

Sumar Content

Mesajul Președintelui	2	The statement of the President
Membrii Consiliului de Administrație și ai Comitetului de Direcție	3-4	The Board of Directors and the Management Committee
Accionarii BC „Victoriabank” S.A.	4	Shareholders of the BC „Victoriabank” S.A.
Momente istorice din activitatea BC „Victoriabank” S.A. pe parcursul a 15 ani	5-6	Historical moments related to BC „Victoriabank” S.A. activity within 15 years
Rezultatele activității în anul 2004	7	Operation results in 2004
Deservirea clienței în anul 2004	8	Customer 's service in 2004
Operațiuni valutare	9	Currency operations
Activitatea de creditare	10	The lending activity
Cardurile bancare	11-12	Banking Cards
Activitatea Băncii pe piața valorilor mobiliare	12-13	Operations on the securities' market
Servicii bancare și tehnologii informaționale	14	Banking services and Information Technologies
Personalul băncii	15-16	The Bank's staff
Rezultatele financiare pentru 2004 (Raportul auditorilor)	17-39	Financial results for 2004 (Auditor's Report)
Filiale și reprezentanțe	40	Bank's Branches and Representative Offices



VICTORIABANK

INTEGRITATE

Mesaşul Preşedintelui The statement of the President

Stimaţi acţionari, clienţi ai băncii!

BC „Victoriabank“ S.A. — prima bancă comercială din Moldova, ca instituţie financiară, prezintă nu doar încredere şi profesionalism, ci şi o vastă experienţă acumulată pe parcursul a 15 ani, experienţă călăită de imprevizibilitatea şi instabilitatea pieţei din Moldova. Banca a început de la o idee, întruchipată în cele din urmă într-o instituţie financiară de încredere, ascendentă, stabilă şi dinamică.

Adaptarea la condiţiile economice şi la cerinţele existente pe piaţa financiară, determină alinierea Băncii la cea mai avansată practică bancară internaţională, cu accent vădit pe o excelenţă operaţională şi o tratare modernă a clientului şi necesităţilor acestuia.

Diversificarea şi îmbunătăţirea calităţii serviciilor bancare, şi conlucrarea cu clientela băncii au contribuit pe parcursul anului 2004 la majorarea numărului de clienţi cu 17,2 mii, ceea ce constituie 103,7 mii, dintre care persoane juridice 10,2 mii, iar persoane fizice 93,5 mii.

În 2004 activele băncii au înregistrat o creştere de 18% la sută faţă de nivelul anului 2003, şi au constituit 1 739 mil. lei. Din totalul activelor ponderea portofoliului de credite în mediu au constituit 47,4 la sută.

Pe parcursul anului 2004 banca a utilizat creditele acordate de Corporaţia Financiară Internaţională (IFC), Banca Europeană de Reconstrucţie şi Dezvoltare, Fondul Internaţional pentru Dezvoltare a Agriculturii (FIDA), Asociaţia Internaţională pentru Dezvoltare (AID) acordând împrumuturi în sumă de 218 mil. lei. În total volumul creditelor acordate de bancă în 2004 a constituit 883 mil. lei.

Suma totală a depozitelor în 2004 a atins cifra de 1 251,9 mil. lei şi s-a mărit faţă de anul precedent cu 17 la sută.

Veniturile băncii de la operaţiuni valutare au constituit 26,3 mil. lei şi s-au majorat cu 40 la sută, din activitatea cu carduri bancare au constituit 19,8 mil. lei şi s-au majorat cu 14,5 la sută, iar din activitatea cu valori mobiliare s-au obţinut venituri în sumă totală de 11,3 mil. lei, cu 67 la sută mai mult faţă de anul 2003.

BC „Victoriabank“ S.A., este o bancă a viitorului, o bancă a stabilităţii şi solvabilităţii continue, o bancă de plină notorietate în domeniul financiar-bancar din Moldova.

Priorităţile de bază în strategia sa şi în continuare vor fi axate pe însuşirea unor direcţii noi de activitate, excelenţă în deservirea clienţilor, onorarea la timp şi calitativă a angajamentelor faţă de clienţi şi parteneri, punerea în aplicare a unor proiecte reciproc avantajoase.

*Pentru colaborare şi conlucrare de succes
în viitor, vă mulţumim.*

Victor Ţurcanu

Preşedintele băncii BC „Victoriabank“ S.A.



Dear Clients, Shareholders, Partners!

„Victoriabank“ the first commercial bank of Moldova presents as a financial institution not only trust and professionalism but also a huge experience accumulated within 15 years, strong experience hardened by market's instability and suddenness. The Bank started from an idea that was embodied later in a trust, stable and dynamic financial institution.

Alignment of the Bank to the most advanced international banking practice was determined by the adaptation to the economic conditions and by the existing demands on the financial market, with an obvious accent on an excellent and modern treatment of customers and their requirements.

Diversification and improvement of the quality of banking service and cooperation with bank's clients have contributed within 2004 year to the increase of customers number to 17,2 thousand, the total number of whom is 103,7 thousand at present: 10,2 thousand of legal entities and 93,5 of natural persons.

In 2004 Bank's assets recorded a growth of 18% as against the year 2003, constituting 1 739 million MDL. The share of the loan portfolio constituted 47,4% out of the total amount of assets.

Within the year 2004 the Bank used loans granted by the IFC, the EBRD, the FIDA, the AID, granting loans to its clients equal to 218 million MDL; total amount of loans granted by Bank was equal to MDL 883 million in 2004.

The deposits reached the amount of 1 251,9 million lei in 2004 and grew as compared to previous year by 17%. Bank's income from the currency operation was 26,3 million MDL and grew by 40%.

The amount of income obtained from the activity with state securities amounted to 11,3 million MDL, by 67% more than in 2003. The income obtained from the activity with banking cards constituted 19,8 million lei and grew by 14,5%.

Victoriabank is a Bank of future, of stability and solvency, a bank with excellent reputation in the banking-financial domain of Moldova.

The basic priority in its strategy will be centered in future on new direction of activity, on the excellence in customer service. The engagement towards clients and partners are honored in time and qualitatively; also there will be applied projects reciprocally advantageous.

*We thank you for our future successful
collaborations and cooperation.*

Victor Ţurcanu

President of the Bank BC „Victoriabank“ S.A.




VICTORIABANK

15 ANI DE ACTIVITATE

*Membrii Consiliului de Administrație și ai Comitetului de Direcție
The Board of Directors and the Management Committee*

**Membrii Consiliului de Administrație
BC „Victoriabank” S.A.**

Consiliul de Administrație este organul de administrare a BC „Victoriabank” S.A., care supraveghează activitatea ei, elaborează și asigură aplicarea politicii Băncii.

Consiliul de Administrație reprezintă interesele acționarilor în perioada dintre Adunările Generale a Acționarilor și exercită conducerea generală și controlul activității Băncii.

Consiliul de Administrație are următoarea componență:

Președinte al Consiliului de Administrație

Alexandru Tănase
Senior Banker, BERD

Președintele Băncii

Membru al Consiliului de Administrație

Victor Țurcanu
*Președinte al Comitetului de Direcție,
BC „Victoriabank” S.A.*

Vicepreședinte al Consiliului de Administrație

Radu Grațian Ghețea
*Vicepreședinte, Alpha Bank România SA,
Președinte al Asociației Române a Băncilor*

Prim Vicepreședintele Băncii

Membru al Consiliului de Administrație
Galina Proidisvet
*Prim Vicepreședinte al Comitetului de Direcție,
BC „Victoriabank” S.A.*

Membru al Consiliului de Administrație

Damianos Damianos
Managing Director, Danube Fund Ltd

Membru al Consiliului de Administrație

Șerban Vintilă Ionescu
Senior Investment Officer, Danube Fund Ltd

Membru al Consiliului de Administrație

Ion Roșca
Director general-adjunct SRL „Agroindservice”

**Board
of Directors**

The Board of Directors is an administrative body of BC „Victoriabank” S.A., which supervises the Bank’s activity, elaborates and ensures the Bank’s policies application.

The Board of Directors represents the shareholders’ interests within the period between the General Shareholders Meetings and exercises general management and control of the Bank’s activity.

The Board of Directors has the following composition:

Chairman of the Board of Directors

Alexandru Tănase
Senior Banker, EBRD

**President of the Bank. Member
of the Board of Directors**

Victor Țurcanu
*Chairman of the Management Committee
of BC „Victoriabank” S.A.*

Vice-Chairman of the Board of Directors

Radu Grațian Ghețea
*Vice-President of Alpha Bank Romania SA,
President of Banks’ Association*

**Prime Vice-President of the Bank.
Member of the Board of Directors**

Galina Proidisvet
*Prime Vice-Chairman of the Management committee
of BC „Victoriabank” S.A.*

Member of the Board of Directors

Damianos Damianos
Managing Director, Danube Fund Ltd

Member of the Board of Directors

Șerban Vintilă Ionescu
Senior Investment Officer, Danube Fund Ltd

Member of the Board of Directors

Ion Roșca
Deputy general director of SRL „Agroindservice”



*Membrii Consiliului de Administrație și ai Comitetului de Direcție
The Board of Directors and the Management Committee*

**Membrii Comitetului
de Direcție BC „Victoriabank“ S.A.**

Comitetul de Direcție este organul executiv al BC „Victoriabank“ S.A., care organizează, conduce și răspunde de activitatea curentă a Băncii.

Comitetul de Direcție este subordonat Consiliului de Administrație al Băncii.

Comitetul de Direcție examinează și soluționează toate chestiunile de conducere a activității curente a Băncii, cu excepția celor ce țin de competența Adunării Generale a Acționarilor și Consiliului de Administrație.

În funcțiile Comitetului de Direcție intră organizarea și asigurarea îndeplinirii hotărârilor Adunării Generale a Acționarilor și a deciziilor Consiliului de Administrație a Băncii.

Comitetul de Direcție are următoarea componență:

Victor Țurcanu

Președintele băncii BC „Victoriabank“ S.A.

Galina Proidisvet

Prim Vicepreședinte BC „Victoriabank“ S.A.

Pavel Cușnir

Vicepreședinte BC „Victoriabank“ S.A.

Ion Certan

Vicepreședinte BC „Victoriabank“ S.A.

Management Committee

Management Committee is an executive body of BC „Victoriabank“ S.A., which organizes, conducts and is responsible for current Bank's activity.

Management Committee is subordinated to the Bank's Board of Directors.

Management Committee examines and solves all the matters related to the management of the Bank's current activity with the exception of those ones that are in the General Shareholders Meetings and Board of Directors competence. The functions of the Management Committee include the organization and ensurance of the fulfillment of the Bank's General Shareholders Meetings and of the Board of Directors decisions.

The Management Committee has got the following composition:

Victor Țurcanu

President of the Bank BC „Victoriabank“ S.A.

Galina Proidisvet

Prime Vice-President of BC „Victoriabank“ S.A.

Pavel Cușnir

Vice-President of BC „Victoriabank“ S.A.

Ion Certan

Vice-President of BC „Victoriabank“ S.A.

*Acționarii BC „Victoriabank“ S.A.
Shareholders of the BC „Victoriabank“ S.A.*

Fondul de investiții „Danube Fund Ltd“ (Cyprus)
Ponderea în capitalul acționar – 23.03 %

Banca Europeană pentru Reconstrucție și Dezvoltare

Finanțează procesul de tranziție economică a țărilor din Europa de Est și CSI.

Ponderea în capitalul acționar – 15.06 %

Alpha Bank România S.A.

Una dintre cele mai mari bănci din România specializată pe clienți corporativi.

Ponderea în capitalul acționar – 12.50 %

Alte persoane juridice în număr de 11 acționari

Alte persoane fizice – 158 de acționari.

Investment Fund „Danube Fund Ltd“ (Cyprus)
Its quota in the shareholder's capital is 23.03%

European Bank of Reconstruction and Development

The Bank finances the process of the economic transition for the East Europe and CSI countries.

Its quota in the shareholder's capital is 15.06%

Alpha Bank Romania S.A.

One of the biggest banks in Romania specialized in corporate clients.

Its quota in the shareholder's capital is 12.50%

There are also other 11 legal entities.

158 shareholders are the natural persons.



VICTORIABANK

15 ANI DE ACTIVITATE

Momente istorice din activitatea BC „Victoriabank” S.A. pe parcursul a 15 ani
Historical moments related to BC „Victoriabank” S.A. activity within 15 years

22 Decembrie 1989

Prima adunare a acționarilor privind fondarea unei bănci comerciale în Republica Moldova.

22 Februarie 1990

Înregistrarea BC „Victoriabank” la Banca de Stat a URSS, licența Nr.246.

12 Aprilie 1990

Efectuarea primei operațiuni bancare.

Septembrie 1991

Reorganizarea BC „Victoriabank” în societate pe acțiuni, obținerea licenței Băncii Naționale a Moldovei cu Nr.7.

Iulie 1995

Semnarea primului contract cu BERD privind deschiderea liniei de credit pentru business-ul mic și mediu în sumă de 4 mln. dolari SUA.

Decembrie 1995

Reorganizarea BCA „Victoriabank” în Bancă cu investiții străine; BERD devine acționar.

Martie 1996

Conectarea băncii la sistemul informațional SWIFT.

Septembrie 1996

Semnarea contractului cu BERD referitor la deschiderea liniei de microcreditare, în mărime de 1 mln. dolari S.U.A.

Martie 1997

Semnarea contractului cu Banca Mondială privind linia de credit în mărime de 2 mln. dolari SUA.

Aprilie 1997

Inițierea activității Centrului de procesare a cardurilor VISA.

Mai 1997

Lansarea primului card de credit VISA Business și VISA Classic.

Octombrie 1997

Banca devine membru principal al Organizației Internaționale Europay.

Aprilie 1998

Premierea Băncii de către revista „Central European” ca cea mai bună bancă din Moldova.

Mai 1998

Deschiderea primului automat bancar în Moldova.

Iunie 1998

Obținerea licenței de Banca — Depozitar Național al Valorilor Mobiliare.

22 December 1989

Shareholders conducted the first meeting on foundation of a commercial bank in the Republic of Moldova.

22 February 1990

Registration of the BC „Victoriabank” S.A. at the USSR State Bank, license Nr.246.

12 April 1990

Effectuating of the first bank operation.

September 1991

Reorganization of the BC „Victoriabank” SA to a joint stock company, obtaining the license of the National Bank of Moldova Nr.7.

July 1995

Signing Contract with the EBRD on opening a loan line for small and medium business the sum of which amounted to USD 4 mln.

December 1995

Reorganization of the BC „Victoriabank” SA into a Bank with foreign investment; BERD became shareholder.

