
BC VICTORIABANK S.A.
Financial Statements
For the Year Ended 31 December 2010
Prepared in Accordance with
International Financial Reporting Standards
Together with the Independent Auditor's Report

BC VICTORIABANK S.A.
FINANCIAL STATEMENTS
For the Year Ended 31 December 2010

CONTENTS

INDEPENDENT AUDITORS' REPORT	1 - 2
STATEMENT OF FINANCIAL POSITION	3
STATEMENT OF COMPREHENSIVE INCOME	4
STATEMENT OF CHANGES IN EQUITY	5
STATEMENT OF CASH FLOWS	6
NOTES TO THE FINANCIAL STATEMENTS	7-48

BC VICTORIABANK S.A.
STATEMENT OF FINANCIAL POSITION
As at 31 December 2010

	Notes	31 December 2010 MDL'000	31 December 2009 MDL'000
ASSETS			
Cash and balances with National Bank	3	735,908	673,017
Current accounts and deposits with banks	4	802,581	904,552
Debt securities – available-for-sale	5	-	804,501
Equity securities – available-for-sale	7	2,291	2,279
Debt securities – held to maturity	5	1,340,394	-
Loans, net	6	3,946,671	3,163,811
Property and equipment	8	134,587	137,854
Intangible assets	9	6,307	7,435
Other assets	10	36,191	93,242
Assets classified as held for sale	11	357,563	328,288
Total assets		7,362,493	6,114,979
LIABILITIES			
Due to banks	12	234,439	326,476
Other borrowings	13	148,876	80,125
Due to customers	14	5,740,184	4,672,636
Other liabilities	16	46,889	26,809
Total liabilities		6,170,388	5,106,046
SHAREHOLDERS' EQUITY			
Ordinary shares	17	100,000	32,000
Share premium		10,250	10,250
Available-for-sale investments revaluation reserve		-	3,897
Statutory reserves	18	4,800	4,800
Retained earnings		1,077,055	957,986
Total shareholders' equity		1,192,105	1,008,933
Total liabilities and shareholders' equity		7,362,493	6,114,979

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

The statement of financial position has been authorized for issue on 2 June 2011 by the Executives of the Bank represented by:

President
Mrs. Natalia Politov-Cangas

Chief Accountant
Mrs. Maria Iovu

BC VICTORIABANK S.A.
STATEMENT OF COMPREHENSIVE INCOME
For the Year Ended 31 December 2010

	Notes	Year ended 31 December 2010	Year ended 31 December 2009
		MDL'000	MDL'000
Interest and similar income	20	614,744	698,396
Interest and similar expense	20	(256,188)	(452,241)
Net interest and similar income		358,556	246,155
Fee and commission income	21	153,384	129,743
Fee and commission expense	21	(36,353)	(29,647)
Net fee and commission income		117,031	100,096
Financial income, net	22	88,058	92,650
Other operating income	23	5,292	3,734
Total operating income		568,937	442,635
Impairment of loans and other assets	6/11	(9,587)	(138,518)
Net operating income		559,350	304,117
Personnel expenses	24	(97,506)	(74,559)
General and administrative expenses	25	(85,471)	(67,550)
Depreciation and amortization	8/9	(19,305)	(17,937)
Total operating expenses		(202,281)	(160,046)
Profit before tax		357,069	144,071
Income tax expense	15	-	-
Net profit for the year		357,069	144,071
Other comprehensive income			
Net gains on available for sale investments	5	(3,897)	4,562
Income tax related to other comprehensive income		-	-
Other comprehensive income for the year		(3,897)	4,562
Total comprehensive income for the year		353,172	148,663
Basic earnings per share	30	14.28	5.76

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

The statement of financial position has been authorized for issue on 2 June 2011 by the Executives of the Bank represented by:

President
Mrs. Natalia Politov-Cangas

Chief Accountant
Mrs. Maria Iovu

BC VICTORIABANK S.A.
STATEMENT OF CHANGES IN EQUITY
For the Year Ended 31 December 2010

	Ordinary shares	Share premium	Available-for- sale investments revaluation reserve	Statutory reserves	Retained earnings	Total
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Balance at 1 January 2009	32,000	10,250	(665)	4,800	813,915	860,300
Net change in available-for-sale investments (Note 5)	-	-	4,562	-	-	4,562
Profit for the year	-	-	-	-	144,071	144,071
Total comprehensive income	-	-	4,562	-	144,071	148,633
Transfer to statutory reserves	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-
Balance at 31 December 2009	32,000	10,250	3,897	4,800	957,986	1,008,933
Balance at 1 January 2010	32,000	10,250	3,897	4,800	957,986	1,008,933
Net change in available-for-sale investments (Note 5)	-	-	(3,897)	-	-	(3,897)
Profit for the year	-	-	-	-	357,069	357,069
Total comprehensive income	-	-	-	-	357,069	357,172
Transfer to statutory reserves	-	-	-	-	-	-
Dividends paid	-	-	-	-	(170,000)	(170,000)
Increase in share capital	68,000	-	-	-	(68,000)	-
Balance at 31 December 2010	100,000	10,250	-	4,800	1,077,055	1,192,105

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

The statement of financial position has been authorized for issue on 2 June 2011 by the Executives of the Bank represented by:

President
Mrs. Natalia Politov-Cangas

Chief Accountant
Mrs. Maria Iovu

BC VICTORIABANK S.A.
STATEMENT OF CASH FLOWS
For the Year Ended 31 December 2010

	Notes	Year ended 31 December 2010 MDL'000	Year ended 31 December 2009 MDL'000
Cash flows from operating activities			
Interest receipts		420,471	615,420
Interest payments		(258,836)	(461,567)
Net fee and commission receipts		117,031	100,096
Net financial and other operating income		97,755	90,554
Staff costs paid		(94,012)	(73,594)
Payments of general and administrative expenses		(73,953)	(67,550)
Tax expense		-	-
Operating profit before working capital changes		208,456	203,359
<i>(Increase) / decrease in operating assets:</i>			
Due from the National Bank of Moldova		45,486	586,745
Current accounts and deposits with banks		(1,899)	(379)
Available-for-sale debt securities over three months		-	(304,644)
Loans		(657,495)	(81,869)
Other assets		78,860	(63,658)
<i>Increase / (decrease) in operating liabilities:</i>			
Due to banks		(91,938)	201,966
Due to customers		1,070,938	285,989
Other liabilities		2,893	6,088
Net cash from operating activities before income tax		655,301	833,597
Income tax paid		-	-
Net cash from operating activities		655,301	833,597
Cash flows from investing activities			
Purchase of intangible assets		(1,640)	(1,097)
Purchase of property and equipment		(15,827)	(11,243)
Proceeds from disposal of property and equipment		556	491
Purchase of available-for-sale equity investments		(12)	(1,522)
Proceeds from sales of held-to-maturity securities over three months		151,623	-
Net cash generated by/ (used in) investing activities		134,700	(13,371)
Cash flows from financing activities			
Repayment of loans and borrowings		-	(24,988)
Proceeds from loans and borrowings		67,909	41,524
Dividends paid		(170,000)	-
Net cash generated by/ (used in) financing activities		(102,091)	16,536
Net foreign exchange difference		(7,304)	1,407
Cash and cash equivalents at the beginning of the year		1,594,996	756,827
Cash and cash equivalents at the end of the year	19	2,275,602	1,594,996

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

The statement of cash flows has been authorized for issue on 2 June 2011 by the Executives of the Bank represented by:

President
Mrs. Natalia Politov-Cangas

Chief Accountant
Mrs. Maria Iovu

BC VICTORIABANK S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2010

1. CORPORATE INFORMATION

BC Victoriabank SA (“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 operates through its head office located in Chisinau, 31 branches (28 branches as at 31 December 2009) and 57 representative offices (45 representative offices as at 31 December 2009) located throughout the country.

The number of employees employed by the Bank as at 31 December 2010 was 1,197 (1,176 as at 31 December 2009).

The registered office of the Bank is located at 141, 31 August 1989 Street, Chisinau, Republic of Moldova.

As Bank’s operations do not have significantly different risks and returns and considering the regulatory environment, the nature of its services, the business process, as well as the types of customers for the products and services and the methods used to provide the services are homogenous for all Bank’s activities, the Bank operates as a single business segment unit and its activities are exclusively carried out in the Republic of Moldova.

The Board of Directors formulates policies for the operation of the Bank and supervises their implementation. The Board is composed of 7 members appointed by the General Meeting of Shareholders.

