

**BC VICTORIABANK SA**

**FINANCIAL STATEMENTS FOR THE  
YEAR ENDED 31 DECEMBER 2005**

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

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**Notes to the financial statements**

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**BC VICTORIABANK SA****STATEMENT OF INCOME****FOR THE YEAR ENDED 31 DECEMBER 2005****(All amounts in thousand Moldovan Lei (MDL) unless otherwise stated)**

	<b>Note</b>	<b>31 December 2005</b>	<b>31 December 2004</b>
Interest and similar income	5	165,439	139,255
Interest expense and similar charges	5	<u>(86,948)</u>	<u>(55,373)</u>
<b>Net interest income</b>		78,491	83,882
Fee and commission income	6	77,179	64,242
Fee and commission expense	6	<u>(13,473)</u>	<u>(8,767)</u>
<b>Net fee and commission income</b>		63,706	55,475
Net trading income	7	21,126	25,487
Other operating income	8	9,095	5,696
Impairment losses on loans and other assets	9	(3,079)	(29,983)
Other operating expenses	10	<u>(85,022)</u>	<u>(76,718)</u>
<b>Profit before income tax</b>		84,317	63,839
Income tax expense	11	<u>(14,887)</u>	<u>(11,002)</u>
<b>Profit for the year</b>		<u>69,430</u>	<u>52,837</u>
Basic and diluted earnings per share (MDL)	32	<u>22</u>	<u>17</u>

The accompanying notes set on pages 5 to 51 form an integral part of these financial statements.

(1)

**BC VICTORIABANK SA****BALANCE SHEET****AS AT 31 DECEMBER 2005****(All amounts in thousand Moldovan Lei (MDL) unless otherwise stated)**

	<u>Note</u>	<u>31 December 2005</u>	<u>31 December 2004</u>
<b>ASSETS</b>			
Cash and balances with NBM	12	355,510	368,413
Loans and advances to banks	13	332,901	321,542
Treasury bills	14	258,828	123,351
Loans and advances to customers	15	995,046	779,554
Investment securities:			
- available for sale	16	773	332
- held to maturity	16	6,258	-
Intangible assets	17	3,312	5,051
Property and equipment	18	110,523	100,806
Other assets	19	<u>24,224</u>	<u>40,318</u>
<b>Total assets</b>		<b><u>2,087,375</u></b>	<b><u>1,739,367</u></b>
<b>LIABILITIES</b>			
Due to other banks	20	41,135	31,808
Other borrowings	21	206,538	202,081
Due to customers	22	1,545,069	1,252,350
Other liabilities	23	15,179	19,137
Current income tax liability		3,087	753
Deferred tax liabilities	24	<u>2,955</u>	<u>1,443</u>
<b>Total liabilities</b>		<b>1,813,963</b>	<b>1,507,572</b>
<b>SHAREHOLDERS' EQUITY</b>			
Ordinary shares	25	32,000	32,000
Share premium		10,250	10,250
Available for sale investments			
revaluation reserve		(1,779)	434
Statutory reserves	26	4,800	4,800
Retained earnings		<u>228,141</u>	<u>184,311</u>
<b>Total shareholders' equity</b>		<b><u>273,412</u></b>	<b><u>231,795</u></b>
<b>Total liabilities and shareholders' equity</b>		<b><u>2,087,375</u></b>	<b><u>1,739,367</u></b>

The accompanying notes set on pages 5 to 51 form an integral part of these financial statements.

(2)

**BC VICTORIABANK SA****STATEMENT OF CASH FLOWS**

FOR THE YEAR ENDED 31 DECEMBER 2005

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

	<u>31 December 2005</u>	<u>31 December 2004</u>
<b>Cash flows from operating activities</b>		
Interest and commissions receipts	166,292	136,901
Interest paid	(86,509)	(54,844)
Fee and commission receipts	63,706	55,475
Net trading and other income	28,967	31,040
Payments to employees and social contributions	(42,812)	(39,484)
Payments to suppliers and other creditors	(25,748)	(20,762)
Income tax paid	<u>(11,096)</u>	<u>(13,822)</u>
<b>Net cash flows form operating profits before changes in operating assets and liabilities</b>	92,800	94,504
<b>Changes in operating assets and liabilities</b>		
Increase in amounts due from NBM	(61,822)	(93,210)
Increase in treasury bills over 90 days	(44,665)	(62,865)
Increase in amounts due from other banks	(7,842)	(5,062)
Increase in loans and advances to customers	(202,692)	(77,284)
Decrease in other assets	2,543	4,768
Increase in due to banks	9,327	968
Increase in due to customers	292,280	185,727
Decrease in other liabilities	<u>(3,905)</u>	<u>(5,752)</u>
<b>Total changes in operating assets liabilities</b>	(16,776)	(52,710)
<b>Net cash from operating activities</b>	76,024	41,794
<b>Cash flows from investing activities</b>		
Purchases of intangible assets	(2,716)	(1,807)
Purchases of property and equipment	(23,478)	(28,575)
Proceeds from disposal of property and equipment	32	-
Purchase of securities	<u>(6,699)</u>	<u>-</u>
<b>Net cash used in investing activities</b>	(32,861)	(30,382)
<b>Cash flows from financing activities</b>		
Proceeds from borrowed funds	36,981	88,412
Repayment of borrowed funds received	(32,524)	(33,649)
Dividends paid	<u>(25,600)</u>	<u>(25,600)</u>
<b>Net cash used in financing activities</b>	(21,143)	29,163
Effects of exchange rate changes on cash and cash equivalents	<u>333</u>	<u>(444)</u>
<b>Net increase in cash and cash equivalents</b>	22,353	40,131
Cash and cash equivalents at 1 January	<u>608,925</u>	<u>568,794</u>
<b>Cash and cash equivalents at 31 December (Note 28)</b>	<u><u>631,278</u></u>	<u><u>608,925</u></u>

The accompanying notes set on pages 5 to 51 form an integral part of these financial statements.

**BC VICTORIABANK SA**

**STATEMENT OF CHANGES IN EQUITY**

**FOR THE YEAR ENDED 31 DECEMBER 2005**

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

	<u>Ordinary shares</u>	<u>Share premium reserve</u>	<u>Available for sale investments revaluation reserves</u>	<u>Statutory reserves</u>	<u>Retained earnings</u>	<u>Total</u>
<b>Previously reported balance at 1 January 2004</b>	32,000	10,250	-	4,800	156,981	204,031
- net change of available for sale Investments (net of tax)	-	-	(93)	-	93	-
<b>Adjusted balance at 1 January 2004</b>	32,000	10,250	(93)	4,800	157,074	204,031
Net gains from changes in fair value of available-for-sale investments (net of tax)	-	-	847	-	-	847
Net gains transferred to net profit on disposal of available-for-sale investments (net of tax)	-	-	(320)	-	-	(320)
Net profit for the year	-	-	-	-	52,837	52,837
Total recognised income	-	-	527	-	52,837	53,364
Dividends paid for 2003 (Note 27)	-	-	-	-	(25,600)	(25,600)
<b>Balance at 31 December 2004/ 1 January 2005</b>	<u>32,000</u>	<u>10,250</u>	<u>434</u>	<u>4,800</u>	<u>184,311</u>	<u>231,795</u>
Net losses from changes in fair value of available-for-sale investments (net of tax)	-	-	(784)	-	-	(784)
Net gains transferred to net profit disposal of available-for-sale investments (net of tax)	-	-	(1,429)	-	-	(1,429)
Net profit for the year	-	-	-	-	69,430	69,430
Total recognised income	-	-	(2,213)	-	69,430	67,217
Dividends paid for 2004 (Note 27)	-	-	-	-	(25,600)	(25,600)
<b>Balance at 31 December 2005</b>	<u>32,000</u>	<u>10,250</u>	<u>(1,779)</u>	<u>4,800</u>	<u>228,141</u>	<u>273,412</u>

The accompanying notes set on pages 5 to 51 form an integral part of these financial statements.

