL'000</u></b>
Current account	210,211	182,164
Mandatory reserves	269,517	266,979
Overnight deposits	<u>-</u>	<b><u>350,019</u></b>
	<b><u>479,728</u></b>	<b><u>799,162</u></b>

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2010**

***(All amounts in MDL thousand unless otherwise stated)***

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**5 BALANCES WITH NATIONAL BANK OF MOLDOVA (CONTINUED)**

*Current account and mandatory reserves*

The current account is the account held in Moldovan Lei (MDL) at the National Bank of Moldova (NBM).

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

Funds attracted in US Dollars (USD) are reserved in USD and funds attracted in EURO (EUR) and other freely convertible currencies are reserved in EUR. As of 31 December 2010 the rate for calculation of the minimum mandatory reserve in all currencies was 8% based on the decision of the Administrative Council of the NBM No.212 dated 3 September 2009 (2009: 8%).

As of 31 December 2010 the reserve balance held in the current account opened at NBM was MDL'000 260,389 (2009: MDL'000 435,321). This balance included mandatory reserve on funds attracted in Moldovan Lei and non - convertible currencies. The balance reserved on USD and EUR mandatory reserve accounts amounted to USD'000 6,765 and EUR'000 11,630 respectively (2009: USD'000 5,945 and EUR'000 10,998).

The interest paid by NBM on the mandatory reserves during 2010 varied between 0.28% and 0.71% per annum (2009: 0.22% and 1.04% per annum) for reserves in foreign currency and 2% for reserves in MDL (2009: 2% per annum).

The mandatory reserves on funds attracted in USD and EUR are placed in Nostro accounts of NBM at correspondent banks incorporated in OECD countries. The mandatory reserves held in the current account at NBM are available for use in the Bank's day to day operations.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

*(All amounts in MDL thousand unless otherwise stated)*

6 DUE FROM BANKS

	<b>2010</b>	<b>2009</b>
	<b><u>MDL'000</u></b>	<b><u>MDL'000</u></b>
Current accounts	365,084	371,181
Deposits	394,977	590,728
	<u>760,061</u>	<u>961,909</u>

All current accounts and deposits balances are in foreign currencies with foreign banks such as Commerzbank, Citibank, Bank of New York, Sberbank (Moscow), RZB Group. Bank depositors include also restricted deposits as of 31 December 2010 of MDL'000 39,982 (as of 31 December 2009 - MDL'000 35,337). Restricted deposits mainly represent deposits placed under membership agreements signed with Visa, MasterCard, Western Union and the Bank of New York of USD'000 1,806 (MDL'000 23,192) (31 December 2009: USD'000 2,765 or MDL'000 34,015) and EUR'000 4,085 (MDL'000 63,936). During 2010, interest on balances with banks in convertible currencies ranged from 0.15 % to 0.70% (2009: 0.01% to 7.0%).

Analysis of credit quality of amounts due from banks is presented below:

	<u>Rating</u>	<u>Rating agency</u>
Correspondent banks		
Commerzbank FFT	A-	S & P
Citibank NA	A+	Fitch
Bank of NY	AA	Fitch
RZB Group Austria	A1	Fitch
Sberbank Moscova	BBB	Fitch
DZ Bank	Aa3	Moody's

7 FINANCIAL ASSETS HELD FOR TRADING

	<b>2010</b>	<b>2009</b>
	<b><u>MDL'000</u></b>	<b><u>MDL'000</u></b>
Treasury bills	106,825	131,886
	<u>106,825</u>	<u>131,886</u>

Held for trading securities as of 31 December 2010 represent MDL treasury bills of 364 days maturity issued by the Ministry of Finance of Republic of Moldova with a yield of between 5.37% and 9% per annum (2009: 2.09% and 17.96% per annum). As of 31 December 2010 the state trading securities of the Bank pledged for loans granted by NBM were MDL'000 11,925 (with a maturity of up to 364 days).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

(All amounts in MDL thousand unless otherwise stated)

8 LOANS AND ADVANCES TO CUSTOMERS

	<b>2010</b>	<b>2009</b>
	<b><u>MDL'000</u></b>	<b><u>MDL'000</u></b>
Corporate clients	3,277,664	2,505,925
Retail entities	1,236,576	1,019,361
Individuals	<u>912,217</u>	<u>797,150</u>
<b>Total loans, gross</b>	5,426,457	4,322,436
Less: allowance for impairment losses	<u>(276,144)</u>	<u>(206,530)</u>
<b>Total loans, net</b>	<u>5,150,313</u>	<u>4,115,906</u>

Note:

Balance of mortgage loans – gross	636,224	604,903
Balance of mortgage loans – net	624,800	595,782

Gross loans include overdue instalments of MDL'000 241,189 as of 31 December 2010 (2009: MDL'000 233,516).

Analysis of the loan portfolio by industry is presented below:

	<b>2010</b>	<b>2009</b>
	<b><u>MDL'000</u></b>	<b><u>MDL'000</u></b>
Agricultural and food industry	1,395,903	1,331,722
Manufacturing and trade	2,107,237	1,545,582
Energy sector	231,554	117,355
Consumer	715,762	641,031
Real estate	373,189	381,127
Transportation and road construction	426,885	72,430
Government	229	459
Other	<u>175,698</u>	<u>232,730</u>
	<u>5,426,457</u>	<u>4,322,436</u>

The average interest rate on loans granted in MDL was 15.95% (2009: MDL 19.88%) in USD 9.85% (2009: USD 12.86%) and in EUR 9.97% (2009: EUR 12.45%).

As of 31 December 2010 loans and advances to customers bearing fixed interest rate amounted at MDL'000 673,486 (31 December 2009: MDL'000 269,782). Borrowers have the right to repay loans in advance, paying a fee for prepayment in amount of a specified percentage value from the amount reimbursed.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

*(All amounts in MDL thousand unless otherwise stated)***8 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

The tables below present the credit quality of the Bank's portfolio for 2010 and 2009:

<b>31 December</b> <b>2010</b>	<b>Neither past due nor impaired</b> <b>MDL'000</b>	<b>Past due but not impaired</b> <b>MDL'000</b>	<b>Impaired loans</b>		<b>Total</b> <b>MDL'000</b>
			<b>Collectively assessed</b> <b>MDL'000</b>	<b>Individually assessed</b> <b>MDL'000</b>	
Corporate	976,685	-	-	2,300,979	3,277,664
Retail entities	967,645	-	62,674	206,257	1,236,576
Individuals	<u>755,998</u>	<u>62,362</u>	<u>71,094</u>	<u>22,763</u>	<u>912,217</u>
<b>Total</b>	<b><u>2,700,328</u></b>	<b><u>62,362</u></b>	<b><u>133,768</u></b>	<b><u>2,529,999</u></b>	<b><u>5,426,457</u></b>

<b>31 December</b> <b>2009</b>	<b>Neither past due nor impaired</b> <b>MDL'000</b>	<b>Past due but not impaired</b> <b>MDL'000</b>	<b>Impaired loans</b>		<b>Total</b> <b>MDL'000</b>
			<b>Collectively assessed</b> <b>MDL'000</b>	<b>Individually assessed</b> <b>MDL'000</b>	
Corporate	145,035	-	-	2,360,890	2,505,925
Retail entities	544,511	-	101,873	372,977	1,019,361
Individuals	<u>579,397</u>	<u>86,713</u>	<u>102,342</u>	<u>28,698</u>	<u>797,150</u>
<b>Total</b>	<b><u>1,268,943</u></b>	<b><u>86,713</u></b>	<b><u>204,215</u></b>	<b><u>2,762,565</u></b>	<b><u>4,322,436</u></b>

Loans neither past due nor impaired are loans which are classified as "Standard" according to the Bank internal rating system which take into account the financial position of the borrower, existence and quality of collateral, the debt quality and the economic environment of the borrower.

Loans are classified by the Bank as "Standard" in cases when borrowers met all contractual obligations.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

(All amounts in MDL thousand unless otherwise stated)

8 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The credit quality of loans neither past due nor impaired are presented below:

	<u>2010</u> <u>MDL'000</u>	<u>2009</u> <u>MDL'000</u>
<b>Corporate, including:</b>	<u>976,685</u>	<u>145,035</u>
Borrowers with credit history over 5 years	571,415	142,197
Borrowers with credit history from 2 to 5 years	292,361	2,838
New borrowers	112,909	-
<b>Retail entities, including:</b>	<u>967,645</u>	<u>544,511</u>
Medium	234,411	75,908
Small	468,125	277,950
Micro	261,870	188,080
Others	3,239	2,573
<b>Individuals, including:</b>	<u>755,998</u>	<u>579,397</u>
Loans collateralized with real estate	620,992	468,146
Loans collateralized with other property (except real estate)	33,973	38,175
Unsecured loans	<u>101,033</u>	<u>73,076</u>
<b>Total</b>	<u>2,700,328</u>	<u>1,268,943</u>

Aging analysis of past due but not impaired loans by overdue days is presented below:

<u>31 December</u> <u>2010</u>	<u>Current</u> <u>portion</u> <u>MDL'000</u>	<u>Past due loans</u>				<u>Total</u> <u>MDL'000</u>
		<u>1-30 days</u> <u>MDL'000</u>	<u>31-60</u> <u>days</u> <u>MDL'000</u>	<u>61-90 days</u> <u>MDL'000</u>	<u>Over 90</u> <u>days</u> <u>MDL'000</u>	
Corporate	-	-	-	-	-	-
Retail entities	-	-	-	-	-	-
Individuals	<u>56,278</u>	<u>285</u>	<u>356</u>	<u>1,965</u>	<u>3,478</u>	<u>62,362</u>
<b>Total</b>	<u>56,278</u>	<u>285</u>	<u>356</u>	<u>1,965</u>	<u>3,478</u>	<u>62,362</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

(All amounts in MDL thousand unless otherwise stated)

8 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

31 December 2009	Current portion	Past due loans				Total
		1-30 days	31-60 days	61-90 days	Over 90 days	
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Corporate	-	-	-	-	-	-
Retail entities	-	-	-	-	-	-
Individuals	82,059	1,229	354	608	2,463	86,713
<b>Total</b>	<b>82,059</b>	<b>1,229</b>	<b>354</b>	<b>608</b>	<b>2,463</b>	<b>86,713</b>

Aging analysis of loans individually impaired is presented below:

31 December 2010	Current portion	Past due loans				Total
		1-30 days	31-60 days	61-90 days	Over 90 days	
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Corporate	2,190,962	1,492	-	-	108,525	2,300,979
Retail entities	101,022	1,348	742	1,664	101,481	206,257
Individuals	11,938	-	-	3,879	6,946	22,763
<b>Total</b>	<b>2,303,922</b>	<b>2,840</b>	<b>742</b>	<b>5,543</b>	<b>216,952</b>	<b>2,529,999</b>

31 December 2009	Current portion	Past due loans				Total
		1-30 days	31-60 days	61-90 days	Over 90 days	
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Corporate	2,289,553	10,265	833	23,172	37,067	2,360,890
Retail entities	260,046	2,062	898	5,091	104,880	372,977
Individuals	16,050	-	-	7,850	4,798	28,698
<b>Total</b>	<b>2,565,649</b>	<b>12,327</b>	<b>1,731</b>	<b>36,113</b>	<b>146,745</b>	<b>2,762,565</b>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

(All amounts in MDL thousand unless otherwise stated)

8 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The movements in provision for impairment during the years 2010 and 2009 is presented below:

	2010			2009		
	Corpo- rate	Retail entities	Indivi- duals	Corpo- rate	Retail entities	Indivi- duals
	<u>Total</u>			<u>Total</u>		
	<u>MDL'000</u>			<u>MDL'000</u>		
At 1 January	101,106	79,769	25,855	56,513	42,866	28,158
Write-offs	-	(7,316)	(20,561)	-	(17,009)	(24,557)
Recoveries	-	2,635	8,690	-	513	3,988
Charge for the year	<u>64,600</u>	<u>16,444</u>	<u>5,122</u>	<u>44,593</u>	<u>53,199</u>	<u>18,266</u>
<b>At 31 December</b>	<u>165,706</u>	<u>91,532</u>	<u>19,106</u>	<u>101,106</u>	<u>79,569</u>	<u>25,855</u>

The movement in individual and collective provision for impairment during the years 2010 and 2009 is presented below:

	Individual impairment	Collective impairment	Total	Individual impairment	Collective impairment	Total
	<u>2010</u>	<u>2010</u>	<u>2010</u>	<u>2009</u>	<u>2009</u>	<u>2009</u>
	<u>MDL'000</u>			<u>MDL'000</u>		
At 1 January	172,438	34,092	206,530	80,523	47,014	127,537
Write-offs	(2,957)	(24,920)	(27,877)	-	(41,566)	(41,566)
Recoveries	37	11,288	11,324	-	4,501	4,501
Charge for the year	<u>52,036</u>	<u>34,130</u>	<u>86,167</u>	<u>91,915</u>	<u>24,143</u>	<u>116,058</u>
<b>At 31 December</b>	<u>221,554</u>	<u>54,590</u>	<u>276,144</u>	<u>172,438</u>	<u>34,092</u>	<u>206,530</u>

The fair value of collateral that the Bank holds relating to loans individually assessed for impairment at 31 December 2010 was MDL'000 2,233,668 (2009: MDL'000 1,808,002). The collateral consists mainly of real estate and other properties, and cash deposits.

**BC MOLDOVA AGROINDBANK SA****NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2010***(All amounts in MDL thousand unless otherwise stated)*

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**8 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

The provisioning ratio for the individual and collective portfolio of the Bank is as follows:

	<b>2010</b>	<b>2009</b>
	<u>%</u>	<u>%</u>
Loans loss provisions as weight from loans portfolio	5.09%	4.78%
Individual provision	6.42%	6.24%
Collective provision	2.17%	2.19%

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

	<b>2010</b>	<b>2009</b>
	<u>MDL'000</u>	<u>MDL'000</u>
Corporate clients	638,290	771,318
Retail entities	<u>32,770</u>	<u>41,016</u>
	<u>671,060</u>	<u>812,334</u>

**9 FINANCIAL INVESTMENTS**

	<b>2010</b>	<b>2009</b>
	<u>MDL'000</u>	<u>MDL'000</u>
Financial investments available for sale	83,022	43,669
Held to maturity investments	1,269,326	1,147,144
Investments in associates	2,283	2,400
Investments in subsidiaries	<u>67,414</u>	<u>66,936</u>
	<u>1,422,045</u>	<u>1,260,149</u>

**BC MOLDOVA AGROINDBANK SA**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2010**

***(All amounts in MDL thousand unless otherwise stated)***

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**9 FINANCIAL INVESTMENTS (CONTINUED)**

***Held to maturity investments***

	<b>2010</b>	<b>2009</b>
	<b><u>MDL'000</u></b>	<b><u>MDL'000</u></b>
Certificates issued by National Bank of Moldova	1,049,217	998,482
State securities	167,372	148,662
Foreign currency securities of OSDE members	<u>52,737</u>	<u>-</u>
	<b><u>1,269,326</u></b>	<b><u>1,147,144</u></b>

As at 31 December 2010 the state securities issued by the Ministry of Finance of Republic of Moldova have a maturity between 91 and 731 days, with an annual interest rate of 5.29% and 9.30% (2009: .20% and 25.49%).

