

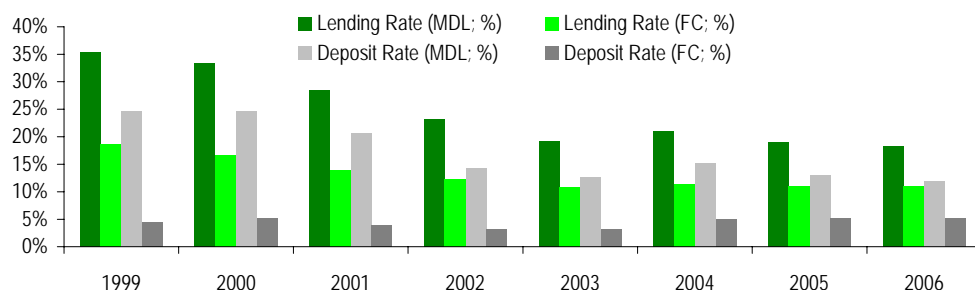
# Moldova Banking Sector Overview

Last year Moldova's banking sector continued sound growth, posting a 26% y-o-y increase in total assets, to \$1,765m, with earning assets accounting for 83.5% (up 5.7pp y-o-y). The sector raised customer lending by 37% y-o-y, to \$1,017m, thanks to a 61% boost in retail loans, to \$94m (or 9.2% of the total loan portfolio) and a 35% increase in corporate lending, to \$923m. The sector posted net income of \$55m, bringing ROE to 20.7% (up 5.3pp y-o-y) and ROA to 3.4% (up 0.6pp y-o-y).

In 2006 the sector continued showing further capitalization growth (mainly through Tier I capital), posting Capital Adequacy Ratio (CAR) of 27.8% (up 0.8 pp y-o-y). Banks' equity totaled \$305m (up 32% y-o-y), while total liabilities rose by 25% y-o-y, to \$1,460m, driven by a 33% y-o-y increase in private deposits, to \$716m, an 8% y-o-y growth in corporate deposits, to \$535m, and a 125% surge in inter-bank funding, to \$88m in 2006. Foreign investors increased their presence in the banking sector of Moldova: in 2006 Raiffeisen International (Austria) opened a representative office; Bank Veneto Banca (Italy) purchased 100% of Moldovan Eximbank and increased its capital by €19m; and Societe Generale de France Group became owner of a 70.57% stake in Mobiasbanca. Thus the share of foreign investments in Moldova's banking sector increased by 12.1pp, to 62.7% as of end-2006.

Last year, the sector's concentration declined thanks to above-sector growth of medium and smaller banks that focused on particular customers and offered competitive products, especially in the retail lending segment. Top five banks thus contributed 66.5% (or \$1,173m) of the sector's assets (down from 69.7% at end-2005). Overall the sector improved its capitalization over the year, having a positive impact on the banks' financial stability and further lending growth capacity in the coming years as well as the ability to absorb higher credit and other risks associated with the banking business.

In 2006 average lending and deposit rates in domestic currency (MDL) decreased by 0.8pp and 1.1pp correspondingly, improving interest spread by 0.3pp, to 6.3%. At the same time, interest rates in foreign currency (FC) remained stable, implying an interest rate spread of 5.9%. We thus expect banks to attract more funding abroad through syndicated loans, subordinated funding, and other debt instruments thus to reduce their interest costs and support their interest margins.



**Interest Rates in Moldova**  
Source: National Bank of Moldova, Dragon Capital

Even though the sector's interest rate spread slightly squeezed last year, the sector's revenue growth was strong, bringing net income to \$55m and improving ROE to 20.7% (up 5.3pp). The banks' loan portfolio quality improved last year thanks to further implementation of better internal control systems and improvement of risk management. Thus, non-performing loans (NPL) ratio has decreased to 3.5% (down 0.3pp y-o-y), while loan loss reserve (LLR) stood at a conservative 15.7% (down 3.3pp y-o-y) of total customer loans, implying a healthy LLR/NPL coverage ratio of 148%. Overall, in 2006 Moldova's banking sector has grown soundly and improved earnings supported by moderate credit risks.