March 1996

Connection of the Bank to SWIFT informational system.

September 1996

Signing Contract with the EBRD on opening of a micro-credit line — the sum worth USD 1 mln.

March 1997

Signing Contract with the World Bank on the credit line at the amount of USD 2 mln.

April 1997

Launching the Center for VISA Card processing.

May 1997

Launching of VISA Business and VISA Classic cards.

October 1997

The Bank becomes the principal member of the International Organization Europay.

April 1998

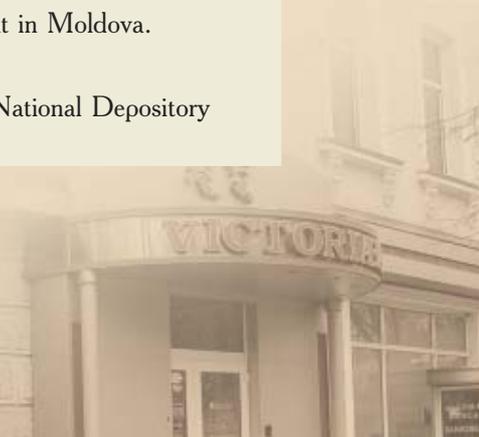
„Central European” Magazine awards the Bank with the title „the best bank from Moldova”.

May 1998

Opening of the first bancomat in Moldova.

June 1998

Obtaining license „Bank — National Depository of Securities”.



Momente istorice din activitatea BC „Victoriabank” S.A. pe parcursul a 15 ani
Historical moments related to BC „Victoriabank” S.A. activity within 15 years

Ianuarie 1999

Semnarea contractului cu BERD privind deschiderea liniei de credit în sumă de 1,5 mln. dolari SUA.

Octombrie 1999

Efectuarea primului transfer bănesc prin sistemul „Money Gram”.

Ianuarie 2001

Emiterea cardurilor Europay/MasterCard;
 Certificarea centrului de procesare BC „Victoriabank” S.A. în calitate de Member Service Provider al sistemului de plăți internaționale Europay International.

Septembrie 2001

Semnarea acordului dintre BC „Victoriabank” S.A. și IFS pentru deschiderea liniei de creditare în sumă de 4 mln. dolari SUA.

15 Martie 2002

50 000 carduri deservite de centrul de procesare BC „Victoriabank” S.A.

Noiembrie 2002

BC „Victoriabank” S.A. împreună cu organizația de plăți VISA International petrec o acțiune excepțională – deținătorul al 50 000-lea card câștigă un premiu – o călătorie în doi pentru o săptămână la Paris.

27 Noiembrie 2002

www.victoriabank.md este recunoscut unul dintre cele mai bune site-uri corporative din Republica Moldova.

29 Octombrie 2003

BC „Victoriabank” S.A. a semnat o nouă linie de credit în mărime de 4 milioane de dolari SUA cu Banca Europeană de Reconstrucție și Dezvoltare, pentru finanțarea întreprinderilor mici și medii din Moldova.

14 Iunie 2004

Semnarea unei noi linii de credit între BC „Victoriabank” S.A. și Banca Europeană de Reconstrucție și Dezvoltare.

Iunie 2004

IFC a oferit un împrumut de 5 mil. dolari SUA BC „Victoriabank” S.A.

Septembrie 2004

Revista financiară „The Banker” a conferit băncii BC „Victoriabank” S.A. titlul „Banca anului 2004” din Moldova.

Noiembrie 2004

BC „Victoriabank” S.A. a devenit banca de decontare pentru Bursa universală de mărfuri a Moldovei.

22 Decembrie 2004

15 ani de la prima adunare a acționarilor privind fondarea unei bănci comerciale în Republica Moldova.

January 1999

Signing Contract with the EBRD on opening of a credit line which total amount constitutes USD 1,5 mln.

October 1999

Effectuating of the first bank transfer through the „Money Gram” system.

January 2001

Issuance of Europay/MasterCard cards;
 Obtaining certification from the processing center. „Victoriabank” – a Member Service Provider of the international payment system Europay Int.;

September 2001

Signing the Agreement between the BC „Victoriabank” S.A. and the IFS on opening a credit line amounting to USD 4 mln.

15 March 2002

Processing Center BC „Victoriabank” S.A. provides services to approximately 50 000 clients.

November 2002

BC „Victoriabank” S.A. in joint collaboration with the payment organization VISA International undertakes an exceptional activity. Holder of the 50 000th card wins a super-prize – a trip ticket for a week for two persons to Paris.

27 November 2002

victoriabank.md is recognized as one of the best corporate web-sites in the Republic of Moldova.

29 October 2003

BC „Victoriabank” S.A. signed a new credit line at the sum worth USD 4 mln. with the European Bank for Reconstruction and Development for funding of small and medium enterprises from the Republic of Moldova.

14 June 2004

Signing a new credit line with the EBRD.

June 2004

IFC offering a loan to Victoriabank the sum of which amounted to USD 5 mln.

September 2004

Financial Magazine „The Banker” declared BC „Victoriabank” S.A. the title „Bank of the Year 2004” from Moldova.

November 2004

BC „Victoriabank” S.A. became the account-holding bank of the Universal Commodity Exchange of Moldova.

22 December 2004

the 15 th anniversary from the first meeting on foundation of a commercial bank in the Republic of Moldova.



Rezultatele activității în anul 2004 Operational results in 2004

Indicatorii financiari principali obținuți de către BC „Victoriabank“ S.A. la finele anului 2004:

Total active – 1 739 mil. lei;
Capitalul statutar – 32 mil. lei;
Capitalul acționar – 231,8 mil. lei;
Profit până la impozitare (mil. lei) – 64,4 mil. lei;
Profit net (mil. lei) – 53,4 mil. lei
ROA (Rentabilitatea activelor) – 3,5%
ROE (Rentabilitatea capitalului) – 24,3%

Structura pasivelor băncii:

obligațiuni – 86,7 %,

inclusiv

- datorii altor bănci – 13,3 %
- depozite ale clienților – 72 %
- alte obligațiuni – 1,4 %
capital acționar – 13,3%

inclusiv

- capital social – 1,8 %.

The main indices obtained by BC „Victoriabank“ S.A. in 2004:

Total assets – 1 739 mil MDL
Authorized capital – 32 mil MDL;
Shareholders' equity – 231,8 mil MDL;
Profit before taxation – 64,4 mil. MDL;
Net profit – 53,4 mil MDL;
ROA (assets profitability) – 3.5%;
ROE (capital profitability) – 24.3%.

Structure of the Bank's liabilities:

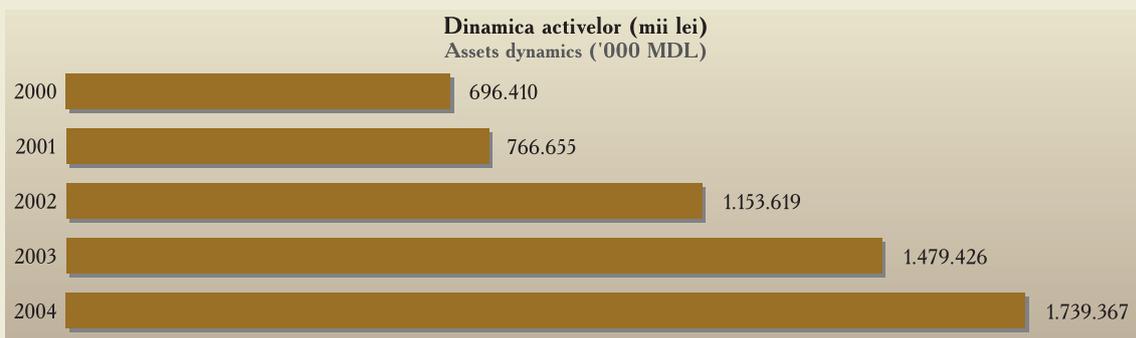
commitments – 86.7%,

including

- due to the other banks – 13.3%
- client's deposits – 72%
- other commitments – 1,4%
shareholder's equity – 13.3%

including

- social capital – 1,8%.



Deservirea clientelei Customer's service

Calitatea produselor și serviciilor bancare prestate clienților, nivelul deservirii îmbinat reușit cu metodele de vânzare a produselor și serviciilor bancare, întărirea relațiilor cu clientela existentă, atragerea clientelei și partenerilor de afaceri noi, rămân pentru BC „Victoriabank“ S.A. o prioritate importantă în strategia sa.

Diversificarea și îmbunătățirea calității serviciilor bancare și nivelul deservirii reușit, a contribuit pe parcursul anului 2004 la creșterea numărului de clienți și a volumului de operațiuni bancare efectuate.

Numărul clienților Băncii s-a majorat cu 17,2 mii, încât numărul total la sfârșitul anului a constituit 103,7 mii clienți, inclusiv:

- persoane juridice – 10,2 mii;
- persoane fizice – 93,5 mii.

Au fost deschise și au activat 30,6 mii conturi bancare noi. Numărul total de conturi a crescut cu 21 la sută comparativ cu numărul conturilor bancare la începutul anului și a constituit la sfârșitul anului 171,6 mii.

La finele anului 2004, suma totală a depozitelor clientelei a atins cifra de 1 251,9 mil. lei și s-a majorat cu 17 la sută. Ponderea persoanelor juridice constituie peste 40 la sută din totalul depozitelor. Pe parcursul anului au avut loc modificări în structura valutară a depozitelor.

Creșterea pe piața financiară a ratei dobânzilor la depozite în lei moldovenești pe parcursul anului, a condus la majorarea depozitelor atrase în valuta națională cu 145,8 mil. lei, iar ponderea lor în total depozite a crescut de la 29 la 36,2 la sută.

Deprecierea dolarului american în raport cu valuta europeană a influențat la diminuarea depozitelor în USD, în schimb au crescut depozitele în moneda europeană cu peste 21 la sută.

The quality of products and bank's services offered to customers, level of services combined with methods of products selling and bank services, strengthening of the relations with existing clients, attraction of new partners and customers, remains for BC „Victoriabank“ S.A. an important priority in its strategy.

Diversification and improvement of quality of banking service and the increase of the servicing level contributed to the growth of the clients' number and the amount of banking operations effectuated within 2004.

The number of Bank's clients grew by 17,2 thousand, thus the total number as at the end of the year constituted 103,7 thousand clients, including:

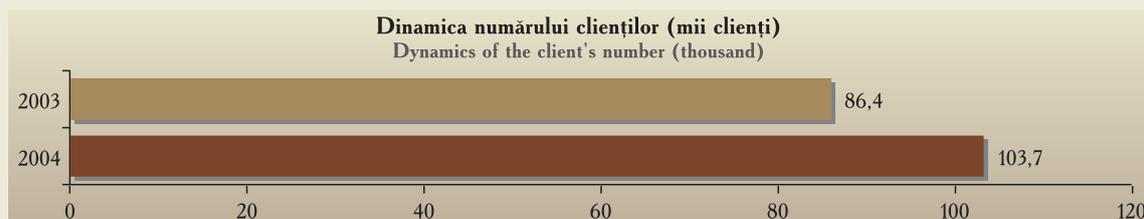
- 10,2 thousand of legal entities;
- 93,5 thousand of natural persons.

There were opened and activated 30,6 thousand new banking accounts. The total number of accounts increased by 21% in comparison with the beginning of the year, so as at the end of the year it constituted 171,6 thousand banking account.

The gross amount of client's deposits reached to MDL 1 251,9 million and increased by 17%. The quota of the legal persons constitutes over 40% from the total deposits. During the year took place modification in the currency deposits structure.

The increase of the interest paid on deposits by the Bank as compared to the interest rate paid by the financial market led to the growth of the amount of deposits attracted in the national currency by MDL 145,8 million and the quota of the total deposits grew from 29% to 36,2%.

Depreciation of the USD influenced over the reduction of the deposits in USD in relation to European currency so the deposits in the European currency increased by more than 21%.



VICTORIABANK

Operațiuni valutare Currency operations

În anul 2004 BC „Victoriabank“ S.A. a continuat să acorde tot spectru de servicii legate de operațiunile valutare, atât persoanelor juridice cât și celor fizice, cum ar fi transferurile bănești în favoarea sau la cererea acestora, acordarea acreditivelor documentare de export-import, acceptarea și realizarea cecurilor de călătorie, transferarea rapidă de valută prin rețeaua MoneyGram și Impexbank, cumpărarea și vânzarea valutilor la cererea clienților.

La finele anului 2004 rezultatele activității băncii în sfera operațiunilor valutare au atins următoarele nivele:

- au fost acceptate spre achitare cecuri de călătorie în:
 - dolari SUA în sumă de 1 035 900 USD,
 - EURO în sumă de 509 750 EUR;
- și vândute de către bancă cecuri AMEX în:
 - dolari SUA în sumă de 733 250 USD
 - EURO în sumă de 663 150 EUR.
- pe parcursul anului precedent au fost deschise acreditive de import în:
 - dolari SUA în sumă de 13 796 045,56 USD
 - EURO în sumă de 287 832,12 EUR;
- și primite acreditive de export în:
 - Dolari SUA în sumă de 1 056 965,36 USD;
 - EURO în sumă de 1 041 878,16 EUR

În urma efectuării operațiunilor de transfer urgent MoneyGram în anul 2004 Banca a obținut un venit în sumă de 164 487,22 USD, iar în total banca a obținut venituri de la operațiuni valutare în mărime de 26,3 mil lei.

În anul 2004 s-au intensificat transferurile valutare prin sistemul Smith&Smith. Astfel, în decursul anului s-au efectuat 2309 (comparative cu 2003-771) de transferuri în dolari SUA și 8812 de transferuri în EURO (comparative cu 2003-1260).

A fost obținut următorul venit din transferurile prin Smith&Smith:

- în dolari SUA – 12 842,95 USD
- în EURO – 34 859,47 EUR

BC „Victoriabank“ S.A. întreține relații de corespondență cu un număr impunător de bănci din diferite țări ale lumii.

Pentru satisfacerea necesităților crescânde ale clienților banca și în 2004 și-a diversificat serviciile, și-a extins legăturile de colaborare cu băncile străine prin acorduri speciale de colaborare în diverse domenii.

During the year 2004 BC „Victoriabank“ S.A. has been keeping on rendering the whole range of services related to currency operations both to natural persons and legal persons, such as currency transfers in customer's favor and at his/her demands, granting Documentary Letters of Credit on export-import, acceptance and realization of the Traveler's Cheque, urgent payments through MoneyGram and Impexbank systems, buying and selling currency on customer's request.