As at 31 December 2010 the Certificates issued by the National Bank of Moldova, had a maturity of 7 days with an annual interest rate of 7.00 % (2009: 14 days and 5.00%).

Currently the Bank holds in investment portfolio treasury securities of the following countries: Poland, Slovakia, Czech Republic .

According to the S&P rating agency these countries have following ratings: Poland "A-" ; Slovakia "A+"; Czech Republic "A".

The nominal value of total investments represent EUR 3,000,000 (EUR 1,000,000 per each country).

These securities were purchased on 21 July 2010 with the following prices and interest rates:

- 1) Poland - price: 105.85, coupon: 4.5%; maturity: 05 February 2013, yield: 2.132%;
- 2) Slovakia - price: 107.30, coupon: 4.5%, maturity: 20 May 2014, yield: 2.477%;
- 3) Czech Republic - price: 107.70, coupon: 4.625%, maturity: 23 June 2014, yield: 2.537%.

As at 31 December 2010 state securities held to maturity , pledged as collateral for loans granted by NBM are in amount of MDL'000 45,668 (with a maturity of up to 130 days).

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

*(All amounts in MDL thousand unless otherwise stated)*

## 9 FINANCIAL INVESTMENTS (CONTINUED)

*Equity investments*

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

	<b>2010</b>	<b>2009</b>
	<b><u>MDL'000</u></b>	<b><u>MDL'000</u></b>
<b><i>Investments in subsidiaries</i></b>		
Balance as at 1 January	66,936	66,894
Additional share capital issued	-	-
Additions from increase in bank share	-	-
Release /(additions) of provision for impairment	<u>478</u>	<u>42</u>
Balance as at 31 December	67,414	66,936
<b><i>Investments in associates</i></b>		
Balance as at 1 January	2,400	11,305
Reclassified to available for sale investments	-	(8,771)
Disposals	-	(134)
Less provision for impairment	<u>(117)</u>	<u>-</u>
Balance as at 31 December	2,283	2,400
<b><i>Available for sale investments</i></b>		
Balance as at 1 January	43,669	35,088
Additions	1,031	8,771
Increase in fair value	38,317	-
Disposals	-	-
Provision for impairment	<u>5</u>	<u>(190)</u>
Balance as at 31 December	<u>83,022</u>	<u>43,669</u>
	<u>152,719</u>	<u>113,005</u>

*Investments in subsidiaries*

		<b>Ownership</b>		
	<b><u>Field of activity</u></b>	<b><u>2010, %</u></b>	<b>2010</b>	<b>2009</b>
			<b><u>MDL'000</u></b>	<b><u>MDL'000</u></b>
MAIB Leasing SA	Financial leasing	100%	63,600	63,600
MoldMediaCard SRL	The processing centre of payments	54.24%	4,945	4,945
Less: provision for impairment			<u>(1,131)</u>	<u>(1,609)</u>
			<u>67,414</u>	<u>66,936</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

(All amounts in MDL thousand unless otherwise stated)

9 FINANCIAL INVESTMENTS (CONTINUED)

The movement in provision for impairment of investments in subsidiaries during the year 2010 is presented below:

	<b>2010</b> <b>MDL'000</b>	<b>2009</b> <b>MDL'000</b>
Balance as at 1 January	1,609	1,651
Release of provision for impairment	<u>(478)</u>	<u>(42)</u>
<b>Balance as at 31 December</b>	<b><u>1,131</u></b>	<b><u>1,609</u></b>

*Investments in associates*

	<b>Field of activity</b>	<b>Ownership</b>		<b>2010</b> <b>MDL'000</b>	<b>2009</b> <b>MDL'000</b>
		<b>2010, %</b>			
Ecoplantera SRL	Agriculture	40%		2,400	2,400
Less: provision for impairment				<u>(117)</u>	<u>-</u>
				<b><u>2,283</u></b>	<b><u>2,400</u></b>

*Available for sale investments*

	<b>Field of activity</b>	<b>Ownership</b>		<b>2010</b> <b>MDL'000</b>	<b>2009</b> <b>MDL'000</b>
		<b>2010, %</b>	<b>2009, %</b>		
IM Glass Container Company	Glass Manufacturing	17.43%	17,43%	47,088	8,771
IM Sudzucker Moldova SA	Sugar processing	12.37%	12.37%	28,076	28,076
IM Glass Container Prim SA	Glass Manufacturing	4.74%	4.74%	4,375	4,375
IM Piele SA	Manufacturing	12.80%	12.80%	1,633	1,633
IM Biroul de Credit SRL	Bureau of credit histories	9.27%	-	1,019	-
Garant Invest SRL	Investment	9.92%	9.92%	440	440
SA Combinatul de panificatie „Franzeluta”	Bakery Production	1.13%	1.13%	365	360
Depozitarul Național de Valori Mobiliare al Moldovei	Depositary, clearing	4.69%	3.13%	19	7
Bursa de Valori din Moldova	Auctions and brokerage	2.63%	2.63%	<u>7</u>	<u>7</u>
				<b><u>83,022</u></b>	<b><u>43,669</u></b>

**NOTES TO THE FINANCIAL STATEMENTS**

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***(All amounts in MDL thousand unless otherwise stated)***

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**9 FINANCIAL INVESTMENTS (CONTINUED)**

The Bank available for sales investments are equity investments acquired for the purpose of resale or because there are regulatory requirements.

The major Bank investments are shares of IM Glass Container Company SA and of IM Sudzucker Moldova SA, both investments are recorded at fair value.

No active market exist and the fair value of IM Sudzucker Moldova SA have been assessed based on available market information. Based on that information in the view of management the fair value did not changed significantly during 2010.

The fair value of the investment in IM Glass Container Company SA has been determined based on the estimation provided by the external valuator.

In estimating the fair value of the Bank's equity investment in IM Glass Container Company SA the discounted cash flows was applied. Estimation are based on the Company forecasted financial ratios for future periods up to 5 years (2011-2015), a long-term growth rate of 5% , based on the projections of the National Bank of Moldova in relation to the inflation for the next periods and projected growth of flows from optimizing expenses, expansion into foreign markets and domestic market growth, and a discount rate of net financial flows determined by applying the method of weighted average cost of capital (WACC).

Other investments such as ÎM Biroul de Credit SRL, Depozitarul Național de Valori Mobiliare al Moldovei SA, Garant Invest SRL and ÎM Biroul de Credit SRL were acquired by the Bank due to regulatory requirements for securities market participants in order to operate in the local market.

As at 27.09.2010 the Bank acquired shareholdings amounting to MDL'000 1019 in IM Biroul de Credit SRL statutory capital. As at 31.03.2010 the Bank subscribed 2 ordinary nominative shares with voting right issued by SA Depozitarul National de Valori Mobiliare, amounting MDL'000 13.

The Bank investments in shares of Garant Invest SRL, Depozitarul Național de Valori Mobiliare al Moldovei SA and ÎM Biroul de Credit SRL are recognized at cost on 31 December 2010, since the fair value cannot be determined reliably.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

*(All amounts in MDL thousand unless otherwise stated)*

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9 FINANCIAL INVESTMENTS (CONTINUED)

It would be not appropriate to apply the fair value estimation based on expected cash flows, as these companies have a specific activity, which does not focus on generating profits. For the associates and shareholders the fair value it is not enhanced only by the generated revenue but also by the enhancement and improvement of the diversity of products and range of customers through it. It is impossible to determine the fair value of the bank's investment in the share capital IM "Piele SA, based on cash flows or other financial data because the entity has stopped its activity.

For SA Combinatul de panificatie Franzeluta the Bank has determined the fair value of the investment based on the market value quoted on the Stock Exchange of the Republic of Moldova.

The movement in fair value of available for sale investments in 2010 and 2009 was:

	<b>2010</b>	<b>2009</b>
	<b><u>MDL'000</u></b>	<b><u>MDL'000</u></b>
Balance 1 January	480	290
Additions	-	190
Release	<u>(5)</u>	<u>-</u>
<b>Balance 31 December</b>	<b><u>475</u></b>	<b><u>480</u></b>

BC MOLDOVA AGROINDBANK SA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

*(All amounts in MDL thousand unless otherwise stated)*

10 PROPERTY AND EQUIPMENT

	<u>Revalued</u> <u>Land and</u> <u>buildings</u> <u>MDL'000</u>	<u>Furniture and</u> <u>equipment</u> <u>MDL'000</u>	<u>Motor</u> <u>vehicles</u> <u>MDL'000</u>	<u>Other assets</u> <u>MDL'000</u>	<u>Cost</u> <u>Assets under</u> <u>construction</u> <u>MDL'000</u>	<u>Total</u> <u>MDL'000</u>
<b>At 1 January 2010</b>						
Cost / revalued amount	371,587	244,224	15,109	15,657	24,624	671,201
Accumulated depreciation	<u>(83,027)</u>	<u>(176,827)</u>	<u>(11,909)</u>	<u>(7,603)</u>	-	<u>(279,366)</u>
<b>Net book amount</b>	288,560	67,397	3,200	8,054	24,624	391,835
<b>Year ended 31 December 2010</b>						
Opening net book amount	288,560	67,397	3,200	8,054	24,624	391,835
Additions	2	4,242	5,816	-	11,533	21,593
Transfers	193	7,340	-	781	(8,314)	-
Disposals, net	-	-	(2)	(79)	-	(81)
Depreciation charge	<u>(8,493)</u>	<u>(30,054)</u>	<u>(1,234)</u>	<u>(3,082)</u>	-	<u>(42,863)</u>
<b>Closing net book amount</b>	<u>280,262</u>	<u>48,925</u>	<u>7,780</u>	<u>5,674</u>	<u>27,843</u>	<u>370,484</u>
<b>At 31 December 2010</b>						
Cost / revalued amount	371,782	255,806	20,923	16,359	27,843	692,713
Accumulated depreciation	<u>(91,520)</u>	<u>(206,881)</u>	<u>(13,143)</u>	<u>(10,685)</u>	-	<u>(322,229)</u>
<b>Net book amount</b>	<u>280,262</u>	<u>48,925</u>	<u>7,780</u>	<u>5,674</u>	<u>27,843</u>	<u>370,484</u>

As at 31 December 2010, the cost of totally depreciated property and equipment still used by the Bank amounted to MDL'000 116,880 (2009 - MDL'000 93,823). Fixed assets are recorded at cost less depreciation and losses from impairment, except for Land and buildings – that were revalued. The last revaluation of plant and property was performed in 2009 by an independent valuator. Considering that, the evolution of market prices on land and non residential constructions were not significant during the year 2010, management of the Bank decided not to perform the revaluation this year.

BC MOLDOVA AGROINDBANK SA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

(All amounts in MDL thousand unless otherwise stated)

10. PROPERTY AND EQUIPMENT (CONTINUED)

	<u>Revalued</u> <u>Land and</u> <u>buildings</u> <u>MDL'000</u>	<u>Furniture and</u> <u>equipment</u> <u>MDL'000</u>	<u>Motor</u> <u>vehicles</u> <u>MDL'000</u>	<u>Other assets</u> <u>MDL'000</u>	<u>Cost</u> <u>Assets under</u> <u>construction</u> <u>MDL'000</u>	<u>Total</u> <u>MDL'000</u>
<b>At 1 January 2009</b>						
Cost / revalued amount	261,621	234,760	15,187	14,561	36,405	562,534
Accumulated depreciation	(44,104)	(146,878)	(10,168)	(5,377)	-	(206,527)
<b>Net book amount</b>	<b>217,517</b>	<b>87,882</b>	<b>5,019</b>	<b>9,184</b>	<b>36,405</b>	<b>356,007</b>
<b>Year ended 31 December 2010</b>						
Opening net book amount	217,517	87,882	5,019	9,184	36,405	356,007
Additions	-	7,833	-	-	6,115	13,948
Revaluations	66,245	-	-	-	1,990	68,235
Transfers	11,622	5,849	-	2,415	(19,886)	-
Disposals, net	(829)	(21)	(1)	(588)	-	(1,439)
Depreciation charge	(5,995)	(34,146)	(1,818)	(2,957)	-	(44,916)
<b>Closing net book amount</b>	<b><u>288,560</u></b>	<b><u>67,397</u></b>	<b><u>3,200</u></b>	<b><u>8,054</u></b>	<b><u>24,624</u></b>	<b><u>391,835</u></b>
<b>At 31 December 2010</b>						
Cost / revalued amount	338,659	248,421	15,186	16,388	24,624	643,278
Accumulated depreciation	(50,099)	(181,024)	(11,986)	(8,334)	-	(251,443)
<b>Net book amount</b>	<b><u>288,560</u></b>	<b><u>67,397</u></b>	<b><u>3,200</u></b>	<b><u>8,054</u></b>	<b><u>24,624</u></b>	<b><u>391,835</u></b>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

*(All amounts in MDL thousand unless otherwise stated)*

11 INTANGIBLE ASSETS

	<b>2010</b>	<b>2009</b>
	<b><u>MDL'000</u></b>	<b><u>MDL'000</u></b>
<b>Balance as at 1 January</b>		
Accumulated amortization	66,222	65,966
Cost	<u>(41,046)</u>	<u>(33,832)</u>
<b>Year ended 31 December</b>		
Opening net book amount	25,176	32,134
Additions	8,765	256
Amortization charge	<u>(7,196)</u>	<u>(7,214)</u>
Closing net book amount	26,745	25,176
<b>At 31 December</b>		
Cost	74,987	66,222
Accumulated amortization	<u>(48,242)</u>	<u>(41,046)</u>
<b>Net book amount</b>	<u>26,745</u>	<u>25,176</u>

As of 31 December 2010 the cost of fully amortized intangible assets amounted to MDL'000 13,464 (as of 31 December 2009 – MDL'000 3,994).

In 2003 the Bank started to use a new banking software system “Globus”, which was purchased under General License agreement signed with Temenos Holdings NV in September 2000.

Under the License agreement the Bank has the right to use the software system only for its own operations until 2015. Alongside, the Bank has signed for a renewal license that offers to the Bank the benefit of implementing and applying the current versions of this informational system.

The carrying value of General License fee included in intangible assets as of 31 December 2010 amounted to MDL'000 18,143 (31 December 2009: MDL'000 21,454). The General License fee started to be amortized from 1 January 2004 and the cost of the License is allocated on a straight-line basis over its remaining contractual term of 12 years.

In September 2007, the Bank signed an agreement with the company ITSS (Switzerland) for the execution of the transition project to the latest version of the system “Globus” – T-24, which was implemented on 11 January 2010.

**BC MOLDOVA AGROINDBANK SA**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2010**

*(All amounts in MDL thousand unless otherwise stated)*

**12 OTHER ASSETS**

	<b>2010</b>	<b>2009</b>
	<b><u>MDL'000</u></b>	<b><u>MDL'000</u></b>
<i>Other non financial</i>		
Inventory and stock materials	6,862	6,692
Prepayments	13,177	8,833
<i>Other financial</i>		
Receivables from other financial institutions	16,047	15,843
Others	<u>999</u>	<u>1,551</u>
	<b><u>37,085</u></b>	<b><u>32,919</u></b>

Receivables from other financial institutions represent clearing with Visa and Mastercard in amount of MDL 000 13,340 (2009: MDL 000 12,851).