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

- Mr. Vladimir Plahotniuc, Chairman of the Board; Parliament of The Republic Of Moldova, First Deputy; Board Vice President of ICS Petrom-Moldova SA;
- Mr. Vasile Botnari, Board Prime Vice-Chairman, member of the Parliament of Republic of Moldova;
- Mr. Victor Turcan, Board Vice-Chairman, shareholder of BC Victoriabank SA;
- Mrs. Tamara Andrusca, Board Member, Economic Director of ICS Petrom-Moldova SA;
- Mrs. Cezara Salinski, Board Member; ICS “Nobil-Club” SRL General Director; President of “Edelweiss” Foundation;
- Mr. Eugeniu Baleca, Board Member; “Franzeluța” SA General Director;
- Mr. Iurie Carp, Board Member.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and interpretations adopted by International Accounting Standards Board (“IASB”). The accompanying financial statements have been prepared on a historical cost basis, except for available-for-sale debt securities that have been measured at fair value. The financial statements are presented in thousands of Moldovan lei (“MDL”), the currency of the country in which the Bank operates. The Bank maintains its books and records in accordance with Moldovan banking regulations and prepares its statutory financial statements in accordance with Regulations on Accounting and Reporting issued by Ministry of Finance and National Bank of Moldova. The underlying statutory accounting records have been restated to reflect the differences between the statutory accounts and the International Financial Reporting Standards issued by the IASB. Accordingly, some adjustments have been made to the statutory accounts as have been considered necessary to bring the financial statements in line, in all material respects, with IFRS.

Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting judgments and estimates

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

(i) Impairment losses on loans and advances

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

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

(ii) Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

(iii) Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The management uses its judgment to select the valuation method and make assumptions that are mainly based on market conditions existing at each balance sheet date.

2.3 Change in accounting policies

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

- **IFRS 1 (revised) "First-time Adoption of IFRS"** (effective for annual periods beginning on or after 1 July 2009),
- **IFRS 3 (revised) "Business Combinations"** (effective for annual periods beginning on or after 1 July 2009),
- **Amendments to IFRS 1 "First-time Adoption of IFRS"**- Additional Exemptions for First-time Adopters (effective for annual periods beginning on or after 1 January 2010),
- **Amendments to IFRS 2 "Share-based Payment"** - Group cash-settled share-based payment transactions (effective for annual periods beginning on or after 1 January 2010),
- **Amendments to IAS 27 "Consolidated and Separate Financial Statements"** (effective for annual periods beginning on or after 1 July 2009),
- **Amendments to IAS 39 "Financial Instruments: Recognition and Measurement"** - Eligible hedged items (effective for annual periods beginning on or after 1 July 2009),

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Change in accounting policies (continued)

- **Amendments to various standards and interpretations “Improvements to IFRSs (2009)”** resulting from the annual improvement project of IFRS published on 16 April 2009 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, (most amendments are to be applied for annual periods beginning on or after 1 January 2010),
- **IFRIC 17 “Distributions of Non-Cash Assets to Owners”** (effective for annual periods beginning on or after 1 July 2009),
- **IFRIC 18 “Transfers of Assets from Customers”** (effective for transfer of assets from customers received on or after 1 July 2009).

The adoption of these amendments to the existing standards and interpretations has not led to any changes in the Bank’s accounting policies.

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

a. Foreign currency translation

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

Foreign currency transactions are translated into the functional currency 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 recognized in the income statement.

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

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

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

b. Financial assets

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

BC VICTORIABANK S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Financial assets (continued)

(i) Financial assets at fair value through profit or loss

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are included in 'net income from financial instruments designated at fair value. Currently the Bank does not have financial assets at fair value through profit or loss.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the entity upon initial recognition designates as available-for-sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

(iii) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. If the Bank were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale.

(iv) 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. As at 31 December 2009, included in this category are, also, treasury bills and NBM certificates. On 1 January 2010 the Bank has classified its treasury bills and NBM certificates as held to maturity, due to change in management intention.

(v) Recognition and derecognition

Regular – way purchases and sales of financial assets at fair value through profit and loss, held-to-maturity and available-for-sale are recognized on trade-date – the date on which the Bank commits to purchase or sell the asset.

Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit and loss are initially recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized 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. Financial liabilities are derecognized when they are extinguished, that is, when the obligation is discharged, cancelled or expired.

(vi) Subsequent measurement

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized directly in equity, until the financial asset is derecognized or impaired. At this time, the cumulative gain or loss previously recognized in equity is recognized in profit or loss.

However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available-for-sale are recognized in the income statement. Dividends on available-for-sale equity instruments are recognized in the income statement when the entity's right to receive payment is established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Financial assets (continued)

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 (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

c. Offsetting financial instruments

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

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

d. Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss are recognized in the income statement for all instruments measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

e. Fee and commission income

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate on the loan. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognized on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-apportionate basis.

f. Sale and repurchase agreements

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g. Sale and repurchase agreements (continued)

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

h. Impairment of financial assets

(i) Assets carried at amortized costs

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

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

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, sales to current liabilities ratio);
- Breach of loan covenants or conditions; and
- Initiation of bankruptcy proceedings.

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

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

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement.

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

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience. When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Impairment of financial assets (continued)

(i) Assets carried at amortized costs (continued)

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

(ii) Assets carried at fair value

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

(iii) Renegotiated loans

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

i. Intangible assets

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

Costs associated with developing or maintaining computer software programs are recognized 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 recognized as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognized as assets are amortised using the straight-line method over their useful lives (not exceeding five years).

j. Property and equipment

All property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

BC VICTORIABANK S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j. Property and equipment (continued)

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

Asset type	<u>Years</u>
Buildings	40
Computers, furniture and equipment	3-5
Vehicles	7

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

The assets' residual value and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount. These are included in their operating expenses in the income statement.

k. Leases

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

Bank as a lessee

Lease which does not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased item are operating leases. Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

l. Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

m. Cash and cash equivalents

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

n. Provisions

Provisions and legal claims are recognized when the Bank has a present legal or constructive obligation to transfer economic benefits as a result of past events. It is more likely that not than an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

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

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

o. Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognized in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the bank's liabilities under such guarantees are measured at the higher of the initial measurement and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of Management. Any increase in the liability relating to guarantees is recognized in the income statement.

p. Defined contribution plan

The Bank, in the normal course of business makes payments to the Moldovan State funds on behalf of its employees for pension, health care and unemployment benefit. All employees of the Bank are members of the State pension plan.

The Bank does not operate any other pension scheme and, consequently, has no further obligation in respect of pensions. The Bank does not operate any other defined benefit plan or post retirement benefit plan. The Bank has no obligation to provide further services to current or former employees.

q. Taxation

Income tax payable on profits, based on the applicable Moldovan tax law is recognized as an expense in the period in which profits arise.

Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. The income tax rate for 2009, 2010 and 2011 is 0%.

r. Borrowings

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

r. Customers' deposits and current accounts

Customers' current accounts and other deposits are carried at amortized cost using the effective interest rates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

s. Dividends

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

t. 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.

u. Assets for resale

Assets for resale include foreclosed collateral on non-performing loans. They are classified as assets held for sale as their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

v. Contingencies

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

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

w. Related parties

Parties are considered related with the Bank when one party, either through ownership, contractual rights, family relationship or otherwise, has the ability to directly or indirectly control or significantly influence the other party in making financial and operating decisions. Related party transaction represents a transfer of resources or obligations between related parties, regardless of whether a price is charged.

x. Subsequent events

Post-balance sheet events that provide additional information about the Bank's position at the statement of financial position (adjusting events) are reflected in the financial statements. Post-balance sheet events that are not adjusting events are disclosed in the notes when significant.

y. Comparatives

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

2.4 Future changes in accounting policies

At the date of authorisation of these financial statements the following standards, revisions and interpretations were in issue but not yet effective:

- **IFRS 9 “Financial Instruments”** (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 1 “First-time Adoption of IFRS”**- Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for annual periods beginning on or after 1 July 2010),
- **Amendments to IFRS 1 “First-time Adoption of IFRS”**- Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011),

BC VICTORIABANK S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Future changes in accounting policies (continued)

- **Amendments to IFRS 7 “Financial Instruments: Disclosures”**- Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011),
- **Amendments to IAS 12 “Income Taxes”** - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012),
- **Amendments to IAS 24 “Related Party Disclosures”** - Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after 1 January 2011),
- **Amendments to IAS 32 “Financial Instruments: Presentation”** – Accounting for rights issues (effective for annual periods beginning on or after 1 February 2010),
- **Amendments to various standards and interpretations “Improvements to IFRSs (2010)”** resulting from the annual improvement project of IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2010 or 1 January 2011 depending on standard/interpretation),
- **Amendments to IFRIC 14 “IAS 19 — The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction”** - Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after 1 January 2011),
- **IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments”** (effective for annual periods beginning on or after 1 July 2010).

The Bank has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Bank anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Bank in the period of initial application, except for the one noted below which might have material effect on the financial statements:

- IFRS 9 Financial Instruments, which uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in IAS 39.