## **BC VICTORIABANK SA**

### **GENERAL INFORMATION**

**FOR THE YEAR ENDED 31 DECEMBER 2005**

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

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#### **1 GENERAL INFORMATION**

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

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

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

At year-end 2005 the Bank possessed a type "C" license granted by the National Bank of Moldova, which allows the Bank to engage in all banking activities.

At 31 December 2005 the Bank had 13 branches and 6 representative offices.

The Bank's number of employees as at 31 December 2005 was 515 (2004: 472).

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 2005 the Board of Directors of the Bank comprised the following members:

- Mr Alexandru Tanase, Chairman of the Board; Senior Banker, EBRD;
- Mr Vladimir Plahotniuc, First Vice-Chairman of the Board, General Director of ICS Petrom - Moldova SA;
- Mr Radu Gratian Ghetea, Vice-Chairman of the Board, Prime Vice-President, Alpha Bank Romania SA; President of the Romanian Association of Banks;
- Mr Victor Turcanu, member of the Board, President, BC Victoriabank SA;
- Mrs Galina Proidisvet, member of the Board, Prime Vice-President, BC Victoriabank SA;
- Mrs Tamara Andrusca, member of the Board, Economic Director, ICS Petrom-Moldova SA;
- Mrs Ecaterina Pascarel, member of the Board, Financial Director, ICS Petrom-Moldova SA.

These financial statements have been approved for issue by the Board of Directors on 22 March 2006.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of presentation

Bank's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements have been prepared under the historical cost convention and modified by the revaluation of financial assets available for sale.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

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

#### *Adoption of revised standards*

In 2005 the Bank adopted the following IFRS, which are relevant to its operations. The 2004 accounts have been amended as required, in accordance with the relevant requirements.

- IAS 1 (revised 2003) Presentation of Financial Statements
- IAS 8 (revised 2003) Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 10 (revised 2003) Events after the Balance Sheet Date
- IAS 16 (revised 2003) Property, Plant and Equipment
- IAS 17 (revised 2003) Leases
- IAS 21 (revised 2003) The Effects of Changes in Foreign Exchange Rates
- IAS 24 (revised 2003) Related Party Disclosures
- IAS 32 (revised 2003) Financial Instruments: Disclosure and Presentation
- IAS 39 (revised 2003) Financial Instruments: Recognition and Measurement
- IAS 36 (revised 2004) Impairment of Assets
- IAS 38 (revised 2004) Intangible Assets

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.1 Basis of presentation (continued)**

The adoption of the revised IAS 1, 8, 10, 16, 17, 21, 24 and 32 (all revised 2003), and IAS 36 and 38 (all revised 2004) resulted in certain additional disclosures, but did not result in material changes to the Bank's accounting policies and accounting treatment of transactions. The old version of IAS 39 allowed the gains and losses on available-for-sale investments to be recognised immediately in the income statement. IAS 39 (revised 2003) eliminated this opportunity, and requires these gains and losses to be deferred in a revaluation reserve in equity until the investment is de-recognised, when the gain / loss is recycled through the income statement. As a result of this change in the requirements of IAS 39 the Bank accordingly changed its accounting policy. The effect of this on revaluation reserve is presented in the statement of changes in equity. The effect of this on income statement is presented below:

**2004 Income Statement**

	<u>Net interest income</u>	<u>Net fee and commission income</u>	<u>Various income statement items, net</u>	<u>Income tax expense</u>	<u>Net profit for the year</u>	<u>Basic and diluted earnings per share</u>
As previously reported	83,882	55,475	(74,991)	(11,002)	53,364	17
Adjustment	-	-	(527)	-	(527)	-
As restated	<u>83.882</u>	<u>55.475</u>	<u>(75.518)</u>	<u>(11.002)</u>	<u>52.837</u>	<u>17</u>

*Standards, interpretations and amendments to published standards that are not yet effective*

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Bank's accounting periods beginning on or after 1 January 2006 or later periods but which the Bank has not early adopted.

**IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures** (effective from 1 January 2007)

IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital.

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

**2.1 Basis of presentation (continued)**

The Bank assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1. The Bank will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007.

**IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts** (effective from 1 January 2006)

This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the unamortized balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date.

There are a number of other new standards or amendments to existing ones but they are not relevant to the Bank's operations. These amendments and standards include:

- IAS 19 (Amendment), Employee Benefits (effective from 1 January 2006)
- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006)
- IAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006)
- IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006)
- IFRS 6, Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006)
- IFRIC 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006)
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006)
- IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (effective from 1 December 2005)

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

**2.2 Foreign currency translation**

*(a) Functional and presentation currency*

Items included in the Banks' financial statements are measured using the currency of the primary economic environment in which the Bank operates ("the functional currency"). The Banks' financial statements are presented in Moldovan Leu (MDL), which is the Bank's functional and presentation currency.

*(b) Transactions and balances*

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 recognised in the income statement. 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 MDL exchange rates for 2005 and 2004 with Euro (EUR) and USD were as following:

	<u>2005</u>		<u>2004</u>	
	USD	EUR	USD	EUR
Closing rate	12.8320	15.1950	12.4600	16.9542
Average rate	12.5995	15.6978	12.3284	15.3286

**2.3 Interest income and expense**

Interest income and expense are recognised 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.

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

**2.3 Interest income and expense (continued)**

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

**2.4 Fee and commission income**

Fees and commissions are generally recognised 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 recognised 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 recognised on completion of the underlying transaction.

**2.5 Financial assets**

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

*(a) 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. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Currently, the Bank does not have financial assets at fair value through profit and loss.

*(b) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivable.

Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus transaction costs. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. Loans and receivables are carried at amortised cost using the effective interest method.

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

**2.5 Financial assets (continued)**

(c) *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. Were the Bank to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale.

(d) *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. Included in this category are, also, treasury bills.

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

Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity should be recognised in profit or loss. However, interest calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the entity's right to receive payment is established.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (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 and other valuation techniques commonly used by market participants.

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

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

**2.7 Sale and repurchase agreements**

Securities sold subject to repurchase agreements ("repos") are reclassified 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.

Securities borrowed are not recognised 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.

**2.8 Impairment of financial assets**

*(a) Assets carried at amortised 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. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events:

- (i) significant financial difficulty of the issuer or obligor;
  - (ii) a breach of contract, such as a default or delinquency in interest or principal payments;
  - (iii) the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
  - (iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
  - (v) the disappearance of an active market for that financial asset because of financial difficulties;
- or

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

**2.8 Impairment of financial assets (continued)**

*(a) Assets carried at amortised costs (continued)*

(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

- adverse changes in the payment status of borrowers in the group; or
- national or local economic conditions that correlate with defaults on the assets in the Bank.

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 recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, 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 recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised 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.