At the end of 2004 year the results in the domain of currency operation reached the following levels:

- there were accepted Traveller's Cheque amounting to:
 - 1 035 900 USD
 - 509 750 EUR,
- and sold AMEX cheques amounting to
 - 733 250 USD
 - 663 150 EUR
- during the last year there were issued import Letters of Credit amounting to
 - 13 796 045,56 USD
 - 287 832,12 EUR
- and there were received export Letter of Credit amounting to
 - 1 056 965,36 USD
 - 1 041 878,16 EUR.

The Bank obtained an income equal to 164 487,22 USD as a result of using of the system of urgent payments-MoneyGram in 2004, and in the gross Bank achieved income from currency operations equal to 26,3 million MDL.

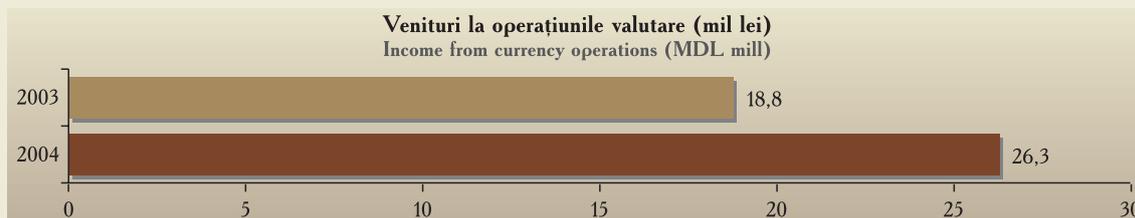
There were intensified the currency transfer through the system Smith & Smith in the 2004 year. So, 2309 of currency transfer in USD were effectuated during this year (as compared to the year 2003-771) and 8812 of currency transfer in EUR.

The income obtained from Smith & Smith transfers was:

- 12 842,95 USD
- 34 859,47 EUR

BC „Victoriabank“ S.A. maintains correspondence relations with an imposing number of banks from many foreign countries.

To satisfy growing demands of the clients, during the year 2004 the Bank diversified services and extended collaboration with foreign banks by special agreements on cooperation in diverse domains.



Activitatea de creditare The crediting activity

În anul 2004 BC „Victoriabank“ S.A. s-a orientat spre creditarea agenților economici, activitatea cărora se caracterizează prin indicatori financiari rentabili, lichiditate suficientă a activelor, strategii echilibrate de dezvoltare, management eficient și potențial suficient pe piață.

În perioada gestionară, portofoliul de credite a constituit în mediu 47,4 la sută din totalul activelor, iar la situația din 31 decembrie 2004 portofoliul de credite net constituia 773,6 mil. lei. sau 44,5% din active. În total volumul creditelor acordate de Bancă a constituit suma de 883 mil lei.

Componența valutară a creditelor acordate a fost:

- în valuta națională — 45,9%;
- în valute liber convertibile recalulate — 54,1%.

Pe parcursul anului 2004 clienților corporativi li s-au acordat 536 credite în sumă totală de 770 mil. lei.

În același timp, persoanelor fizice li s-au acordat 382 credite în sumă totală de 14,9 mil. lei.

A fost intensificată activitatea de creditare prin intermediul cardurilor de credit. Astfel, în 2004 au fost acordate credite de acest fel în baza a 1369 de contracte (în anul 2003 — 715 contracte) și suma totală a creditelor a constituit 23,6 mil lei.

În atenția permanentă a ofițerilor de credite, Comitetului de credite și a Comitetului de direcție a băncii s-au aflat indicii de calitate a portofoliului de credite și formarea rezervelor adecvate riscurilor de creditare.

În 2004 BC „Victoriabank“ S.A. a utilizat următoarele credite acordate de:

- Corporația Financiară Internațională (IFC) — 8,4 mil. USD;
- Banca Europeană pentru Reconstrucție și Dezvoltare — în sumă de 7,4 mil. USD;
- Fondul Internațional pentru Dezvoltare a Agriculturii (FIDA) — 3,4 mil. lei;
- Asociația Internațională pentru Dezvoltare (AID) — 6,3 mil. lei;
- Banca Națională a Moldovei — 3,0 mil. lei.

Pe parcursul anului 2004 banca și-a îndeplinit pe deplin angajamentele sale față de creditori, în conformitate cu condițiile stipulate în contractele de credit.

Utilizând liniile de credit din BERD, IFC, FIDA și AID, cât și o parte din resursele proprii, banca a acordat credite pe termen mediu și lung în mărime de 48,8 la sută din volumul total de credite.

Veniturile băncii din activitatea de creditare au crescut cu 14 la sută comparativ cu volumul acestora din anul 2003 și au constituit 116,9 mil. lei.

In 2004 BC „Victoriabank“ S.A. directed its activity to crediting economic agents, their activity being characterized by profitable financial indicators, well-balanced development strategy, efficient management and sufficient potential on market.

Within the accounting period, loan portfolio constituted 47,4% from the total assets, but the net loan amount as at 31 December 2004 was MDL 773,6 million. Total amount of the loans, granted by the Bank, constituted MDL 883 million.

Currency composition of the granted loans was:

- national currency — 45,9%;
- hard currency recalculated — 54,1%.

Within 2004 corporative customers were offered 536 loans equal to MDL 770 million. At the same time natural persons were granted 382 loans equal to MDL 14,9 million. There was intensified crediting activity through the credits cards. In 2004 there were granted such kind of loans on the base of 1369 contrasts (in 2003 — 715 contracts), and total amount of granted credits was MDL 23,6 million.

In 2004 BC „Victoriabank“ S.A. used the following credit lines offered by:

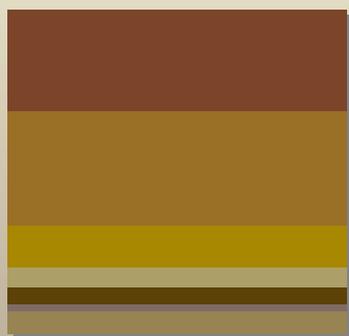
- IFC — 8,4 million USD;
- EBRD — 7,4 million USD;
- IFAD — 3,4 million MDL;
- IDA — 6,3 million MDL;
- National Bank of Moldova — 3,0 million MDL.

During 2004 the Bank completely met its commitment towards creditors, in conformity with conditions stipulated by the credit contracts.

Bank's income from crediting activity grew as compared to 2003 year and constituted 116,9 million MDL.

Structura creditelor la data de 31.12.2004

Loan portfolio structure as at 31.12.2004



Cardurile bancare Bank Cards

În anul 2004 activitatea BC „Victoriabank“ S.A. a fost direcționată spre implementarea serviciilor noi, perfecționarea celor existente și majorarea calității de deservire a clienților în domeniul cardurilor bancare.

Inițial trebuie să menționăm că dezvoltarea sferei cardurilor bancare are o interconexiune strânsă cu utilizarea tehnologiilor informaționale moderne. Victoriabank este prima bancă pe teritoriul Republicii Moldova, care a elaborat și a implementat programul „e-commerce“ pentru internet-magazine — înreprinderile de comerț și servicii, care doresc să accepte spre plată cardurile internaționale VISA și MasterCard pe site-ul lor oficial.

Pentru unitățile de comerț unde nu există posibilitatea de a conecta POS-terminalul la linia telefonică, noi am elaborat o soluție în baza comunicațiilor de standard GSM.

Deținătorii cardurilor Victoriabank au posibilitatea de a deschide linii de credit la conturile de card. Actualmente serviciul dat se bucură de o cerere în creștere din partea populației, ca rezultat au fost elaborate și implementate 3 scheme de creditare de bază, care satisfac necesitățile determinate ale clienților: creditul în formă de overdraft, creditul de consum și creditul revolving.

La posibilitatea achitării serviciilor comunale prin intermediul cardurilor Victoriabank în rețeaua bancomatelor băncii și prin telefon la Serviciul Clientelă 24/24 s-a adăugat posibilitatea achitării prin intermediul rețelei internet, pe site-ul băncii. De asemenea, pe site-ul băncii deținătorii cardurilor pot vizualiza în regimul „on-line“ extrasul din contul cardului.

Pentru deținătorii cardurilor Victoriabank a fost elaborată și implementată în cooperare cu VISA Int. acțiunea promoțională „Cumpără cu premii“.

Nucleul acțiunii l-a constituit principiul acumulării bonusurilor la efectuarea cumpărăturilor prin intermediul cardurilor atât pe teritoriul RM cât și peste hotarele ei. Contra bonusurilor acumulate au fost înmânate premii și cadouri de la Victoriabank. Premiul principal a fost o călătorie pentru doi la Olimpiada de vară în Grecia. Acțiunea „Cumpără cu premii“ — este o metodă inovativă de stimulare a clienților de a utiliza cardul bancar ca un mijloc de plată modern și comod.

Pe lângă modernizarea serviciilor în domeniul cardurilor și tehnologiilor bancare prestate persoanelor fizice și juridice, Victoriabank perfecționează în continuare serviciile Centrului său de Procesare prestate la momentul dat celor 7 bănci comerciale pe teritoriul RM.

Cooperarea cu băncile comerciale se dezvoltă în următoarele direcții:

- sponsorizarea în sistemele internaționale de plăți MasterCard Int. și VISA Int.
- prestarea serviciilor de procesare a tranzacțiilor prin intermediul cardurilor bancare internaționale VISA și MasterCard.

In 2004 the activity of BC „Victoriabank“ S.A. was directed to implement new services, to perform those that already existed and to improve customer services with banking cards.

Initially it should be marked that the development of the banking cards service is in a close interconnection with the use of the modern information technologies. BC „Victoriabank“ S.A. is the first bank from Republic of Moldova that elaborated and implemented the program „e-commerce“ for internet-shops — commercial and service enterprises that wish to accept international cards VISA, MasterCard as payment on their official site.

For the commerce institutions where there wasn't the possibility to connect POS-terminals to the phone line, BC „Victoriabank“ S.A. found a solution based on GSM standard.

Cardholders of the BC „Victoriabank“ S.A. have the possibility to open credit line with cards' account. Now this service is in a great demand among population, in consequence with it there were elaborated and implemented three base loan-scheme, that satisfy determined needs of the clients: loan in form of overdraft, consumer loans and revolving loans.

The possibility to pay for public services by means of cards of BC „Victoriabank“ S.A. through the ATM's network using the Customer Service phone 24/24 was supplemented with the possibility to pay through the bank's web site. Also on the bank's web-site cardholders can examine extract from account — card in the „on line“ regime.

A promotional action „Buy with bonus“ have been elaborated and implemented for the BC „Victoriabank“ S.A. cardholders, in corporation with VISA Int.

This action is focused on the principle of bonus accumulation by buying through the cards both on the territory of Republic of Moldova and in foreign countries. For accumulated bonuses were given presents and premiums from the BC „Victoriabank“ S.A. The main premium was a trip to Olympic Games in Greece. The action „buy with bonus“ is an innovative method for the stimulation of the customers to use banking cards as a modern and comfortable way of payment.

Besides modernization of the services in the field of cards and banking technologies rendered to natural persons and legal persons the BC „Victoriabank“ S.A. improves the quality of services of its Processing Center offering currently the services to seven commercial banks from Republic of Moldova.

The cooperation with commercial banks was focused on the following directions:

- Investments in the international system of payment MasterCard Int. and VISA Int.
- offering of transaction processing services through international banking cards VISA and MasterCard.



Cardurile bancare Bank Cards

Pe parcursul perioadei de gestiune:

- au fost instalate **90** POS-terminale în punctele comerciale,
- au fost instalate **2** bancomate noi,
- au fost emise **17 334** carduri bancare internaționale,
- au fost încheiate **62** contracte referitor la plata salariilor prin intermediul cardurilor bancare,
- au fost încheiate **908** de contracte de credit în sumă totală **2 965,1** mii lei.

La sfârșitul perioadei de gestiune:

- numărul total de POS terminale constituia **380** unități,
- numărul total de bancomate constituia **34** de unități,
- numărul total de carduri aflate în circulație este egal cu **85 330** carduri,
- numărul total de contracte de salarizare la sfârșitul perioadei de gestiune **302** contracte,
- numărul total de contracte de credit constituia **1110** contracte în sumă totală de **3 194,6** mii lei.

De asemenea, a crescut volumul și numărul tranzacțiilor efectuate prin intermediul cardurilor bancare emise de Victoriabank și tranzacțiilor în punctele comerciale deservite de Victoriabank.

Within the reporting period there:

- were installed **90** POS-terminals at the commercial places,
- were installed **2** new ATMs,
- were issued **17 334** international banking cards,
- were concluded **62** contracts concerning to the salary payment by banking cards,
- were concluded **908** loan contracts equal to MDL **2 965,1** thousand.

As at the end of the reporting period:

- total number of POS-terminals constitute **380** unites,
- total number of ATMs is **34** unites,
- total number of cards that are in circulation is equal to **85 330**,
- total number of salary contracts is **302**,
- total number of loan contracts constitute **1110** contracts equal to MDL **3 194,6** thousand.

Also, there was increased the amount of transactions performed by banking cards issued by BC „Victoriabank“ S.A. and transactions performed by the outlets served by BC „Victoriabank“ S.A.

Activitatea băncii pe piața valorilor mobiliare Activity on the securities market

Pe parcursul anului 2004 BC „Victoriabank“ S.A. și-a desfășurat activitatea pe piața valorilor mobiliare, axându-se pe următoarele direcții prioritare, devenite tradiționale:

- operațiuni de dealer pe piața hârtiilor de valoare de stat (HVS);
- operațiuni de brokeraj pe piața HVS și valorilor mobiliare corporative;
- operațiuni de depozitare pentru fondurile de investiții.

Activitatea de dealer a fost caracterizată de investirea activelor Băncii în volum de 267,1 mil. lei în titluri de valoare emise de Ministerul Finanțelor al RM și Guvernele Germaniei și Italiei. În situația când Banca dispune de mijloace libere în valută, investirea în titluri emise în valută convertibilă, asigurând dobânzi comparabile sau mai mari decât la depozitele plasate în băncile corespondente devine o prioritate. Investițiile în HVS moldovenești au crescut în 2004 cu 29% atingând 244 mil. lei și respectiv cu 15%, până la 22,7 mil. lei, în cazul HVS emise de statele grupul G-7. La finele anului 2004 portofoliul HVS al Băncii a constituit 121,56 mil. lei sau 7,12% din activele Băncii.

During 2004 activity of BC „Victoriabank“ S.A. on the security market was focused on the following priority-driven direction, becoming traditional for it:

- dealer activity on government securities (GS) market;
- broker services on GS market and corporate securities market;
- depository services rendered to investments funds.