3. CASH AND BALANCES WITH NATIONAL BANK

	31 December 2010	31 December 2009
	MDL'000	MDL'000
Cash on hand	267,610	285,356
<i>Balances with the National Bank of Moldova</i>		
Mandatory reserve	272,175	241,542
Current account with NBM	196,123	76,119
Overnight	-	70,000
	468,298	387,661
	735,908	673,017

BC VICTORIABANK S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2010

3. CASH AND BALANCES WITH NATIONAL BANK (continued)

Current account and mandatory reserves

The National Bank of Moldova (NBM) requires commercial banks to maintain for liquidity purposes minimum reserves calculated at a certain rate of the average funds borrowed by banks during the previous 15 days including all customer deposits. Funds denominated in Moldovan Lei (MDL) and in non-convertible currencies are reserved in MDL. Funds attracted in freely convertible currencies are reserved in US Dollars (USD) and/or EURO (EUR). As at 31 December 2010 the rate for calculation of the minimum compulsory reserve in all currencies was 8.0% (31 December 2009: 8.0%). Beginning with 7 March 2011 the rate for calculation of minimal compulsory reserves in all currencies is 11.0%.

The Bank maintains its compulsory reserves in a current account opened with the NBM in amount of 8.0% of funds attracted in Moldovan Lei and non-convertible currencies. 8.0% reserves on funds denominated in USD and EUR are held in a special compulsory reserve account with NBM. The compulsory reserves held in the current account at NBM are available for use in the Bank's day to day operations.

As at 31 December 2010 the balance reserved in the current account held with the NBM amounted to MDL'000 196,123 (31 December 2009: MDL'000 76,119). This balance included compulsory reserve on funds attracted in Moldovan Lei and non-convertible currencies. The balance reserved on USD and EUR compulsory reserve accounts amounted to USD'000 7,398 and EUR'000 11,317 respectively (31 December 2009: USD'000 6,405 and EUR'000 9,233).

The interest paid by NBM on the compulsory reserves during 2010 varied between 0.2% and 0.4% per annum for reserves in foreign currency and 4.0% for reserves in MDL (2009: 0.2% - 1.0% for reserves in foreign currency and 2.0% per annum for reserves in MDL). The compulsory reserves on funds attracted in USD and EUR are placed in Nostro accounts of NBM at correspondent banks incorporated in OECD countries.

4. CURRENT ACCOUNTS AND DEPOSITS WITH BANKS

	31 December 2010	31 December 2009
	MDL'000	MDL'000
Deposits	384,939	627,575
Overnight placements	340,179	175,443
Current accounts	37,742	63,716
Included in cash and cash equivalents (Note 19)	762,860	866,734
Other placements	39,721	37,818
	802,581	904,552

The major part of current accounts and deposits are held with foreign banks.

Deposits and overnight placements include short-term placements in amount of MDL'000 291,863 with Citibank N.A. (2009: MDL'000 25,624) MDL'000 239,957 with DZ Bank AG (2009: MDL'000 350,742), MDL'000 144,941 with BHF – Bank AG (2009: nil).

Other placements with banks include restricted deposits in the amount of MDL'000 27,245 (2009: MDL'000 27,061) representing placements with HSBC London for fund transfers through Europay system and JP MORGAN CHASE Bank for Visa system. These deposits amounting to MDL'000 27,245 do not have fixed maturity, however the Bank does not expect their withdrawal within the next 5 years. During 2010, interest on balances with banks in freely convertible currencies ranged from 0.15% to 0.5% (2009: 0.15% to 1.0%).

BC VICTORIABANK S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2010

5. FINANCIAL INVESTMENTS, DEBT SECURITIES

	31 December 2010	31 December 2009
	MDL'000	MDL'000
<i>Held to maturity</i>		
State securities	509,364	-
Certificates issued by the NBM	831,030	-
	1,340,394	-
<i>Available for sale</i>		
State securities	-	454,358
Certificates issued by the NBM	-	350,143
	1,340,394	804,501
Included in cash and cash equivalents (Note 19)	1,048,842	361,585
Securities with maturity over three months or restricted securities	291,552	442,916
	1,340,394	804,501

State securities as at 31 December 2010 represent MDL treasury bills of 90 to 365 days original maturity issued by the Ministry of Finance of the Republic of Moldova with an interest of between 5.29% and 9.30% per annum (2009: 1.91% to 24.91% p.a.) and MDL state bonds with floating interest rate issued by the Ministry of Finance of 731 days original maturity, with an interest between 7.60% and 8.51% p.a. (31 December 2009: 6.0% to 13.92% p.a.).

As at 31 December 2010, treasury bills in amount of MDL'000 121,326 are pledged to the National Bank of Moldova to secure the loans granted by the NBM to the Bank (Note 11) (2009: nil).

Certificates issued by the National Bank of Moldova as at 31 December 2010 are of 6-7 days original maturity bearing an interest of 7% per annum (2009: 5.00% p.a.).

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

	2010	2009
	MDL'000	MDL'000
Balance as at 1 January	804,501	424,620
Additions	-	3,853,465
Disposals	-	(3,478,146)
Gains from changes in fair value recognised in equity	-	3,897
Reclassified as held to maturity	804,501	-
Transferred to net profit upon derecognition	-	665
Balance as at 31 December	-	804,501

On 1 January 2010 the Bank has reclassified its treasury bills and NBM certificates as held to maturity, due to management intention and ability to hold these to maturity. As at 31 December 2010 all debt securities have been classified as held to maturity.

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

BC VICTORIABANK S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2010

6. LOANS, NET

	31 December 2010	31 December 2009
	MDL'000	MDL'000
Loans	4,130,547	3,320,054
Less: Allowance for impairment losses	(183,876)	(156,243)
	3,946,671	3,163,811

For the year ended 31 December 2010 the interest accrued on impaired loans amounted to MDL'000 38,877 (2009: MDL'000 74,940).

Analysis of loan portfolio by industry is presented below:

	31 December 2010	31 December 2009
	MDL'000	MDL'000
Manufacturing and trade	1,787,676	1,395,440
Real estate	554,455	302,713
Agricultural and food industry	393,880	425,956
Consumer loans	254,741	309,427
Transportation and road construction	144,127	83,257
Energy sector	125,438	48,067
Government	13,558	5,892
Other	856,672	749,302
	4,130,547	3,320,054

The average interest rate during the year for loans granted in MDL is 15.38% (2009: 20.75%), in foreign currency 9.88% (2009: 11.99%). Borrowers have the right to repay loans in advance, subject to an early settlement option exercise price of up to 1.00% of the prepaid amount.

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

	2010	2009
	MDL'000	MDL'000
Balance as at 1 January	156,243	87,174
Write-offs	(47,830)	(21,572)
Recoveries	6,816	3,226
Charge for the year	68,647	87,415
Balance as at 31 December	183,876	156,243
Individual impairment	144,917	97,301
Collective impairment	38,959	58,942
	183,876	156,243

BC VICTORIABANK S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2010

6. LOANS, NET (continued)

Allowances for impairment

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

Write off policy

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

Collateral repossessed

During the year, the Bank took possession of industrial buildings, dwellings and land with an estimated value of MDL'000 202,892 (2009: MDL'000 272,852). Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed property is classified in the balance sheet within other assets.

7. EQUITY SECURITIES – AVAILABLE-FOR-SALE

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

	<u>2010</u>	<u>2009</u>
	<u>MDL'000</u>	<u>MDL'000</u>
Balance as at 1 January	2,279	757
Additions	12	1,522
Disposals	-	-
Balance as at 31 December	2,291	2,279

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

	Field of activity	Ownership	31 December	31 December
		2010, %	2010	2009
			MDL'000	MDL'000
IM Biroul de Credit SRL	Data processing	9.23	1,014	1,014
Garant Invest SRL	Guarantees granting	9.92	440	440
CA Victoria Asigurari SRL	Insurance	7.49	674	674
Moldova Stock Exchange	Stock Exchange	5.13	144	144
National Securities Depository	Securities Depository	4.69	18	7
Other			1	-
			2,291	2,279

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

BC VICTORIABANK S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2010

8. PROPERTY AND EQUIPMENT

	Land and buildings	Furniture and equipment	Motor vehicles	Improvements of leasehold assets	Assets under construction	Total
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Cost						
Balance as at 1 January 2010	94,604	117,378	9,452	2,066	7,554	231,054
Additions	102	481	-	-	14,509	15,092
Transfers	2,370	6,907	1,072	622	(10,971)	-
Disposals	(1,890)	(5,447)	(649)	-	-	(7,986)
Balance as at 31 December 2010	95,186	119,319	9,875	2,688	11,092	238,160
Accumulated depreciation						
Balance as at 1 January 2010	16,589	69,845	5,617	1,151	-	93,202
Charge for the year	2,375	13,250	957	233	-	16,815
Disposals	(783)	(5,165)	(497)	-	-	(6,445)
Balance as at 31 December 2010	18,181	77,930	6,077	1,384	-	103,572
Net book value						
At 31 December 2010	77,005	41,389	3,798	1,304	11,092	134,587
At 31 December 2009	78,015	47,533	3,835	915	7,554	137,854

As at 31 December 2010, the cost of fully depreciated property and equipment still used by the Bank amounted to MDL'000 42,976 (31 December 2009: MDL'000 48,048).