According Moody's rating agency Visa International has the following rating "A 1" and "P-1", Mastercard Incorporated is attributed following rating "A 3" and "P-2".

**13 DUE TO BANKS**

		<b>2010</b>	<b>2009</b>
	<b><u>Currency</u></b>	<b><u>MDL'000</u></b>	<b><u>MDL'000</u></b>
<b>Loans and deposits from other banks</b>			
Loan from NBM	MDL	119	198,304
Loans from EBRD	EURO/USD	326,392	-
Fortis Bank		-	47,989
Deposits from other banks	USD	<u>2,139</u>	<u>3,785</u>
		<b><u>328,650</u></b>	<b><u>250,078</u></b>

**BC MOLDOVA AGROINDBANK SA****NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2010*****(All amounts in MDL thousand unless otherwise stated)***

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**13 DUE TO BANKS (CONTINUED)***National Bank of Moldova*

	<u>Currency</u>	<u>Maturity</u>	<u>2010</u> <u>MDL'000</u>	<u>2009</u> <u>MDL'000</u>
Loan agreement No 12	MDL	May 2010	-	69,457
Loan agreement No 18	MDL	January 2011	39	38,612
Loan agreement No19	MDL	January 2011	53	39,981
Loan agreement No 23	MDL	October 2010	-	50,212
NBM Loan (CCL)	MDL		<u>27</u>	<u>42</u>
			<u>119</u>	<u>198,304</u>

*Loan agreement No 12*

On 26 May 2009 the bank signed a Loan Agreement with the National Bank of Moldova in amount of MDL'000 100,000 for a period of 1 year with the purpose of crediting the economic agents from the real sector of the economy. The loan's interest rate is variable, at the level of the basic rate of NBM. The National Bank granted this loan in condition of this being guaranteed by mortgage. The object of the pledge constitutes the obligatory reserves in EUR held at National Bank in amount of EUR'000 7,159. The Bank fully repaid the loan in 2010 and pledged amounts have been released from restriction.

*Loan agreement No 18*

On 7 July 2009, the Bank signed a Loan Agreement with the National Bank of Moldova in amount of MDL'000 50,000 for a period of 1 year with the purpose of crediting the economic agents from the real sector of the economy. The loan's interest rate is variable, at the level of the basic rate of NBM. The National Bank granted this loan on condition of this being guaranteed by collateral. The object of the pledge constitutes the obligatory reserves in USD held at National Bank in amount of USD'000 4,850. By Decision of NBM's Council of Administration no. 15 dated 08.04.2010, balances per credit resources in amount of MDL'000 21,465 were prolonged for the period of 1 year, till 07 July 2011. The object of the pledge constitutes state securities in amount of MDL'000 25,033. The loan's interest rate is variable, at the level of the basic rate of NBM. plus 0,5 p.p. On 10 December 2010 the bank repaid the loan. The pledge was not released, the bank has the right to use these resources till the final maturity of the loan.

*Loan agreement No 19*

On 17 July 2009 the Bank signed a Loan Agreement with the National Bank of Moldova in amount of MDL'000 50,000 for a period of 1 year with the purpose of crediting the economic agents from the real sector of the economy. The loan's interest rate is variable, at the level of the basic rate of NBM. The National Bank granted this loan on condition of this being guaranteed by collateral. The object of the pledge constitutes the obligatory reserves in EUR held at National Bank in amount of EUR'000 3,457.

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2010**

***(All amounts in MDL thousand unless otherwise stated)***

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**13 DUE TO BANKS (CONTINUED)**

*Loan agreement No 19 (continued)*

By Decision of NBM's Council of Administration no. 15 dated 08.04.2010, balances per credit resources in amount of MDL'000 28,451 were prolonged for the period of 1 year, till 07 July 2011. The object of the pledge constitutes state securities in amount of MDL'000 32,456. The loan's interest rate is variable, at the level of the basic rate of NBM plus 0.5 p.p.

On 10 December 2010 the bank repaid the loan. The pledge was not released, the bank has the right to use these resources till the final maturity of the loan.

*Loan agreement No 23*

On 13 October 2009 the Bank signed a Loan Agreement with the National Bank of Moldova in amount of MDL'000 50,000 for a period of 1 year with the purpose of complementing the Bank's liquidity. The loan's interest rate is variable, at the level of the basic rate of NBM. The National Bank granted this loan on condition of this being guaranteed by collateral. The object of the pledge constitutes the obligatory reserves in MDL held at National Bank in amount of MDL'000 65,625.

On 13 January 2010 the loan was fully repaid and the pledged amounts have been released from restriction.

*Loan Agreement No 1074 (CCL)*

On 22 June 1995, the Bank signed a Loan Agreement with the National Bank of Moldova in amount of MDL'000 350 for a period of 25 years, with the purpose of crediting CCL no 240, according to the Decision of the Parliament of the Republic of Moldova no 209-XIII under the guarantee no. 1 of the City Hall of Chisinau dated 29.05.1995. The loan's interest rate is fixed and constitutes 10% per year. The loan is repaid on a quarterly basis, in equal tranches, according to the established schedule.

*European Bank for Reconstruction and Development (EBRD)*

On 24 July 2009 the Bank signed a Loan Agreement with the European Bank for Reconstruction and Development, in the amount of EUR'000 20,000 for a period of five years, for crediting small and medium businesses. The interest rate is variable. As at 31 December 2010 the outstanding loan amount was of EUR'000 10,000 and of USD'000 13,345. On 25 June 2010 the Bank signed a Loan Agreement with the European Bank for Reconstruction and Development, in the amount of EUR'000 7,000 for a period of five years, for energy efficiency. According to this agreement, clients could receive a grant from the European Union. The interest rate is variable. As at 31 December 2010 the loan has not been disbursed.

*Fortis Bank*

On 13 November 2008 the Bank signed a Loan Agreement with Fortis Bank, Belgium in the amount of EUR'000 5,500 for a period up to 31 August 2010, under the guarantee of Credit Export Agency Kuke ISC and for the purpose of financing the construction project of a glass factory (SC Glass Container Prim SA). The loan interest rate is variable. As at 26 February 2010 the loan was repaid in advance.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

(All amounts in MDL thousand unless otherwise stated)

14 OTHER BORROWINGS

	<b>2010</b>	<b>2009</b>
	<b><u>MDL'000</u></b>	<b><u>MDL'000</u></b>
<b>Loans from other IFIs:</b>		
European Fund for South Eastern Europe (EFSE)	447,712	520,102
International Financial Corporation (IFC)	59,208	-
Rural Investment and Services Project (RISP)	107,057	91,064
International Fund for Agricultural Development (IFAD)	246,495	213,845
Project for Competitiveness Improvement (PCI)	20,854	-
International Bank of Reconstruction and Development (IBRD)	-	784
Kreditanstalt für Wiederaufbau (Germany) (KfW)	<u>11,220</u>	<u>6,262</u>
<b>Total</b>	<b><u>892,546</u></b>	<b><u>832,057</u></b>

*EFSE*

	<b>2010</b>	<b>2009</b>
	<b><u>MDL'000</u></b>	<b><u>MDL'000</u></b>
Loan agreement EFSE of 20.12.2006	42,830	75,551
Loan agreement EFSE of 10.05.2007	36,817	62,113
Loan agreement EFSE Mortgage of 10.05.2007	122,435	123,927
Loan agreement EFSE of 13.05.2009	<u>245,630</u>	<u>258,511</u>
	<u>447,712</u>	<u>520,102</u>

On 20 December 2006 the Bank signed a Loan Agreement with the European Fund for South Eastern Europe in the total amount of EUR'000 3,000 and USD'000 3,000 for a period of 5 years for the purposes of sub-granting credits to private SMEs active in all industries. The loans in EUR and USD bear a variable interest rate. As at 31 December 2010, the outstanding loan amount constituted EUR'000 1,500 and USD'000 1,500 (2009: EUR'000 2,500 and USD'000 2,500).

On 10 May 2007 the Bank signed a Loan Agreement with the European Fund for South Eastern Europe in the amount of USD'000 5,000 for a period of 5 years for the purposes of sub-granting credits to private SMEs active in all industries. The loan interest rate is variable. As at 31 December 2010, the outstanding loan amount constituted USD'000 3,000 (2009: USD'000 5,000).

NOTES TO THE FINANCIAL STATEMENTS

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*(All amounts in MDL thousand unless otherwise stated)*

14 OTHER BORROWINGS (CONTINUED)

On 10 May 2007 the Bank signed a Loan Agreement with the European Fund for South Eastern Europe in the amount of USD'000 10,000 for a period of 10 years for the purposes of sub-crediting individuals for real estate construction and repairs. The loan interest rate is variable. As at 31 December 2010, the outstanding loan amount constituted USD'000 10,000 (2009: USD'000 10,000).

On 13 May 2007 the Bank signed two Loan Agreements with the EFSE in the amount of EUR`000 8,000 and USD`000 9,563 for a period of 5 years for the purposes of crediting small and medium enterprises, the loan interest rate being variable. As at 31 December 2010, the outstanding loan amount constituted EUR`000 8,000 and USD`000 9,563 (2009: EUR`000 8,000 and USD`000 9,563).

On 29 June 2010 the Bank signed a Loan Agreement with International Financial Corporation in the amount of USD'000 15,000 for a period of 5 years, for the purposes of crediting small and medium enterprises, the loan interest rate being variable. On 22 december 2010 the Bank used the first loan instalment in the amount of USD'000 5,000.

*RISP*

	<b>2010</b>	<b>2009</b>
	<b><u>MDL'000</u></b>	<b><u>MDL'000</u></b>
Loan agreement No OL-45/1	11,755	13,794
Loan agreement No 4157 MD	<u>95,302</u>	<u>77,270</u>
	<u>107,057</u>	<u>91,064</u>

*Loan agreement No OL-45/1*

The borrowings under the Rural Investment and Services Project were received as a result of an agreement signed between the Moldovan Ministry of Finance and the World Bank, and the Bank is acting as an intermediary in financing rural sector enterprises.

Each withdrawal from the credit line has a grace period of 3 years. After the expiration of the grace period, the principal outstanding amount is reimbursed in 24 semi-annual installments on 1 April and 1 October of each year.

The Bank received loans from RISP denominated in USD and MDL. Interest on USD and MDL loans is variable.

# BC MOLDOVA AGROINDBANK SA

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

*(All amounts in MDL thousand unless otherwise stated)*

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### 14 OTHER BORROWINGS (CONTINUED)

#### *Loan agreement No 4157 MD*

The Republic of Moldova signed a Financing Agreement of Development on 13 April 2006 in the total amount of XDR'000 10,400 provided by the International Association of Development for the purposes of a second Rural Investment and Services Project.

The outstanding principal amount is to be reimbursed semi-annually in 24 instalments after a 3 years of grace period on 1 April and 1 October of each year.

On 15 July 2006 the Bank signed a subsidiary loan agreement under loan agreement 4157 MD acting as intermediary in financing rural sector enterprises. As at 31 December 2010, the outstanding loan amount constituted MDL'000 104,919 (2009: MDL'000 89,513 ).

#### *IFAD*

	<b>2010</b>	<b>2009</b>
	<b><u>MDL'000</u></b>	<b><u>MDL'000</u></b>
Loan agreement No-527-MD	112,292	103,697
Loan agreement No-629-MD	72,962	59,644
Loan agreement No-686-MD	50,329	48,487
Loan agreement No 758-MD	<u>10,912</u>	<u>2,017</u>
	<u>246,495</u>	<u>213,845</u>

#### *Loan agreement No-527-MD*

International Fund for Agricultural Development granted a loan to the Republic of Moldova in the amount of XDR'000 5,800 under the loan agreement 527 dated 31 January 2000, for re-crediting rural businesses via commercial banks of the Republic of Moldova. On 8 August 2000 a subsidiary loan agreement between the Bank and the Moldovan Ministry of Finance was signed. Under this agreement, the Bank acts as an intermediary bearing full credit risk related to individual loan agreements signed with end-borrowers. The loan is repaid twice a year on 15 May and 15 November in accordance with the repayment schedule of each individual loan agreement.

The Bank received loans from IFAD denominated in USD and MDL. Interest on USD and MDL loans is variable.

On 1 February 2006 the Bank signed a new subsidiary loan agreement with the Credit Line Directorate under the Moldovan Ministry of Finance that actually represents a new withdrawal undertaken by the Bank under the Loan agreement No 527-MD subject to the same crediting terms as the subsidiary loan agreement signed on 8 August 2000.

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2010**

***(All amounts in MDL thousand unless otherwise stated)***

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**14 OTHER BORROWINGS (CONTINUED)**

*Loan Agreement No 629-MD*

International Fund for Agricultural Development granted a loan to the Republic of Moldova in the amount of XDR'000 10,300 under the loan agreement 629 as of 4 March 2004 for the implementation of the Project for Revitalizing of Agriculture via local commercial banks. On 2 March and 11 May 2006 the Bank signed two subsidiary loan agreements- No 8-629-OL and IFAD PRA-R1, respectively acting as an intermediary.

The funds withdrawn under loan agreement No 8-629-OL represent withdrawals allocated from the principal amount of XDR'000 10,300, whereas under IFAD PRA-R1 the Credit Line Directorate under the Ministry of Finance of Republic of Moldova uses the accumulated interest from the loan granted under the previous contracts for re-crediting the institutions for the purposes of revitalizing the agriculture in villages.

The loans are denominated in USD and MDL and are repaid twice a year on 15 January and 15 July. Interest on USD and MDL loans is variable.

*Loan agreement No-686-MD*

International Fund for Agricultural Development granted a loan to the Republic of Moldova in the amount of XDR'000 9,100 under the loan agreement 686 as of 21 February 2006 for the implementation of the Project for Revitalizing of Agriculture via local commercial banks. On 8 December 2006 and 22 March 2007 the Bank signed two subsidiary loan agreements- No 7-686-OL and IFAD PDAR-R1, respectively acting as an intermediary.

The funds withdrawn under loan agreement 7-686-OL represent withdrawals allocated from the principal amount of XDR'000 9,100, whereas under IFAD PDAR-R1 the Credit Line Directorate under the Ministry of Finance of Republic of Moldova uses the accumulated interest from the loan granted under the previous contracts for re-crediting the institutions for the purposes of revitalizing the agriculture in villages. The loans are denominated in USD and MDL and are repaid twice a year on 15 January and 15 July. Interest on USD and MDL loans is variable.