Dealer activity has been defined by investing Bank's assets in amount of MDL 267,1 mil. in securities issued by Ministry of Finance of RM as well as in government obligations of Germany and Italy. On condition that the Bank possesses free currency facilities, investing into securities issued in hard currency that ensure yields comparable or higher than for the deposits placed with the correspondent banks becomes a priority. Investments in GS of Moldova increased by 29% in 2004 and came to MDL 244 mil. The portfolio of obligations issued by G-7 countries grew by 15% amounting to MDL 22,7 mil. As of the end of 2004 the Bank's securities portfolio amounted to MDL 121,56 mil. or constituted 7,12% of Bank's total assets.



Activitatea de brokeraj s-a manifestat prin facilitarea accesului clienților Băncii la piața autohtonă a titlurilor financiare (HVS și valori mobiliare). A fost intermediată investirea de către clienți a 14,5 mil. lei în HVS emise de Ministerul Finanțelor al RM. Volumul tranzacțiilor cu valori mobiliare corporative, înregistrate în 2004 la Bursa de Valori, în interesul și din contul clienților a constituit 2,2 mil. lei. La serviciile Băncii apelează Departamentul Privatizării la vânzarea acțiunilor din patrimoniul statului, precum și Comisia Națională a Valorilor Mobiliare — la vânzarea acțiunilor din portofoliile fondurilor de investiții aflate în proces de lichidare.

În 2004 a continuat prestarea serviciilor de depozitare fondurilor de investiții, ceea ce presupune menținerea a circa 250 conturi depozitare, pentru evidența activelor fondurilor în volum de 137 mil. lei.

Rezerve mari există în domeniul oferirii serviciilor de underwriting emitenților autohtoni, doritori de a efectua emisiuni noi de valori mobiliare. Acest segment al pieței este slab dezvoltat, emitenții preferând să apeleze la metode tradiționale de împrumut — creditarea. Deja au fost semnate câteva contracte, după finalizarea cu succes a cărora, ar fi posibilă o dezvoltare a acestui serviciu. Se dorește ca această activitate să devină una tradițională.

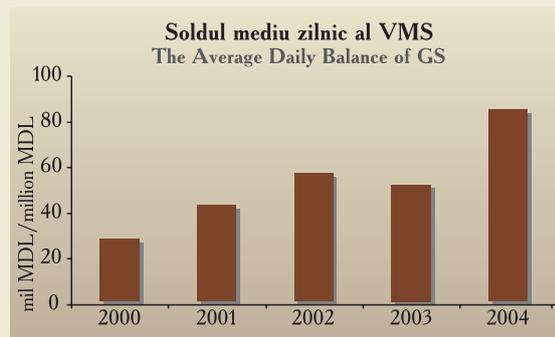
Profitul Băncii din activitatea desfășurată pe piața valorilor mobiliare în 2004 a constituit 11,3 mil. lei cu 67% mai mult decât în 2003.

As a broker, BC „Victoriabank“ S.A. facilitated the access for its clients to the local securities market (GS and corporate securities). Through the mediation of the bank, clients invested MDL 14,5 mil. in GS issued by Ministry of Finance of RM. The amount of deals with corporate securities concluded in 2004 at Moldova Stock Exchange came to MDL 2,2 mil. Among the clients that resort to Bank's services could be mentioned Department of Privatization (for selling state's participations in different JSCs) and National Securities Commission — for selling shares from the portfolio of investment funds that are under liquidation.

In 2004 Bank went on offering depository services to Investment Funds, that involves the maintenance of about 250 depository accounts, where have been kept records of Investment Funds' assets amounted to about MDL 137 mil.

There is room for increasing underwriting services rendered to the local enterprises that intend to make new issuance of securities. As this market is poorly developed, the enterprises prefer to use traditional borrowing instruments — credits. Several agreements have already been signed, in case of successful completion of these agreements would be possible to develop a new stage of underwriting service. It is expected that this service will become a traditional one.

Bank's income from activity on securities market in 2004 amounted to MDL 11,3 mil. or 67% more than a year before.



Servicii bancare și Tehnologii informaționale Banking services and Informational technologies

În anul 2004 BC „Victoriabank“ S.A., în conformitate cu strategia de dezvoltare a băncii și planurilor operaționale anuale a modernizat sistemul informațional al băncii.

Au fost trasate un șir de direcții de dezvoltare în vederea menținerii sistemului informațional la cerințele crescânde a business-ului băncii: perfecționarea centrelor de rezervă de procesare a datelor, de asemenea suportul informațional pentru restructurarea și optimizarea proceselor de afaceri ale băncii.

Printre cele mai importante proiecte menționăm:

- implementarea unui nou sistem informațional pentru suportul operațiunilor de contabilitate internă;
- lansarea unui sistem de clusterizare a serverelor principale ale băncii;
- migrarea la un nou sistem de efectuare a plăților internaționale SWIFT (SWIFT Net);
- modernizarea sistemului de plăți cu amănuntul, în vederea efectuării operațiunilor de plată a facturilor electronice;
- lansarea proiectului de implementare a unui sistem de management electronic al documentelor (document workflow);
- lărgirea și reproiectarea rețelelor informaționale, energetice, telefonice și de securitate a oficiilor băncii, inclusiv în filiale.

În conformitate cu strategia de dezvoltare a tehnologiilor informaționale, aprobată de către Consiliul de Administrație al băncii, banca a stabilit principiile, concepțiile și standardele de bază ale managementului și auditului Tehnologiilor informaționale, de asemenea standardele de securitate a informației.

Începând cu a. 2004, cele mai semnificative direcții de dezvoltare și proiecte propuse pentru implementare vor fi:

- implementarea standardelor de management a proiectelor (PMI), de management și audit informațional (CoBIT), de securitate a informației (ISO 17799);
- implementarea metodologiilor standarde de elaborare a aplicațiilor software (Rational Unified Process);
- suportul permanent în modernizarea tehnologiilor de deservire a clienței, inițiate de către subdiviziunile băncii;
- perfecționarea continuă a planurilor de continuitate a business-ului băncii, testarea permanență a proceselor incluse în el;
- modernizarea infrastructurii de procesare a cardurilor în vederea trecerii la tehnologiile cu cip (smart carduri);
- reproiectarea sistemului informațional-analitic al băncii (suportul proceselor de: bugetare, planificare, analiză și prognoză, risk management, CRM).

Pentru a. 2005 de asemenea este planificată lansarea în masă a unor produse noi în deservirea la distanță a clienței – electronic banking pentru persoane fizice. BC „Victoriabank“ S.A., cum este recunoscută de comunitatea bancară a Republicii Moldova, depune efort maxim pentru promovarea noilor standarde și tehnologii de ultima oră în activitatea sa, și este mereu orientată spre îndeplinirea cerințelor pieței și clienților săi, pentru realizări comune, pentru o dezvoltare fiabilă și stabilă.

In 2004 BC „Victoriabank“ S.A. has updated its informational system in concordance with the strategy of development and operational plans per year.

It has been pointed out a range of direction of development for maintaining informational system at the increasing demands of the bank's business: improvement of data storage and processing center, also informational support for reorganization and optimization of bank's business process.

The most important projects are:

- implementation of a new informational system for supporting internal accountant operations;
- launching of a cluster system for the main servers of the Bank;
- Switch to a new system for carrying out the international payments SWIFT (SWIFT Net);
- modernization of the system for retail payments with regard to effectuating payment operation related to electronic invoice;
- launching of the project related to the implementation of a system for electronic management of documents (document work flow);
- extension and reorganization of informational, energy, phone and security network of the HQ and branches.

The Bank established principles, conceptions, base standards for management and audit of informational technologies, as well as security standards of information in concordance with the strategy of the informational development approved by the Board of Directions.

Beginning with the year 2004 the most significant development directions and projects proposed for implementation will be:

- implementation of standards for management of the projects (PMI), for management and informational audit (CoBIT), and for the security of information (ISO 17799);
- implementation of standard methodologies for elaboration of software's application (Rational Unified Process);
- permanent support in the modernization of customer service technology, initiated by bank' subdivisions;
- continuously improvement of the plans of continuity of Bank's business, permanent testing of the processing enclosed in it;
- modernization of substructure of card's processor with regard to pass to the technologies with chip (smart cards);
- reorganization of analytic-informational system of the of the Bank (the support of the budget, planning, analyze and forecast, risk management).

It is also planned the launch of new products for distant customer service – electronic banking for natural persons. BC „Victoriabank“ S.A., how is known by banking community of Republic of Moldova, is making maximum effort to promote new standards of modern technologies in its activities and it is always directed to satisfy market and its customers demands, for common realization, for a reliable and stable development.



Activitatea în domeniul Resurse Umane The Human Resources department activity

Politica de personal a Băncii reprezintă un ansamblu de preocupări pe termen mediu și pe termen lung privind organizarea și dirijarea resurselor umane.

Scopurile politicii de personal reies din strategia generală a Băncii și constau în promovarea relațiilor necesare între diferite activități, menținerii la un nivel înalt al profesionalismului salariaților și, ca urmare, obținerea rezultatelor pozitive în activitatea Băncii.

În acest an se împlinesc 15 ani de la fondarea Băncii ca structură economică pe piața Republicii Moldova.

În acest răstimp Banca a implementat noi programe de activitate, lărgind diapazonul serviciilor și produselor bancare, ramificând structura administrativă în dependență de cerințele la zi. Pe parcursul activității sale, personalul Băncii a înregistrat rezultate crescânde, demonstrând intelect și o pregătire profesională calitativă.

Astăzi în bancă activează 481 de salariați, dintre care – 195 în Banca Centrală, iar 286 în filiale. În activitatea de bază sunt încadrați circa 340 de salariați. Vârsta media este de 34 ani, care se menține pe parcurs a mai multor ani. 387 de salariați, ce constituie 80 %, sunt specialiști cu studii universitare și universitare de scurtă durată; 32 de specialiști își continuă studiile în instituțiile superioare de învățământ la secțiile fără frecvență; 2 specialiști sunt doctori în științe; 12 specialiști au absolvite câte două facultăți.

O deosebită atenție administrația Băncii acordă problemei selectării personalului. Ca practică selectarea candidaților se face din baza de date rezervă, care la moment constituie mai mult de 200 de persoane. De asemenea, se practică, selectarea în bază de concurs, din cadrul specialiștilor cu experiență de muncă în sistemul bancar, precum și dintre absolvenții instituțiilor de învățământ superior.

În prezent Banca este una dintre cele mai receptivă privind la organizarea și desfășurarea practicii de licență a studenților anului 5 din instituțiile de învățământ superior. Anual își petrec practica în incinta Băncii circa 30 – 40 de absolvenți, din rândul cărora se face o preselecție aproximativă pentru încadrarea lor în câmpul muncii.

În scopul ridicării nivelului profesional, specialiștii Băncii sunt încadrați în sistemul de pregătire profesională care include seminare de instruire profesională, de studiere a tehnicii de vânzarea serviciilor bancare, de deservire eficientă a clienților, de studiere a regulamentelor de specialitate, a programelor informaționale și produselor noi planificate spre implementare.

În anul precedent 2004 au fost instruiți 245 de specialiști, dintre care 26 în incinta instituțiilor de învățământ, 29 în străinătate, 12 în statele CSI și 178 în cadrul Băncii.

În anul curent o parte din specialiști au trecut specializări și în cadrul băncilor din Austria, Italia, Germania, Ungaria, Anglia, România.

The policy related to the Bank personnel represents an entirety of concern regarding Human Resources organization and its administration for a long and medium period of time.

The aims of the staff policy come out from general Bank's strategy and consist in promotion of the required relations among different activities, maintaining of high level of staff professionalism and as a result obtaining positive results in the Bank's activity.

The Bank marks 15 years from the foundation as an economic structure on the market of Republic of Moldova.

In those years the Bank implemented new programs of activity, increased the range of the services and banking products, branching out administrative structure depending on the up-to-day requirement, showing intelligence and qualitative professional training.

481 employees are working today: 195 within the Central Office and 286 in branches, 340 employees activate in the basic fields. The average age among employees that is maintaining for a long time is 34 years. 387 specialists have higher educational studies constituting 80%; 32 employees continue their studies at higher educational institutions by correspondence; two employees are doctors in science, 12 graduated from two university faculties.

The Bank's administration pays an important attention to the staff selection. As a rule the candidates' selection is based on data of reserve, that constitutes at the moment more than 200 persons. Also it is applied the selection on the base of the contest among the specialists that have experience in banking service, as well as among the graduates of high educational institutes.

Currently the Bank is one of the most responsive to the organization and unfolding of the university degree practice of the 5th year students. Every year 30-40 graduates get their practice in the Bank, and then an preliminary selection is made to engage some of them.

Bank's specialists attend a professional training system, including seminar for professional training, for studying the mechanism of selling banking services, for efficient customer service, for informational programs and new products planned for implementation with the aim of raising professional level.

Within the current year a part of specialists attended the courses that took place in the banks from Australia, Italy, Germany, Hungary, England and Romania.



Activitatea în domeniul Resurse Umane *The Human Resources department activity*

Concomitent specialiștii Băncii fac studii de specialitate în cadrul Centrului de Consultanță și Instruire Financiar – Bancară „ABM – Consulting” SRL, care activează pe lângă Asociația Băncilor din Moldova, Centrului de Instruire și Asistență Economică de pe lângă Academia de Studii Economice din Moldova, în cadrul ministerelor și departamentelor cu profil de activitate economic.

Pe parcursul a ultimilor patru ani se organizează evaluarea personalului în baza unei anchete care include criteriile de bază a activității personalului cu un șir de indicatori de performanță.

Asemenea evaluări scot în evidență specialiștii lideri, generatorii de idei, stimulează încadrarea activă a personalului în realizarea programelor de activitate, ridicarea nivelului profesional, creșterea responsabilității.

Strategia de utilizare a resurselor umane prevede un spectru larg de domenii de activitate cum ar fi: planificarea personalului, adaptarea și instruirea celor angajați, dezvoltarea, motivarea, remunerarea, dezvoltarea culturii corporative și altele.

Banca astăzi dispune de o forță de muncă stabilă, asigurată cu locuri de muncă și tehnică modernă.

Resursele umane sunt unica forță creativă activă, coordonatoare și inovatoare, dotată cu potențial intelectual și fizic, cu capacitatea de a-și cunoaște rezervele și a-și depăși limitele, care asigură dezvoltarea resurselor materiale, financiare și informaționale.

Aname prin potențialul uman sunt puse în valoare celelalte resurse și, ca rezultat, crearea produselor și serviciilor.