BC VICTORIABANK S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2010

8. PROPERTY AND EQUIPMENT (continued)

	Land and buildings	Furniture and equipment	Motor vehicles	Improvements of leasehold assets	Assets under construction	Total
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Cost						
Balance as at 1 January 2009	91,005	91,651	8,609	1,911	30,333	223,509
Additions	94	1,938	-	-	9,595	11,627
Transfers	3,505	27,201	917	155	(31,778)	-
Disposals	-	(3,411)	(74)	-	(596)	(4,081)
Balance as at 31 December 2009	94,604	117,379	9,452	2,066	7,554	231,055
Accumulated depreciation						
Balance as at 1 January 2009	14,244	61,018	4,731	919	-	80,912
Charge for the year	2,345	12,177	933	232	-	15,687
Disposals	-	(3,351)	(47)	-	-	(3,398)
Balance as at 31 December 2009	16,589	69,844	5,617	1,151	-	93,201
Net book value						
At 31 December 2009	78,015	47,535	3,835	915	7,554	137,854
At 31 December 2008	76,761	30,633	3,878	992	30,333	142,597

BC VICTORIABANK S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2010

9. INTANGIBLE ASSETS

	<u>Software in use</u>	<u>Intangibles under construction</u>	<u>Total</u>
	MDL'000	MDL'000	MDL'000
Cost			
Balance as at 1 January 2010	26,981	11	26,992
Additions	-	1,487	1,487
Transfers	523	(509)	14
Disposals	(370)	-	(370)
Balance as at 31 December 2010	27,134	988	28,122
Accumulated depreciation			
Balance as at 1 January 2010	19,557	-	19,557
Charge for the year	2,490	-	2,490
Disposals	(232)	-	(232)
Balance as at 31 December 2010	21,815	-	21,815
Net book value			
At 31 December 2010	5,319	988	6,307
At 31 December 2009	7,424	11	7,435

As at 31 December 2010 the cost of fully amortized intangible assets amounted to MDL'000 14,778 (31 December 2009: MDL'000 13,960).

	<u>Software in use</u>	<u>Intangibles under construction</u>	<u>Total</u>
	MDL'000	MDL'000	MDL'000
Cost			
Balance as at 1 January 2009	21,754	4,520	26,274
Additions	127	970	1,097
Transfers	5,126	(5,126)	-
Disposals	(26)	(353)	(379)
Balance as at 31 December 2009	26,981	11	26,992
Accumulated depreciation			
Balance as at 1 January 2009	17,333	-	17,333
Charge for the year	2,250	-	2,250
Disposals	(26)	-	(26)
Balance as at 31 December 2009	19,557	-	19,557
Net book value			
At 31 December 2009	7,424	11	7,435
At 31 December 2008	4,421	4,520	8,941

BC VICTORIABANK S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2010

10. OTHER ASSETS

	31 December 2010	31 December 2009
	MDL'000	MDL'000
Receivables from international payment systems	11,223	7,447
Inventory and spare parts	4,665	5,893
Receivables from Visa and Europay	3,772	3,474
Prepayments	1,776	1,351
Receivables from AMEX	166	400
Other receivables	14,589	74,677
	36,191	93,242

As at 31 December 2009, other receivables includes receivables from a juridical person in amount of MDL'000 65,000 from sale of a repossessed asset. In 2010, the Bank has granted a loan to the buyer, out of which this receivable has been settled.

11. ASSETS CLASSIFIED AS HELD FOR SALE

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

	31 December 2010	31 December 2009
	MDL'000	MDL'000
Assets classified as held for sale	357,563	388,185
Less: allowance for impairment losses	-	(59,897)
	357,563	328,288

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

	2010	2009
	MDL'000	MDL'000
Balance as at 1 January	59,897	9,830
Write-offs	-	(1,036)
Charge/(Reversals) for the year	(59,897)	51,103
Balance as at 31 December	-	59,897

12. DUE TO BANKS

	31 December 2010	31 December 2009
	MDL'000	MDL'000
Term deposits of banks	109,335	79,982
Loan from National Bank of Moldova	107,381	220,924
Current accounts	17,723	25,570
	234,439	326,476

As at 31 December 2010 the Bank has two loans from the National Bank of Moldova with the maturity in 2011 and interest rate between of 7.5% p.a.

BC VICTORIABANK S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2010

12. DUE TO BANKS (continued)

Term deposits of banks

	31 December 2010	31 December 2009
	MDL'000	MDL'000
LGT Bank AG	109,335	-
BC Procredit Bank SA	-	18,405
Dresdner Bank AG	-	61,577
	109,335	79,982

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

13. OTHER BORROWINGS

	31 December 2010	31 December 2009
	MDL'000	MDL'000
Loans from Ministry of Finance	105,969	41,688
Loans from international financial institutions	6,132	18,531
Loan from Aurodent SA	-	16,200
Loan from Hadson Financial Corporation	-	3,706
Other loans from physical persons	36,775	-
	148,876	80,125

Loans from international financial institutions

	31 December 2010	31 December 2009
	MDL'000	MDL'000
<i>IFC</i>		
Loan agreement dated 29 June 2004, including accrued interest	6,132	18,531
	6,132	18,531

Loan from IFC

The Bank obtained credit line from the International Finance Corporation (“IFC”) of USD’000 5,000 on 29 June 2004. As at 31 December 2010 the amount outstanding was USD’000 500 (31 December 2009: USD’000 1,500). Loan is aimed to finance local small and medium sized enterprises. The interest rate is equal for each quarterly interest period to a margin of 3.6% p.a. over the LIBOR at 6 months. The final maturity is 15 June 2011. This loan is unsecured.

Also, the Bank is subject to a number of loan covenants under the loan agreements obtained from IFC. In case of breach of these covenants, IFC may request immediate repayment of the loan. As at 31 December 2010 the Bank was in breach of one covenant. As at 31 December 2009 the Bank was in compliance with all financial covenants.

BC VICTORIABANK S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2010

13. OTHER BORROWINGS (continued)

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. The purpose is to finance certain agricultural projects. During 2010 the effective interest rate on these loans varied between 2.75% - 11.9% for MDL, 0.75% - 2,14% for USD, 1,95% - 2,10% for EUR (2009: MDL 6,56% - 14,55%, USD 0,97-4,12%). These loans have maturities ranging from 2011 to 2019. These loans are unsecured.

14. DUE TO CUSTOMERS

	31 December 2010	31 December 2009
	MDL'000	MDL'000
Corporate customers		
Current accounts	1,368,722	930,531
Term deposits	788,395	669,718
	2,157,117	1,600,249
Individuals		
Current accounts	671,839	511,638
Term deposits	2,911,229	2,560,749
	3,583,067	3,072,387
	5,740,184	4,672,636

Current accounts of corporate customers as at 31 December 2010 include restricted deposits under guarantee agreements in amount of MDL'000 24,993 (31 December 2009: MDL'000 22,586).

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

	2010				2009							
	MDL		FCY		MDL		FCY					
	%	%	%	%	%	%	%	%				
Enterprises												
Demand deposits	0.0	-	7.0	0.0	-	4.0	0.0	-	26.5	0.0	-	5.37
Term deposits up to 3 months	1.0	-	5.5	-	-	-	4.0	-	16.0	0.5	-	12.0
Term deposits >3 months< 1 year	4.0	-	15.0	1.5	-	5.5	5.5	-	21.5	1.5	-	12.0
Term deposits over 1 year	2.0	-	14.0	2.5	-	11.0	11.5	-	14.5	3.75	-	12.0
Individuals												
Demand deposits	0.0	-	9.0	0.0	-	1.0	0.0	-	5.0	0.0	-	1.0
Term deposits up to 3 months	4.0	-	6.0	0.35	-	4.0	5.0	-	21.5	1.0	-	11.0
Term deposits >3 months< 1 year	3.0	-	14.0	0.15	-	6.0	8.0	-	24.5	2.5	-	15.0
Term deposits over 1 year	6.5	-	15.0	1.75	-	7.0	11.0	-	26.0	4.5	-	15.5

15. TAXATION

The taxation system in Moldova is at an early stage of development and is subject to varying interpretations. In preparation of financial statements the management has used its best judgment based on current legislation.