*Loan Agreement No 758-MD*

International Fund for Agricultural Development granted a loan to the Republic of Moldova in the amount of XDR'000 5,000 under the loan agreement 758 as of 29 October 2008 for the implementation of the Project for Rural Services and Marketing via local commercial banks. On 13 April 2009, the Bank signed an Agreement for subsidiary loan – No 4-758-OL, acting as an intermediary. As at 31 December 2010, the outstanding loan amount constituted USD'000 1,716 and MDL'000 220,436 (2009: USD'000 1,596 and MDL'000 191,076).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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14 OTHER BORROWINGS (CONTINUED)

*Project for Competitiveness Improvement (PCI)*

*Loan Agreement 4655-MD*

The International Association for Development granted a loan to the Republic of Moldova in the amount of XDR'000 15,400 under the loan agreement 4655-MD as of 17 November 2009 for the implementation of the Project for Competitiveness Improvement (PCI) via local commercial banks. On 4 March 2010 the Bank signed a Re-credit Agreement acting as an intermediary.

The loans are denominated in EUR, USD and MDL and are repaid twice a year on 1 April and 1 October. Interest on USD and MDL loans is variable. As at 31 December 2010, the outstanding loan amount was of USD'000 647, of EUR'000 308 and of MDL'000 8,000.

*International Bank of Reconstruction and Development (IBRD)*

On 5 September 1996 a subsidiary loan agreement was signed between the International Bank of Reconstruction and Development and the Moldovan Ministry of Finance within the scope of First Private Sector Development Project in amount of USD'000 5,000. The Bank has the right to disburse the loan upon confirmation by the NBM working group of each individual loan agreement signed with end-borrowers.

The Bank is to reimburse the principal and the interest in accordance with the repayment schedule of each individual loan agreement signed with end-borrowers. The loan beared a variable interest. The loan was fully repaid.

*KFW No 1*

Kreditanstalt fur Wiederaufbau (Germany) granted a loan to the Republic of Moldova in the amount of EUR'000 2,000 under the loan agreement as of 15 August 2001 for the development of the Company "Sudzuker Moldova" S.A. As the Ministry of Finance agreed to re-credit the accumulated funds from the reimbursement of the principal of the KFW loan for the development of Small and Medium Enterprises, on 26 June 2007 the Bank signed a subsidiary loan agreement No.1 - acting as an intermediary.

The loans are denominated in MDL and are repaid twice a year on 15 December and 15 June. Interest on MDL loans bears variable interest.

As at 31 December 2010, the outstanding loan amount constituted MDL'000 10,785 (MDL'000 6,072).

**BC MOLDOVA AGROINDBANK SA**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2010**

*(All amounts in MDL thousand unless otherwise stated)*

**15 DUE TO CUSTOMERS**

	<b>2010</b>	<b>2009</b>
	<b><u>MDL'000</u></b>	<b><u>MDL'000</u></b>
<b>Corporate customers</b>		
Current accounts	1,144,794	1,007,009
Including: corporate clients	372,780	408,346
retail clients	772,014	598,663
Term deposits	<u>355,910</u>	<u>349,972</u>
Including: corporate clients	136,661	191,844
retail clients	219,249	158,128
Deposit certificates	<u>476</u>	<u>6,270</u>
	1,501,180	1,363,251
<b>Individuals</b>		
Current accounts	404,731	355,167
Deposit certificates	-	540
Term deposits	<u>3,621,469</u>	<u>3,591,219</u>
	<u>4,026,200</u>	<u>3,946,926</u>
	<u>5,527,380</u>	<u>5,310,177</u>

Current accounts of corporate customers as at 31 December 2010 include restricted deposits under guarantee agreements in amount of MDL'000 35,264 (2009: MDL'000 39,361).

The Bank's term deposit portfolio includes deposits with no rights to withdraw prior to maturity. Should the deposit be withdrawn prior to maturity the interest rate is decreased to the rate applied for demand deposits and is recalculated for the whole term of the deposit.

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

	<b>2010</b>				<b>2009</b>							
	<b>MDL</b>		<b>FCY</b>		<b>MDL</b>		<b>FCY</b>					
	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>				
<b>Corporate</b>												
Demand deposits	0.0	-	0.0	0.0	-	0.1	0.0	-	0.2	0.0	-	0.25
Term deposits up to 3 months	0.25	-	4.0	0.10	-	0.5	0.25	-	11.0	0.10	-	5.00
Term deposits > 3 months												
< 1 year	3.5	-	9.75	0.25	-	4.25	3.50	-	14.5	0.25	-	7.00
Term deposits over 1 year	9.5	-	10.0	4.0	-	4.5	9.75	-	16.0	4.3	-	7.75

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NOTES TO THE FINANCIAL STATEMENTS

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(All amounts in MDL thousand unless otherwise stated)

15 DUE TO CUSTOMERS (CONTINUED)

	<u>MDL</u>		<u>2010</u>		<u>MDL</u>		<u>2009</u>	
			<u>FCY</u>				<u>FCY</u>	
	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>
<b>Individuals</b>								
Demand deposits	0.0	- 0.5	0.0	- 0.1	0.0	- 2.5	0.0	- 0.0
Term deposits up to 3 months	0.25	- 3.00	0.15	- 0.5	0.25	- 21.00	0.15	- 10.0
Term deposits > 3 months < 1 year	0.5	- 9.00	0.25	- 4.0	2.50	- 23.0	0.50	- 14.5
Term deposits over 1 year	8.75	- 9.5	1.0	- 4.5	9.25	- 18.5	1.5	- 10.0

16 TAXATION

	<u>2010</u>	<u>2009</u>
	<u>MDL'000</u>	<u>MDL'000</u>
<i>Current income tax</i>		
Current income tax	43	29
Adjustment in respect of current income tax of prior years	-	-
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	-	-
	-	-
<b>Income tax expense for the year</b>	<b>43</b>	<b>29</b>

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

The standard income tax rate in 2010 was 0% (2009: 0%). In 2011 the income tax rate will continue to be 0%.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

*(All amounts in MDL thousand unless otherwise stated)*

## 16 TAXATION (CONTINUED)

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

	<b>2010</b> <b><u>MDL'000</u></b>	<b>2009</b> <b><u>MDL'000</u></b>
Accounting profit before tax	279,707	153,962
At Moldovan statutory income tax rate of 0% (2009– 0%)	-	-
Excess of charity expenses (at 15%)	43	29
Adjustment in respect of current income tax of prior years	<u>-</u>	<u>-</u>
<b>At the effective income tax rate of 0%</b> <b>(2009 – 0%)</b>	<u><u>43</u></u>	<u><u>29</u></u>

Deferred tax was calculated by applying the 2010 standard tax rate of 0% (2009: standard tax rate for 2009 of 0%). Due to the fact that the tax rate remains at 0% no deferred tax has been recognized.

## 17 OTHER LIABILITIES

	<b>2010</b> <b><u>MDL'000</u></b>	<b>2009</b> <b><u>MDL'000</u></b>
<i>Other non financial liabilities</i>		
Dividends payable	3,898	3,361
Income tax payable	43	29
Other tax payable	9,946	5,194
<i>Other financial liabilities</i>		
Settlements with other financial institutions	-	648
Foreign currency payments	1,158	26,144
Due to suppliers	6,328	1,933
Other	<u>2,101</u>	<u>767</u>
	<u><u>23,474</u></u>	<u><u>38,076</u></u>

**BC MOLDOVA AGROINDBANK SA**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2010**

*(All amounts in MDL thousand unless otherwise stated)*

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**18 ORDINARY SHARES**

Share capital as of 31 December 2010 constituted 1,037,634 ordinary shares authorized, with a nominal value of MDL 200 per share (2009: 1,037,634), of which 973,367 shares have been issued with equal voting rights and fully paid in.

During 2007 through the tender-offer, the Bank purchased 64,267 treasury shares for MDL 1,340 per share.

During the year ended 31 December 2010 the Bank declared dividends to be distributed from the net profit of the year ended 31 December 2009 of MDL'000 38,934 or MDL 40.00 per share (2009: MDL'000 35,041 or MDL 36.00 per share).

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

*(All amounts in MDL thousand unless otherwise stated)***19 RECONCILIATION OF THE STATUTORY RETAINED EARNINGS TO IFRS RETAINED EARNINGS**

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

	<b>Retained earnings</b>	<b>Net profit</b>	<b>Retained earnings</b>	<b>Net profit</b>
	<u>2010</u>	<u>2010</u>	<u>2009</u>	<u>2009</u>
	<u>MDL'000</u>	<u>MDL'000</u>	<u>MDL'000</u>	<u>MDL'000</u>
<b>Per statutory financial statements</b>	1,183,027	259,872	962,089	104,636
<b>Adjustments to IFRS</b>				
Recognition of past due interest receivable	3,503	(8,054)	11,557	7,865
Provision for loans impairment	159,061	33,004	126,058	17,402
Adjustment of property and equipment	(109)	-	(109)	-
Impairment of investments in subsidiaries	(1,131)	478	(1,609)	42
Reversal of revaluation surplus credited to statement of comprehensive income (in accordance with NAS)	(117)	(117)	-	-
Recognition of loans and advances to customers at amortized cost	(34,343)	(12,668)	(21,674)	21,850
Recognition of deposits and other borrowings from banks at amortized cost	7,055	4,391	2,664	425
Additional amortization	(3,786)	757	(4,543)	757
Accruals	(1,024)	(22)	(1,002)	(73)
Reversal of statutory provisions on asset (except loans) and off-balance sheet commitments	16,200	1,739	14,461	690
Other	63	306	(243)	(61)
Impairment of financial investments	(473)	5	(480)	(190)
Disposal of fixed assets	-	-	-	590
HTM investments at amortised cost	<u>16</u>	<u>16</u>	<u>-</u>	<u>-</u>
Total adjustments	<u>144,915</u>	<u>19,835</u>	<u>125,080</u>	<u>49,297</u>
<b>Per IFRS</b>	<u>1,327,942</u>	<u>279,707</u>	<u>1,087,169</u>	<u>153,933</u>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

*(All amounts in MDL thousand unless otherwise stated)*

## 20 CAPITAL ADEQUACY

The table below summaries the calculation of capital adequacy based on IFRS figures, in accordance with the guidelines (July 1988) of the Bank for International Settlements for capital adequacy computation (BASEL rules):

	<u>Nominal amount</u>			<u>Risk weighted amount</u>	
	<u>2010</u>	<u>2009</u>		<u>2010</u>	<u>2009</u>
	<u>MDL'000</u>	<u>MDL'000</u>		<u>MDL'000</u>	<u>MDL'000</u>
<b>Balance sheet assets (net of reserves)</b>					
Cash on hand	220,909	234,503	0%	-	-
Balances with National Bank denominated in MDL	210,211	532,183	0%	-	-
Balances with National Bank denominated in FCY	269,517	266,979	20%	53,903	53,396
Due from banks	760,061	961,909	20%	152,012	192,382
Financial assets held for trading	106,825	131,886	0%	-	-
Loans to customers , (excluding mortgage)	4,525,513	3,520,124	100%	4,525,513	3,520,124
Loans to customers, (mortgage)	624,800	595,782	50%	312,400	297,891
Available for sale investments	83,022	43,669	100%	83,022	43,669
Financial investments held to maturity	1,269,326	1,147,144	0%	-	-
Investments in associates	2,283	2,400	100%	2,283	2,400
Investments in subsidiaries	67,414	66,936	100%	67,414	66,936
Property and equipment	370,485	391,835	100%	370,485	391,835
Intangible assets	26,745	25,176	100%	26,745	25,176
Other assets	<u>37,085</u>	<u>32,919</u>	100%	<u>37,086</u>	<u>32,919</u>
<b>Total balance sheet items</b>	<b>8,574,196</b>	<b>7,953,445</b>		<b>5,630,863</b>	<b>4,626,728</b>
<b>Off-balance sheet items</b>					
Guarantees issued	196,020	173,005	100%	196,020	173,005
Letters of credit	23,451	27,000	100%	23,451	27,000
Letters of credit with deferred ...payment	4,498	3,352	100%	4,498	3,352
Commitments to extend loans	<u>316,399</u>	<u>187,101</u>	50%	<u>158,199</u>	<u>93,550</u>
<b>Total off - balance sheet position</b>	<b><u>540,368</u></b>	<b><u>390,458</u></b>		<b><u>382,168</u></b>	<b><u>296,907</u></b>
<b>Total</b>	<b><u>9,114,564</u></b>	<b><u>8,343,903</u></b>		<b><u>6,013,031</u></b>	<b><u>4,923,635</u></b>

**BC MOLDOVA AGROINDBANK SA**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2010**

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**20 CAPITAL ADEQUACY (CONTINUED)**

	<b>2010</b>	<b>2009</b>
	<b><u>MDL'000</u></b>	<b><u>MDL'000</u></b>
<b>Tier 1 capital</b>		
Share capital, nominal	194,673	194,673
Share premium	31,037	31,037
Retained earnings	<u>1,327,941</u>	<u>1,087,169</u>
<b>Total tier 1 capital</b>	1,553,651	1,312,879
<b>Tier 2 capital</b>		
Revaluation reserve	194,009	194,009
Available for sale reserve	<u>54,486</u>	<u>16,169</u>
<b>Total tier 2 capital</b>	<u>248,495</u>	<u>210,178</u>
<b>Total capital</b>	<u>1,802,146</u>	<u>1,523,057</u>
Tier 1 ratio	25.84%	26.66%
Tier 1 and 2 ratio	29.97%	30.93%

The tier I capital ratio is calculated as the percentage ratio between total tier I capital and risk weighted balance sheet and off-balance sheet assets.

Tier I and II capital ratio measure the capital adequacy, being calculated as the percentage ratio between total capital (tier I and II) and risk weighted balance sheet and off-balance sheet assets.

During 2010 and 2009 the Bank complied in full with the capital requirements imposed by the National Bank of Moldova set at the level of 12%.

The Bank conduct its activity in accordance with Capital Management Policy of BC "Moldova-Agroindbank" S.A. and applies the following tools for the Bank's capital administration: (i) capital planning and (ii) monitoring, conformation and maintenance of capital requirements.

The Bank maintains a system of monitoring and reporting related to the Bank's capital to ensure the compliance with capital requirements stipulated in legislation.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

(All amounts in MDL thousand unless otherwise stated)

**21 CASH AND CASH EQUIVALENTS**

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

	<b>31 December</b>		<b>Change</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>MDL'000</b>	<b>MDL'000</b>	<b>MDL'000</b>	<b>MDL'000</b>
Cash on hand	220,909	234,503	(13,594)	29,772
Balances with NBM	210,211	532,183	(321,972)	(226,500)
Current accounts and deposits				
with banks	720,079	926,572	(206,493)	712,381
Certificates issued by NBM	<u>1,049,217</u>	<u>998,482</u>	<u>50,735</u>	<u>918,878</u>
	<u>2,200,416</u>	<u>2,691,740</u>	<u>(491,324)</u>	<u>1,434,531</u>

**22 INTEREST INCOME AND EXPENSE**

	<b>2010</b>	<b>2009</b>
	<b><u>MDL'000</u></b>	<b><u>MDL'000</u></b>
<b><i>Interest income</i></b>		
Loans and advances to customers	602,895	764,602
Financial assets held for trading	75,728	27,168
Due from banks	<u>8,841</u>	<u>14,694</u>
	687,464	806,464
<b><i>Interest expense</i></b>		
Due to customers (individuals)	(182,948)	(399,758)
Due to banks	(42,540)	(44,882)
Due to customers (companies)	(22,128)	(34,768)
Other	<u>(14,509)</u>	<u>(20,650)</u>
	<u>(262,125)</u>	<u>(500,058)</u>
<b>Net interest income</b>	<u>425,339</u>	<u>306,406</u>

Interest income on impaired financial assets is MDL 000 309,350 (2009: MDL 000 419,122).