At the same time the Bank's specialists study in the Consulting Center and Financial-Banking training „ABM-Consulting” SRL, that works by the Bank's Associations from Moldova (ABM), Training Center and Economic Assistance from the Academy of Economic Studies from Moldova, within the ministers and departments with economic profile.

During the last four years the appraisal of the staff is effectuated on the base of a questionnaire that includes the main criterions of the staff's activity and several performance indicators.

That kind of appraisal emphasizes the leaders-specialists, generators of ideas; stimulates active involvement of the staff in the realization of programs of activity, development of the professional level, growth of responsibilities.

The Human Resources strategy envisages a large range of activity fields: staff planning, adaptation and training of the employers, development, motivation, remuneration and others.

The Bank manages a stable labor forces ensured with work places and modern technique.

Human Resources are the only one creative active force, coordinator and innovator, force with physic and intellectual potential with the capacity to know its reserves and to overpass its limits that ensure the development of the material, financial and informational resources.

Just the human potential made the other resources valuable and in consequence with this development of new products and services.



General information
31 december 2004

NATURE OF THE ENTERPRISE

BC Victoriabank S.A. (hereafter „the Bank“) was established in the Republic of Moldova in 1989. The Bank was re-incorporated as a joint-stock commercial bank on 26 August 1991. On 29 November 2002 the Bank was re-registered as an open joint stock commercial bank and the shares became listed on Moldova Stock Exchange.

The Bank's registered office is located at the following address:

BC Victoriabank SA
141, 31 August 1989 Street.
MD-2004, Chisinau
Republic of Moldova
Phone: (373 22) 57 61 00
Facsimile: (373 22) 23 35 61

At year-end 2004 the Bank possessed a type „C“ license granted by the National Bank of Moldova, which allows the Bank to engage in all banking activities.

At 31 December 2004 the Bank had 12 branches and 6 representative offices.

The Bank's number of employees as at 31 December 2004 was 472 (2003: 436).

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

As at 31 December 2004 the Board of Directors of the Bank comprised the following members:

- Mr Alexandru Tanase, Chairman of the Board; Senior Banker, EBRD;
- Mr Radu Gratian Ghetea, Vice-Chairman of the Board, Prime Vice-President, Alpha Bank Romania SA;
- Mr Victor Turcanu, member of the Board, President, BC Victoriabank S.A.;
- Mrs Galina Proidisvet, member of the Board, Prime Vice-President, BC Victoriabank S.A.;
- Mr Damianos Damianos, member of the Board, Managing Director, Danube Fund Ltd;
- Mr Ion Rosca, member of the Board, Vice-Director Agroindservice SRL.

Independent auditors' report to the shareholders of BC Victoriabank S.A.

PRICEWATERHOUSECOOPERS 

PricewaterhouseCoopers Audit SRL
37, Maria Cibotari Street
Chisinau, 2012
Republic of Moldova
Telephone +(373 22) 23-81-22
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www.pwc.com/md

We have audited the accompanying balance sheet of BC Victoriabank S.A. („the Bank“) as at 31 December 2004, and the related statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the Bank's management. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2004 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers Audit SRL

Chişinău, 11 February 2005



VICTORIABANK

15 ANI DE ACTIVITATE

Statement of income
for the year ended 31 december 2004
(All amounts in thousand Moldovan Lei (MDL) unless otherwise stated)

	Note	31 December 2004	31 December 2003
Interest and similar income	4	138,511	121,414
Interest and similar expense	4	(55,373)	(41,589)
Net interest income		83,138	79,825
Fee and commission income	5	64,242	62,311
Fee and commission expense	5	(8,767)	(8,224)
Net fee and commission income		55,475	54,087
Foreign exchange gain	6	25,487	18,763
Other operating income	7	6,967	4,305
Impairment provision	8	(29,983)	(17,443)
Operating expenses	9	(76,718)	(71,344)
Profit before income tax		64,366	68,193
Income tax expense	10	(11,002)	(13,078)
Net profit for the year		53,364	55,115
Basic earnings per share (MDL)	32	17	17

The financial statements on page 1 to 4 and accompanying notes on pages 5 to 47 were signed and approved on behalf of the Board of Directors on 11 February 2005 by:

Victor Turcanu
President Prime

Galina Proidisvet
Vice-President

Balance sheet
as at 31 december 2004

	Note	31 December 2004	31 December 2003
<i>Assets</i>			
Cash		77,741	60,877
Due from National Bank of Moldova	11	290,672	132,415
Due from other banks	12	320,913	381,250
Treasury bills	13	122,408	43,034
Loans and advances to customers, net	14	773,621	738,618
Equity investments	15	332	332
Intangible assets	16	5,051	8,238
Property and equipment	17	100,806	83,408
Other assets	18	47,823	31,254
Total assets		1,739,367	1,479,426
<i>Liabilities</i>			
Due to other banks	19	31,808	32,942
Other borrowings	20	200,289	145,526
Due to customers	21	1,251,877	1,066,150
Other liabilities	22	22,155	29,971
Deferred tax liabilities	23	1,443	806
Total liabilities		1,507,572	1,275,395
<i>Shareholders' equity</i>			
Ordinary shares	24	32,000	32,000
Share premium	24	10,250	10,250
Legal reserves	25	4,800	4,800
Retained earnings	26	184,745	156,981
Total shareholders' equity		231,795	204,031
Total liabilities and shareholders' equity		1,739,367	1,479,426

The financial statements on page 1 to 4 and accompanying notes on pages 5 to 47 were signed and approved on behalf of the Board of Directors on 11 February 2005 by:

Victor Turcanu
President Prime

Galina Proidisvet
Vice-President



VICTORIABANK

15 ANI DE ACTIVITATE

Statement of cash flows
for the year ended 31 december 2004
(All amounts in thousand Moldovan Lei (MDL) unless otherwise stated)

	31 December 2004	31 December 2003
<i>Cash flows from operating activities</i>		
Interest and commissions receipts	136,901	125,937
Interest paid	(54,844)	(42,285)
Fee and commission receipts	55,475	54,087
Net trading and other income	31,040	22,650
Payments to employees and social contributions	(39,484)	(37,663)
Payments to suppliers and other creditors	(20,762)	(18,908)
Income tax paid	(13,822)	(17,142)
Net cash flows form operating profits before changes in operating assets and liabilities	94,504	86,676
<i>Changes in operating assets</i>		
(Increase) / decrease in treasury bills over 90 days	(62,865)	10,402
Increase in amounts due from other banks	(5,062)	(17,129)
Increase in loans and advances to customers	(77,284)	(189,520)
Decrease / (increase) in other assets	482	(2,286)
Total changes in operating assets	(144,729)	(198,533)
<i>Changes in operating liabilities</i>		
Increase in due to other banks and borrowings	54,763	16,928
Increase in due to customers	185,727	284,844
Decrease in other liabilities	(4,830)	(6,381)
Total changes in operating liabilities	235,660	295,391
Net cash from operating activities	185,435	183,534
<i>Cash flows from investing activities</i>		
Net purchases of intangible assets	(1,807)	(3,321)
Net purchases of property and equipment	(28,575)	(16,558)
Proceeds from sale of equity investments	-	136
Net cash used in investing activities	(30,382)	(19,743)
<i>Cash flows from financing activities</i>		
Dividends paid	(25,600)	(19,200)
Net cash used in financing activities	(25,600)	(19,200)
Effects of exchange rate changes on cash and cash equivalents	(444)	(276)
Net increase in cash and cash equivalents	129,009	144,315
Cash and cash equivalents at 1 January	568,794	424,479
Cash and cash equivalents at 31 December (Note 28)	697,803	568,794

Statement of changes in shareholders' equity
for the year ended 31 december 2004
(All amounts in thousand Moldovan Lei (MDL) unless otherwise stated)

	Ordinary shares	Share premium reserve	Legal reserves	Retained earnings	Total
Balance at 1 January 2003	32,000	10,250	4,800	121,066	168,116
Net profit for the year	-	-	-	55,115	55,115
Dividends paid for 2002 (Note 27)	-	-	-	(19,200)	(19,200)
Balance at 31 December 2003/1 January 2004	32,000	10,250	4,800	156,981	204,031
Net profit for the year	-	-	-	53,364	53,364
Dividends paid for 2003 (Note 27)	-	-	-	(25,600)	(25,600)
Balance at 31 December 2004	32,000	10,250	4,800	184,745	231,795

*Notes to the financial statements
for the year ended 31 december 2004*
(All amounts in thousand Moldovan Lei (MDL) unless otherwise stated)

1 BASIS OF PRESENTATION

These financial statements of BC Victoriabank (the „Bank“) are prepared in accordance with International Financial Reporting Standards („IFRS“). The financial statements are prepared under the historical cost convention and modified by the revaluation of financial assets available for sale.

1.1 Currency of presentation

The accompanying financial statements are presented in the national currency of the Republic of Moldova, the Moldovan Leu (MDL).

1.2 Basis of accounting

The underlying accounting records maintained in conformity with National Accounting Standards issued by the Ministry of Finance of the Republic of Moldova and National Bank of Moldova („NBM“) banking regulations („statutory accounts“) have been restated to reflect the differences between the statutory accounts and the International Financial Reporting Standards („IFRS“). Accordingly, such adjustments have been made to the statutory accounts as have been considered necessary to bring the financial statements into line, in all material respects, with IFRS. The principal differences between the statutory accounts and the IFRS financial statements relate to the effects of accounting for income tax, methodologies for determining the allowance for loan losses, accounting for financial instruments, and accounting for treasury bills.

1.3 Use of estimates

The preparation of the financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported income and expenses during the reported period. Actual results could differ from these estimates.

1.4 Offsetting

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 recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Foreign currency translation

Foreign currency transactions are translated into the functional currency (MDL) using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. At 31 December 2004 the principal rate of exchange used for translating foreign balances was USD 1 = MDL 12.4600 (31 December 2003: USD 1 = MDL 13.2200) and EUR 1 = MDL 16.9542 (31 December 2003: EUR 1 = MDL 16.5256).

2.2 Interest income and expense

Interest income and expense are recognised in the statement of income for all interest bearing instruments on an accruals basis. Interest income includes accrued discount and premium on treasury securities. Once a financial asset or a group of financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.3 Fee and commission income

Fee and commission income consists mainly of fees and commissions received for the transfers of money for customers, cards, issuance of guarantees and letters of credit. Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan origination fees for loans which are probable of being drawn down, are deferred (together with related direct costs) and recognised as an adjustments to the effective yield on the loan.



Notes to the financial statements
for the year ended 31 december 2004
 (All amounts in thousand Moldovan Lei (MDL) unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than 90 days original maturity including: cash, balances with National Bank of Moldova, treasury bills and amounts due from other banks.

2.5 Financial assets

The Bank classifies its financial assets in the following categories: loans and receivables and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

(a) *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, goods or services directly to a debtor with no intention of trading the receivable.

(b) *Available-for-sale*

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available for sale financial assets are recognised on trade-date – the date on which the Bank commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of available-for-sale financial assets are included in the income statement in the period in which they arise. Interest calculated using effective interest method is recognised in the income statement. Dividends of available-for-sale equity instruments are recognised in the income statement when the entity's rights to receive payments are established.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active, the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

2.6 Originated loans and provisions for loan impairment

Loans originated by the Bank by providing money directly to the borrower or to a sub-participation agent at draw down are categorised as loans originated by the Bank and are carried at amortised cost. All loans and advances are recognised when cash is advanced to borrowers.

A credit risk provision for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due.

The amount of provision is the difference between the carrying amount and the estimated recoverable amount, calculated as the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted based on the instrument's interest rate at inception.

The provision for loan impairment also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date.

When a loan is uncollectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary legal procedures have been completed and the amount of the loss has been determined. Recoveries of amounts previously written off are treated as income.

2.7 Other credit related commitments

In the normal course of business, the Bank enters into other credit related commitments including loan commitments, letters of credit and guarantees. Specific provisions are raised against other credit related commitments when losses are considered probable.

2.8 Sale and repurchase agreements

Securities sold subject to a linked repurchase agreements („repos“) are retained in the financial statements as available-for-sale securities (treasury bills) and the counter party liability is included in amounts due to banks or customers, as appropriate. Securities purchased under agreements to resell (‘reverse repos’) are recorded as loans and advances to other banks or customers, as appropriate.

The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.



*Notes to the financial statements
for the year ended 31 december 2004*

(All amounts in thousand Moldovan Lei (MDL) unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Intangible assets

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives (three to five years).

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Bank, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives (not exceeding five years).

2.10 Property and equipment

All property and equipment is stated at historical cost less depreciation.

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

- Buildings 40 years,
- Equipment and other fixed assets 5 years.

Assets under construction are not depreciated until they are brought in use.

Management reviews the carrying value of premises and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Expenses for repairs and maintenance are charged to operating expenses as incurred. Interest expenses are not included in the cost of premises and equipment.

2.11 Leases

The leases entered into by the Bank are primarily operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2.12 Income taxes

The Bank records profit tax upon net income for the Moldovan financial statements in accordance with Moldovan profit tax legislation. Moldovan profits tax legislation is based on a fiscal year ending on 31 December. In recording both the current and deferred income tax charge for the year ended, the Bank has computed the annual income tax charge based on Moldovan profits tax legislation enacted (or substantially enacted) at the balance sheet date.

Differences between financial reporting under International Financial Reporting Standards and Moldovan fiscal regulations give rise to material differences between the carrying value of certain assets and liabilities and income and expenses for financial reporting and income tax purposes.

Deferred income tax is provided for using the liability method, for such temporary differences arising between the tax base of assets and liabilities and their carrying values for financial reporting purposes.

The principal temporary differences arise from depreciation of property and equipment and allowance for losses on loans and advances to customers and other assets. The rate enacted or substantively enacted at the balance sheet date is used to determine deferred income tax.

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

2.13 Borrowings

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

2.14 Pension obligation and other post retirement benefits

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



Notes to the financial statements
for the year ended 31 december 2004
 (All amounts in thousand Moldovan Lei (MDL) unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Dividends

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

2.16 Fair value of financial instruments

Fair value is the amount for which an instrument could be exchanged between knowledgeable and willing parties in an arms length transaction. It represents a general approximation of possible value and may never be effectively realised. The Bank is subject to fluctuations of many economic variables including:

- (a) exchange rate of foreign currency against the Moldovan Lei or other foreign currency;
- (b) market price of similar products;
- (c) interest rates.

The Bank's financial instruments, as defined in accordance with applicable requirements, include financial assets and liabilities recorded in the balance sheet as well as off-balance sheet instruments such as guarantees and letters of credit.