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

**2.8 Impairment of financial assets (continued)**

*(a) Assets carried at amortised costs (continued)*

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, industry, geographical location, collateral type, past-due status and other relevant factors). 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.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). 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. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

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 recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

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

**2.8 Impairment of financial assets (continued)**

*(b) 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 recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised 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 recognised in profit or loss, the impairment loss is reversed through the income statement.

**2.9 Intangible assets**

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

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Bank, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

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

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

**2.10 Property and equipment**

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

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

– Buildings	40 years,
– Equipment and other fixed assets	5 years

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

The assets' residual value and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

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

**2.11 Leases**

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

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

**2.12 Cash and cash equivalents**

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity including: cash, non-restricted balances with National Bank of Moldova, treasury bills, amounts due from other banks and amounts due from quick payment systems.

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

**2.13 Provisions**

Provisions for restructuring costs and legal claims are recognised 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.

**2.14 Employee benefits**

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

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

**2.15 Deferred income tax**

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) 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 realised or the deferred income tax liability is settled.

The principal temporary differences arise from depreciation of equipment, provisions for loans and advances to customers, other assets and other liabilities. The rates enacted or substantively enacted at the balance sheet date are used to determine deferred income tax. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss.

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

Income tax payable on profits, based on the applicable Moldovan tax law is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

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

**2.16 Borrowings**

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

**2.17 Dividends**

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

**2.18 Fiduciary activities**

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

**2.19 Assets for resale**

Assets for resale include foreclosed collateral on non-performing loans. It is initially recognised at fair value and is subsequently measured at the lower of carrying amount and fair value less costs to sell.

**2.20 Segment reporting**

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

**2.21 Comparatives**

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

**3 FINANCIAL RISK MANAGEMENT**

**3.1 Strategy in using financial instruments**

By their nature, the Bank's activities are principally related to the use of financial instruments including derivatives. As at the year-end 2005 the Bank has no derivatives (2004: nil). The Bank accepts deposits from customers at both fixed and floating rates, and for various periods, and seeks to earn above-average interest margins by investing these funds in high-quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

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

**3.2 Credit risk**

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

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

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

**3 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**3.2 Credit risk (continued)**

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

*Credit-related commitments*

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

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

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

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**3 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**3.3 Geographical concentration and business segments**

The Bank's geographical concentration of assets and liabilities is set out in the table below:

**As at 31 December 2005**

	<u><b>Total assets</b></u>	<u><b>Total liabilities</b></u>
Moldova	1,736,238	1,493,786
Germany	294,600	269,422
United Kingdom	11,884	7,029
USA	22,606	23,851
Other countries	<u>22,047</u>	<u>19,875</u>
	<u><b>2,087,375</b></u>	<u><b>1,813,963</b></u>

**As at 31 December 2004**

	<u><b>Total assets</b></u>	<u><b>Total liabilities</b></u>
Moldova	1,543,106	1,318,365
United Kingdom	185,643	182,836
Other countries	<u>10,618</u>	<u>6,371</u>
	<u><b>1,739,367</b></u>	<u><b>1,507,572</b></u>

The Bank operates within the single corporate banking business segments and its activities are exclusively carried out in the Republic of Moldova.

**3.4 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.

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**3 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**3.5 Currency risk**

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

<b>At 31 December 2005</b>	<u><b>USD</b></u>	<u><b>EUR</b></u>	<u><b>Other foreign currencies</b></u>	<u><b>Local currency</b></u>	<u><b>Total</b></u>
<b>Assets</b>					
Cash and NBM balances	65,051	56,870	765	232,824	355,510
Loans and advances to banks	203,211	110,300	4,319	15,071	332,901
Treasury bills	9,892	21,306	-	227,630	258,828
Loans and advances to customers	388,728	205,854	-	400,464	995,046
Investment securities:					
- available for sale	-	-	-	773	773
- held-to-maturity	3,208	-	-	3,050	6,258
Intangible assets	-	-	-	3,312	3,312
Property and equipment	-	-	-	110,523	110,523
Other assets	<u>5,410</u>	<u>6,277</u>	<u>24</u>	<u>12,513</u>	<u>24,224</u>
Total assets	675,500	400,607	5,108	1,006,160	2,087,375
<b>Liabilities</b>					
Due to other banks	37,658	1,106	8	2,363	41,135
Other borrowings	148,886	41,780	-	15,872	206,538
Due to customers	497,886	372,054	4,064	671,065	1,545,069
Other liabilities	5,824	4,689	66	4,600	15,179
Income tax	-	-	-	3,087	3,087
Deferred tax liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,955</u>	<u>2,955</u>
Total liabilities	690,254	419,629	4,138	699,942	1,813,963
<b>Net on balance sheet position</b>	<u>(14,754)</u>	<u>(19,022)</u>	<u>970</u>	<u>306,218</u>	<u>273,412</u>
<b>Credit commitments</b>	<u>64,097</u>	<u>44,378</u>	<u>-</u>	<u>30,989</u>	<u>139,464</u>
<b>At 31 December 2004</b>					
Total assets	619,904	347,994	10,478	760,991	1,739,367
Total liabilities	660,292	347,905	8,869	490,509	1,507,572
<b>Net on balance sheet position</b>	<u>(40,388)</u>	<u>(89)</u>	<u>1,609</u>	<u>270,482</u>	<u>231,795</u>
<b>Credit commitments</b>	<u>58,894</u>	<u>25,209</u>	<u>-</u>	<u>28,699</u>	<u>112,802</u>

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

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**FINANCIAL RISK MANAGEMENT (CONTINUED)**

**3.6 Cash flow and fair value interest rate risk**

*Interest sensitivity of assets, liabilities and off balance sheet items – reprising 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 reprising that may be undertaken, which is monitored daily.

The table below summarises the Bank's exposure to interest rate risks at 31 December 2005. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual reprising or maturity dates.

	<u>Up to 1 month</u>	<u>Up to 3 months</u>	<u>3 months to 1 year</u>	<u>1 year to 5 years</u>	<u>Over 5 years</u>	<u>Non interest bearing</u>	<u>Total</u>
<b>At 31 December 2005</b>							
<b>Assets</b>							
Cash and NBM balances	189,789	19,098	-	-	-	146,623	355,510
Loans and advances to banks	292,130	23,527	2,459	14,376	-	409	332,901
Treasury Bills	45,172	75,866	80,842	55,388	-	1,560	258,828
Loans to customers	106,277	87,580	400,001	370,469	23,923	6,796	995,046
Investment securities:							
- available for sale	-	-	-	-	-	773	773
- held-to-maturity	-	-	3,208	3,050	-	-	6,258
Intangible assets	-	-	-	-	-	3,312	3,312
Property and equipment	-	-	-	-	-	110,523	110,523
Other assets	-	-	-	-	-	24,224	24,224
<b>Total assets</b>	<b>633,368</b>	<b>206,071</b>	<b>486,510</b>	<b>443,283</b>	<b>23,923</b>	<b>294,220</b>	<b>2,087,375</b>
<b>Liabilities</b>							
Due to other banks	16,229	-	-	-	2,260	22,646	41,135
Other borrowings	184,479	1,590	1,100	16,855	584	1,930	206,538
Due to customers	417,060	118,113	356,907	126,614	-	526,375	1,545,069
Other liabilities	-	-	-	-	-	15,179	15,179
Income tax	-	-	-	-	-	3,087	3,087
Deferred tax liability	-	-	-	-	-	2,955	2,955
<b>Total liabilities</b>	<b>617,768</b>	<b>119,703</b>	<b>358,007</b>	<b>143,469</b>	<b>2,844</b>	<b>572,172</b>	<b>1,813,963</b>
<b>Interest sensitivity surplus</b>	<b>15,600</b>	<b>86,368</b>	<b>128,503</b>	<b>299,814</b>	<b>21,079</b>		