## NOTES TO THE FINANCIAL STATEMENTS

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*(All amounts in MDL thousand unless otherwise stated)*

## 23 NET FEE AND COMMISSION INCOME

	<b>2010</b>	<b>2009</b>
	<u>MDL'000</u>	<u>MDL'000</u>
<b><i>Fee and commission income</i></b>		
Cash transactions	43,584	43,384
Processing of payments by clients	34,198	31,056
Transactions with debit cards	21,241	18,259
Commissions on salaries transferred to ...debit cards	5,893	6,371
Transfers via Western Union	8,961	5,318
Cash delivery service	2,531	2,173
Direct debit service	1,525	1,451
Commission on guarantees and letters of credit	5,203	4,743
Servicing of client accounts	16,458	12,129
Commissions from other services rendered to clients	<u>5,078</u>	<u>11,005</u>
	144,672	135,889
<b><i>Fee and commission expense</i></b>		
Commissions on debit card services	(6,291)	(5,255)
Services of the processing centre	(11,274)	(9,836)
Commissions charged by correspondent banks	(2,412)	(2,470)
Contributions to Deposit Guarantee Fund	(4,190)	(4,064)
Other	<u>(1,855)</u>	<u>(2,358)</u>
	<u>(26,022)</u>	<u>(23,983)</u>
<b>Net fee and commission income</b>	<u>118,650</u>	<u>111,906</u>

**BC MOLDOVA AGROINDBANK SA**

**NOTES TO THE FINANCIAL STATEMENTS**

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**24 TRADING RESULT**

	<b>2010</b>	<b>2009</b>
	<b><u>MDL'000</u></b>	<b><u>MDL'000</u></b>
Gains on trading of foreign currency, net	119,688	122,144
Exchange gains / (losses)	<u>(6,206)</u>	<u>(585)</u>
Trading result	<b><u>113,482</u></b>	<b><u>121,559</u></b>

**25 OTHER OPERATING INCOME**

	<b>2010</b>	<b>2009</b>
	<b><u>MDL'000</u></b>	<b><u>MDL'000</u></b>
Penalties received	907	1,081
Income from overdue unpaid dividends	824	896
Income from sale of Visa and Mastercard shares	45	17
Gain from disposal of fixed assets	38	846
Income from rent	1,051	1,531
Other income	<u>1,251</u>	<u>273</u>
	<b><u>4,116</u></b>	<b><u>4,644</u></b>

**26 PERSONNEL EXPENSES**

	<b>2010</b>	<b>2009</b>
	<b><u>MDL'000</u></b>	<b><u>MDL'000</u></b>
Salaries and bonuses	113,882	95,347
Social insurance and contributions	27,896	20,522
Medical insurance	4,041	3,152
Other personnel expenses	<u>11,038</u>	<u>2,185</u>
	<b><u>156,857</u></b>	<b><u>121,206</u></b>

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 statement of comprehensive income in the period in which the related salary is earned by the employee.

**BC MOLDOVA AGROINDBANK SA****NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2010***(All amounts in MDL thousand unless otherwise stated)*

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**27 GENERAL AND ADMINISTRATIVE EXPENSES**

	<b>2010</b>	<b>2009</b>
	<b><u>MDL'000</u></b>	<b><u>MDL'000</u></b>
Rent expenses	26,975	28,542
Maintenance of software	11,284	15,035
Repairs and maintenance	11,077	9,649
Advertising and charity	7,687	5,251
Utilities expenses	7,075	6,280
Safeguarding of assets and security costs	6,486	7,430
Postage and telecommunication	6,906	7,646
Stationery and supplies	3,680	3,642
Transportation expenses	3,544	3,000
Remuneration of Bank Council	1,892	1,220
Professional services	1,732	2,125
Business promotion	1,592	1,451
Business trips	1,263	959
Insurance expenses	1,185	1,297
Training expenses	697	417
Other expenses	<u>8,432</u>	<u>9,965</u>
	<b><u>101,507</u></b>	<b><u>103,909</u></b>

**28 GUARANTEES AND OTHER FINANCIAL COMMITMENTS**

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

	<b>2010</b>	<b>2009</b>
	<b><u>MDL'000</u></b>	<b><u>MDL'000</u></b>
Letters of credit	27,949	30,352
Guarantees	196,020	173,005
Financing commitments and other	<u>316,399</u>	<u>187,101</u>
	<b><u>540,368</u></b>	<b><u>390,458</u></b>

In the normal course of business, the Bank issues guarantees and letters of credit on behalf of its customers.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

*(All amounts in MDL thousand unless otherwise stated)***28 GUARANTEES AND OTHER FINANCIAL COMMITMENTS (CONTINUED)**

The credit risk on guarantees is similar to that arising from granting of loans. In the event of a claim on the Bank as a result of a customer's default on a guarantee these instruments also present a degree of liquidity risk to the Bank. No provision was required as of 31 December 2010 (2009: nil).

Financing commitments do not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

The table below shows the expected maturity of Bank's guarantees and other financial commitments as of 31 December 2010 and 2009:

<b>2010</b>	<b>Less than <u>1 month</u> <u>MDL'000</u></b>	<b>1 to 3 <u>months</u> <u>MDL'000</u></b>	<b>3 months <u>to 1 year</u> <u>MDL'000</u></b>	<b>1 to 5 <u>years</u> <u>MDL'000</u></b>	<b>Over <u>5 years</u> <u>MDL'000</u></b>	<b><u>Total</u> <u>MDL'000</u></b>
Letters of credit	2,580	12,607	12,762	-	-	27,949
Guarantees	128,619	22,034	13,575	31,792	-	196,020
Financing commitments and other	<u>9,710</u>	<u>42,121</u>	<u>146,386</u>	<u>118,182</u>	-	<u>316,399</u>
Total	<u>140,909</u>	<u>76,762</u>	<u>172,723</u>	<u>149,974</u>	-	<u>540,368</u>
<b>2009</b>	<b>Less than <u>1 month</u> <u>MDL'000</u></b>	<b>1 to 3 <u>months</u> <u>MDL'000</u></b>	<b>3 months <u>to 1 year</u> <u>MDL'000</u></b>	<b>1 to 5 <u>years</u> <u>MDL'000</u></b>	<b>Over <u>5 years</u> <u>MDL'000</u></b>	<b><u>Total</u> <u>MDL'000</u></b>
Letters of credit	4,042	3,256	17,361	5,693	-	30,352
Guarantees	109,263	6,403	22,498	34,841	-	173,005
Financing commitments and other	<u>8,690</u>	<u>9,653</u>	<u>133,525</u>	<u>35,233</u>	-	<u>187,101</u>
Total	<u>121,995</u>	<u>19,312</u>	<u>173,384</u>	<u>75,767</u>	-	<u>390,458</u>

**BC MOLDOVA AGROINDBANK SA**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2010**

*(All amounts in MDL thousand unless otherwise stated)*

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**29 CAPITAL COMMITMENTS**

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

**30 CONTINGENCIES**

There were no contingent liabilities as at 31 December 2010 and 31 December 2009.

**31 EARNINGS PER SHARE**

	<u>Ordinary shares outstanding</u>	<u>Profit for the year</u> <u>MDL'000</u>	<u>EPS</u> <u>MDL</u>	<u>Diluted EPS</u> <u>MDL</u>
As of 31 December 2009	973,367	153,933	158,14	158,14
As of 31 December 2010	973,367	279,707	287,36	287,36

**32 FAIR VALUE OF FINANCIAL INSTRUMENTS AND FAIR VALUE HIERARCHY**

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

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

*(All amounts in MDL thousand unless otherwise stated)*32 FAIR VALUE OF FINANCIAL INSTRUMENTS AND FAIR VALUE HIERARCHY  
(CONTINUED)

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	
	<u>Carrying value</u> MDL'000	<u>Fair value</u> MDL'000	<u>Carrying value</u> MDL'000	<u>Fair value</u> MDL'000
<b>Financial assets</b>				
Loans and advances to customers:				
- Corporate	5,150,313	5,159,464	4,115,906	3,947,335
- Retail entities	3,111,959	3,183,065	2,398,456	2,345,709
- Individuals	1,145,245	1,170,075	946,155	932,386
Financial investments – HTM	893,109	806,324	771,295	669,240
Other financial assets	<u>1,269,326</u>	<u>1,268,979</u>	<u>1,147,144</u>	<u>1,147,451</u>
	17,047	17,047	17,394	17,394
<b>Financial liabilities</b>				
Due to banks	328,650	328,650	250,078	250,078
Other borrowings	892,546	888,271	832,057	801,047
Due to customers	5,527,380	5,555,592	5,310,177	5,424,676
Other financial liabilities	9,587	9,587	29,492	29,492

*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.

*Investments held-to-maturity*

Investment securities include only interest-bearing assets held to maturity. Fair value for held-to-maturity assets is based on market prices or broker / dealer price quotations.

*Borrowings, due to banks*

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.

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*(All amounts in MDL thousand unless otherwise stated)*

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**33 PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY**

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition and Measurement*, the Bank classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss (“FVTPL”). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2010:

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FOR THE YEAR ENDED 31 DECEMBER 2010

*(All amounts in MDL thousand unless otherwise stated)*

33 PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY (CONTINUED)

31 December 2010	<u>Loans and receivables</u> <u>MDL'000</u>	<u>Available for sale assets</u> <u>MDL'000</u>	<u>Trading assets</u> <u>MDL'000</u>	<u>Held to maturity</u> <u>MDL'000</u>	<u>Total</u> <u>MDL'000</u>
<b>Assets</b>					
Cash on hand and balances with NBM	700,637	-	-	-	700,637
Due from other banks	760,061	-	-	-	760,061
Financial assets held for trading	-	-	106,882	-	106,882
<b>Loans and advances to customers</b>					
Corporate loans	3,111,959	-	-	-	3,111,959
Retail entities	1,145,245	-	-	-	1,145,245
Individuals	893,109	-	-	-	893,109
Financial investments – available for sale	-	83,022	-	-	83,022
Financial investments – held to maturity	-	-	-	1,269,326	1,269,326
<b>Other financial assets:</b>					
Receivables from other financial institutions	16,047	-	-	-	16,047
Other	<u>999</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>999</u>
<b>Total financial assets</b>	<u>6,628,057</u>	<u>83,022</u>	<u>106,882</u>	<u>1,269,326</u>	<u>8,087,287</u>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

*(All amounts in MDL thousand unless otherwise stated)***33 PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY (CONTINUED)**

The following table provides a reconciliation of financial assets with the measurement categories at 31 December 2009:

<b>31 December 2009</b>	<b><u>Loans and receivables</u></b> <b><u>MDL'000</u></b>	<b><u>Available for sale assets</u></b> <b><u>MDL'000</u></b>	<b><u>Trading assets</u></b> <b><u>MDL'000</u></b>	<b><u>Held to maturity</u></b> <b><u>MDL'000</u></b>	<b><u>Total</u></b> <b><u>MDL'000</u></b>
<b>Assets</b>					
Cash on hand and balances with NBM	1,033,665	-	-	-	1,033,665
Due from other banks	961,909	-	-	-	961,909
Financial assets held for trading	-	-	131,886	-	131,886
<b>Loans and advances to customers</b>					
Corporate loans	2,398,456	-	-	-	2,398,456
Retail entities	946,155	-	-	-	946,155
Individuals	771,295	-	-	-	771,295
Financial investments – available for sale	-	43,669	-	-	43,669
Financial investments – held to maturity	-	-	-	1,147,144	1,147,144
<b>Other financial assets:</b>					
Receivables from other financial institutions	15,843	-	-	-	15,843
Other	<u>1,551</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,551</u>
<b>Total financial assets</b>	<b><u>6,128,874</u></b>	<b><u>43,669</u></b>	<b><u>131,886</u></b>	<b><u>1,147,144</u></b>	<b><u>7,451,573</u></b>

As of 31 December 2010 and 31 December 2009 all financial liabilities of the Bank were carried at amortised cost.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

(All amounts in MDL thousand unless otherwise stated)

34 RELATED PARTIES

During the year a number of banking and non-banking transactions were entered into with related parties in the normal course of business. These include loans granting, deposit taking, trade finance, payment settlement, foreign currency transactions and acquisition of services and goods from related parties. The above mentioned balances and transactions arose from the ordinary course of business and were held at normal commercial rates.

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

Related party		Loans outstanding as at the year end MDL'000	Provision for impairment of loans MDL'000	Deposits at the year end MDL'000	Guarantees issued by the Bank MDL'000	Interest and commission income MDL'000	Interest and commission expenses MDL'000	Non- interest income MDL'000	Non-interest expenses /costs MDL'000	Dividends received MDL'000	
Civil society of Bank Shareholders and their affiliates	Shareholders										
		2010	12,302	3,057	60,028	8,857	(159)	2,836	385	18,605	12,920
		2009	11,474	530	45,162	14,100	2,230	6,159	690	14,041	11,809
Other directors(executive/ non - executive) and their affiliates	Management										
		2010	3,023	9	3,837	-	228	141	73	5,089	855
		2009	883	18	1,326	-	197	185	6	3,924	20
Poteza Adriatic Fund BV	Shareholder										
		2010	-	-	-	-	-	-	-	-	1,955
		2009	-	-	-	-	-	-	-	-	1,760
MAIB Leasing SA	Subsidiary										
		2010	107,614	5,380	1,246	-	16,994	-	23	922	-
		2009	151,220	7,561	2,093	-	22,752	-	638	377	-
MoldMediaCard SRL	Subsidiary										
		2010	-	-	2,673	-	-	134	266	5,118	-
		2009	-	-	2,331	-	-	111	267	3,866	-
Ecoplantera SRL	Associate										
		2010	1,367	68	11	-	347	-	33	-	-
		2009	1,897	38	-	-	58	-	84	-	-
*ÎM Glass Container Company SA	Investment for sale										
		2010	-	-	-	-	-	-	-	-	-
		2009	-	-	-	-	-	-	518	-	-
<b>Total</b>		<b>2010</b>	<b>124,306</b>	<b>8,514</b>	<b>67,795</b>	<b>8,857</b>	<b>17,410</b>	<b>3,111</b>	<b>780</b>	<b>29,734</b>	<b>15,730</b>
		<b>2009</b>	<b>165,474</b>	<b>8,147</b>	<b>50,912</b>	<b>14,100</b>	<b>25,237</b>	<b>6,455</b>	<b>22,208</b>	<b>13,589</b>	

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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**34 RELATED PARTIES (CONTINUED)**

*Key management remuneration*

The executive management received remuneration in amount of MDL'000 16,543 (2009 – MDL'000 10,449). The non-executive members of the Bank Council received remuneration in amount of MDL'000 1,892 (2009: MDL'000 1,220), which include social fund and medical insurance contributions.