The Bank's short term funds and customer accounts are carried in the financial statements at cost, because these instruments have short maturity terms and are convertible into cash or are settled without significant transaction costs. The loans to customers, guarantees, letters of credit are reported at cost less an estimate for impairment. These items have predominantly short re-pricing terms and carry interest rates which reflect current market conditions. Treasury and investment securities are classified as available-for-sale assets and are carried at fair value (being an estimation of the market value as at 31 December 2004).

2.17 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation to transfer economic benefits as a result of past events and a reliable estimate of the amount of the obligation can be made.

2.18 Fiduciary activities

Assets and income arising thereon together with related undertakings to return such assets to customers are excluded from these financial statements where the Bank acts in a fiduciary capacity such as nominee, trustee or agent.

2.19 Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

2.20 Adoption of new and revised standards

The banks in the Republic of Moldova will adopt the following revised and new standards which are effective from 1 January 2005:

- IAS 24 (revised 2003) Related Party Disclosures
- IAS 32 (revised 2003) Financial Instruments: Disclosure and Presentation
- IAS 36 (revised 2004) Impairment of Assets
- IAS 38 (revised 2004) Intangible Assets
- IAS 39 (revised 2004) Financial Instruments: Recognition and Measurement
- IFRS 3 (issued 2004) Business Combinations
- IFRS 5 (issued 2004) Non-current Assets Held for Sale and Discontinued Operations
- IFRS 3 requires simultaneous adoption with IAS 36 and IAS 38.
- IAS 39 requires simultaneous adoption with IAS 32.

The adoption of the above mentioned standards will result in the following changes:

IAS 24 will affect the identification of related parties and some other related party disclosures including the disclosure of key management personnel compensation.

IAS 32, 39 (revised 2004) will result in a change in the fair value measurement of Available-for-sale financial assets whereby the Bank will be required to recognise gains and losses resulting from fair value measurement directly in equity.

3 FINANCIAL RISK MANAGEMENT

3.1 Strategy in using financial instruments

By their nature, the Bank's activities are principally related to the use of financial instruments including derivatives. The Bank accepts deposits from customers at both fixed and floating rates, and for various periods, and seeks to earn above-average interest margins by investing these funds in high-quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.



Notes to the financial statements
for the year ended 31 december 2004
 (All amounts in thousand Moldovan Lei (MDL) unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Strategy in using financial instruments (continued)

The Bank also seeks to raise its interest margins by obtaining above-average margins, net of allowances, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just on-balance sheet loans and advances; the Bank also enters into guarantees and other commitments such as letters of credit.

3.2 Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the balance sheet date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Bank's portfolio, could result in losses that are different from those provided for at the balance sheet date. Management therefore carefully manages its exposure to credit risk.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product and industry sector are approved quarterly by the Board of Directors.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees, but a significant portion is personal lending where no such facilities can be obtained.

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit — which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties — carry the same credit risk as loans. Documentary and commercial letters of credit — which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions — are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments.

However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

3.3 Interest rate risk

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

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

The table below summarises the Bank's exposure to interest rate risks at 31 December 2004. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	No interest bearing	Total
<i>At 31 December 2004</i>							
<i>Assets</i>							
Cash	-	-	-	-	-	77,741	77,741
Due from NBM	133,128	-	-	-	-	157,544	290,672
Due from other banks	237,317	53,947	-	10,853	-	18,796	320,913
Treasury Bills	31,890	21,791	68,054	673	-	-	122,408



VICTORIABANK

Notes to the financial statements
for the year ended 31 december 2004
 (All amounts in thousand Moldovan Lei (MDL) unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Interest rate risk (continued)

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	No interest bearing	Total
Loans and advances to customers	50,391	90,639	357,787	233,641	9,396	31,767	773,621
Equity investments	-	-	-	-	-	332	332
Intangible assets	-	-	-	-	-	5,051	5,051
Property and equipment	-	-	-	-	-	100,806	100,806
Other assets	-	-	-	-	-	47,823	47,823
Total assets	452,726	166,377	425,841	245,167	9,396	439,860	1,739,367
<i>Liabilities</i>							
Due to other banks	-	-	15,097	1,056	1,590	14,065	31,808
Other borrowings	303	11,957	188,029	-	-	-	200,289
Due to customers	333,398	107,326	351,289	53,052	-	406,812	1,251,877
Other liabilities	-	-	-	-	-	22,155	22,155
Deferred tax liability	-	-	-	-	-	1,443	1,443
Total liabilities	333,701	119,283	554,415	54,108	1,590	444,475	1,507,572
Interest sensitivity gap	119,025	47,094	(128,574)	191,059	7,806		

The table below summarises the effective interest rate by major currencies for monetary financial instruments not carried at fair value to profit or loss:

	EUR	USD	MDL
<i>Assets</i>			
Due from National Bank of Moldova	0.3%	0.3%	11.2%
Due from other banks	0.91%	1.64%	9.49%
Treasury bills	2.6%	2.41%	12.2%
Loans and advances to customers	9.8%	10.0%	22.0%
<i>Liabilities</i>			
Due to other banks	-	-	3.16%
Other borrowings	-	6.5%	9.1%
Due to customers	2.41%	4.30%	11.3%

The table below summarises the Bank's exposure to interest rate risks at 31 December 2003. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	No interest bearing	Total
<i>At 31 December 2003</i>							
<i>Assets</i>							
Cash	-	-	-	-	-	60,877	60,877
Due from NBM	86,655	-	-	-	-	45,760	132,415
Due from banks	318,377	11,469	3,494	10,800	6,173	30,937	381,250
Treasury Bills	4,438	9,502	9,547	19,547	-	-	43,034
Loans and advances to customers	29,197	172,625	243,541	265,863	4,352	23,040	738,618
Equity investments	-	-	-	-	-	332	332
Intangible assets	-	-	-	-	-	8,238	8,238
Property and equipment	-	-	-	-	-	83,408	83,408
Other assets	-	-	-	-	-	31,254	31,254
Total assets	438,667	193,596	256,582	296,210	10,525	283,846	1,479,426
<i>Liabilities</i>							
Due to other banks	22,254	-	105	1,056	1,854	7,673	32,942
Other borrowings	-	-	145,526	-	-	-	145,526
Due to customers	221,357	152,926	232,166	80,345	-	379,356	1,066,150
Other liabilities	-	-	-	-	-	29,971	29,971
Deferred tax liability	-	-	-	-	-	806	806
Total liabilities	243,611	152,926	377,797	81,401	1,854	417,806	1,275,395
Interest sensitivity gap	195,056	40,670	(121,215)	214,809	8,671		



*Notes to the financial statements
for the year ended 31 december 2004*
(All amounts in thousand Moldovan Lei (MDL) unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Interest rate risk (continued)

The table below summarises the effective interest rate by major currencies for monetary financial instruments not carried at fair value to profit or loss:

	EUR	USD	MDL
<i>Assets</i>			
Due from National Bank of Moldova	-	-	11.3%
Due from other banks	0.8%	1.70%	9.51%
Treasury bills	4.50%	5.23%	14.2%
Loans and advances to customers	10.20%	10.10%	22.6%
<i>Liabilities</i>			
Due to other banks	-	-	4.19%
Other borrowings	4.1%	4.44%	9.81%
Due to customers	2.30%	4.40%	11.4%

3.4 Currency risk

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by currency.

	USD	EUR	Other foreign currencies	Local currency	Total
<i>At 31 December 2004</i>					
<i>Assets</i>					
Cash	18,385	29,268	438	29,650	77,741
Due from National Bank	29,299	19,358	-	242,015	290,672
Due from banks	138,618	155,937	10,020	16,338	320,913
Treasury bills	6,471	17,607	-	98,330	122,408
Loans and advances to customers	413,529	121,555	-	238,537	773,621
Equity investments	-	-	-	332	332
Intangible assets	-	-	-	5,051	5,051
Property and equipment	-	-	-	100,806	100,806
Other assets	11,180	3,435	20	33,188	47,823
Total assets	617,482	347,160	10,478	764,247	1,739,367
<i>Liabilities</i>					
Due to other banks	12,816	880	8	18,104	31,808
Other borrowings	187,199	4,323	-	8,767	200,289
Due to customers	450,507	334,817	8,679	457,874	1,251,877
Other liabilities	9,770	7,885	182	4,318	22,155
Deferred tax liabilities	-	-	-	1,443	1,443
Total liabilities	660,292	347,905	8,869	490,506	1,507,572
Net on balance sheet position	(42,810)	(745)	1,609	273,741	231,795
<i>At 31 December 2003</i>					
Total assets	606,889	289,340	18,530	564,667	1,479,426
Total liabilities	626,290	288,189	8,811	352,105	1,275,395
Net on balance sheet position	(19,401)	1,151	9,719	212,562	204,031

Other currencies include mainly British Pound, Russian Rouble and Ukrainian Hrivna.

3.5 Liquidity risk

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees. The Bank does not maintain cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

*Notes to the financial statements
for the year ended 31 december 2004*
(All amounts in thousand Moldovan Lei (MDL) unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.5 Liquidity risk (continued)

	Up to 1 month	1 to 3 month	3 to 12 month	1 to 5 years	Over 5 years	Total
<i>At 31 December 2004</i>						
<i>Assets</i>						
Cash	77,741	-	-	-	-	77,741
Due to the National Bank of Moldova	273,672	17,000	-	-	-	290,672
Due from banks	297,629	12,400	-	10,884	-	320,913
Treasury bills	31,890	21,791	68,054	673	-	122,408
Loans and advances to customers, net	69,722	97,136	358,815	238,552	9,396	773,621
Equity investments	-	-	-	332	-	332
Intangible assets	-	-	-	-	5,051	5,051
Property and equipment	-	-	-	-	100,806	100,806
Other assets	23,197	1,979	14,021	8,626	-	47,823
Total assets	773,851	150,306	440,890	259,067	115,253	1,739,367
<i>Liabilities</i>						
Due to other banks	14,065	-	15,097	1,056	1,590	31,808
Other borrowings	303	11,957	41,011	124,243	22,775	200,289
Due to customers	740,213	107,323	351,289	53,052	-	1,251,877
Other liabilities	20,250	986	919	-	-	22,155
Deferred tax liabilities	-	-	-	1,443	-	1,443
Total liabilities	774,831	120,266	408,316	179,794	24,365	1,507,572
Net liquidity gap	(980)	30,040	32,574	79,273	90,888	231,795

Management is confident that in spite of a substantial portion of deposits having contractual maturity dates within three months, diversification of these deposits by number and type of deposits, and the past experience of the Bank would indicate that these deposits provide a long – term and stable source of funding for the Bank.

	Up to 1 month	1 to 3 month	3 to 12 month	1 to 5 years	Over 5 years	Total
<i>At 31 December 2003</i>						
<i>Assets</i>						
Cash	60,877	-	-	-	-	60,877
Due to the National Bank of Moldova	132,415	-	-	-	-	132,415
Due from other banks	349,149	11,469	3,659	10,800	6,173	381,250
Treasury bills	4,438	9,502	9,547	19,547	-	43,034
Loans and advances to customers, net	87,221	123,670	247,495	270,312	9,920	738,618
Equity investments	-	-	-	332	-	332
Intangible assets	-	-	-	-	8,238	8,238
Property and equipment	-	-	-	-	83,408	83,408
Other assets	20,324	-	1,616	9,314	-	31,254
Total assets	654,424	144,641	262,317	310,305	107,739	1,479,426
<i>Liabilities</i>						
Due to other banks	29,927	-	105	1,056	1,854	32,942
Other borrowings	-	-	31,345	108,911	5,270	145,526
Due to customers	675,874	77,765	232,166	80,345	-	1,066,150
Other liabilities	24,834	4,862	275	-	-	29,971
Deferred tax liabilities	-	-	-	806	-	806
Total liabilities	730,635	82,627	263,891	191,118	7,124	1,275,395
Net liquidity gap	(76,211)	62,014	(1,574)	119,187	100,615	204,031



*Notes to the financial statements
for the year ended 31 december 2004*
(All amounts in thousand Moldovan Lei (MDL) unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.6 Fair values of financial assets and liabilities

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's balance sheet at their fair value. Bid prices are used to estimate fair values of assets, whereas offer prices are applied for liabilities.

	Carrying value		Fair value	
	2004	2003	2004	2003
<i>Financial assets</i>				
Due from other banks	320,913	381,250	320,412	371,750
Loans and advances to customers	773,621	738,818	731,629	686,880
<i>Financial liabilities</i>				
Due to other banks	31,808	32,942	31,797	32,757
Other borrowings	200,289	145,526	195,514	138,251
Due to customers	1,251,877	1,066,150	1,121,663	1,031,378

a) *Due from banks*

Due from other banks includes inter-bank placements and items in the course of collection.

The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

b) *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.

c) *Deposits and borrowings*

The estimated fair value of due to other banks with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

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.

3.7 Capital adequacy

The Bank calculates capital adequacy based upon the regulations issued by the National Bank of Moldova („NBM“). These ratios measure capital adequacy by comparing the Bank's eligible capital with its balance sheet assets, off-balance-sheet commitments and market and other risk positions at weighted amount to reflect their relative risk. The regulations require that capital adequacy ratios be calculated on financial information prepared in accordance with National Accounting Standards („NAS“). To be „sufficiently capitalised“ under NBM regulations a banking institution must have a capital adequacy ratio of at least 12%. As of 31 December 2004, the capital adequacy ratio based upon the NBM's regulations, was 19.70% (2003: 19.63%).

In addition to the above ratios the Bank also monitors the adequacy of its capital using ratios established by the Bank for International Settlements („BIS“), based upon its financial statements prepared in accordance with International Financial Reporting Standards (IFRS). Based upon financial information prepared in accordance with IFRS the Tier 1 and a Tier 1 plus Tier 2 capital adequacy ratios of the Bank at 31 December 2004 were 19.5% and 19.5% respectively (2003: 19.4% and 19.4% respectively).

Under BIS guidelines assets are weighted according to broad categories of notional credit risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weights (0%, 20%, 50%, 100%) are applied; for example cash and money market instruments have a zero risk weighting which means that no capital is required to support the holding of these assets. Property and equipment carries a 100% risk weighting, meaning that it must be supported by capital equal to 8% of the carrying amount. Other asset categories have intermediate weightings.

Off-balance-sheet credit related commitments and forwards and options based derivative instruments are taken into account by applying different categories of credit conversion factors, designed to convert these items into balance sheet equivalents. The resulting credit equivalent amounts are then weighted for credit risk using the same percentages as for balance sheet assets.

Tier 1 capital consists of paid-in share capital, reserves and retained earnings. Tier 2 capital includes revaluation reserves and the Bank's eligible long-term debt.



