

Banking Sector Overview

Moldova

General Overview

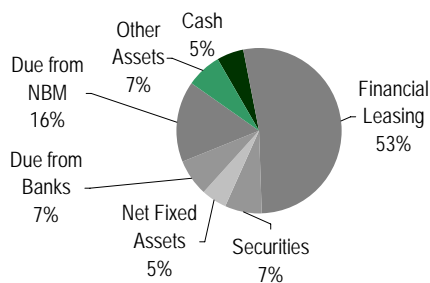
In 2005, total banking assets increased by 31.5%, to USD 1.4 bil., thanks to strong growth in lending, which increased 28.8% y-o-y. Banks' total liabilities increased by 35.7% y-o-y, to USD 1.17 bil., driven by a 39.7% surge in private deposits, to USD 501 mil., and a 69.7% increase in corporate deposits, to USD 372 mil. The sector's equity totaled USD 235 mil., up 13.8% y-o-y. Smaller, domestically-owned Moldovan banks increased their equity capital, which slightly reduced the share of investments coming from abroad by 0.65 p.p. y-o-y, to 50.6%.

In 2005, the sector's consolidation trend continued. Even though the five top banks account for almost 70% of the sector's total assets, many smaller banks were growing as fast as the larger ones, targeting customers and offering well positioned product solutions. Overall, the capital of Moldovan banks increased over the year, resulting in a positive impact on their financial stability and their capacity to absorb risks associated with banking operations.

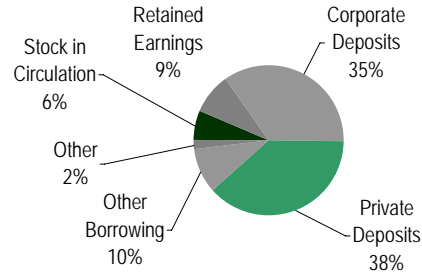
The quality of the country's credit portfolio improved last year thanks to the consolidation of internal control systems and the improvement of internal procedures related to loan provisioning. The percentage of bad loans was thus reduced to 4.3%, improving by 2.6 p.p. y-o-y. Overall, the banking system is stable and characterized by high levels of profitability and moderate credit risks. Even though earnings slightly decreased, average ROE remained high in 2005, standing at 17.34% (down 0.47 p.p.). ROA totaled 3.16% (down 0.56 p.p.).

5 top banks control 70% of the market

Credit portfolio improves, banking system is stable with high level of profitability



Moldovan Banks' Assets (2005)

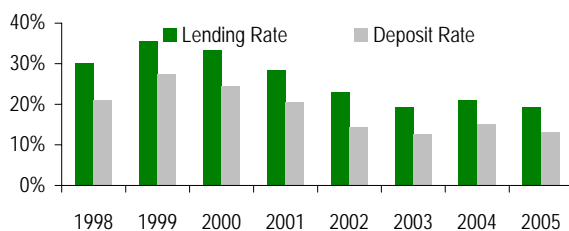


Moldovan Banks' Liabilities and Equity (2005)

Source: National Bank of Moldova

In 2005, average lending rates as well as rates on deposits decreased by 1.66 p.p. and 1.86 p.p. respectively. This fact negatively influenced net interest margins, which decreased by 2.04 p.p. to 6.42% -- still an attractive level when compared to other markets in the region. Therefore, the opportunity to obtain syndicated loans from foreign banks will be a key issue for Moldovan banks in the future. Banks that currently have access to foreign capital are therefore at an advantage.

Lending and deposits rates are decreasing, but the spread remained a healthy 6.42%



Interest Rates in Moldova

Source: National Bank of Moldova, Dragon Capital

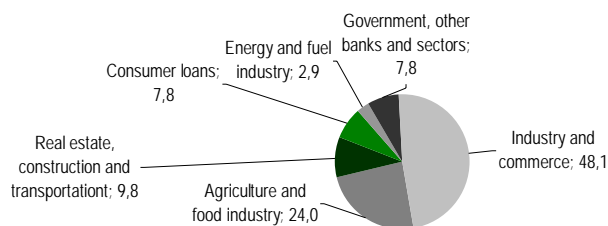
Lending

In 2005, the share of foreign currency loans decreased from 42% to 37%. Net loans and financial leasing increased by 28.8%, reaching USD 748 mil. Even though corporate lending still prevails, with a 90% share in the total banking sector portfolio, the retail segment is expanding and has immense potential for further growth.

Lending to corporates dominates

Consumer loans increased by 183% last year, amounting to USD 58.3 mil. (USD 17 ths./capita), which is still low comparing even to neighboring Ukraine (USD 133 ths./capita) or Russia (USD 240 ths./capita). Real estate, construction and development loans increased by 49%, to USD 51 mil., revealing another attractive segment in the Moldovan banking industry.