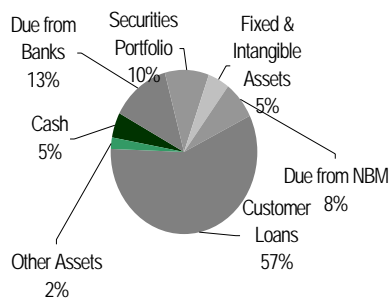
**Customer lending up 37% y-o-y in 2006**

**Foreign banks increase their presence**

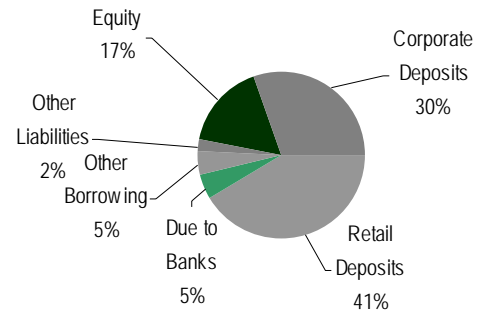
**Market concentration decreased**

**Improved interest spreads...**

**... profitability and asset quality**



**Moldova's Banking Sector Assets (end-2006)**



**Moldova's Banking Sector Liabilities and Equity (end-2006)**

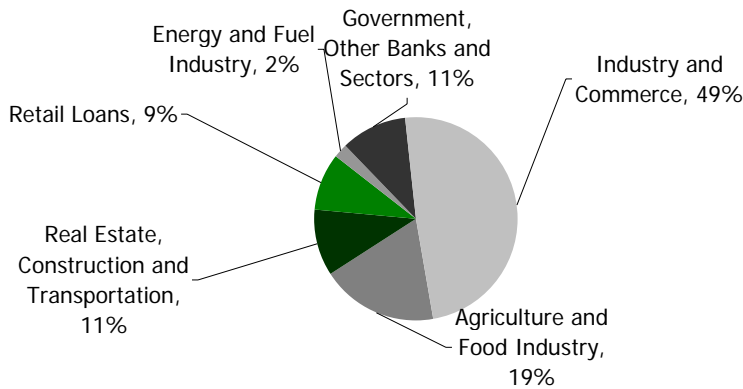
Source: National Bank of Moldova

**Lending**

In 2006, the share of foreign currency (FC) loans slightly increased y-o-y (from 37.5% to 38.0% of the loan portfolio). Net customer loans increased by 37%, reaching \$1,017m. Even though corporate lending still dominated the sector's loan portfolio, retail lending gained a 9.2% share in total customer loans (up 1.4pp y-o-y) becoming the most attractive growth segment for banks, providing high potential for further growth. Retail loans increased by 61% last years, amounting to \$94m (\$26/capita), which is still low compared even to neighboring Ukraine (\$333/capita).

**Corporate lending still dominates...**

**...yet, retail lending is booming**



**Customer Loan Portfolio Breakdown by Sector (end-2006)**

Source: National bank of Moldova, Dragon Capital

**Largest Moldova's banks**

Moldova's largest banks with developed branch network were able to expand funding mainly through attracting deposits from corporate and retail customers. While expanding their retail network country-wide, smaller banks were also active in capital raising. An example could be Unibank and Eximbank which last year added 13 and 54 outlets each respectively, increased their equity by 68% and 327%. In 2006 Banca Comerciala Romana (up 177% y-o-y), Investprivatbank (up 105%), Eximbank (up 55%), Mobiasbanka (37%) and Moldindconbank (up 31%) were the sector leaders by asset growth.

**Largest banks were strong in deposits, while smaller ones expanded retail network**

Most of Moldova's banks are universal banking institutions, providing services to both corporate and retail clients. At the same time, last year most of Moldova's banks continued customizing their products for targeted customer segments, such as lending to individuals and small & medium-sized entities (SME). ProCredit is a financial institution, which has chosen particular niche specialization strategy many years ago. The company has a clear focus on the SME segment – the niche with high growth potential, taking into account entrepreneurial culture of Moldavians. Straightforward lending procedures and well developed products for particular segment allowed them to significantly boost lending in 2006.