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**3 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**3.6 Cash flow and fair value interest rate risk (continued)**

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

	<u>EUR</u>	<u>USD</u>	<u>MDL</u>
<b>Assets</b>			
Due from National Bank of Moldova	0.30-0.50%	0.30-0.50%	2.15-9.68%
Loans and advances to banks	1.00-2.20%	1.00-4.15%	7.00%
Treasury bills	2.53-2.85%	3.941-3.944%	0.96-10.09%
Loans and advances to customers	8.00-12.50%	2.50-13.00%	10.00-25.00%
<b>Liabilities</b>			
Due to other banks	6.00-7.75%	5.50-7.00%	-
Other borrowings	4.16-10.46%	5.84-11.52%	8.50-12.20%
Due to customers	2.00-6.50%	2.00-7.50%	3.50-20.00%

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**3 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**3.6 Cash flow and fair value interest rate risk (continued)**

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

	<u>Up to 1 month</u>	<u>to 3 months</u>	<u>to 1 year</u>	<u>1 year to 5 years</u>	<u>Over 5 years</u>	<u>No interest bearing</u>	<u>Total</u>
<b>At 31 December 2004</b>							
<b>Assets</b>							
Cash and balances with NBM	133,128	-	-	-	-	235,285	
	368,413						
Loans and advances to banks	237,316	53,947	-	10,853	-	19,426	
	321,542						
Treasury Bills	31,889	21,791	68,054	673	-	944	123,351
Loans and advances to customers	82,159	90,639	357,787	233,641	9,396	5,932	
	779,554						
Investment securities available-for-sale	-	-	-	-	-	332	332
Intangible assets	-	-	-	-	-	5,051	
	5,051						
Property and equipment	-	-	-	-	-	100,806	
	100,806						
Other assets	-	-	-	-	-	40,318	
<u>40,318</u>							
Total assets	484,492	166,377	425,841	245,167	9,396	408,094	
	1,739,367						
<b>Liabilities</b>							
Due to other banks	-	-	15,097	1,056	1,590	14,065	
	31,808						
Other borrowings	303	11,957	188,029	-	-	1,792	
	202,081						
Due to customers	333,398	107,326	351,289	53,052	-	407,285	
	1,252,350						
Other liabilities	-	-	-	-	-	19,137	
	19,137						
Income tax	-	-	-	-	-	753	753
Deferred tax liability	-	-	-	-	-	1,443	
<u>1,443</u>							
Total liabilities	333,701	119,283	554,415	54,108	1,590	444,475	
	1,507,572						
<b>Interest sensitivity surplus/(gap)</b>	<u>150,791</u>	<u>47,094</u>	<u>(128,574)</u>	<u>191,059</u>	<u>7,806</u>		

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

	<u>EUR</u>	<u>USD</u>	<u>MDL</u>
<b>Assets</b>			
Due from National Bank of Moldova	0.30%	0.30%	11.2%
Loans and advances to banks	0.91%	1.64%	9.49%
Treasury bills	2.60%	2.41%	12.2%
Loans and advances to customers	9.80%	10.0%	22.0%
<b>Liabilities</b>			
Due to other banks	-	-	3.16%
Other borrowings	-	6.50%	9.10%
Due to customers	2.41%	4.30%	11.3%

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

## 3.7 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 table 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.

At 31 December 2005	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
<b>Assets</b>						
Cash and NBM's balances	336,412	19,098	-	-	-	355,510
Loans and advances to banks	292,539	23,527	2,459	14,376	-	332,901
Treasury and other eligible bills	46,732	75,866	80,842	55,388	-	258,828
Loans to customers	113,075	87,580	400,000	370,469	23,922	995,046
Investment securities						
available for sale	-	-	-	773	-	773
held-to-maturity	-	-	3,208	3,050	-	6,258
Intangible assets	-	-	-	-	3,312	3,312
Property and equipment	-	-	-	-	110,523	110,523
Other assets	<u>14,742</u>	<u>2,515</u>	<u>4,722</u>	<u>2,245</u>	-	<u>24,224</u>
Total assets	803,500	208,586	491,231	446,301	137,757	2,087,375
<b>Liabilities</b>						
Due to other banks	38,875	-	-	-	2,260	41,135
Other borrowings	186,409	1,590	1,100	16,855	584	206,538
Due to customers	943,436	118,112	356,907	126,614	-	1,545,069
Other liabilities	15,032	147	-	-	-	15,179
Income tax		3,087				3,087
Deferred tax liabilities	-	-	-	2,955	-	2,955
Total liabilities	<u>1,183,752</u>	<u>122,936</u>	<u>358,007</u>	<u>146,424</u>	<u>2,844</u>	<u>1,813,963</u>
<b>Net liquidity surplus / (gap)</b>	<u>(380,252)</u>	<u>85,650</u>	<u>133,224</u>	<u>299,877</u>	<u>134,913</u>	<u>273,412</u>

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**3 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**3.7 Liquidity risk (continued)**

<b>At 31 December 2004</b>	<b>Up to 1</b>	<b>1 to 3</b>	<b>3 to 12</b>	<b>1 to 5</b>	<b>Over 5</b>	<b>Total</b>
	<b>month</b>	<b>months</b>	<b>months</b>	<b>years</b>	<b>years</b>	
<b>Assets</b>						
Cash and NBM's balances	351,413	17,000	-	-	-	368,413
Loans and advances to banks	298,258	12,400	-	10,884	-	321,542
Treasury bills	32,833	21,791	68,054	673	-	123,351
Loans and advances to customers	75,655	97,136	358,815	238,552	9,396	779,554
Investment securities:						
available-for-sale	-	-	-	332	-	332
Intangible assets	-	-	-	-	5,051	5,051
Property and equipment	-	-	-	-	100,806	100,806
Other assets	<u>15,692</u>	<u>1,979</u>	<u>14,021</u>	<u>8,626</u>	-	<u>40,318</u>
<b>Total assets</b>	<b>773,851</b>	<b>150,306</b>	<b>440,890</b>	<b>259,067</b>	<b>115,253</b>	<b>1,739,367</b>
<b>Liabilities</b>						
Due to other banks	14,065	-	15,097	1,056	1,590	31,808
Other borrowings	2,095	11,957	41,011	124,243	22,775	202,081
Due to customers	740,686	107,323	351,289	53,052	-	1,252,350
Other liabilities	17,235	983	919	-	-	19,137
Income tax	753	-	-	-	-	753
Deferred tax liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,443</u>	<u>-</u>	<u>1,443</u>
<b>Total liabilities</b>	<b><u>774,834</u></b>	<b><u>120,266</u></b>	<b><u>408,316</u></b>	<b><u>179,794</u></b>	<b><u>24,365</u></b>	<b><u>1,507,572</u></b>
<b>Net liquidity surplus / (gap)</b>	<b><u>(983)</u></b>	<b><u>30,037</u></b>	<b><u>32,574</u></b>	<b><u>79,273</u></b>	<b><u>90,888</u></b>	<b><u>231,795</u></b>

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.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

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

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

## 3.8 Fair values of financial assets and liabilities

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

	<u>Carrying value</u>		<u>Fair value</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
<b>Financial assets</b>				
Loans and advances to banks	332,901	321,542	303,199	320,412
Loans and advances to customers	995,046	779,554	932,291	731,629
Investments held-to-maturity	6,258	-	6,209	-
<b>Financial liabilities</b>				
Due to other banks	41,135	31,808	40,857	31,797
Other borrowings	206,538	202,081	204,685	195,514
Due to customers	1,545,069	1,252,350	1,451,820	1,121,663

*a) 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.