*Notes to the financial statements
for the year ended 31 december 2004*
(All amounts in thousand Moldovan Lei (MDL) unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.7 Capital adequacy (continued)

	Balance sheet/nominal amount		Risk weighted amount	
	2004	2003	2004	2003
Cash and due from National Bank	368,413	193,292	-	-
Due from other banks	320,913	381,250	64,183	76,250
Treasury bills	122,408	43,034	61,204	21,517
Loans and advances to customers	773,621	738,618	773,621	738,618
Equity investments	332	332	332	332
Intangible assets	5,051	8,238	5,051	8,238
Property, plant and equipment	100,806	83,408	100,806	83,408
Other assets	47,823	31,253	47,823	31,254
Total assets	1,739,367	1,479,426	1,053,020	959,618
Documentary letter of credit	38,989	68,408	-	-
Loan commitments	112,802	78,776	112,802	78,776
Guarantees issued	24,835	10,808	24,835	10,808
Total off balance sheet positions	176,626	157,992	137,637	89,584
Total risk-weighted assets	1,915,993	1,637,418	1,190,657	1,049,202

BIS Capital Ratios	Capital		BIS	
	2004	2003	2004	2003
Tier 1 capital	231,795	204,031	19.5	19.4
Tier 1 + Tier 2 capital	231,795	204,031	19.5	19.4

4 NET INTEREST INCOME

	31 December 2004	31 December 2003
<i>Interest and similar income</i>		
Loans and advances to customers	116,891	102,060
Due from National Bank of Moldova and other banks	10,307	12,582
Treasury bills	11,313	6,772
	138,511	121,414
<i>Interest and similar expense</i>		
Due to customers - individuals	34,958	28,673
Due to customers - companies	8,586	4,631
Due to other banks	562	1,060
Other borrowings	11,267	7,225
	55,373	41,589

5 NET FEE AND COMMISSION INCOME

	31 December 2004	31 December 2003
<i>Fee and commission income</i>		
Payment transactions	29,067	29,354
Card account services	18,845	16,557
Foreign exchange operations	11,925	12,593
Other	4,405	3,807
	64,242	62,311
<i>Fee and commission expense</i>		
Payment transactions	1,492	1,478
Card account services	6,098	5,977
Other	1,177	769
	8,767	8,224



*Notes to the financial statements
for the year ended 31 december 2004*
(All amounts in thousand Moldovan Lei (MDL) unless otherwise stated)

6 FOREIGN EXCHANGE GAIN

	31 December 2004	31 December 2003
Realised foreign exchange gain	25,931	18,344
Net effect of translation of foreign currency denominated assets and liabilities	(444)	419
	25,487	18,763

7 OTHER OPERATING INCOME

	31 December 2004	31 December 2003
Income from cards transactions with other banks	645	884
Result from sale of equity investments	-	615
Dividend income	258	333
Rent income	407	453
Revenue from fines and penalties	744	58
Income from disposal of property and equipment and other assets	1,151	-
Gain from changes in fair value of treasury bills	847	-
Reimbursement from settlement systems	650	133
Income for cash collections	1,138	604
Other income	1,127	1,225
	6,967	4,305

8 IMPAIRMENT PROVISION

	31 December 2004	31 December 2003
<i>Impairment charge for</i>		
loans and advances to customers (Note14)	26,786	14,589
property and equipment (Note 17)	-	1,201
other assets (Note 18)	3,197	1,653
	29,983	17,443

9 OPERATING EXPENSES

	31 December 2004	31 December 2003
Salaries, wages and bonuses	31,338	29,566
Social security payments	8,146	8,097
Depreciation charge	11,177	10,014
Amortisation charge	4,994	4,557
Administration expenses	3,051	2,596
Mail and communications	2,071	1,616
Operating lease expenses	1,809	2,417
Repairs and maintenance	4,389	3,976
Advertising expenses	1,038	1,559
Utilities	1,257	1,115
Contribution to Deposits Guarantee Fund	1,032	-
Insurance	1,505	767
Consulting and audit services	1,038	1,143
Expenses with processing/ settlement systems	902	799
Other expenses	2,971	3,122
	76,718	71,344

10 INCOME TAX EXPENSE

The income tax consists of current and deferred income tax as follows:

	31 December 2004	31 December 2003
Current income tax expense	10,365	14,118
Deferred income tax charge/(credit)	637	(1,040)
	11,002	13,078

Further information about deferred income tax is presented in Note 23.

Notes to the financial statements
for the year ended 31 december 2004
 (All amounts in thousand Moldovan Lei (MDL) unless otherwise stated)

10 INCOME TAX EXPENSE (CONTINUED)

The tax on the Bank's profit before tax differs from the theoretical amount that would arise using the tax rate applicable to the Bank as follows:

	31 December 2004	31 December 2003
IFRS profit before tax	64,366	68,193
Theoretical tax charge at the applicable statutory tax rate of 20% (2003: 22%)	12,873	15,002
Income not subject to tax	(3,187)	(3,080)
Expenses not deductible for tax purposes	1,316	2,392
Tax facility	-	(1,236)
Tax charge	11,002	13,078

According to the local tax regulation, interest income on Government bonds are not subject to tax and capital gain is only 50% taxable.

Effective 1 January 2005, the income tax rate has been reduced from 20% to 18%.

11 DUE FROM NATIONAL BANK OF MOLDOVA

	31 December 2004	31 December 2003
Current account with NBM	221,672	121,934
Short-term deposit with NBM	54,000	-
Repurchase agreements	15,000	10,481
Included in cash and cash equivalents (Note 28)	290,672	132,415

Current accounts are required to satisfy the mandatory reserve requirements of the National Bank of Moldova. During 2004 the interest rate was 3.92%% (2003: 11.5 %) for reserves held in MDL and was 0.23% for reserves held in USD and EUR.

Assets purchased under repurchase agreements are Treasury Bills issued by the Moldovan Ministry of Finance in local currency. The repurchase agreements have the interest rates ranging from 10.25% to 11.85% (2003: 10.51% to 11.52%).

During 2004 the interest rate for term deposits with National Bank of Moldova ranged from 12.10% to 12.49%.

12 DUE FROM OTHER BANKS

	31 December 2004	31 December 2003
Current accounts	47,853	69,304
Short-term placements with banks	245,978	289,926
Included in cash and cash equivalents (Note 28)	293,831	359,230
Long-term placements	10,884	7,726
Other placements with banks	16,198	14,294
	320,913	381,250

During 2004 interest on placements with banks ranged from 0% to 7.3 % (2003: 0% to 17.2%).

Short-term placements with banks include short-term deposit in amount of MDL 237,317 thousand with DZ Bank AG (2003: MDL 266,707 thousand). Interest on short-term placements with banks ranged 0.17% to 1.95% for EUR amounts and from 0.5% to 7.5% for USD amounts.

Long-term placements with banks include deposits in the amount of MDL 5,995 thousand (2003: MDL 7,726 thousand) representing placements with HSBC London for fund transfers through Europay system, JPMORGAN CHASE Bank for Visa system. These deposits do not have fixed maturity, however the Bank does not expect them to be withdrawn within the next 5 years.

Other placements with banks include short-term loans to Moldovan banks, Banca de Economii and Mobiasbanca in amounts of MDL 6,230 thousand and MDL 9,968 thousand respectively.



*Notes to the financial statements
for the year ended 31 december 2004*
(All amounts in thousand Moldovan Lei (MDL) unless otherwise stated)

13 TREASURY BILLS

	31 December 2004	31 December 2003
<i>Treasury bills</i>		
- included in cash and cash equivalents (Note 28)	29,603	13,940
- other treasury bills over 90 days	68,727	14,190
Treasury bills – G-7 countries	24,078	14,904
	122,408	43,034

Treasury bills in amount of MDL 98,330 thousand (2003: MDL 28,130 thousand) are short and medium term discounted securities issued by the Ministry of Finance of the Republic of Moldova. Yield on those bonds ranged from 8% to 19.9% during the year (2003: 4.38% to 17.5%).

Nominal value of the securities portfolio at the end of the year was MDL 126,186 thousand (2003: MDL 44,375 thousand).

Government treasury bills in amount of MDL 17,400 thousand are pledged for loan received from Banca de Economii SA (see Note 19).

Treasury bills of G-7 countries include treasury bills issued by Germany, Italy and Canada. The coupon on these securities ranged from 2.38% to 2.41%.

14 LOANS AND ADVANCES TO CUSTOMERS, NET

	31 December 2004	31 December 2003
<i>Aggregated amount of loans</i>		
- within maturity	752,491	748,025
- overdue loans	83,078	26,137
	835,569	774,162
Less: allowances for losses on loans and advances	(61,948)	(35,544)
	773,621	738,618

Economic sector risk concentration within the customer loan portfolio is as follows:

	31 December 2004	31 December 2003
<i>Industry</i>		
Agriculture and food industry	261,081	242,352
Trade and commerce	295,927	241,722
Construction	109,400	95,203
Fuel and energy	48,927	69,533
Real estate	44,192	58,820
Loans to individuals	17,937	16,806
Others	58,105	49,726
	835,569	774,162
Less: allowances for losses on loans and advances	(61,948)	(35,544)
	773,621	738,618

All loans and advances are granted to customers in the Republic of Moldova. Interest rates on commercial loans and advances denominated in Moldovan Lei granted during the year are at varying rates from 12% to 24% (2003: 20% to 27%). Interest rates on foreign currency commercial loans are at varying rates ranging from 8% to 12% (2003: 9% to 12%).

Allowance for losses on loans and advances

Movements in allowance for losses on loans and advances is as follows:

	31 December 2004	31 December 2003
Balance at 1 January	35,544	22,987
Provision for loans impairment (Note 7)	26,786	14,589
Recovered loans previously written off	116	240
Loans written off	(498)	(2,272)
Balance at 31 December	61,948	35,544



VICTORIABANK

15 ANI DE ACTIVITATE

*Notes to the financial statements
for the year ended 31 december 2004*
(All amounts in thousand Moldovan Lei (MDL) unless otherwise stated)

15 EQUITY INVESTMENTS

The analysis of equity investments is as follows:

Company	Nature of business	Interest held (%)	31 December 2004	31 December 2003
Orateh SRL	Insurance	9.98	300	300
Auto-Siguranta SA	Insurance	1.19	16	16
Other			16	16
			332	332

All equity investments are held in companies located in the Republic of Moldova. The Bank does not exert significant influence or control over the financial and operating policy decisions of the above companies.

16 INTANGIBLE ASSETS

	Software		Software
<i>Year ended 31 December 2003</i>		<i>Year ended 31 December 2004</i>	
Opening net book amount	9,474	Opening net book amount	8,238
Additions	3,321	Additions	1,807
Depreciation charge	(4,557)	Depreciation charge	(4,994)
Closing net book amount	8,238	Closing net book amount	5,051
<i>At 31 December 2003</i>		<i>At 31 December 2004</i>	
Cost	13,254	Cost	14,514
Accumulated depreciation	(5,016)	Accumulated depreciation	(9,463)
Net book amount	8,238	Net book amount	5,051

17 PROPERTY AND EQUIPMENT

	Land and buildings	Equipment and other fixed assets	Assets under construction	Total
<i>Year ended 31 December 2003</i>				
Opening net book amount	43,056	21,939	13,070	78,065
Additions	157	3,136	16,940	20,233
Transfers	-	5,977	(5,977)	-
Disposals	(480)	(10)	(3,185)	(3,675)
Depreciation charge	(1,123)	(8,891)	-	(10,014)
Impairment charge	-	-	(1,201)	(1,201)
Closing net book amount	41,610	22,151	19,647	83,408
<i>At 31 December 2003</i>				
Cost	44,938	50,321	19,647	114,906
Accumulated depreciation	(3,328)	(28,170)	-	(31,498)
Net book amount	41,610	22,151	19,647	83,408
<i>Year ended 31 December 2004</i>				
Opening net book amount	41,610	22,151	19,647	83,408
Additions	2,537	2,424	23,723	28,684
Transfers	25,040	6,724	(31,764)	-
Disposals	-	(109)	-	(109)
Depreciation charge	(1,153)	(10,024)	-	(11,177)
Closing net book amount	68,034	21,166	11,606	100,806



*Notes to the financial statements
for the year ended 31 december 2004*
(All amounts in thousand Moldovan Lei (MDL) unless otherwise stated)

17 PROPERTY AND EQUIPMENT (CONTINUED)

	Land and buildings	Equipment and other fixed assets	Assets under construction	Total
<i>At 31 December 2004</i>				
Cost	72,515	57,131	11,606	141,252
Accumulated depreciation	(4,481)	(35,965)	-	(40,446)
Net book amount	68,034	21,166	11,606	100,806

18 OTHER ASSETS

	31 December 2004	31 December 2003
Assets for resale	24,246	10,092
Inventory and spare parts	1,908	1,333
Receivables from Visa and Europay	2,135	2,789
Receivables from Money Gram (Note 28)	3,644	2,332
Receivables from Interexpress (Note 28)	2,312	-
Receivables from AMEX cheques	2,174	1,665
Receivables on sale of repossessed assets	-	3,166
Accrued interest receivable on loans to customers	8,780	6,156
Prepayments	1,622	2,649
Receivables on documentary transactions	2,026	1,415
Other receivables	2,174	1,665
	51,021	33,262
Less allowance for impairment losses on other assets	(3,197)	(2,008)
	47,824	31,254

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

Movement in allowance for impairment losses on other assets is as follows:

	31 December 2004	31 December 2003
Balance at 1 January	2,008	501
Additional provision charge (Note 7)	3,197	1,653
Other assets written off	(2,008)	(146)
Balance at 31 December	3,197	2,008

19 DUE TO OTHER BANKS

	31 December 2004	31 December 2003
Current accounts	14,064	7,927
Loan from National Bank of Moldova	2,744	3,015
Other loans from banks	15,000	22,000
	31,808	32,942

The loan from the National Bank of Moldova is payable in 2015 and bears an interest rate of 11.5% (2003: 11.5%). Other loans from banks represent a short-term loan received from a local bank in amount of MDL 15,000 thousand (2003: MDL 15,000 thousand) with an interest rate of 14% (2003: 14%).