**Smaller banks continued niche specialization**

**Industry Trends and Forecast**

Over the past two years, Moldova's banking sector's earnings improved significantly, bringing end-2006 ROE to 20.7% (up 5.3pp y-o-y). We expect the sector's profitability will further improve in 2007-2008. At the same time, we forecast gradual decline in the sector's interest rate spread in the coming years, expecting the banks shifting to higher revenue diversification between interest and non-interest income.

**Profitability to remain strong**

The National Bank of Moldova is expected to keep expanding monetary policy, aiming to keep sufficient money supply for the growing economy. So we expect further growth in the country's purchasing power, which should fuel further retail segment growth. The sector of small and medium-sized businesses playing an increasing role in Moldova's economy is expected to bring additional dividends in growth and earnings for the banks specializing in the SME segment. More banks, especially smaller ones, will target particular customer segments in order to be able to sustain growth and improve profitability.

**Retail and SME segments expected to keep the highest growth**

### Moldova's Banks\*

Bank	Year of Creation	Number of Outlets	Assets (\$m)		Change (%; y-o-y)	Equity (\$m)		Change (%; y-o-y)	Net Income (\$m)		Change (%; y-o-y)	ROE (%)		ROA (%)	
			2006	2005		2006	2005		2006	2005		2006	2005	2006	2005
Moldova Agroindbank	1988 (1991)*	87	365.2	292.8	25%	59.7	48.8	22%	14.3	10.6	35%	26.3%	4.3%		
Banka De Economii	1990	486	270.0	270.2	0%	32.5	27.6	18%	6.4	4.6	38%	21.1%	2.4%		
Victoriabank	1940 (1992)*	21	203.3	162.4	25%	29.2	21.0	39%	8.3	4.9	69%	33.0%	4.5%		
Moldindconbank	1959 (1991)*	50	182.6	139.3	31%	23.5	19.2	23%	5.0	2.0	159%	23.6%	3.1%		
Mobiasbanka	1990	69	151.1	110.1	37%	20.8	16.8	24%	4.6	3.5	32%	24.4%	3.5%		
Banca Sociala	1988 (1991)*	60	122.1	105.4	16%	17.8	15.9	12%	3.1	2.2	42%	18.5%	2.7%		
Eximbank	1994	59	106.6	68.8	55%	34.0	8.0	327%	1.3	0.3	379%	6.0%	1.4%		
Fincombank	1993	31	91.6	70.3	30%	14.8	11.4	29%	2.8	2.0	43%	21.6%	3.5%		
Banca Comerciala Romana	1997	3	63.2	22.8	177%	10.5	8.3	26%	2.3	0.7	217%	24.3%	5.3%		
Energbank	1997	58	52.7	41.1	28%	10.7	9.3	16%	1.5	1.3	21%	15.3%	3.3%		
Investprivatbank	1994	21	50.2	24.5	105%	8.5	8.5	0%	0.7	0.3	163%	8.7%	2.0%		
Unibank	1993	18	46.4	36.4	28%	13.1	7.8	68%	(0.1)	0.5	nm	nm	nm		
ProCreditBank	1999	22	na	26.1	nm	na	1.2	nm	na	0.4	nm	nm	nm		
Comertbank	1990	1	22.6	20.2	12%	11.0	9.6	15%	1.5	1.2	24%	14.9%	7.1%		
Universalbank	1994	8	22.6	19.9	14%	9.3	8.1	14%	1.3	1.2	6%	15.1%	6.2%		
Eurocreditbank	1992	16	14.0	12.5	12%	9.6	9.0	6%	0.6	0.5	6%	6.2%	4.3%		

**Note:** \* Reorganized/renamed from Soviet-era banks; Ranked by total assets as of Jan. 2007; Source: Banks' data.