*b) Investments held-to-maturity*

Investment securities include only interest-bearing assets held to maturity, as assets available-for-sale are measured at fair value. Fair value for held-to-maturity assets is based on market prices or broker/dealer price quotations. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

*c) Loans and advances to customers*

Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

*d) Borrowings, including due to other banks and due to customers*

The fair value of floating rate borrowings approximates their carrying amount. The estimated fair value of fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

**3 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**3.9 Fair values of financial assets and liabilities**

The Bank provides custody, trustee, corporate administration, investment management and advisory services to third parties, which involve the Bank making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements. Some of these arrangements involve the Bank accepting targets for benchmark levels of returns for the assets under the Bank's care. These services give rise to the risk that the Bank will be accused of maladministration or under-performance. At the balance sheet date, the Bank had treasury bills under administration estimated to amount to approximately MDL 6,201 thousand (2004: MDL 32,775 thousand).

**4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

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.

*(a) Impairment losses on loans and advances*

The Bank reviews its loan portfolios to assess impairment at least on a monthly basis. 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.

**4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)**

*(b) Impairment of available-for-sale equity investments*

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

*(c) Held-to-maturity investments*

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

**BC VICTORIABANK SA****NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2005****(All amounts in thousand Moldovan Lei (MDL) unless otherwise stated)**

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**5 NET INTEREST INCOME**

	<u>2005</u>	<u>2004</u>
<b>Interest and similar income</b>		
Loans and advances to customers	141,085	117,635
Treasury bills	13,221	11,313
Due from NBM and other banks	<u>11,133</u>	<u>10,307</u>
	<u>165,439</u>	<u>139,255</u>
<b>Interest expense and similar charges</b>		
Due to customers - individuals	56,837	34,958
Due to customers - companies	12,180	8,586
Other borrowings	16,483	11,267
Due to other banks	<u>1,448</u>	<u>562</u>
	<u>86,948</u>	<u>55,373</u>

**6 NET FEE AND COMMISSION INCOME**

	<u>2005</u>	<u>2004</u>
<b>Fee and commission income</b>		
Payment transactions	29,066	29,067
Card account services	22,961	18,845
Foreign exchange operations	13,161	11,925
Other	<u>11,991</u>	<u>4,405</u>
	<u>77,179</u>	<u>64,242</u>
<b>Fee and commission expense</b>		
Card account services	10,315	6,098
Payment transactions	3,158	1,492
Other	<u>-</u>	<u>1,177</u>
	<u>13,473</u>	<u>8,767</u>

**BC VICTORIABANK SA****NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2005****(All amounts in thousand Moldovan Lei (MDL) unless otherwise stated)**

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**7 TRADING INCOME**

	<u>2005</u>	<u>2004</u>
Transaction gains less losses	20,794	25,931
Translation gains less losses	<u>332</u>	<u>(444)</u>
	<u>21,126</u>	<u>25,487</u>

**8 OTHER OPERATING INCOME**

	<u>2005</u>	<u>2004</u>
Gain on disposal of property and equipment	3,271	1,151
Assets previously written-off	2,396	-
Income from cash collections	842	1,138
Income from SWIFT/Telex systems	735	697
Rent income	408	407
Dividend income	164	258
Gain reimbursement for overpayment to settlement systems	-	650
Other income	<u>1,279</u>	<u>1,395</u>
	<u>9,095</u>	<u>5,696</u>

**9 IMPAIRMENT LOSSES ON LOANS AND OTHER ASSETS**

	<u>2005</u>	<u>2004</u>
Impairment charge for:		
- loans and advances to customers (Note 15)	1,941	27,587
- other assets (Note 19)	<u>1,138</u>	<u>2,396</u>
	<u>3,079</u>	<u>29,983</u>

**BC VICTORIABANK SA**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2005**

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

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**10 OPERATING EXPENSES**

	<u>2005</u>	<u>2004</u>
Salaries, wages and bonuses	34,210	31,338
Social security payments	8,602	8,146
Depreciation charge	11,517	11,177
Repairs and maintenance	5,964	4,389
Amortisation charge	4,455	4,994
Administration expenses	3,225	3,051
Mail and communications	2,117	2,071
Operating lease expenses	1,855	1,809
Penalties and fees	1,720	10
Insurance	1,606	1,505
Losses from disposal of property and equipment	1,597	140
Utilities	1,340	1,257
Advertising expenses	1,309	1,038
Contribution to Deposits Guarantee Fund	939	1,032
Expenses with processing/settlement systems	573	902
Consulting and audit services	559	1,038
Other expenses	<u>3,434</u>	<u>2,821</u>
	<u>85,022</u>	<u>76,718</u>

**BC VICTORIABANK SA****NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2005****(All amounts in thousand Moldovan Lei (MDL) unless otherwise stated)**

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**11 INCOME TAX EXPENSE**

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

	<u>2005</u>	<u>2004</u>
Current tax	13,375	10,365
Deferred tax (Note 24)	<u>1,512</u>	<u>637</u>
	<u>14,887</u>	<u>11,002</u>

Further information about deferred income tax is presented in Note 24.

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

	<u>2005</u>	<u>2004</u>
IFRS profit before tax	84,317	63,839
Theoretical tax charge at the applicable statutory tax rate of 18% (2004: 20%)	15,177	12,768
Income not subject to tax	(1,455)	(3,082)
Expenses not deductible for tax purposes	2,247	1,316
Reduced tax rates	<u>(1,082)</u>	<u>-</u>
Income tax expense	<u>14,887</u>	<u>11,002</u>

During 2005 the Bank obtained reduced tax rates in respect of loans granted to customers with purpose of capital investments. All revenues from loans granted up to three years are 50% taxable and revenues from loans granted with maturity more than three years are not taxable.

Effective 1 January 2006, the income tax rate has been reduced from 18% to 15%.

**BC VICTORIABANK SA****NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2005****(All amounts in thousand Moldovan Lei (MDL) unless otherwise stated)**

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**12 CASH AND BALANCES WITH NATIONAL BANK OF MOLDOVA**

	<u>31 December 2005</u>	<u>31 December 2004</u>
Current account with NBM:		
- mandatory reserve in foreign currency	90,048	49,223
- mandatory reserve in domestic currency	<u>64,984</u>	<u>43,987</u>
	155,032	93,210
Current account with NBM:		
- funds in excess of mandatory reserves	71,330	128,462
Short-term deposit with NBM	53,098	54,000
Cash in hand	76,050	77,741
Repurchase agreements	<u>-</u>	<u>15,000</u>
Included in cash and cash equivalents (Note 28)	<u>200,478</u>	<u>275,203</u>
	<u>355,510</u>	<u>368,413</u>

Current accounts are required to satisfy the mandatory reserve requirements of the National Bank of Moldova. During 2005 the interest rate was 1.8% (2004: 3.92 %) for reserves held in MDL and 0.2% for reserves held in USD and EUR (2004: 0.2%)

During 2005 the interest rate for term deposits with National Bank of Moldova ranged from 11.7% to 3.89% (2004: 12.10% - 12.49%).