20 OTHER BORROWINGS

	31 December 2004	31 December 2003
Loans from Ministry of Finance	18,800	28,548
Loans from international financial organisations	181,489	116,978
	200,289	145,526



VICTORIABANK

15 ANI DE ACTIVITATE

*Notes to the financial statements
for the year ended 31 december 2004*
(All amounts in thousand Moldovan Lei (MDL) unless otherwise stated)

20 OTHER BORROWINGS (CONTINUED)

	31 December 2004	31 December 2003
<i>Loans from international financial organisations are as follows:</i>		
EBRD loans		
USD 4m floating rate due 2006	28,480	45,326
USD 4m floating rate due 2008	49,840	26,440
USD 6m floating rate due 2009	12,460	-
	90,780	71,766
IFC loans		
USD 4m floating rate due 2006	28,409	45,212
USD 5m floating rate due 2011	62,300	-
	90,709	45,212
	181,489	116,978

Loans from Ministry of Finance

Loans from the Ministry of Finance of the Republic of Moldova for certain agricultural projects are financed by the World Bank, International Development Association and International Fund for Agricultural Development. During 2004 the interest rate on these loans varied between 8.5% and 11.2%. These loans are not guaranteed with collateral.

Loans from EBRD

The bank obtained three credit lines from European Bank for Reconstruction and Development („EBRD“) in amount of USD 4 million on 14 December 2001, USD 4 million on 29 October 2003 and USD 6 million on 14 June 2004. As at 31 December 2004 the amount outstanding was USD 7,286 thousand (31 December 2003: USD 5,429 thousand). All loans are aimed to finance local small and medium sized enterprises. The loans received from EBRD are not guaranteed with collateral.

The interest rate on credit lines received on 14 December 2001 and 29 October 2003 is equal for each quarterly interest period to a margin of 3.625% p.a. over the LIBOR at 3 months.

The credit line obtained from EBRD on 14 June 2004 has two components: USD 4,000,000 and USD 2,000,000. The interest rates are equal for each quarterly interest period to a margin of 9.120% p.a. and 3.625% p.a., respectively, over the LIBOR at 3 months. The credit risk associated to loans granted by the Bank from USD 4,000,000 component rests with EBRD. As at 31 December 2004 the component in amount of USD 2,000,000 is undrawn.

Further information on loans from EBRD is presented in Note 29.

Loans from IFC

The Bank obtained two credit lines International Finance Corporation („IFC“) in amount of USD 4 million on 4 September 2001 and in amount of USD 5 million on 29 June 2004. As at 31 December 2004 the amount outstanding was USD 7,280 thousand (31 December 2003: USD 3,420 thousand). Both loans were aimed to finance local small and medium sized enterprises. The interest rates are equal for each quarterly interest period to a margin of 3.625% p.a. and 3.6% p.a., respectively, over the LIBOR at 3 months. These loans are not guaranteed with collateral.

21 DUE TO CUSTOMERS

	31 December 2004	31 December 2003
Individuals		
- current accounts	387,184	366,371
- term deposits	122,875	87,385
Legal entities		
- current accounts	278,824	234,342
- term deposits	462,994	378,052
	1,251,877	1,066,150



*Notes to the financial statements
for the year ended 31 december 2004*
(All amounts in thousand Moldovan Lei (MDL) unless otherwise stated)

21 DUE TO CUSTOMERS (CONTINUED)

Time deposits in US Dollars bear interest ranging from 2.5% to 7.5% (2003: 2.5% to 5.5%). Time deposits in EUR bear interest ranging from 2.0% to 6.5% (2003: 2.9% to 3.8%). The average market interest rate during 2004 varied between 4.19% and 5.28% (2003: 2.8% and 4.0%).

Interest rates on MDL deposits range from 10.0% to 18.5% per annum (2003: 14% to 16%), the average market rate during 2004 varied between 14.2% and 15.56% (2003: 12.0% and 17.1%).

22 OTHER LIABILITIES

	31 December 2004	31 December 2003
Payables on documentary transactions	3,366	11,922
Payments to travel cheques issuers	2,802	1,883
Amounts in transit	3,396	4,040
Pending amounts	1,434	925
Settlements with individuals and companies	2,954	4,225
Creditors and capital investments	1,632	-
Accrued interest payable	2,265	1,736
Income tax payable	753	4,139
Other	3,553	1,101
	22,155	29,971

Accrued interest payable mainly includes accrued interest and commission on loans from international financial organisations and other borrowings in amount of MDL 1,793 thousand (2003: MDL 1,352 thousand).

23 DEFERRED TAX LIABILITIES

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 18% (2003: 20%).

The movement on the deferred income tax liabilities is as follows:

	31 December 2004	31 December 2003
At 1 January	806	1,846
Income statement charge / (credit)(Note 10)	637	(1,040)
At 31 December	1,443	806

Deferred income tax assets and liabilities are attributable to the following items:

	31 December 2004	31 December 2003
<i>Deferred income tax assets</i>		
Other assets	527	105
<i>Deferred income tax liabilities</i>		
Property, plant and equipment	228	20
Loans and advances to customers	1,742	891
	1,970	911
	1,443	806

The deferred tax charge / (credit) in the income statement comprises the following temporary differences:

	31 December 2004	31 December 2003
Property, plant and equipment	208	(294)
Loans to customers	851	(690)
Other assets	(422)	17
Intangible assets	-	(73)
	637	(1,040)



*Notes to the financial statements
for the year ended 31 december 2004*
(All amounts in thousand Moldovan Lei (MDL) unless otherwise stated)

24 ORDINARY SHARES AND SHARE PREMIUM

Movements in issued share capital is as follows:

	Number of ordinary shares	Ordinary shares	Share premium	Total
At 1 January 2003	3,200,000	32,000	10,250	42,250
Issue of shares	-	-	-	-
At 31 December 2003/1 January 2004	3,200,000	32,000	10,250	42,250
Issue of shares	-	-	-	-
At 31 December 2004	3,200,000	32,000	10,250	42,250

The total authorised number of ordinary shares at the end of the year was 3,200 thousand shares (2003: 3,200 thousand shares) with a par value of MDL 10 per share (2003: MDL 10 per share).

Shareholders with a holding of more than or equal to 5% are the following:

Shareholder	31 December 2004, Share (%)	31 December 2003, Share (%)
Danube Fund Limited	23.02	23.02
EBRD	15.06	15.06
Alpha Bank Romania	12.50	12.50
Turcanu Victor – President	10.45	10.45
LR-Uniune SRL	9.81	9.81
Intrade Management Ltd.	5.60	5.60
Others	23.56	23.56
	100.0	100.0

For further information on Bank's share capital see Note 33.

25 LEGAL RESERVES

In accordance with the local legislation, 5% of the net profit of the Bank is required to be transferred to a non-distributable statutory reserves until such time as this reserve represents 15% of the share capital of the Bank.

26 RECONCILIATION OF RESERVES

The following is a reconciliation of the Bank's net profit and reserves as per statutory financial statements to net profit and reserves per IFRS.

	Net profit 2004	Retained earnings 2004	Net profit 2003	Retained earnings 2003
Per statutory financial statements	50,620	185,235	61,151	160,216
Additional depreciation of property, plant and equipment	(693)	(6,893)	(2,265)	(6,200)
Impairment loss on loans to customers	6,563	15,357	2,068	8,794
Unamortised discount on loans and advances to customers	(1,339)	(6,386)	(5,047)	(5,047)
Impairment of other assets	(2,396)	(2,396)	-	-
Deferred taxation	25	251	741	226
Restore of interest written-off	(263)	344	(2)	607
Write-off of small value items	132	(531)	-	(663)
Impairment of assets under construction	-	(1,201)	(1,201)	(1,201)
Other miscellaneous	715	965	(330)	249
Per IFRS	53,364	184,745	55,115	156,981

27 DIVIDENDS PER SHARE

Final dividends are not accounted for until they have been ratified at the Annual General Meeting. The dividends in respect of 2004 will be declared at the Annual General Meeting scheduled for 5 April 2005. The financial statements for the year ended 31 December 2004 do not reflect the future resolution on dividends in respect of 2004, which will be accounted for in shareholders' equity as an appropriation of retained profits in the year ending 31 December 2005. During 2004 the Bank paid dividends in respect of 2003 of MDL 8.00 per share (2003: actual dividends in respect of 2002 MDL 6.00 per share) amounting to a total of MDL 25,600 thousand (2003: actual dividends in respect of 2002 MDL 19,200 thousand).



VICTORIABANK

15 ANI DE ACTIVITATE

*Notes to the financial statements
for the year ended 31 december 2004*
(All amounts in thousand Moldovan Lei (MDL) unless otherwise stated)

28 CASH AND CASH EQUIVALENTS

	31 December 2004	31 December 2003
Cash	77,741	60,877
Due from National Bank of Moldova (Note 11)	290,672	132,415
Due from other banks (Note 12)	293,831	359,230
Treasury bills (Note 13)	29,603	13,940
Due from Money Gram (Note 18)	3,644	2,332
Due from Amex (Note 18)	2,312	-
	697,803	568,794

29 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The nature of the related party relationships for those related parties with whom the Bank entered into significant transactions or had significant balances outstanding at 31 December are detailed below. Transactions were entered into with related parties during the ordinary course of business at market rates.

The related party considered for reporting purpose includes the European Bank for Reconstruction and Development.

	Directors and executive management		Related entities	
	2004	2003	2004	2003
<i>Assets</i>				
Loans outstanding at beginning of the year	317	247	-	-
Loans issued during the year	-	100	1,439	-
Loan repaid during the year	(51)	(30)	(1,329)	-
Loans outstanding as at year end	266	317	110	-
<i>Liabilities</i>				
Deposits at beginning of the year	7,736	5,634	71,766	55,287
Deposits received during the year	6,751	18,391	35,184	26,440
Deposits repaid during the year	(2,560)	(16,289)	(16,170)	(9,961)
Deposits at the end of the year	11,927	7,736	90,780	71,766
<i>Profit and loss accounts</i>				
Interest expense on deposits	2,068	1,006	3,964	2,769

In 2004 total remuneration of the management is MDL 6,746 thousand (2003: MDL 6,360 thousand). Other borrowings represent credit lines received from EBRD, which is one of the Bank's shareholders.

30 CONTINGENCIES AND COMMITMENTS

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required.

Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.



*Notes to the financial statements
for the year ended 31 december 2004*
(All amounts in thousand Moldovan Lei (MDL) unless otherwise stated)

30 CONTINGENCIES AND COMMITMENTS (CONTINUED)

Credit related commitments (continued)

Outstanding amounts are:

	31 December 2004	31 December 2003
Loan commitments	112,802	78,776
Documentary letters of credit	38,989	68,408
Guarantees issued	24,835	10,808
	176,626	157,992

Taxation risk

The taxation system in Moldova is subject to varying interpretations and to constant changes, which may be retroactive. In certain circumstances the tax authorities may have different approaches to certain issues, and assess additional tax liabilities, together with late penalties (0.05% per day delay). In the Republic of Moldova, the Bank's records are open to inspection by tax authorities for up to 6 years. The Bank's management considers that the tax liability included in these financial statements are fairly stated.

Operating lease commitments

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

	31 December 2004	31 December 2003
No later than 1 year	2,186	1,894
Later than 1 year and no later than 5 years	4,001	1,972
Later than 5 years	1,402	1,248
	7,589	5,114

31 OPERATING ENVIRONMENT OF THE BANK

The economy of the Republic of Moldova continues to display characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of the country; a low level of liquidity in the public and private debt and equity markets and relatively high inflation. Additionally, the banking sector in the Republic of Moldova is particularly impacted by adverse currency fluctuations and economic conditions.

The prospects for future economic stability in the Republic of Moldova are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal and regulatory developments.

32 BASIC EARNINGS PER SHARE

	31 December 2004	31 December 2003
Net profit attributable to shareholders (expressed in MDL thousand)	53,364	55,115
Number of ordinary shares in issue	3,200,000	3,200,000
Basic EPS (expressed in MDL per share)	17	17

33 SUBSEQUENT EVENTS

Change of shareholders

On 4 February 2005 Danube Fund Ltd sold entirely its' shareholding in Bank's share capital through Moldovan Stock Exchange for the amount of MDL 55,230 thousand. Shares were purchased in four equal parts of 5.76% by the following companies: Program Invest SRL and Repcor-Com SRL (incorporated in the Republic of Moldova) and Victoria Invest Ltd and Artium Ltd (incorporated in Great Britain). The price paid for one share was MDL 74.96.



*Filiale și reprezentanțe
Bank's Branches and Representative Offices*

Filiala Nr.1 – Branch No.1

Balți, 18, Pușkin Str.,
tel: (373 231) 6-10-20

Filiala Nr.2 – Branch No.2

Florești, 63, Ștefan cel Mare Str.,
tel: (373 250) 2-16-50

Filiala nr.4 – Branch No.4

Nisporeni, 92, Alexandru cel Bun Str.,
tel: (373 264) 2-39-52

Filiala Nr.5 – Branch No.5

Caușeni, 31, Păcii Str.,
tel: (373 243) 2-45-89

Filiala Nr.6 – Branch No.6

Soroca, 77, Independenței Str.,
tel: (373 230) 2-40-06

Filiala Nr.7 – Branch No.7

Orhei, 2/1, Piatra Neamț Str.,
tel: (373 235) 2-37-95

Filiala Nr.8 – Branch No.8

Chișinău, 99, Decebal Str.,
tel: (373 22) 53-05-11

Filiala Nr.9 – Branch No. 9

Cahul, 11a, Mateevici Str.,
tel: (373 299) 2-35-41

Filiala Nr.10 – Branch No.10

Ungheni, 26, Națională Str.,
tel: (373 236) 2-30-92

Filiala Nr.11 – Branch No.11

Chișinău, 77, Ștefan cel Mare Bul.,
tel: (373 22) 22-59-25

Filiala nr.12 – Branch No.12

Chișinău, 16, Moscovei Bul.,
tel: (373 22) 43-48-29, 43-48-28

**Reprezentanța Drochia –
The representative offices in Drochia**

Drochia, 14 Sorocii Str.,
tel: (373 252) 2-37-59

**Reprezentanța Nr.1 Chișinău –
The representative offices No.1 in Chisinau**

14 Cucorilor Str., („East-Auto-Lada“)
tel: (373 22) 45-03-30

**Reprezentanța Nr.2 Chișinău –
The representative offices No.2 in Chisinau**

3 Moscovei Bul., („Taskent“)
tel: (373 22) 43-90-96

**Reprezentanța Nr.3 Chișinău –
The representative offices No.3 in Chisinau**

2/4 Negruzzi Bul., („Grand Hall“)
tel: (373 22) 27-63-25

**Reprezentanța Nr.4 Chișinău –
The representative offices No.4 in Chisinau**

55 Tighina Str., („Moldcell“)
tel: (373 22) 20-60-40

**Reprezentanța Nr.5 Chișinău –
The representative offices No.5 in Chisinau**

32 Pușkin Str., („Sun City“)
tel: (373 22) 21-11-18



VICTORIABANK