Retail lending is the most attractive growth segment



Loan Breakdown by Sector (2005)

Source: National bank of Moldova, Dragon Capital

Moldova's largest banks

Among commercial banks, Agroindbank is the largest bank in Moldova, with total assets of USD 301 mil. as of the end-January 2006 (up 31% y-o-y). All large banks were able to increase their assets thanks to attracting new deposits. The state-owned Banka De Economii, the second largest bank in Moldova with 486 outlets, increased its assets by 45% due to tremendous growth in corporate deposits by 130% and private deposits by 47%. Viktoriabank, Moldova's 3rd largest bank, having just 12 branches in the country, raised its assets by a mere 17% (below industry average of 31.5%) in 2005.

Agroindbank is the largest bank with assets of USD 301 mil.

Banks with total assets of more than USD 100 mil. and with a developed branch network were able to expand business mainly through attracting cash from corporates and individuals, while smaller banks were forced to tap the capital markets for more lending resources. Examples are Fincombank and Eximbank, which have just 5 outlets each and assets slightly exceeding USD 70 mil., decided to increase their equity capital by 39% and 29% respectively. The leading financial institutions in terms of 2005 asset growth were Banka De Economii (up 45%), Mobiasbanka (up 68%), Energbank (43%), Investprivatbank (49%) and ProCredit (44%).

Most of the banks in Moldova are full-service banks working with a broad client base. Mobiasbanka made a strong name for itself in Moldova as a leader in both corporate and retail lending. At the same time, the largest Moldovan bank, Moldova Agroindbank, already provides custom-tailored solutions for many of its clients, including for small businesses. Thus, there is already a tendency in the banking sector to customize products in order to provide specific solutions for specific client segments. ProCredit, for example, is a financial institution which chose this marketing strategy long ago. It has clearly positioned itself in the SME sector, a segment with enormous potential considering Moldova's entrepreneurial culture. Straightforward lending procedures and well developed products for a focused segment allowed this company to boost its loan portfolio in 2005, thus increasing assets by 44%.

Smaller banks started to realize their potential having clear positioning

CORPORATE FINANCE

Industry Trends and Forecast

Moldovan banks' ROE remained at a high 17.34% in 2005. We forecast that the industry's return on equity will continue at these levels in 2006-2007, perhaps decreasing only slightly in 2006 as more banks raise their equity capital, as required by the National Bank and in an attempt to boost loan portfolios.

The National Bank of Moldova is expected to keep tightening monetary policy, aiming to bring down inflation, but nevertheless the money supply will likely keep increasing due to significant inflows from Moldovans working abroad. Therefore, we forecast the population's purchasing power to continue its upward trend, stimulating further growth in the retail segment. The private business sector, which plays a significant part in Moldova's economy, is expected to bring additional growth to the banking sector, especially for banks focused on SME. In order to stay competitive, more banks will continue to narrow their focus on particular customer segments and develop tailor-made products in order to meet the unique needs of their clients.

Banks to maintain profitability level achieved in 2005

Retail and SME segments expected to expand further

Moldova's Banks*

Bank	Year of Creation	Number of outlets	Assets (USD mil.)		Change (%)	Capital (USD mil.)		Change (%)**
			2005*	2004		2005*	2004	
Moldova Agroindbank	1988 (1991)*	165	301.4	230.5	31%	16.2	16.7	(3%)
Banka De Economii	1990	486	272.2	188.2	45%	2.3	2.4	(3%)
Victoriabank	1940 (1992)*	13	163.0	139.6	17%	2.5	2.6	(3%)
Moldindconbank	1959 (1991)*	32	135.5	100.8	34%	2.5	2.4	(3%)
Mobiasbanka	1990	7	110.1	65.5	68%	5.5	5.7	(3%)
Banca Sociala	1988 (1991)*	23	105.7	92.7	14%	4.5	4.6	(3%)
Fincombank	1993	5	73.4	50.4	45%	7.2	5.2	39%
Eximbank	1994	5	70.4	52.4	35%	5.1	4.1	25%
Energbank	1997	15	41.1	28.8	43%	6.2	6.4	(3%)
Unibank	1993	5	36.5	30.1	21%	4.0	4.1	(3%)
Investprivatbank	1994	2	27.4	18.3	49%	7.0	5.4	29%
Procredit	1999	22	26.3	18.22	44%	n.a.	0.6	n.a.
Banca Comerciala Romana	1997	1	23.2	17.2	35%	7.4	6.4	11%
Comertbank	1990	1	20.1	17.4	15%	1.6	1.6	(3%)
Universalbank	1994	3	20.0	15.5	29%	5.9	6.0	(3%)
Eurocreditbank	1992	4	12.7	9.7	31%	8.4	8.0	5%

Notes: * Reorganized/renamed from Soviet-era banks; Ranked by Jan. 2005 total assets; ** Decreased just in USD equivalent for some banks due to depreciated Lei in 2005, in Lei value stayed constant; Source: Banks' data, Info market