**13 LOANS AND ADVANCES TO BANKS**

	<u>31 December 2005</u>	<u>31 December 2004</u>
Current accounts	35,920	47,876
Placements with banks	<u>261,672</u>	<u>245,978</u>
Included in cash and cash equivalents (Note 28)	297,592	293,854
Other placements with banks	<u>35,309</u>	<u>27,688</u>
	<u>332,901</u>	<u>321,542</u>

During 2005 interest on placements with banks ranged from 1.9% to 7 % (2004: 0% to 7.3%).

**BC VICTORIABANK SA**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2005**

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

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**13 LOANS AND ADVANCES TO BANKS (CONTINUED)**

Placements with banks include short-term deposit in amount of MDL 170,764 thousand with DZ Bank AG (2004: MDL 237,317 thousand). Interest on placements with banks ranged from 1.9% to 2.1% for EUR denominated amounts and from 2.2% to 4.2% for USD amounts.

Placements with banks also include deposits in the amount of MDL 11,328 thousand (2004: MDL 5,995 thousand) representing placements with HSBC London for fund transfers through Europay system and JPMORGAN CHASE Bank for Visa system. These deposits do not have fixed maturity, however the Bank does not expect them to be withdrawn within the next 5 years.

Placements with banks also include short-term loans to Mobiasbanca (local bank) sin the amount of MDL 4,559 thousand.

**14 TREASURY BILLS**

	<b><u>31 December 2005</u></b>	<b><u>31 December 2004</u></b>
Treasury bills:		
- included in cash and cash equivalents (Note 28)	121,027	29,603
- other treasury bills of original maturity over 90 days	106,069	68,727
Treasury bills – G-7 countries	<u>31,732</u>	<u>25,021</u>
	<u>258,828</u>	<u>123,351</u>

Treasury bills in the amount of MDL 233,363 thousand (2004: MDL 98,330 thousand) are short and medium term discounted securities issued by the Ministry of Finance of the Republic of Moldova. Yield on those bonds ranged from 4.7% to 10% during the year (2004: 8% to 19.9%).

There are no pledged securities by Bank as at the end of the year 2005 (2004: nil).

Treasury bills of G-7 countries include treasury bills issued by Germany, Italy and Canada. The effective interest rates on these securities ranged from 4.38% to 6.75%.

For subsequent measurement purposes treasury bills are classified as available-for-sale.

**BC VICTORIABANK SA****NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2005****(All amounts in thousand Moldovan Lei (MDL) unless otherwise stated)**

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**15 LOANS AND ADVANCES TO CUSTOMERS**

	<u>31 December 2005</u>	<u>31 December 2004</u>
Gross loans:		
- not overdue loans	921,770	759,260
- overdue loans	<u>136,867</u>	<u>83,043</u>
	1,058,637	842,303
Less: allowances for losses on loans and advances	<u>(63,591)</u>	<u>(62,749)</u>
	<u>995,046</u>	<u>779,554</u>

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

	<u>31 December 2005</u>	<u>31 December 2004</u>
<b>Industry</b>		
Trade and commerce	364,440	275,985
Agriculture and food industry	289,167	243,779
Construction	124,600	102,074
Real estate	52,034	41,197
Fuel and energy	37,547	45,686
Loans to individuals	32,920	16,688
Others	<u>94,338</u>	<u>54,145</u>
	<u>995,046</u>	<u>779,554</u>

All loans and advances to customers are granted to borrowers in the Republic of Moldova. Interest rates on commercial loans and advances denominated in Moldovan Lei granted during the year are at effective rates from 16% to 24% (2004: 12% to 24%). Interest rates on foreign currency denominated commercial loans are at varying interest rates ranging from 8% to 12% (2004: 8% to 12%).

**BC VICTORIABANK SA****NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2005****(All amounts in thousand Moldovan Lei (MDL) unless otherwise stated)**

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**15 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)****Allowance for losses on loans and advances**

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

	<u>2005</u>	<u>2004</u>
Balance at 1 January	62,749	35,869
Provision for loans impairment	1,941	27,587
Recovered loans previously written off	555	116
Loans written off	<u>(1,654)</u>	<u>(823)</u>
Balance at 31 December	<u>63,591</u>	<u>62,749</u>

**16 INVESTMENT SECURITIES**

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

<b>Company</b>	<b><u>Nature of business</u></b>	<b><u>Interest held (%)</u></b>	<b><u>2005</u></b>	<b><u>2004</u></b>
Garant Invest	Insurance	9.92	400	-
Orateh SRL	Insurance	9.98	300	300
Auto-Siguranta SA	Insurance	0.31	16	16
Other			<u>57</u>	<u>16</u>
			<u>773</u>	<u>332</u>

Investment securities held to maturity in the amount of MDL 6,258 thousand include corporate bonds issued by Elat SA (located in Republic of Moldova) in the amount of MDL 3,050 thousand and treasury bills of the Republic of Italy in amount of MDL 3,208 thousand.

BC VICTORIABANK SA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

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

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17 INTANGIBLE ASSETS

	<u>Software</u>
<b>Year ended 31 December 2004</b>	
Opening net book amount	8,238
Additions	1,807
Amortisation charge	<u>(4,994)</u>
<b>Closing net book amount</b>	<u>5,051</u>
<b>At 31 December 2004</b>	
Cost	14,514
Accumulated amortisation	<u>(9,463)</u>
<b>Net book amount</b>	<u>5,051</u>
<b>Year ended 31 December 2005</b>	
Opening net book amount	5,051
Additions	2,716
Amortisation charge	<u>(4,455)</u>
<b>Closing net book amount</b>	<u>3,312</u>
<b>At 31 December 2005</b>	
Cost	16,817
Accumulated amortisation	<u>(13,505)</u>
<b>Net book amount</b>	<u>3,312</u>

BC VICTORIABANK SA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

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

18 PROPERTY AND EQUIPMENT

	<u>Land and buildings</u>	<u>Equipment and other fixed assets</u>	<u>Assets under construction</u>	<u>Total</u>
<b>Year ended 31 December 2004</b>				
Opening net book amount	41,610	22,151	19,647	83,408
Additions	2,537	2,424	23,723	28,684
Transfers	25,040	6,724	(31,764)	-
Disposals	-	(109)	-	(109)
Depreciation charge	<u>(1,153)</u>	<u>(10,024)</u>	<u>-</u>	<u>(11,177)</u>
<b>Closing net book amount</b>	<u>68,034</u>	<u>21,166</u>	<u>11,606</u>	<u>100,806</u>
<b>At 31 December 2004</b>				
Cost	72,515	57,131	11,606	141,252
Accumulated depreciation	<u>(4,481)</u>	<u>(35,965)</u>	<u>-</u>	<u>(40,446)</u>
<b>Net book amount</b>	<u>68,034</u>	<u>21,166</u>	<u>11,606</u>	<u>100,806</u>
<b>Year ended 31 December 2005</b>				
Opening net book amount	68,034	21,166	11,606	100,806
Additions	5,310	3,622	13,048	21,980
Transfers	1,370	9,909	(11,279)	-
Disposals	-	(22)	(724)	(746)
Depreciation charge	<u>(1,929)</u>	<u>(9,588)</u>	<u>-</u>	<u>(11,517)</u>
<b>Closing net book amount</b>	<u>72,785</u>	<u>25,087</u>	<u>12,651</u>	<u>110,523</u>
<b>At 31 December 2005</b>				
Cost	79,195	70,145	12,651	161,991
Accumulated depreciation	<u>(6,410)</u>	<u>(45,058)</u>	<u>-</u>	<u>(51,468)</u>
<b>Net book amount</b>	<u>72,785</u>	<u>25,087</u>	<u>12,651</u>	<u>110,523</u>