**35 RISK MANAGEMENT**

**35.1 Introduction**

The risks are inherent for the activities of the Bank. Being aware that the management of such risks is critical to its profitability and solvency, the Bank treats risk management as an integral and very important part of its business and decision-making processes within the Bank.

The Bank is exposed to credit risk, including the risk related to counterparties, country and transfer risk, liquidity risk, market risk that includes interest rate risk and currency risk and operational risk.

**35.2 Risk management structure**

The risk management system functioning within the Bank is based on actual requirements regarding the internal control system, general accepted practice, including recommendations of the Basel Committee for Banking Supervision.

The Bank's Council is responsible for approving the Bank's strategies, policies and general principles for addressing the risks in the Bank and risk limits, implementation of which is a task of the Bank executive, as part of special committees such as Appropriation Committee, Management Committee and Committee for asset and liabilities administration (ALCO). Risk management and control is a centralized function at Bank level and is delegated to the Risk Administration Department, which is an independent unit, subordinated directly to the Bank's President, having the role of supervising all banking risks and minimizing the probability of risk triggering events.

**35.3 Basic principles of risk management**

Basic principles regarding risk management are the establishment of strict risk limits that cannot be exceeded and that reflect the maximum risk that the Bank accepts, the application of risk parameters that are optimal for some level of risk indicators, proceeding from which the Bank aims to maintain its strategies and from the current environment and market trends, and establishing other restrictions on the activities and products that the Bank carries. Also the Bank uses guarantees and hedges its exposure to risk by means of the available instruments in the market.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

*(All amounts in MDL thousand unless otherwise stated)*

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35 RISK MANAGEMENT (CONTINUED)

**35.3 Basic principles of risk management (continued)**

The Bank risk exposure is permanently monitored and daily information is presented to Management. Bank executives receives information monthly regarding the risk exposure, limits and risk parameters, regarding risk evolution scenarios and the possible impact. Also proposals for limit modification and risk parameters modification are presented to the Bank Council.

**35.4 Country and transfer risk**

Country risk is the risk determined by eventual negative impact of economic, social and political conditions and events in a foreign country on the Bank's activity.

Transfer risk is the risk of that it will be impossible for a foreign entity to convert certain financial liabilities in the necessary currency to settle the payment due to the deficiency of the respective currency as a result of restrictions imposed in that country.

The country risk management in the Bank provides for a mechanism that involves assessing and reviewing risk category established for the country, on the basis of the analysis of complex factors such as social-political factors, financial economic, etc., limit bank exposure to each country, and review and adjust the established limits.

The compliance with the country limits is monitored continuously; Bank management is regularly informed about the exposure of the Bank to the country risk, the utilization of the country's limits, ratings changes given individual countries and estimates of future prospects by international rating agencies, etc.

**35.5 Market risk**

***Recent volatility in global and Moldovan financial markets***

The ongoing global financial and economic crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2008 (often referred to as the "Financial Crisis") has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and wider economy, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to failures of banks and other corporations, and to bank rescues in the United States of America, Western Europe, Russia and elsewhere.

The full extent of the impact of the ongoing global financial and economic crisis is proving to be difficult to anticipate or completely guard against.

**35 RISK MANAGEMENT (CONTINUED)**

**35.5 Market risk (continued)**

The effect of global financial and economic crisis is less presented in Republic of Moldova and also had less influence on the Bank's activity as the Bank is carrying activities of a financial institution but without derivatives and with less involvement in investments banking.

In 2010, Moldovan economy has recorded first positive results since economic crisis began. According to published information by National Bureau of Statistics, Moldova's GDP has grown in 2010 comparing to 2009 by 6.9%. For the period ended 31 December 2010 the Industry price index comparing to December 2009 has grown by 8.1%.

Bank clients have been also affected and are still adversely affected by economic environment. The most effect is on clients which are exporters.

Based on available information about clients Management made the cash flows estimation and impairment assessments taking into account also the impact of the Crisis.

During this period the Bank was able to maintain the acceptable level of liquidity. Management believes it is taking all the necessary measures to support the sustainability and development of the Bank's business in the current circumstances.

Under the condition of increased international market volatility and lack of liquidity the Bank have a scope to maintain a stable financial position, a further business development using adequate internal policies and procedures which are correlated with prudential risk analysis and management.

Market risk represents the risk of losses generated by changes in variables directly observable on the market, such as changes in interest rates, exchange rates and equity prices.

*35.5.1. Currency risk*

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

In order to estimate the market risk derived from changes in exchange rates of foreign exchange to the Moldovan Leu, the Bank uses the VaR method with a confidence interval of 95%, calculated on the basis of information on daily fluctuations of exchange rates, recorded during a period of observation of two years, a year and a month. VaR is the maximum amount of potential losses on open currency positions due to fluctuations in exchange rates throughout the day.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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35 RISK MANAGEMENT (CONTINUED)

35.5 Market risk (continued)

35.5.1. Currency risk (continued)

The size of the VaR index is calculated daily. VaR limit is considered by ALCO and approved annually or more frequently if the circumstances dictate by the management to the Directives regarding Annual Limits and Risk Parameters.

Compliance with the VaR limit is checked and reported daily by the risk management department to the Bank's Board.

**VAR Indicator (MDL'000)**

	<u>VAR Limit</u>	<b>Effectively as at 31 December</b>	<b>Daily average</b>	<b><u>Maximum</u></b>	<b><u>Minimum</u></b>
<b>2010</b>	700-from 01.01.2010-31.12.2010	150	201	592	11
<b>2009</b>	1200-up to 29.04.2009				
	800-from 29.04.09 -11.11.2009				
	700- from 12.11.2009-				
	31.12.2009	147	233	825	26

During 2010 there were no cases when the VAR indicator exceeded the limits approved. The evolution of the VAR index shows a downward trend, respectively a reduction in the level of currency risk of the Bank.

The Committee for administration of the Bank's assets and liabilities, periodically examine the Bank's exposure to currency risk and recommends for approval of internal limits for foreign currency positions, compliance with which is monitored closely.

During 2010 these limits were not exceeded. Since the VaR indicator expresses the maximum potential losses throughout the day based on data on the average deviation of exchange rates during a previous period, to estimate extreme values of exchange rate risk, the Bank uses risk stress testing method.

## NOTES TO THE FINANCIAL STATEMENTS

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## 35 RISK MANAGEMENT (CONTINUED)

## 35.5 Market risk (continued)

## 35.5.1. Currency risk (continued)

The table below presents the potential effect (income/loss) due to changes in exchange rates for EUR, USD, RUB against MDL for the open currency position as at 31 December 2010, taking in consideration the reasonable expected deviations of exchange rates of these currencies:

<u>Open currency position</u>	<u>Nominal value</u> <u>MDL'000</u>	<u>Exchange rate</u>	<u>Possible rate increase, in</u> <u>%</u>	<u>Income/ (loss) effect</u> <u>MDL'000</u>	<u>Possible rate decrease, in</u> <u>%</u>	<u>Income/ (loss) effect</u> <u>MDL'000</u>
<b>As at 31 December 2010</b>						
EUR	(88,994)	16,1045	+2,20	(1,957.8)	(2,56)	2,278
USD	(170,436)	12,1539	+1,44	(2,454.3)	(1,14)	1,943
RUB	6,299	0,3978	+3,00	189	(1,83)	(115)
<b>Total, MDL</b>				<u>(4,223)</u>		<u>(4,106)</u>

<u>Open currency position</u>	<u>Nominal value</u> <u>MDL'000</u>	<u>Exchange rate</u>	<u>Possible rate increase, in</u> <u>%</u>	<u>Income/ (loss) effect</u> <u>MDL'000</u>	<u>Possible rate decrease, in</u> <u>%</u>	<u>Income/ (loss) effect</u> <u>MDL'000</u>
<b>As at 31 December 2009</b>						
EUR	(66,400)	17,6252	+4,76	(3,160.6)	(3,99)	2,649.3
USD	7,340	12,3017	+2,69	197.4	(0,70)	(51,3)
RUB	(7,387)	0,4066	+4,25	(313.9)	(4,51)	333.1
<b>Total, MDL</b>				<u>(3,671.9)</u>		<u>2,931.1</u>

The maximum daily change of exchange rate was computed based on statistical data for the last year and mainly on the official exchange rates.

The disclosure of assets and liabilities of the Bank by currencies is presented in Note 36.

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35 RISK MANAGEMENT (CONTINUED)

35.5 Market risk (continued)

35.5.2. Interest rate risk

Interest rate risk is the risk of loss resulting from changes in interest rates, which can influence the future cash flows or market value of financial instruments.

The Bank is exposed to interest rate risk mainly due to adverse changes in market interest rates due to maturity/term discrepancies of price revision or values of interest bearing assets, liabilities and off-balance sheet instruments.

The Bank has a positive value of GAP between assets and liabilities that are sensitive to interest rates that indicate a higher sensitivity of the assets generating interest rate, and in case interest rates increase, the amount of income will be higher and vice versa. The average value of the GAP in 2010 was in amount of MDL'000 804.3, increasing by 32.5% compared with the equivalent period of 2009, when it was valued at MDL'000 606.8, as a consequence of the increase of ASRD volume at a rate higher than the OSRD.

To assess and minimize interest rate risk, the Bank establishes among other internal boundaries, an optimal value (parameter risk) reported cumulative GAP by interest rate sensitive assets (ASRD), which the Bank aims to maintain. Recorded values of these parameters are shown in the table below:

	<b>2010</b>	<b>2009</b>
	<u>%</u>	<u>%</u>
<u>Cumulative GAP/ Interest rate sensitive assets</u>		
As at 31 December	10.8	11.3

During 2010 the ratio GAP/ASRD was within the risk parameters established, which has maintained an acceptable level of interest rate risk to the Bank.

The Bank forecasts standard and/or non-standard evolutions of the risk factors by modelling deviation scenarios of their level, which applied to the amount of assets and liabilities interest rate gap, indicates the sensitivity and potential impact on net interest income.

<b>Sensitivity of Net Interest Income, MDL'000</b>							
	<b>Increase in</b>		<b>1-3</b>	<b>3 months-</b>	<b>1-5</b>	<b>Over</b>	
	<b>basis points</b>	<b>1 month</b>	<b>months</b>	<b>1year</b>	<b>years</b>	<b>5 years</b>	<b>Total</b>
<b>2010</b>	+ 100	13,316	(4,020)	(3,025)	1,579	222	8,072
	+ 50	6,658	(2,010)	(1,513)	789	111	4,035
<b>2009</b>	+100	16,912	(5,272)	(4,780)	884	272	8,016
	+50	8,456	(2,636)	(2,390)	442	136	4,008

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35 RISK MANAGEMENT (CONTINUED)

35.5 Market risk (continued)

35.5.2. Interest rate risk (continued)

<b>Sensitivity of Net Interest Income, MDL'000</b>							
	<b>Decrease in basis points</b>	<b>1 month</b>	<b>1-3 months</b>	<b>3 months- 1year</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>2010</b>	- 100	(13,316)	4,020	3,025	(1,579)	(222)	(8,072)
	- 50	(6,658)	2,010	1,513	(789)	(111)	(4,035)
<b>2009</b>	-100	(16,912)	5,272	4,780	(884)	(272)	(8,016)
	-50	(8,456)	2,636	2,390	(442)	(136)	(4,008)

Another indicator of interest rate risk used by the Bank is Duration. Duration is a measure of the sensitivity of the market value of interest instruments with fixed rate to interest rate changes. When interest rates rise, the market value of such assets decreases.

By the end of 2010 the value of the Duration index decreased by 34.6%, compared to the end of 2009, due to constant investments in NBMC made during 2010. The Bank constantly monitors the sensitivity of the market value of portfolio securities (issued by the MOF and the NBM), and the approved internal limits on the size of the Duration indicator.

<b><u>Value of the Duration index of the securities portfolio, years</u></b>	<b><u>2010</u></b>	<b><u>2009</u></b>
Duration Limit	0.25	0.25
As at 31 December	0.0569	0.087
Medium	0.0807	0.2328
Maximum	0.1083	0.2966
Minimum	0.0569	0.087

35.6 Liquidity risk

Liquidity risk is the incapacity of a financial institution to ensure at any moment in time and at a reasonable price necessary monetary funds in order to meet its obligations resulting from the outflow of deposits and other obligations or from an increase in the amount of the liquid assets (loans).

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35 RISK MANAGEMENT (CONTINUED)

35.6 Liquidity risk (continued)

The main principles of liquidity risk management include the control of the compliance with all norms, limits and parameters related to liquidity risk established by the NBM, external creditors of the Bank and those established by the Annual Directives on risk limits and parameters, periodic reporting of the level of liquidity risk exposure of the Bank, preparation of respective recommendations and suggestions, systemic modelling and analysis of risk factors on current and long term bank liquidity, modelling scenarios on current and long-term liquidity in the perspective of forecasted cash flows and elaboration of stress testing, in order to prevent eventual liquidity crisis.

In the management of liquidity risk, the Bank has ensured a diversified portfolio of assets, holding the assets with high liquidity. The Bank has drawn credit lines from OFI in order to refinance clients.

NBM basic requirements on liquidity risk concerns, but are not limited to maintaining the required level of foreign reserves on National Bank account, the minimum required level of current liquidity (K2), expressed as the ratio of liquid assets to the total balance sheet assets (excluding provision for losses on assets) and long term (K1), which provides that the amount of Bank's assets with a repayment term longer than 2 years do not exceed the sum of its financial resources.

During the year 2010 the Bank has strictly complied with all risk limits and parameters established by the Annual Directives regarding liquidity risk, as well as with NBM's requirements.

<b>Current liquidity value of the coefficient k2, %</b>	<b><u>2010</u></b>	<b><u>2009</u></b>
Limit ( IFRS)	25%	25%
As at 31 December	33,17%	41,36%

Analysis of gaps for the assets and liabilities of the Bank, taking as a basis their remaining period until maturity, is presented in note 37.

The table below summarizes the Bank's financial assets and liabilities at 31 December 2009 and 31 December 2010 based on contractual undiscounted cash flow.

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.