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

BC VICTORIABANK S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2010

16. OTHER LIABILITIES

	31 December 2009	31 December 2009
	MDL'000	MDL'000
Settlements with individuals and companies	17,462	12,151
Provision for unused vacations and bonuses	5,253	1,760
Accrued expenses	2,738	2,952
Received payments to be remitted according to the destination	1,691	1,343
Amounts in transit	1,077	2,074
Settlements on income tax	1,042	1,739
Settlements with brokers (on dealing operations)	873	380
Suspense amounts	1,450	734
Other settlements on state budget	154	-
Dividends payable	96	-
Payables on documentary transactions	87	2,164
Payments to travellers cheques issuers	-	761
Other	14,964	1,326
	46,889	26,809

As at 31 December 2010 other liabilities include an income tax allowance in amount of MDL'000 13,614.

In 2007 the Bank concluded an agreement with the Main Fiscal Authority in accordance with which the Bank has been granted 50 % exemption applicable to corporate income tax calculated for 5 consecutive years starting 1 January 2007 and ending 31 December 2011, pursuant to provisions of article 49.2 par. 1 of the Fiscal Code of the Republic of Moldova.

In accordance with this agreement the exemption is contingent upon the compliance of the Bank with the following conditions during the fiscal periods for which the exemption has been granted:

- to reinvest not less than 80% from income tax exempted amount into the own production development (services, works) or in the state program of national economical development no later than during the fiscal period in which the fiscal benefits term expires;
- to maintain the contribution in its own capital during the 5 years;
- to present the Declaration regarding the corporate income tax and other reports in terms established by the legislation.

According to the 7th point of the agreement, the exemption can be voided in the case the above conditions will not be respected by the Bank. In case of not respecting the stipulated conditions, the amount of income tax exempt should be refund completely to the State budget with the application of fiscal and administrative fines and penalties stipulated by the legislation for the whole period of exemption.

As of 31 December 2010 the amount of income tax liability represents 50% of corporate income tax calculated for the year ended 31 December 2007.

17. ORDINARY SHARES

Share capital as at 31 December 2010 represents 10,000 thousand ordinary shares authorized and issued (2009: 3,200 thousand shares). As at 31 December 2010 and 2009 the nominal value per share is MDL 10.

All shares have equal voting rights and are fully paid.

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

BC VICTORIABANK S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2010

17. ORDINARY SHARES (continued)

	31 December 2010	31 December 2009
Victoria Invest Limited	26.75	5.76
EBRD	15.06	15.06
Alpha Bank Romania SA	12.5	12.5
Turcan Victor	10.45	10.45
Atrium Limited	5.76	5.76
AVB-Prim SRL	-	5.76
Financial Investments Corporation Limited	-	5.6
Others	29.48	39.11
	100%	100%

There are 201 other shareholders (31 December 2009: 194) of which 185 represent individuals and 16 – enterprises (31 December 2009: 175 individuals and 12 enterprises).

In 2010 were declared and paid dividends in amount of MDL'000 170,000 (2009: nil), equivalent of 53.125 MDL per share.

18. CAPITAL MANAGEMENT

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

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

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

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

The Bank has complied with the legislation in force for 2010 and recorded additional issue of 6,800,011 ordinary shares, at 10MDL value per share in the amount of 68,000,110 from undistributed profits of previous years.

During 2010 and 2009 the Bank has maintained its capital adequacy ratio above 12%.

In accordance with the local legislation, 5% of the net profit of the Bank is required to be transferred to a non-distributable statutory reserve until such time as this reserve represents 10% of the share capital of the Bank.

19. CASH AND CASH EQUIVALENTS

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

		31 December 2010	31 December 2009
	Notes	MDL'000	MDL'000
Cash and balances with National Bank	3	463,733	355,356
Current accounts and deposits with banks	4	762,860	866,734
Debt securities	5	1,048,842	361,585
Other assets		167	11,321
		2,275,602	1,594,996

BC VICTORIABANK S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2010

20. INTEREST AND SIMILAR INCOME AND EXPENSE

	Year ended 31 December 2010	Year ended 31 December 2009
	MDL'000	MDL'000
<i>Interest and similar income</i>		
Loans to customers	544,406	643,511
Investments available-for-sale		42,619
Investments held to maturity	64,048	-
Loans and advances to banks	6,290	12,266
	614,744	698,396
<i>Interest and similar expense</i>		
Deposits from individuals	(170,417)	(348,106)
Deposits from corporate clients	(62,252)	(80,514)
Deposits and loans from banks	(16,789)	(14,913)
Issued securities	(16)	(2,192)
Other borrowings	(6,714)	(6,516)
	(256,188)	(452,241)
Net interest income	358,556	246,155

21. NET FEE AND COMMISSION INCOME

	Year ended 31 December 2010	Year ended 31 December 2009
	MDL'000	MDL'000
<i>Fee and commission income</i>		
Processing of payments by clients	53,431	43,784
Transactions with debit cards	58,403	49,083
Foreign exchange operations	9,068	9,301
Commission on guarantees and letters of credit	4,180	4,641
Brokerage fees	92	48
Other	28,210	22,886
	153,384	129,743
<i>Fee and commission expense</i>		
Commissions on debit card services	(27,293)	(20,892)
Payment transactions	(6,195)	(8,172)
Commissions on withdrawal and deposit of cash	(2,865)	(583)
	(36,353)	(29,647)
Net fee and commission income	117,031	100,096

22. FINANCIAL INCOME, NET

	Year ended 31 December 2010	Year ended 31 December 2009
	MDL'000	MDL'000
Gains on trading of foreign currency, net	95,159	90,782
Foreign exchange gains/(losses)	(7,228)	1,407
Dividends received	124	455
Other	2	6
	88,058	92,650

BC VICTORIABANK S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2010

23. OTHER OPERATING INCOME

	Year ended 31 December 2010	Year ended 31 December 2009
	MDL'000	MDL'000
Fines and penalties	2,861	2,050
Other income	2,431	1,684
	5,292	3,734

24. PERSONNEL EXPENSES

	Year ended 31 December 2010	Year ended 31 December 2009
	MDL'000	MDL'000
Salaries and bonuses	71,199	54,899
Social insurance and contributions	16,687	12,679
Medical insurance	2,497	1,932
Other personnel expenses	3,630	4,084
Provisions for unused vacations and bonuses	3,493	965
	97,506	74,559

The Bank makes contributions to the State pension system of the Republic of Moldova calculated as a percentage of gross salary. These contributions are charged to the income statement in the period in which the related salary is earned by the employee.

25. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December 2010	Year ended 31 December 2009
	MDL'000	MDL'000
Utilities and rent	26,165	23,975
Income tax allowance (Note 16)	13,693	-
Repairs and maintenance	13,021	7,110
Advertising and charity	10,349	9,531
Safeguarding of assets and security costs	5,27	3,285
Postage and telephone	4,171	4,707
Stationery and supplies	3,902	3,053
Contribution to Deposits Guarantee Fund	2,804	2,462
Insurance	2,074	2,194
Professional services	1,907	1,941
Business promotion	450	38
Taxes and penalties	439	259
Training	331	348
Travel	270	219
Transportation	73	1,985
(Gains)/losses on disposal of property and equipment	(2,806)	3,062
Other	3,352	3,381
	85,471	67,550

BC VICTORIABANK S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2010

26. GUARANTEES AND OTHER FINANCIAL COMMITMENTS

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

	31 December 2010	31 December 2009
	MDL'000	MDL'000
Letters of credit	-	5,725
Guarantees	115,465	162,608
Financing commitments and other	227,949	194,017
	343,414	362,350

In the normal course of business, the Bank issues guarantees and letters of credit on behalf of its customers. The credit risk on guarantees is similar to that arising from granting of loans. In the event of a claim on the Bank as a result of a customer's default on a guarantee these instruments also present a degree of liquidity risk to the Bank.

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

27. CAPITAL COMMITMENTS

As at 31 December 2010 the Bank has capital commitments for acquisition of property, plant and equipment in amount of MDL'000 4,542.

28. OPERATING LEASE COMMITMENTS

The Bank leases a number of branch and office premises under operating leases. The leases typically run for a period of up to 1 year, with an option to renew the lease after that period. Lease payments are increased regularly to reflect market rentals.

All leases are cancellable with a short-term (up to 1 month) notice.

29. CONTINGENCIES

As at 31 December 2010 and 2009 the Bank is a defendant in a number of lawsuits arising out of normal corporate activities. In the opinion of Management and the Bank's legal department, the probability of loss is remote.

30. EARNINGS PER SHARE

	Ordinary shares issued	Profit for the year	Basic earning per share
		MDL'000	MDL
As at 31 December 2010	25,000,091	357,069	14.28
As at 31 December 2009	25,000,091	144,071	5.76

Basic earnings per share are calculated by dividing net profit for the year attributable to ordinary equity holders by the weighted average number of ordinary shares issued during the year. The calculation of basic earnings per share as at 31 December 2010 and as at 31 December 2009 was based on the weighted average number of shares outstanding during the period, adjusted retrospectively for the increases in number of ordinary shares outstanding as a result of capitalizations effected in 2010 (Note 17) and in 2011, after the reporting period but before the financial statements have been authorised for issue (Note 34).