**BC VICTORIABANK SA**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2005**

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

**19 OTHER ASSETS**

	<u>31 December 2005</u>	<u>31 December 2004</u>
<b><i>Included in cash and cash equivalents:</i></b>		
Receivables from Money Gram	4,620	3,644
Receivables from Interexpress	3,722	2,312
Receivables from Visa and Europay	2,065	2,135
Receivables from AMEX cheques	<u>1,774</u>	<u>2,174</u>
Total cash equivalents (Note 28)	12,181	10,265
Assets for resale	7,989	24,246
Inventory and spare parts	2,027	1,908
Prepayments	514	1,622
Receivables on documentary transactions	435	2,026
Other receivables	<u>2,216</u>	<u>2,647</u>
	25,362	42,714
Less: allowance for impairment losses on other assets	<u>(1,138)</u>	<u>(2,396)</u>
	<u>24,224</u>	<u>40,318</u>

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

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

	<u>2005</u>	<u>2004</u>
Balance at 1 January	2,396	1,683
Additional provision charge (Note 9)	1,138	2,396
Other assets written off	<u>(2,396)</u>	<u>(1,683)</u>
Balance at 31 December	<u>1,138</u>	<u>2,396</u>

**20 DUE TO OTHER BANKS**

	<u>31 December 2005</u>	<u>31 December 2004</u>
Current accounts	38,874	14,064
Loan from National Bank of Moldova	2,261	2,744
Other loans from banks	<u>-</u>	<u>15,000</u>
	<u>41,135</u>	<u>31,808</u>

The loan from the National Bank of Moldova is payable in 2015 and bears an effective interest rate of 11.5% (2004: 11.5%).

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**21 OTHER BORROWINGS**

	<u>31 December 2005</u>	<u>31 December 2004</u>
Loans from international financial institutions	185,643	182,836
Loans from Ministry of Finance	<u>20,895</u>	<u>19,245</u>
	<u>206,538</u>	<u>202,081</u>

Loans from international financial organisations are as follows:

	<u>31 December 2005</u>	<u>31 December 2004</u>
<b>EBRD loans</b>		
USD 4m floating rate due 2006	14,805	28,717
USD 4m floating rate due 2008	45,340	50,255
USD 6m floating rate due 2009	44,591	12,564
USD 5m floating rate due 2011	<u>1,534</u>	<u>-</u>
	106,270	91,536
<b>IFC loans</b>		
USD 4m floating rate due 2006	14,963	28,816
USD 5m floating rate due 2011	<u>64,410</u>	<u>62,484</u>
	79,373	91,300
	<u>185,643</u>	<u>182,836</u>

**21 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 2005 the effective interest rate on these loans varied between 8.5% and 12.35%. These loans are unsecured.

*Loans from EBRD*

The Bank obtained four credit lines from the European Bank for Reconstruction and Development ("EBRD") in the amount of USD 4 million on 14 December 2001, USD 4 million on 29 October 2003, and USD 6 million on 14 June 2004 and USD 5 million on 21 September 2005 having the right of cash withdrawal in USD and EUR. As at 31 December 2005 the amount outstanding was USD 5,143 thousand and EUR 2,585 thousand (31 December 2004: USD 7,286 thousand). All loans are aimed to finance local small and medium sized enterprises. The loan obtained on 21 September 2005 is a revolving loan. The loans received from EBRD are unsecured.

The interest rate on credit lines received on 14 December 2001 and 29 October 2003 and 21 September 2005 is equal for each quarterly interest period to a margin of 3.625% p.a. for the first two credit lines and of 3.50% p.a. for the last one, over the LIBOR at 6 months.

The credit line obtained from EBRD on 14 June 2004 has two components: USD 4,000,000 and USD 2,000,000. The interest rates are equal for each quarterly interest period to a margin ranging from 6.84% p.a. to 8.00% p.a. over the LIBOR at 6 months and 3.625% p.a., respectively. The credit risk associated to loans granted by the Bank from USD 4,000,000 component rests with EBRD. As at 31 December 2005 the component in the amount of USD 2,000,000 of this credit line has been used in an equivalent amount of EUR 1,200,000.

The Bank is subject to a number of loan covenants under the loan agreements obtained from EBRD. In case of breach of these covenants, EBRD may request immediate repayment of the loan. As at 31 December 2005 the Bank was not in compliance with maturity gap ratio, being 111% instead of required limit of 100%. Accordingly, loans from EBRD were reflected as "up to one month" in Note 3.7. As at 31 December 2004 the Bank complied with all financial covenants.

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

**BC VICTORIABANK SA****NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2005****(All amounts in thousand Moldovan Lei (MDL) unless otherwise stated)**

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**21 OTHER BORROWINGS (CONTINUED)***Loans from IFC*

The Bank obtained two credit lines from the International Finance Corporation ("IFC") in the amount of USD 4 million on 4 September 2001 and in the amount of USD 5 million on 29 June 2004. As at 31 December 2005 the amount outstanding was USD 6,140 thousand (31 December 2004: USD 7,280 thousand). Both loans were aimed to finance local small and medium sized enterprises. The interest rates are equal for each quarterly interest period to a margin of 3.625% p.a. and 3.6% p.a., respectively, over the LIBOR at 6 months. These loans are 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 2005 the Bank was not in compliance with maturity gap ratio, being 111% instead of required limit of 100%, open credit exposure ratio, being 26% instead of 25% and industry exposure ratio, being 24% for trade industry instead of 20%. Accordingly, loans from IFC were reflected as "up to one month" in Note 3.7. As at 31 December 2004 the Bank complied with all financial covenants.

**22 DUE TO CUSTOMERS**

	<u>31 December 2005</u>	<u>31 December 2004</u>
<b>Large corporate customers:</b>		
– current/ settlement accounts	395,526	69,516
– term deposits	103,467	39,519
<b>Small and medium sized enterprises:</b>		
– current/settlement accounts	100,529	317,674
– term deposits	19,437	83,356
<b>Individuals:</b>		
– current/demand accounts	320,920	278,823
– term deposits	<u>605,190</u>	<u>463,462</u>
	<u>1,545,069</u>	<u>1,252,350</u>

Included in customer accounts were deposits of MDL 9,877 thousand (2004: nil) held as collateral for loans. Time deposits in US Dollars bear effective interest rate ranging from 2.5% to 7.5% (2004: 2.5% to 7.5%). Time deposits in denominated EUR bear interest ranging from 2.7% to 4.7% (2004: 2.0% to 6.5%).

Interest rates on MDL deposits range from 3.5% to 20% per annum (2004: 10% to 18.5%).