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35 RISK MANAGEMENT (CONTINUED)

35.6 Liquidity risk (continued)

31 December 2010	<u>On demand</u> <u>MDL'000</u>	<u>Less than 3</u> <u>months</u> <u>MDL'000</u>	<u>From 3 months</u> <u>to 1 year</u> <u>MDL'000</u>	<u>From 1 to 5</u> <u>years</u> <u>MDL'000</u>	<u>More than</u> <u>5 years</u> <u>MDL'000</u>	<u>Total</u> <u>MDL'000</u>
<b>Financial assets</b>						
Due from banks	1,165,365	32,222	-	-	-	1,197,587
Financial assets held for trading	29,862	59,346	19,237			108,445
Financial investments held to maturity	1,090,019	65,248	54,649	75,508	-	1,285,424
Loans and advances to customers	407,744	420,599	2,026,171	3,008,332	553,975	6,416,821
Other financial assets	<u>17,047</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,047</u>
<b>Total undiscounted financial assets</b>	<b>2,710,037</b>	<b>577,415</b>	<b>2,100,057</b>	<b>3,083,840</b>	<b>553,975</b>	<b>9,025,324</b>
<b>Financial liabilities</b>						
Due to banks	2,139	-	-	-	-	2,139
Other borrowings	22,329	28,324	157,603	1,151,749	129,185	1,489,190
Due to customers	2,135,389	1,186,996	2,208,232	59,837	-	5,590,454
Other financial liabilities	<u>9,587</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,587</u>
<b>Total undiscounted financial liabilities</b>	<b>2,169,444</b>	<b>1,215,320</b>	<b>2,365,835</b>	<b>1,211,586</b>	<b>129,185</b>	<b>7,091,370</b>
<b>Financial guarantees</b>	<u>128,619</u>	<u>22,034</u>	<u>13,575</u>	<u>31,792</u>	<u>-</u>	<u>196,020</u>
<b>Net liquidity gap</b>	<u>411,974</u>	<u>(659,939)</u>	<u>(279,353)</u>	<u>1,840,462</u>	<u>424,790</u>	<u>1,737,934</u>

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35 RISK MANAGEMENT (CONTINUED)

35.6 Liquidity risk (continued)

31 December 2009	<u>On demand</u> <u>MDL'000</u>	<u>Less than</u> <u>3 months</u> <u>MDL'000</u>	<u>From 3 months</u> <u>to 1 year</u> <u>MDL'000</u>	<u>From 1 to</u> <u>5 years</u> <u>MDL'000</u>	<u>More than</u> <u>5 years</u> <u>MDL'000</u>	<u>Total</u> <u>MDL'000</u>
<b>Financial assets</b>						
Due from banks	1,725,767	-	-	-	-	1,725,767
Financial assets held for trading	54,516	10,973	69,098			134,587
Investments Securities	1,009,153	22,287	118,721	7,854		1,158,015
Loans and advances to customers	<u>450,570</u>	<u>469,501</u>	<u>1,613,687</u>	<u>2,097,526</u>	<u>685,602</u>	<u>5,316,886</u>
Other financial assets	<u>17,394</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,394</u>
<b>Total undiscounted financial assets</b>	<b>3,257,400</b>	<b>502,761</b>	<b>1,801,506</b>	<b>2,105,380</b>	<b>685,602</b>	<b>8,352,649</b>
<b>Financial liabilities</b>						
Due to banks	2,982	26,028	227,649	-	-	256,659
Borrowings	6,134	37,217	63,692	739,489	119,438	965,970
Due to customers	1,990,201	1,283,894	2,008,662	76,429	-	5,359,186
Other financial liabilities	<u>29,492</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>29,492</u>
<b>Total undiscounted financial liabilities</b>	<b><u>2,028,809</u></b>	<b><u>1,347,139</u></b>	<b><u>2,300,003</u></b>	<b><u>815,918</u></b>	<b><u>119,438</u></b>	<b><u>6,611,307</u></b>
<b>Financial guarantees</b>	<b><u>109,263</u></b>	<b><u>6,403</u></b>	<b><u>22,498</u></b>	<b><u>34,841</u></b>	<b><u>-</u></b>	<b><u>173,005</u></b>
<b>Net liquidity gap</b>	<b><u>1,119,328</u></b>	<b><u>(850,781)</u></b>	<b><u>(520,995)</u></b>	<b><u>1,254,621</u></b>	<b><u>566,164</u></b>	<b><u>1,568,337</u></b>

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35 RISK MANAGEMENT (CONTINUED)

35.7 Counterparty risk

The counterparty risk constitutes the risk that certain financial assets and liabilities arising from transactions concluded on financial markets or during clearing and settlement operations are not met, which may cause considerable losses for the Bank.

The Bank concludes transactions on domestic and foreign interbank markets with partner banks. Counterparty risk for these banks has increased in the last period because of the global financial and economic crisis, many financial institutions being affected as a result. The management of counterparty risk in the Bank provides a mechanism for implementation and improvement of assessment and review of the solvency of partner banks based on their qualitative and quantitative analysis and management of counterparty risk by limiting exposure of the Bank to the counterparty, including periodic review and adjustments of boundaries established. The lowest rating is taken into consideration for the assessment of foreign Bank's solvency for which rating agencies: Standard & Poor's, Moody's and Fitch Ratings have assigned the international rating.

The Bank divides the global credit risk over counterparty in sub-types: settlement risk, pre-settlement risk and lending risk, sub-limits being set for each of these types.

The observance of counterparties limitations are monitored continuously at two levels and the bank management is informed immediately on exposures exceeding the permissible level of counterparty risk, operational measures are taken to adjust the positions of excessive risk. The Credit Committee is itself regularly informed about the exposure of the Bank to counterparty risk for partner banks, regarding the level of their usage.

Information on Bank's exposure to partner banks grouped according to categories of their internal solvency as at December 31 are presented in the table below:

Internal solvency category	2010		2009	
	<u>MDL'000</u>	<u>%</u>	<u>MDL'000</u>	<u>%</u>
AAA	-	-	-	-
AA	39,279	5.40	17,237	1.81
A	682,235	93.80	891,712	93.84
BBB	3,446	0.47	37,771	3.97
BB	-	-	3,472	0.37
B	<u>2,416</u>	<u>0.33</u>	<u>71</u>	<u>0.01</u>
Total:	<u>727,376</u>	<u>100.00</u>	<u>950,263</u>	<u>100.00</u>

A-AAA - high to exceptionally high solvency; BB, BBB - medium and over medium solvency; B - reduced solvency; C-CCC - insufficient solvency; D - low solvency, high risk of default, bankruptcy.

**35 RISK MANAGEMENT (CONTINUED)**

**35.7 Counterparty risk (continued)**

For the evaluation of counterparty risk, in addition to the assessment of the solvency of each bank with which it concludes transactions, the Bank monitors and analyzes the evolution of the banking system as a whole, in particular domestic political and macroeconomic situation, and estimates their potential effects on the sector.

**35.8 Credit risk**

The credit risk is the risk related to the failure or reluctance of the debtor to discharge an obligation interest set up in the loan agreement, resulting in financial losses for the Bank.

The Bank monitors the credit risk through:

- Analysis of each crediting transaction by the Business Centre or Bank's branches;
- Balanced loan granting decisions, that are made after the approval of Risk Management Department and in compliance with the empowerments of the Bank's management;
- Use of diversification methods for the loan portfolio;
- Set up of general limits on the risk concentration for segments of clients, currency, branches, maturity terms, products and their monitoring on a daily basis;
- Observance of restrictions established by the National Bank of Moldova and by financial institutions – bank's creditors, observance of internal indicators that are presented in the annual Directives on credit risk limits and parameters, establishment and observance of annual limits for the credit risk exposure on loans granted to each corporate client;
- Loans impairment calculation according to IFRS;
- Validation of Credit Control function to confirm the execution of all conditions related to the approval of transaction limits at the initial stage when preparing the loan agreements and at the stage of loan disbursements;
- Systematic change of loan granting authorization of the Bank's managers in accordance with the portfolio evolution and its quality;

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35 RISK MANAGEMENT (CONTINUED)

35.8 Credit risk (continued)

- Differentiation of the coverage level of collateral depending on client's category, pledge monitoring and evaluation according to internal procedures, pledge assurance with a high risk of loss;
- Systematic review of manuals/procedures for loan granting to different segments of clients and the effective usage of the necessary amendments;
- Participation at the elaboration and the review of the Product presentation programs exposed to the credit risk.

The table below shows the maximum exposure to credit risk for the components of the balance sheet and off-balance sheet items of the Bank:

	<b>2010</b>	<b>2009</b>
	<b><u>MDL'000</u></b>	<b><u>MDL'000</u></b>
Balances with National Bank	479,728	799,162
Due from banks	760,061	961,909
Financial assets held for trading	106,825	131,886
Loans and advances to customers	5,426,457	4,322,436
Financial investments – held to maturity	1,269,326	1,147,144
Other financial assets	<u>16,047</u>	<u>15,843</u>
<b>Total</b>	<b>8,058,444</b>	<b>7,378,380</b>
Letters of credit	27,949	30,352
Guarantees	196,020	173,005
Financing commitments and other	<u>316,399</u>	<u>187,101</u>
<b>Total</b>	<b><u>540,368</u></b>	<b><u>390,458</u></b>
<b>Total credit risk exposure</b>	<b><u>8,598,812</u></b>	<b><u>7,768,838</u></b>

The loans granted to 20 major customers (Groups) of the Bank as of 31 December 2010 amounted to MDL'000 2,084,082 representing 38.4% of the Bank's gross loan portfolio (as of 31 December 2009: MDL 1,899,331 or 43.9%).

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**35 RISK MANAGEMENT (CONTINUED)**

**35.8 Credit risk (continued)**

These are analysed by industry as follows:

	<b>2010</b>	<b>2009</b>
	<b><u>MDL'000</u></b>	<b><u>MDL'000</u></b>
Winery	226,101	303,176
Non-food industry	318,769	301,515
Sunflower oil production	188,693	263,220
Commerce	348,218	196,733
Food processing	231,917	192,929
Leasing (including Bank's subsidiary)	106,854	190,466
Real estate construction	86,071	160,158
Car dealers	175,302	157,213
Agriculture	139,245	68,652
Supermarket	-	46,120
Leisure	10,668	15,762
Consumer	2,514	3,387
Transport	126,481	-
Storage	<u>123,249</u>	<u>-</u>
	<b><u>2,084,082</u></b>	<b><u>1,899,331</u></b>

For significant credit risk concentration at the industry level please refer to Note 8.

During 2010 and 2009 the Bank did not recognize on the balance sheet any assets taken in possession.

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## 36 BALANCE SHEET STRUCTURE BY CURRENCY

	<b>31 December 2010</b>				
	<u>Total</u>	<u>MDL</u>	<u>USD</u>	<u>EUR</u>	<u>Other</u>
	<u>MDL'000</u>	<u>MDL'000</u>	<u>MDL'000</u>	<u>MDL'000</u>	<u>MDL'000</u>
<b>ASSETS</b>					
Cash on hand	220,909	112,230	37,447	58,185	13,047
Balances with National Bank	479,728	210,211	82,221	187,296	-
Due from banks	760,061	1,780	148,654	606,791	2,836
Held for trading assets	106,825	106,825	-	-	-
Loans, net	5,150,313	3,116,599	649,498	1,384,216	-
Financial investments - AFS	83,022	83,022	-	-	-
Financial investments - HTM	1,269,326	1,216,589	-	52,737	-
Investments in associates	2,283	2,283	-	-	-
Investments in subsidiaries	67,414	67,414	-	-	-
Property and equipment	370,485	370,485	-	-	-
Intangible assets	26,745	26,745	-	-	-
Other assets	<u>37,085</u>	<u>37,085</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total assets</b>	<u>8,574,106</u>	<u>5,351,268</u>	<u>917,820</u>	<u>2,280,225</u>	<u>15,883</u>
<b>LIABILITIES</b>					
Due to banks	328,650	141	166,663	161,846	-
Other borrowings	892,546	349,336	383,562	159,648	-
Due to customers	5,527,380	2,923,324	537,758	2,056,427	9,871
Other liabilities	<u>23,474</u>	<u>22,948</u>	<u>273</u>	<u>248</u>	<u>5</u>
<b>Total liabilities</b>	<u>6,772,050</u>	<u>3,295,749</u>	<u>1,088,256</u>	<u>2,378,169</u>	<u>9,876</u>
<b>GAP</b>	<u>1,802,146</u>	<u>2,055,519</u>	<u>(170,436)</u>	<u>(88,944)</u>	<u>6,007</u>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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## 36 BALANCE SHEET STRUCTURE BY CURRENCY (CONTINUED)

	<b>31 December 2009</b>				
	<u>Total</u>	<u>MDL</u>	<u>USD</u>	<u>EUR</u>	<u>Other</u>
	<u>MDL'000</u>	<u>MDL'000</u>	<u>MDL'000</u>	<u>MDL'000</u>	<u>MDL'000</u>
<b>ASSETS</b>					
Cash on hand	234,503	105,794	41,318	75,495	11,896
Balances with National Bank	799,162	532,183	73,139	193,840	-
Due from banks	961,909	56	62,681	862,985	36,187
Held for trading assets	131,886	131,886	-	-	-
Loans, net	4,115,906	2,220,844	722,609	1,172,453	-
Financial investments - AFS	43,669	43,669	-	-	-
Financial investments -	1,147,144	1,147,144	-	-	-
Investments in associates	2,400	2,400	-	-	-
Investments in subsidiaries	66,936	66,936	-	-	-
Property and equipment	391,835	391,835	-	-	-
Intangible assets	25,176	25,176	-	-	-
Other assets	<u>32,919</u>	<u>24,286</u>	<u>4,362</u>	<u>4,271</u>	<u>-</u>
<b>Total assets</b>	7,953,445	4,692,209	904,109	2,309,044	48,083
<b>LIABILITIES</b>					
Due to banks	250,078	198,327	3,762	47,989	-
Other borrowings	832,057	291,452	354,998	185,607	-
Due to customers	5,310,177	2,575,963	537,421	2,141,373	55,420
Other liabilities	<u>38,076</u>	<u>36,963</u>	<u>588</u>	<u>475</u>	<u>50</u>
<b>Total liabilities</b>	<u>6,430,388</u>	<u>3,102,705</u>	<u>896,769</u>	<u>2,375,444</u>	<u>55,470</u>
<b>GAP</b>	<u>1,523,057</u>	<u>1,589,504</u>	<u>7,340</u>	<u>(66,400)</u>	<u>(7,387)</u>

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37 MATURITY STRUCTURE

The structure of the Bank's assets and liabilities based on the remaining contractual maturity as of 31 December 2010 is as follows:

As of 31 December 2010	<u>Total</u>	<u>Less than 1 month</u>	<u>From 1 month to 3 months</u>	<u>From 3 months to 1 year</u>	<u>From 1 to 5 years</u>	<u>More than 5 years</u>	<u>Undefined maturity*</u>
	<u>MDL'000</u>	<u>MDL'000</u>	<u>MDL'000</u>	<u>MDL'000</u>	<u>MDL'000</u>	<u>MDL'000</u>	<u>MDL'000</u>
<b>ASSETS</b>							
Cash on hand	220,909	220,909	-	-	-	-	-
Balances with National Bank	479,728	479,728	-	-	-	-	-
Due from banks	760,061	727,852	32,209	-	-	-	-
Held for trading assets	106,825	29,708	58,641	18,476	-	-	-
Loans, net	5,150,313	280,011	433,048	1,903,576	2,167,273	275,874	90,531
Financial investments - AFS	1,269,326	1,084,941	64,310	52,300	67,775	-	-
Financial investments - HTM	83,022	-	-	-	-	-	83,022
Investments in associates	2,283	-	-	-	-	-	2,283
Investments in subsidiary	67,414	-	-	-	-	-	67,414
Property and equipment	370,485	-	-	-	-	324,918	45,567
Intangible assets	26,745	-	-	-	-	26,745	-
Other assets	<u>37,085</u>	<u>37,085</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total assets</b>	<b>8,574,196</b>	<b>2,860,234</b>	<b>588,208</b>	<b>1,974,352</b>	<b>2,235,048</b>	<b>627,537</b>	<b>288,817</b>