As at 31 December 2010 and 2009 there were no dilutive equity instruments issued by the Bank.

BC VICTORIABANK S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2010

31. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value of financial instruments is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Where available, fair value is based on quoted market prices. However, no readily available market prices exist for a significant portion of the Bank's financial instruments. In circumstances where the quoted market prices are not readily available, the fair value is estimated using discounted cash flow models or other pricing techniques as appropriate. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affect the estimates. Therefore, the calculated fair market estimates cannot be realized in a current sale of the financial instrument.

The following table summarizes the carrying amounts and fair values of those material financial assets and liabilities not presented on the Bank's balance sheet at their fair value.

	31 December 2010		31 December 2009	
	Carrying value	Fair value	Carrying value	Fair value
	MDL'000	MDL'000	MDL'000	MDL'000
Financial assets				
Loans and advances to banks	802,581	802,581	904,552	904,552
Debt securities – held to maturity	1,340,394	1,340,394	-	-
Loans to customers	3,946,671	3,946,671	3,163,811	3,163,811
Financial liabilities				
Due to banks	234,439	234,439	326,476	326,476
Other borrowings	148,876	148,876	80,125	80,125
Due to customers	5,740,184	5,652,848	4,672,636	4,506,408

(i) Loans and advances to banks

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

(ii) Debt securities – held to maturity

Due to the fact that debt securities are mainly short-term, the management believes that estimated fair value of fixed interest-bearing debt securities approximates their carrying amount as at the balance sheet date.

(iii) Loans to customers

Loans are granted at a rate which can be unilaterally changed by the Bank. The fair value of these variable yield loans that regularly reprice, with no significant change in credit risk, generally approximates their carrying value. The fair value of non-performing loans to customers is estimated using a discounted cash flow analysis or the appraised value of the underlying collateral, where available. Loans at fixed interest rates represent only a fraction of the total carrying value and hence the fair value of total loans to customers approximates the carrying values as at the balance sheet date. Allowances are not taken into consideration when calculating fair values.

(iv) Borrowings, including due to other banks and due to customers

The fair value of term deposits payable on demand represents the carrying value of amounts payable on demand as at the balance sheet date. The fair value of floating rate borrowings approximates their carrying amount as at the balance sheet date. 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 offered for new debts with similar remaining maturity.

BC VICTORIABANK S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2010

32. RELATED PARTIES

The main shareholders in the Bank, holding individually more than 5% of the share capital, are disclosed in Note 17.

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 year end are detailed below. As at 31 December 2010 and 2009 the Bank had operations with the following related entities:

- ICS Petrom – Moldova SA – Board Vice President, Mr. Vladimir Plahotniuc, is the Chairman of the Board;
- Atrium Limited – Bank shareholder;
- Victoria Asigurari SRL – related parties to the Chairman of the Board, Mr. Vladimir Plahotniuc;

During the year a number of banking and non-banking transactions were entered into with related parties in the normal course of business. These include loans granting, deposit taking and foreign currency transactions.

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

	Directors and Executive Management		Related entities	
	2010	2009	2010	2009
	MDL'000	MDL'000	MDL'000	MDL'000
Balance sheet				
Loans	168	241	117,650	55,642
Deposits and borrowings	1,622	1,493	199,218	90,245
Income statement				
Interest income earned	15	22	5,756	4,891
Interest expense on deposits	142	194	12,395	8,081

Terms and conditions of transactions with related parties

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

Directors' remuneration

The key executive management received remuneration totalling MDL'000 7,861 (2009: MDL'000 2,286). The non-executive members of the Bank Council received remuneration from the Bank totalling MDL'000 393 (2009: have not received remuneration).

33. RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

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

BC VICTORIABANK S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2010

33. RISK MANAGEMENT (continued)

Risk management is carried out under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

33.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management and control are centralised in credit risk department and reported to the Board of Directors regularly.

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

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

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

Credit quality by class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The internal rating system adopted by the Bank is in accordance with NBM regulations in force, and is presented as follows:

Credit rating	NBM Provision Rate (%)
Standard	2%
Watch	5%
Sub-standard	30%
Doubtful	60%
Loss	100%

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

BC VICTORIABANK S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2010

33. RISK MANAGEMENT (continued)

33.1 Credit risk (continued)

		31 December 2010				
Notes	Neither past due nor impaired MDL'000	Past due but not impaired MDL'000	Individually impaired MDL'000	Collectively impaired MDL'000	Total MDL'000	
Cash and balances with the National Bank	3	735,908	-	-	735,908	
Current accounts and deposits with banks	4	802,581	-	-	802,581	
Debt securities – held to maturity	5	1,340,394	-	-	1,340,394	
Equity securities – available-for-sale	7	2,291	-	-	2,291	
Loans, gross	6	206,260	45,024	1,106,304	2,772,959	
Other financial assets	10	29,249	-	-	29,249	
		3,116,683	45,024	1,106,304	2,772,959	
					7,040,970	

		31 December 2009				
Notes	Neither past due nor impaired MDL'000	Past due but not impaired MDL'000	Individually impaired MDL'000	Collectively impaired MDL'000	Total MDL'000	
Cash and balances with the National Bank	3	673,017	-	-	673,017	
Current accounts and deposits with banks	4	904,552	-	-	904,552	
Debt securities – available-for-sale	5	804,501	-	-	804,501	
Equity securities – available-for-sale	7	2,279	-	-	2,279	
Loans, gross	6	1,805,879	424,317	582,041	3,320,054	
Other financial assets	10	85,599	-	-	85,599	
		4,275,830	424,317	582,041	5,078,177	
					5,790,002	

For the purpose of the financial statements disclosure, financial assets that have been impaired, either individually or collectively are defined as assets for which an objective evidence of impairment exists as of 31 December 2010 and 2009, and as such specific or collective impairment provision is recognized with respect to such assets.

The financial assets disclosed above as "neither past due nor impaired" are those assets for which no objective evidence of impairment has been identified as of 31 December 2010 and 2009.

The financial assets disclosed above as "Past due but not impaired" are those financial assets for which the principal and interests payments are overdue for less than 90 days and there are no other indicators of objective evidence of impairment.

BC VICTORIABANK S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2010

33. RISK MANAGEMENT (continued)

33.1 Credit risk (continued)

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit – which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties – carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer 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.

Maximum exposure to credit risk before collateral held or other credit enhancements:

	Notes	31 December 2010 MDL'000	31 December 2009 MDL'000
Balances with National Bank	3	468,298	387,661
Current accounts and deposits with banks	4	802,581	904,552
Debt securities – available-for-sale	5	-	804,501
Debt securities – held to maturity	5	1,340,394	-
Loans, net	6	3,946,671	3,163,811
Other financial assets	10	29,249	85,599
		6,587,193	5,346,124
Off-balance sheet items	26	343,414	362,350
Total credit risk exposure		6,930,607	5,708,474

The above table represents a worse case scenario of credit risk exposure to the Bank at 31 December 2010 and 2009, without taking account of any collateral held or other credit enhancements attached. For on balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

As shown above, 62% of the total maximum exposure is derived from loans and advances to customers (2009: 62%); 19% represents investments in debt securities (2009: 14%) and 18% represents current accounts and deposits at banks (2009: 23%).

All debt securities in balance as at 31 December 2010 and 31 December 2009 have been issued either by the Ministry of Finance of the Republic of Moldova or by the National Bank of Moldova. As at 31 December 2010 Republic of Moldova is not rated by any international rating agency.

The credit quality of loans to customers, current accounts and deposits at banks is managed by the Bank using internal credit rating system. The description of the internal rating grid is as follows:

Standard – the asset shall be considered standard, if it is on term, all terms of the contract are observed and there is no reason to consider that the Bank presently or in the future will be subject to risk of loss.

BC VICTORIABANK S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2010

33. RISK MANAGEMENT (continued)

33.1 Credit risk (continued)

Watch – potential weaknesses exist with regard to the counterparty’s financial position and also with regard to collateral.

Substandard – there is a greater than normal loss risk due to one of the following factors:

- a) counterparty’s financial position is unfavourable or is deteriorating;
- b) collateral (if any) is insufficient or is deteriorating;
- c) other adverse factors rising concern regarding the counterparty’s ability to meet the Bank’s claims in compliance with the existing terms.

Doubtful – there are weaknesses that make full payment of Bank’s current/future claims regarding the asset questionable and less probable based upon the existent circumstances and conditions, as well as the market value of collateral, if any. The possibility of loss occurrence is extremely high, but there are certain important, concrete and well-grounded factors that will soon be realized and may contribute to partial or full payment of the Bank’s current/future claims. Classification of this asset as loss shall be deferred until the status of the asset is more precisely determined.