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**23 OTHER LIABILITIES**

	<u>31 December 2005</u>	<u>31 December 2004</u>
Settlements with individuals and companies	4,117	2,954
Payments to travel cheques issuers	2,904	2,802
Pending amounts	2,664	1,434
Amounts in transit	2,639	3,396
Payables on documentary transactions	260	3,366
Creditors and capital investments	-	1,632
Other	<u>2,595</u>	<u>3,553</u>
	<u>15,179</u>	<u>19,137</u>

**24 DEFERRED TAX LIABILITIES**

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 18% (2004: 20%).

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

	<u>31 December 2005</u>	<u>31 December 2004</u>
At 1 January	1,443	806
Income statement charge (Note 11)	<u>1,512</u>	<u>637</u>
At 31 December	<u>2,955</u>	<u>1,443</u>

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

	<u>31 December 2005</u>	<u>31 December 2004</u>
<b>Deferred income tax assets</b>		
Other assets	<u>-</u>	<u>527</u>
<b>Deferred income tax liabilities</b>		
Property and equipment	1,331	228
Loans and advances to customers	1,513	1,742
Other liabilities	<u>111</u>	<u>-</u>
	<u>2,955</u>	<u>1,970</u>
	<u>2,955</u>	<u>1,443</u>

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**24 DEFERRED TAX LIABILITIES (CONTINUED)**

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

	<u>31 December 2005</u>	<u>31 December 2004</u>
Property and equipment	1,103	208
Loans to customers	(229)	851
Other assets	690	(422)
Other liabilities	<u>(52)</u>	<u>-</u>
	<u>1,512</u>	<u>637</u>

**25 ORDINARY SHARES AND SHARE PREMIUM**

The total number of authorised and issued ordinary shares at the end of the year was 3,200 thousand shares (2004: 3,200 thousand shares) with a par value of MDL 10 per share each (2004: MDL 10 per share). All shares are fully paid.

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

<b>Shareholder</b>	<u>31 December 2005</u> <b>Share (%)</b>	<u>31 December 2004</u> <b>Share (%)</b>
EBRD	15.06	15.06
Alpha Bank Romania SA	12.50	12.50
Turcanu Victor – President	10.45	10.45
LR-Uniune SRL	9.81	9.81
Program Invest SRL	5.76	-
AVB-Prim SRL	5.76	-
Victoria Invest Limited	5.76	-
Atrium Limited	5.76	-
Financial Investments Corporation Limited	5.61	-
Danube Fund Limited	-	23.02
Intrade Management Limited	-	5.60
Others	<u>23.53</u>	<u>23.56</u>
	<u>100</u>	<u>100</u>

**BC VICTORIABANK SA**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2005**

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

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**26 STATUTORY RESERVES**

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

**27 DIVIDENDS PER SHARE**

Final dividends are not accounted for until they have been approved at an Annual General Meeting of the Shareholders. The dividends in respect of 2005 will be declared at the Annual General Meeting of the Shareholders scheduled for 23 March 2006. The financial statements for the year ended 31 December 2005 do not reflect the future resolution on dividends in respect of 2005, which would be accounted for in shareholders' equity as an appropriation of retained profits in the year ending 31 December 2006.

During 2005 the Bank paid dividends in respect of 2004 of MDL 8.00 per share (2004: actual dividends in respect of 2003 MDL 8.00 per share) amounting to a total of MDL 25,600 thousand (2004: actual dividends in respect of 2003 MDL 25,600 thousand).

**28 CASH AND CASH EQUIVALENTS**

	<u>31 December 2005</u>	<u>31 December 2004</u>
Cash and balances with NBM (Note 12)	200,478	275,203
Loans and advances to banks (Note 13)	297,592	293,854
Treasury bills (Note 14)	121,027	29,603
Other assets (Note 19)	<u>12,181</u>	<u>10,265</u>
	<u>631,278</u>	<u>608,925</u>

NOTES TO THE FINANCIAL STATEMENTS

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

29 RELATED PARTY TRANSACTIONS

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

The nature of the related party relationships for those related parties with whom the Bank entered into significant transactions or had significant balances outstanding at 31 December are detailed below. As at 31 December 2005 and 31 December 2004 the Bank had operations with the following related entities:

- European Bank for Development and Reconstruction – shareholder of 15.9% of the bank's share
- ICS Petrom-Moldova SA - the Director of the company, Mr. Vlad Plahotniuc, is the Prime-Vicepresident of the Board of Directors
- Avicola Vadul-lui-Voda - Mrs. Galina Proidisvet, the Prime-Vicepresident of the Bank, is a member of Board of Directors of the related entity.

During 2005 the Bank entered into a number of banking transactions with related parties in the normal course of the business. These transactions include loans, deposits and foreign currency transactions. The volumes of related party transactions outstanding balances at year-end, and relating expense and income for the year were as follows:

	<b>Directors and</b>		<b>Related entities</b>	
	<b>Executive Management</b>			
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
<b>Assets</b>				
Loans outstanding at beginning of the year	266	317	110	-
Loans issued during the year	-	-	65,930	1,439
Loan repaid during the year	<u>(19)</u>	<u>(51)</u>	<u>(54,531)</u>	<u>(1,329)</u>
Loans outstanding as at year end	<u>247</u>	<u>266</u>	<u>11,509</u>	<u>110</u>
Interest income earned	<u>1</u>	<u>7</u>	<u>1,068</u>	<u>33</u>
<b>Liabilities</b>				
Deposits at beginning of the year	11,927	7,736	91,536	71,766
Deposits received during the year	7,084	6,751	49,464	35,940
Deposits repaid during the year	<u>(4,919)</u>	<u>(2,560)</u>	<u>(34,730)</u>	<u>(16,170)</u>
Deposits at the end of the year	<u>14,092</u>	<u>11,927</u>	<u>106,270</u>	<u>91,536</u>
Interest expense on deposits	<u>2,367</u>	<u>2,068</u>	<u>7,579</u>	<u>3,964</u>

In 2005 total remuneration of the key management personnel is MDL 6,269 thousand (2004: MDL 6,746 thousand).

30 CONTINGENCIES AND COMMITMENTS

**Credit related commitments**

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

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

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

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

Outstanding amounts are:

	<u>31 December 2005</u>	<u>31 December 2004</u>
Credit commitments	139,464	112,802
Guarantees issued	61,276	24,835
Documentary letters of credit	<u>4,559</u>	<u>38,989</u>
	<u>205,299</u>	<u>176,626</u>

**30 CONTINGENCIES AND COMMITMENTS (CONTINUED)**

**Taxation risk**

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

The last income tax audit inspection was in March 2004 and covered the periods of 1998-2003.

**Operating lease commitments**

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

	<u>31 December 2005</u>	<u>31 December 2004</u>
No later than 1 year	1,740	2,186
Later than 1 year and no later than 5 years	2,265	4,001
Later than 5 years	<u>499</u>	<u>1,402</u>
	<u>4,504</u>	<u>7,589</u>

**BC VICTORIABANK SA**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2005**

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**31 OPERATING ENVIRONMENT OF THE BANK**

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

Additionally, the banking sector in the Republic of Moldova is particularly impacted by adverse currency fluctuations and economic conditions.

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

**32 BASIC EARNINGS PER SHARE**

	<u><b>31 December 2005</b></u>	<u><b>31 December 2004</b></u>
Net profit attributable to shareholders (expressed in MDL thousand)	69,430	52,837
Number of ordinary shares in issue	3,200,000	3,200,000
Basic EPS (expressed in MDL per share)	<u><u>22</u></u>	<u><u>17</u></u>