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37 MATURITY STRUCTURE (CONTINUED)

As of 31 December 2010

	<u>Total</u> <u>MDL'000</u>	<u>Less than</u> <u>1 month</u> <u>MDL'000</u>	<u>From 1</u> <u>month to</u> <u>3 months</u> <u>MDL'000</u>	<u>From 3</u> <u>months to</u> <u>1 year</u> <u>MDL'000</u>	<u>From 1 to</u> <u>5 years</u> <u>MDL'000</u>	<u>More than</u> <u>5 years</u> <u>MDL'000</u>	<u>Undefined</u> <u>maturity*</u> <u>MDL'000</u>
<b>LIABILITIES</b>							
Due to banks	328,650	5,379	4	12	323,255	-	-
Other borrowings	892,546	63,075	26,283	96,211	670,515	36,462	-
Due to customers	5,527,380	2,133,796	1,177,862	2,160,452	55,270	-	-
Other liabilities	<u>23,474</u>	<u>23,431</u>	<u>43</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total liabilities</b>	<u>6,772,050</u>	<u>2,225,681</u>	<u>1,204,192</u>	<u>2,256,675</u>	<u>1,049,040</u>	<u>36,462</u>	<u>-</u>
<b>Maturity gap</b>	<u>1,802,146</u>	<u>634,553</u>	<u>(615,984)</u>	<u>(282,323)</u>	<u>1,186,008</u>	<u>591,075</u>	<u>288,817</u>
<b>Cumulative maturity gap</b>		<u>634,553</u>	<u>18,569</u>	<u>(263,754)</u>	<u>922,254</u>	<u>1,513,329</u>	<u>1,802,146</u>

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37 MATURITY STRUCTURE (CONTINUED)

As of 31 December 2009

	<u>Total</u>	<u>Less than</u>	<u>From 1</u>	<u>From 3</u>	<u>From 1 to</u>	<u>More than</u>	<u>Undefined</u>
	<u>MDL'000</u>	<u>1 month</u>	<u>month to</u>	<u>months to</u>	<u>5 years</u>	<u>5 years</u>	<u>maturity*</u>
	<u>MDL'000</u>	<u>MDL'000</u>	<u>3 months</u>	<u>1 year</u>	<u>MDL'000</u>	<u>MDL'000</u>	<u>MDL'000</u>
	<u>MDL'000</u>	<u>MDL'000</u>	<u>MDL'000</u>	<u>MDL'000</u>	<u>MDL'000</u>	<u>MDL'000</u>	<u>MDL'000</u>
<b>ASSETS</b>							
Cash on hand	234,503	234,503	-	-	-	-	-
Balances with National Bank	799,162	799,162	-	-	-	-	-
Due from banks	961,909	961,909	-	-	-	-	-
Held for trading assets	131,886	54,262	10,869	66,755	-	-	-
Loans, net	4,115,906	392,749	464,071	1,505,948	1,403,580	321,233	28,325
Financial investments - AFS	43,669	-	-	-	-	-	43,669
Financial investments - HTM	1,147,144	1,004,452	22,028	120,664	-	-	-
Investments in associates	2,400	-	-	-	-	-	2,400
Investments in subsidiary	66,936	-	-	-	-	-	66,936
Property and equipment	391,835	-	-	-	-	-	391,835
Intangible assets	25,176	-	-	-	-	-	25,176
Other assets	<u>32,919</u>	<u>32,919</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total assets</b>	7,953,445	3,479,956	496,968	1,693,367	1,403,580	321,233	558,341

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37 MATURITY STRUCTURE (CONTINUED)

As of 31 December 2009

	<u>Total</u> <u>MDL'000</u>	<u>Less than</u> <u>1 month</u> <u>MDL'000</u>	<u>From 1</u> <u>month to</u> <u>3 months</u> <u>MDL'000</u>	<u>From 3</u> <u>months to</u> <u>1 year</u> <u>MDL'000</u>	<u>From 1 to</u> <u>5 years</u> <u>MDL'000</u>	<u>More than</u> <u>5 years</u> <u>MDL'000</u>	<u>Undefined</u> <u>maturity*</u> <u>MDL'000</u>
<b>LIABILITIES</b>							
Due to banks	250,078	5,167	23,762	221,107	42	-	-
Other borrowings	832,057	15,316	27,750	62,454	612,511	114,026	-
Due to customers	5,310,177	2,035,322	1,250,374	1,954,865	69,616	-	-
Other liabilities	<u>38,076</u>	<u>38,076</u>	-	-	-	-	-
<b>Total liabilities</b>	<u>6,430,388</u>	<u>2,093,881</u>	<u>1,301,886</u>	<u>2,238,426</u>	<u>682,169</u>	<u>114,026</u>	-
<b>Maturity gap</b>	<u>1,523,057</u>	<u>1,386,075</u>	<u>(804,918)</u>	<u>(545,059)</u>	<u>721,411</u>	<u>207,207</u>	<u>558,341</u>
<b>Cumulative maturity gap</b>		<u>1,386,075</u>	<u>581,157</u>	<u>36,098</u>	<u>757,509</u>	<u>964,716</u>	<u>1,523,057</u>

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2010**

***(All amounts in MDL thousand unless otherwise stated)***

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**37 MATURITY STRUCTURE (CONTINUED)**

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

**38 INTEREST RATE RISK EXPOSURE**

The tables below provide information on the extent of the Bank's assets and liabilities interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that re-price to a market interest rate before maturity, the next re-pricing date. It is the policy of the Bank to manage its exposure to fluctuations in net interest income arising from changes in interest rates by the degree of re-pricing mismatch in the balance sheet.

BC MOLDOVA AGROINDBANK SA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

*(All amounts in MDL thousand unless otherwise stated)*

38 INTEREST RATE RISK EXPOSURE (CONTINUED)

As of 31 December 2010

	<u>Total</u> <u>MDL'000</u>	<u>Less than</u> <u>1 month</u> <u>MDL'000</u>	<u>From 1</u> <u>month to</u> <u>3 months</u> <u>MDL'000</u>	<u>From 3</u> <u>months to</u> <u>1 year</u> <u>MDL'000</u>	<u>From 1 to</u> <u>5 years</u> <u>MDL'000</u>	<u>More than</u> <u>5 years</u> <u>MDL'000</u>	<u>Non-</u> <u>interest</u> <u>bearing</u> <u>items</u> <u>MDL'000</u>
<b>ASSETS</b>							
Cash on hand	220,909	-	-	-	-	-	220,909
Balances with National Bank	479,728	479,728	-	-	-	-	-
Current accounts and deposits with banks	760,061	760,061	-	-	-	-	-
Held for trading assets	106,825	29,087	57,068	18,148	-	-	2,522
Loans, net (variable rate)	4,794,134	4,476,827	-	-	-	-	317,307
Loans, net (fixed rate)	356,179	14,052	28,917	132,989	157,994	22,227	-
Financial investments - AFS	83,022	-	-	-	-	-	83,022
Financial investments - HTM	1,269,326	1,088,839	85,290	92,420	-	-	2,777
Investments in associates	2,283	-	-	-	-	-	2,283
Investments in subsidiary	67,414	-	-	-	-	-	67,414
Property and equipment	370,485	-	-	-	-	-	370,485
Intangible assets	26,745	-	-	-	-	-	26,745
Other assets	<u>37,085</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,085</u>
<b>Total assets</b>	<b>8,574,196</b>	<b>6,848,594</b>	<b>171,275</b>	<b>243,557</b>	<b>157,994</b>	<b>22,227</b>	<b>1,130,549</b>

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FOR THE YEAR ENDED 31 DECEMBER 2010

*(All amounts in MDL thousand unless otherwise stated)*

38 INTEREST RATE RISK EXPOSURE (CONTINUED)

As of 31 December 2010

	<u>Total</u>	<u>Less than</u>	<u>From 1</u>	<u>From 3</u>	<u>From 1 to</u>	<u>More than</u>	<u>Non-</u>
	<u>MDL'000</u>	<u>1 month</u>	<u>month to</u>	<u>months to</u>	<u>1 year</u>	<u>5 years</u>	<u>interest</u>
		<u>MDL'000</u>	<u>3 months</u>	<u>1 year</u>	<u>MDL'000</u>	<u>MDL'000</u>	<u>bearing</u>
			<u>MDL'000</u>	<u>MDL'000</u>	<u>MDL'000</u>	<u>MDL'000</u>	<u>items</u>
							<u>MDL'000</u>
<b>LIABILITIES</b>							
Due to banks	328,650	2,139	323,248	12	11	-	3,240
Other borrowings	892,546	140,746	200,388	510,325	-	-	41,087
Due to customers (fixed rate deposits)	197,347	111,793	49,671	35,762	121	-	-
Due to customers (floating rate deposits)	5,330,033	5,262,355	-	-	-	-	67,678
Other liabilities	<u>23,474</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,474</u>
<b>Total liabilities</b>	<u>6,772,050</u>	<u>5,517,033</u>	<u>573,307</u>	<u>546,099</u>	<u>132</u>	<u>-</u>	<u>135,479</u>
<b>Interest gap</b>	<u>1,802,146</u>	<u>1,331,561</u>	<u>(402,032)</u>	<u>(302,542)</u>	<u>157,862</u>	<u>22,227</u>	<u>995,070</u>
<b>Cumulative interest gap</b>		<u>1,331,561</u>	<u>929,529</u>	<u>626,987</u>	<u>784,849</u>	<u>807,076</u>	<u>1,802,146</u>

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FOR THE YEAR ENDED 31 DECEMBER 2010

*(All amounts in MDL thousand unless otherwise stated)*

38 INTEREST RATE RISK EXPOSURE (CONTINUED)

As of 31 December 2009

	<u>Total</u>	<u>Less than</u>	<u>From 1</u>	<u>From 3</u>	<u>From 1 to</u>	<u>More than</u>	<u>Non-</u>
	<u>MDL'000</u>	<u>1 month</u>	<u>month to</u>	<u>months to</u>	<u>5 years</u>	<u>5 years</u>	<u>interest</u>
		<u>MDL'000</u>	<u>3 months</u>	<u>1 year</u>	<u>MDL'000</u>	<u>MDL'000</u>	<u>bearing</u>
			<u>MDL'000</u>	<u>MDL'000</u>	<u>MDL'000</u>	<u>MDL'000</u>	<u>items</u>
							<u>MDL'000</u>
<b>ASSETS</b>							
Cash on hand	234,503	-	-	-	-	-	234,503
Balances with National Bank	799,162	799,162	-	-	-	-	-
Current accounts and deposits with banks	961,909	961,909	-	-	-	-	-
Held for trading assets	131,886	54,262	10,869	66,755	-	-	-
Loans, net (variable rate)	3,896,710	3,846,124	-	-	-	-	50,586
Loans, net (fixed rate)	219,196	16,057	28,414	66,126	81,392	27,207	-
Financial investments - AFS	43,669	-	-	-	-	-	43,669
Financial investments - HTM	1,147,144	1,004,452	22,028	113,614	7,050	-	-
Investments in associates	2,400	-	-	-	-	-	2,400
Investments in subsidiary	66,936	-	-	-	-	-	66,936
Property and equipment	391,835	-	-	-	-	-	391,835
Intangible assets	25,176	-	-	-	-	-	25,176
Other assets	<u>32,919</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>32,919</u>
<b>Total assets</b>	7,953,445	6,681,966	61,311	246,495	88,442	27,207	848,024

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38 INTEREST RATE RISK EXPOSURE (CONTINUED)

As of 31 December 2009

	<u>Total</u> <u>MDL'000</u>	<u>Less than</u> <u>1 month</u> <u>MDL'000</u>	<u>From 1</u> <u>month to</u> <u>3 months</u> <u>MDL'000</u>	<u>From 3</u> <u>months to</u> <u>1 year</u> <u>MDL'000</u>	<u>From 1 to</u> <u>5 years</u> <u>MDL'000</u>	<u>More than</u> <u>5 years</u> <u>MDL'000</u>	<u>Non-</u> <u>interest</u> <u>bearing</u> <u>items</u> <u>MDL'000</u>
<b>LIABILITIES</b>							
Due to banks	250,078	3,785	47,528	197,357	26	-	1,382
Other borrowings	832,057	114,422	424,877	258,648	-	-	34,110
Due to customers (fixed rate deposits)	720,853	336,260	116,071	268,522	-	-	-
Due to customers (floating rate deposits)	4,589,324	4,536,309	-	-	-	-	53,015
Other liabilities	<u>38,076</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,076</u>
<b>Total liabilities</b>	<u>6,430,388</u>	<u>4,990,776</u>	<u>588,476</u>	<u>724,527</u>	<u>26</u>	<u>-</u>	<u>126,583</u>
<b>Interest gap</b>	<u>1,523,057</u>	<u>1,691,190</u>	<u>(527,165)</u>	<u>(478,032)</u>	<u>88,416</u>	<u>27,207</u>	<u>721,441</u>
<b>Cumulative interest gap</b>		<u>1,691,190</u>	<u>1,164,025</u>	<u>685,993</u>	<u>774,409</u>	<u>801,616</u>	<u>1,523,057</u>

The Bank issues loans as well as accepts deposits bearing fixed rates as well as variable rates. Floating rate loans to customers and deposits from customers represent instruments in respect of which the Bank has the right to unilaterally change the interest rate in line with the rates on the market. The Bank is to give 15 days notice prior to the date when the change takes place. For interest gap disclosure purposes loans and deposits bearing floating rates were considered to have a 15 days notice re-pricing period and were classified into category "up to 1 month".

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2010**

***(All amounts in MDL thousand unless otherwise stated)***

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**39 EVENTS AFTER THE BALANCE SHEET DATE**

At the General Meeting of shareholders of Poteza Adriatic Fund B.V (Bank's shareholder), that took place in Amsterdam, on 14 January 2011, was approved the demission of Poteza Capital Management B.V. and the appointment of Alpha Adriatic Venture ("AVV") as Fund Manager. The name of the fund has been changed in Adriatic Fund and the duration of activity has been prolonged till May 2014.

In order to administrate the fund, Alpha Adriatic Venture formed a team with EMSA Capital, Leon Batagelj, Gregor Dolenc and Grega Kukek ("BDK").

Consequently, on 14 January 2011 Mr. Branko Drognak, member of Bank's Council announced its demission from this position. Soon, the Fund will announce its representative for the position of Bank's Council member.



## **INDEPENDENT AUDITOR'S REPORT**

### **To the Shareholders and Board of Directors of BC Moldova Agroindbank SA**

#### **Report on the Financial Statements**

- 1 We have audited the accompanying financial statements of BC Moldova Agroindbank SA ("the Bank") which comprise the statement of financial position as of 31 December 2010 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

#### **Management's Responsibility for the Financial Statements**

- 2 Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's Responsibility**

- 3 Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
- 4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting



estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

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

### **Other Matters**

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

*ICS PricewaterhouseCoopers Audit SRL*

ICS PricewaterhouseCoopers Audit SRL

Chisinau, 8 April 2011