Loss – at the time of asset classification the Bank’s current/future claims regarding the respective asset may not be met.

As at 31 December 2010 and 31 December 2009, the credit quality of the current accounts and deposits at banks can be assessed by reference to the internal credit rating system adopted by the Bank as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>
	MDL’000	MDL’000
Standard	784,056	878,283
Watch	14,049	25,331
Substandard	4,178	-
Doubtful	297	938
Loss	-	-
	<u>802,581</u>	<u>904,552</u>

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

Risk concentrations of the maximum exposure to credit risk

The Bank’s concentrations of risk are managed by client/counterparty and by industry sector. The maximum credit exposure to any client or counterparty as at 31 December 2010 was MDL’000 135,484 (as at 31 December 2009: MDL’000 123,369) before taking account of collateral or other credit enhancements.

The loans granted to major 20 customers (Groups) of the Bank as at 31 December 2010 amounted at MDL’000 1,676,108 representing 40.58% of the Bank’s gross loan portfolio (as at 31 December 2009: MDL’000 1,223,334 or 36.85%). These are analyzed by industries as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>
	MDL’000	MDL’000
Commerce	644,824	384,565
Real estate construction	185,273	105,694
Food processing	105,455	236,750
Winery	31,436	146,293
Leasing	-	77,304
Services	311,242	177,778
Non-food industry	262,543	-
Air company	135,335	94,950
	<u>1,676,108</u>	<u>1,223,334</u>

BC VICTORIABANK S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2010

33. RISK MANAGEMENT (continued)

33.1 Credit risk (continued)

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

Loans to customers

Loans to customers are summarized as follows:

	31 December 2010		31 December 2009	
	Enterprises	Individuals	Enterprises	Individuals
	MDL'000	MDL'000	MDL'000	MDL'000
Neither past due nor impaired	-	206,272	1,562,067	243,811
Past due but not impaired	-	45,025	350,673	73,644
Individually impaired	1,106,304	-	582,041	-
Collectively impaired	2,732,827	40,118	473,124	34,693
Gross	3,839,131	291,415	2,967,905	352,148
Less: allowances for impairment	(152,787)	(31,089)	(132,020)	(24,223)
Net	3,686,345	260,326	2,835,885	327,925

The Bank holds collateral against loans to customers in the form of mortgage interests over property, stock of materials and equipment as well as corporate guarantees and cash deposits.

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets.

The structure of collateral is similar for the entire loan portfolio.

(i) Loans neither past due nor impaired

As at 31 December 2009, the corporate exposures for which an objective evidence of impairment existed as of 31 December 2009 but the impairment test showed that that the carrying value of the assets is not higher than the expected future cash flows as such no specific or collective impairment provision was recognized with respect to such assets. As at 31 December 2010, such corporate exposures have been included to collective impairment assessment and collectively assessed for impairment.

(ii) Loans past due but not impaired

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

	2010		2009	
	Enterprises	Individuals	Enterprises	Individuals
	MDL'000	MDL'000	MDL'000	MDL'000
Less than 30 days	-	35,841	221,923	55,133
31 to 60 days	-	6,433	95,408	14,330
More than 61 days	-	2,749	33,341	4,181
	-	45,024	350,672	73,644

33. RISK MANAGEMENT (continued)

33.1 Credit risk (continued)

(iii) Loans individually impaired

The individually impaired loans to customers before taking into consideration the cash flows from collateral held amount to MDL'000 1,106,304 (2009: MDL'000 582,041). The fair value of collateral that the Bank holds relating to loans individually determined to be impaired at 31 December 2010 amounts to MDL'000 1,124,729 (2009: MDL'000 568,611). The collateral consists of cash, letters of guarantee, mortgage interests over property, stock and equipment.

Upon initial recognition of loans, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets.

(iv) Loans collectively impaired

All individually significant loans found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. In assessing collective impairment the Bank uses statistical modeling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modeling.

(iv) Loans renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Individually assessed loans renegotiated in the past twelve months that would otherwise be past due or impaired amounts to MDL'000 720,410 at 31 December 2010 (2009: MDL'000 737,848).

33.2 Market risk

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

Additionally, the financial services sector in the Republic of Moldova is vulnerable to adverse currency fluctuations and economic conditions.

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

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Bank separates exposures to market risk into either trading or non-trading portfolios.

The management of market risks arising from trading and non-trading activities are concentrated in Bank's Assets and Liabilities Committee. Regular reports are submitted to the Board of Directors and heads of each business unit.

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

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.

BC VICTORIABANK S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2010

33. RISK MANAGEMENT (continued)

33.2 Market risk (continued)

Sensitivity analysis to currency risk

The Bank performed a sensitivity analysis to currency risk at which it is reasonably exposed at 31 December 2010, showing how income statement could have been affected as a result of possible changes in currency rates.

The tables below show the currencies for which the Bank has significant exposure to currency risk as at 31 December 2010 and as at 31 December 2009, for the balance sheet items that are sensitive to the currency rates' modifications. The analysis demonstrates the effect of reasonably possible changes in currency rates against Moldovan Leu with all other variables held constant:

31 December 2010	Increase in currency rates, %	Effect on PBT MDL'000	Decrease in currency rates, %	Effect on PBT MDL'000
EUR	+5%	(7,166)	-5%	7,166
USD	+5%	831	-5%	(831)

31 December 2009	Increase in currency rates, %	Effect on PBT MDL'000	Decrease in currency rates, %	Effect on PBT MDL'000
EUR	+5%	(5,537)	-5%	5,537
USD	+5%	(1,405)	-5%	1,405

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

	31 December 2010				
	Total MDL'000	MDL MDL'000	USD MDL'000	EUR MDL'000	Other MDL'000
ASSETS					
Cash and balances with National Bank	735,908	365,128	127,573	234,116	9,091
Current accounts and deposits with banks	802,581	10,921	335,098	450,416	6,146
Debt securities – held to maturity	1,340,394	1,340,394	-	-	-
Loans, net	3,946,671	1,850,044	639,148	1,457,479	-
Equity securities – available-for-sale	2,291	2,291	-	-	-
Property and equipment	134,587	134,587	-	-	-
Intangible assets	6,307	6,307	-	-	-
Other assets	36,191	2,441	32,489	-	1,261
Assets classified as held for sale	357,563	357,563	-	-	-
Total assets	7,362,495	4,069,676	1,134,308	2,142,011	16,498

BC VICTORIABANK S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2010

33. RISK MANAGEMENT (continued)

33.2 Market risk (continued)

	31 December 2010				
	Total	MDL	USD	EUR	Other
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
LIABILITIES					
Due to banks	234,439	107,744	75,848	50,847	-
Other borrowings	148,876	55,066	54,690	39,121	-
Due to customers	5,740,184	2,566,218	981,932	2,187,343	4,691
Other liabilities	46,889	33,566	5,210	8,031	82
Total liabilities	6,170,388	2,762,594	1,117,680	2,285,342	4,773
GAP	1,192,107	1,307,082	16,628	(143,331)	11,725

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

	31 December 2009				
	Total	MDL	USD	EUR	Other
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
ASSETS					
Cash and balances with National Bank	673,017	298,320	117,115	251,699	5,883
Current accounts and deposits with banks	904,552	4	359,247	538,503	6,798
Debt securities – available -for-sale	804,501	804,501	-	-	-
Loans, net	3,163,811	1,630,051	449,684	1,084,076	-
Equity securities – available-for-sale	2,279	2,279	-	-	-
Property and equipment	137,854	137,854	-	-	-
Intangible assets	7,435	7,435	-	-	-
Current income tax asset	-	-	-	-	-
Other assets	93,242	82,358	5,814	4,102	968
Assets classified as held for sale	328,288	328,288	-	-	-
Total assets	6,114,979	3,291,090	931,860	1,878,380	13,649
LIABILITIES					
Due to banks	326,476	241,164	81,165	4,147	-
Other borrowings	80,125	34,241	37,068	8,816	-
Due to customers	4,672,636	1,853,541	837,107	1,967,254	14,734
Other liabilities	26,809	13,110	4,627	8,913	159
Total liabilities	5,106,046	2,142,056	959,967	1,989,130	14,893
GAP	1,008,933	1,149,034	(28,107)	(110,750)	(1,244)

BC VICTORIABANK S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2010

33. RISK MANAGEMENT (continued)

33.2.1 Interest rate risk

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

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

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

	Increase in basis points	Sensitivity of Net Interest Income, MDL'000	Decrease in basis points	Sensitivity of Net Interest Income, MDL'000
2010	100	8,357	(100)	(8,357)
	50	4,178	(50)	(4,178)
2009	100	2,758	(100)	(2,758)
	50	1,379	(50)	(1,379)

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

BC VICTORIABANK S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2010

33. RISK MANAGEMENT (continued)

33.2.1 Interest rate risk (continued)

31 December 2010	Total	Less than 1 month	From 1 month to 3 months	From 3 month to 1 year	From 1 to 5 years	More than 5 years	Non-interest bearing items
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
ASSETS							
Cash and balances with National Bank	735,908	272,175	-	-	-	-	463,733
Current accounts and deposits with banks	802,581	780,008	-	-	-	-	22,573
Debt securities – held to maturity	1,340,394	864,335	192,141	266,020	16,510	-	1,388
Loans, net	3,946,671	206,224	216,868	1,098,538	1,893,646	272,924	258,471
Equity securities – available-for-sale	2,291	-	-	-	-	-	2,291
Property and equipment	134,587	-	-	-	-	-	134,587
Intangible assets	6,307	-	-	-	-	-	6,307
Other assets	36,191	-	-	-	-	-	36,191
Assets classified as held for sale	357,563	-	-	-	-	-	-
Total assets	7,362,495	2,122,742	409,009	1,364,558	1,910,156	272,924	1,283,106
LIABILITIES							
Due to banks	234,439	3,992	-	215,193	-	600	14,654
Other borrowings	148,876	-	-	269	36,766	110,160	1,681
Due to customers	5,740,184	1,494,406	722,356	2,107,028	541,852	11,058	863,484
Other liabilities	46,889	-	-	-	-	-	46,889
Total liabilities	6,170,388	1,498,398	722,356	2,322,490	578,618	121,818	926,708
Interest gap	1,192,107	624,344	(313,347)	(957,932)	1,331,538	151,106	356,398
Cumulative interest gap	1,192,107	624,344	310,997	(646,935)	684,603	835,709	1,192,107

BC VICTORIABANK S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2010

33. RISK MANAGEMENT (continued)

33.2.1 Interest rate risk (continued)

31 December 2009	Total	Less than 1 month	From 1 month to 3 months	From 3 month to 1 year	From 1 to 5 years	More than 5 years	Non-interest bearing items
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
ASSETS							
Cash and balances with National Bank	673,017	160,577	-	-	-	-	512,440
Current accounts and deposits with banks	904,552	867,238	-	-	-	-	37,314
Financial investments, debt securities – available-for-sale	804,501	417,528	139,189	246,709	-	-	1,075
Loans, net	3,163,811	254,434	214,971	971,860	1,310,776	222,567	189,203
Financial investments, equity securities – available-for-sale	2,279	-	-	-	-	-	2,279
Property and equipment	137,854	-	-	-	-	-	137,854
Intangible assets	7,435	-	-	-	-	-	7,435
Current income tax asset	-	-	-	-	-	-	-
Other assets	93,242	-	-	-	-	-	93,242
Assets classified as held for sale	328,288	-	-	-	-	-	328,288
Total assets	6,114,979	1,699,777	354,160	1,218,569	1,310,776	222,567	1,309,130
LIABILITIES							
Due to banks	326,476	27,582	-	281,493	-	-	17,401
Other borrowings	80,125	12,689	13,188	53,298	111	-	839
Due to customers	4,672,636	1,095,314	588,140	1,931,786	420,505	2,442	634,449
Other liabilities	26,809	-	-	-	-	-	26,809
Total liabilities	5,106,046	1,135,585	601,328	2,266,577	420,616	2,442	679,498
Interest gap	1,008,933	564,192	(247,168)	(1,048,008)	890,160	220,125	629,632
Cumulative interest gap		564,192	317,024	(730,984)	159,176	379,301	1,008,933

Loans are granted at a rate which can be unilaterally changed by the Bank. Loans at fixed interest rates which cannot be modified unilaterally by the Bank represent only a fraction of the loan portfolio. The table above presents the loan portfolio categorized by the earlier of contractual repricing or maturity dates without taking into consideration the possibility of unilateral modification of the interest rate by the Bank.

BC VICTORIABANK S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2010

33. RISK MANAGEMENT (continued)

33.3 Liquidity risk

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

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for financial institutions to be completely matched, as transacted business is often of uncertainty term and different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

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

The tables below analyses the Bank's assets and liabilities into relevant maturity grouping based on the remaining period at balance sheet date to the contractual maturity date.

31 December 2010	Less than 12 months	Over 12 months	Total
	MDL'000	MDL'000	MDL'000
ASSETS			
Cash and balances with National Bank	735,908	-	735,908
Current accounts and deposits with banks	802,581	-	802,581
Debt securities – held to maturity	1,323,884	16,510	1,340,394
Loans, net	1,798,968	2,147,703	3,946,671
Equity securities – available-for-sale	2,291	-	2,291
Property and equipment	-	134,587	134,587
Intangible assets	-	6,307	6,307
Other assets	36,191	-	36,191
Assets classified as held for sale	357,563	-	357,563
Total assets	5,057,388	2,305,107	7,362,495
LIABILITIES			
Due to banks	233,839	600	234,439
Other borrowings	269	148,607	148,876
Due to customers	5,186,275	553,908	5,740,184
Other liabilities	22,690	24,199	46,889
Total liabilities	5,443,073	727,314	6,170,388
Maturity gap	(385,685)	1,577,793	1,192,107

BC VICTORIABANK S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2010

33. RISK MANAGEMENT (continued)

33.3 Liquidity risk (continued)

31 December 2009	Less than 12 months	Over 12 months	Total
	MDL'000	MDL'000	MDL'000
ASSETS			
Cash and balances with National Bank	673,017	-	673,017
Current accounts and deposits with banks	904,552	-	904,552
Financial investments, debt securities – available-for-sale	801,491	3,010	804,501
Loans, net	1,476,788	1,687,023	3,163,811
Financial investments, equity securities – available-for-sale	2,279	-	2,279
Property and equipment	-	137,854	137,854
Intangible assets	-	7,435	7,435
Current income tax asset	-	-	-
Other assets	93,242	-	93,242
Assets classified as held for sale	328,288	-	328,288
Total assets	4,279,657	1,835,322	6,114,979
LIABILITIES			
Due to banks	326,476	-	326,476
Other borrowings	35,521	44,604	80,125
Due to customers	4,249,872	422,764	4,672,636
Other liabilities	19,367	7,442	26,809
Total liabilities	4,631,236	474,810	5,106,046
Maturity gap	(351,579)	1,360,512	1,008,933

The tables below summarize the maturity profile of the Bank's financial liabilities at 31 December 2010 and 2009 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment at the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

31 December 2010	On demand	Less than 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Total
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Due to banks	18,646	3,740	226,413	36	744	249,579
Other borrowings	1,681	2,245	7,005	74,766	81,010	166,707
Due to customers	2,374,294	758,049	2,256,789	599,602	11,950	6,000,684
	2,403,409	764,034	2,490,207	674,404	93,704	6,416,970

BC VICTORIABANK S.A.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2010

33. RISK MANAGEMENT (continued)

33.3 Liquidity risk (continued)

31 December 2009	<u>On demand</u>	<u>Less than 3 months</u>	<u>From 3 months to 1 year</u>	<u>From 1 to 5 years</u>	<u>More than 5 years</u>	<u>Total</u>
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Due to banks	25,644	18,411	292,114	-	915	337,084
Other borrowings	832	-	21,216	28,851	44,997	95,896
Due to customers	1,454,215	871,911	2,014,845	494,734	5,161	4,840,866
	1,480,691	890,322	2,328,175	523,585	51,073	5,273,846

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

31 December 2010	<u>Less than 3 months</u>	<u>From 3 months to 1 year</u>	<u>From 1 to 5 years</u>	<u>More than 5 years</u>	<u>Total</u>
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Commitments and guarantees	244,498	66,844	32,072	-	343,414
	244,498	66,844	32,072	-	343,414

31 December 2009	<u>Less than 3 months</u>	<u>From 3 months to 1 year</u>	<u>From 1 to 5 years</u>	<u>More than 5 years</u>	<u>Total</u>
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
Commitments and guarantees	46,245	170,554	138,807	6,744	362,350
	46,245	170,554	138,807	6,744	362,350

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

34. SUBSEQUENT EVENTS

On 26 April 2011, the shareholders' meeting decided on the following repartition of statutory profit after tax in amount of MDL'000 191,739 obtained for the year ended 31 December 2010:

	<u>MDL'000</u>	<u>%</u>
Statutory profit after tax for the year ended 31 December 2010	191,739	100.00%
<i>Repartition:</i>		
- Dividends	57,600	30.04%
- Remuneration of Administration Council r	1,150	0.60%
- Statutory reserve	9,587	5.00%
- Undistributed profit	123,401	64.36%

Also, has been approved increase of share capital by means of capitalization of retained earnings in amount of MDL'000 150,000, equivalent of 15,000,080 shares.