

MANAGEMENT'S REPORT 2017



In 2017, the economy of the Republic of Moldova showed signs of stabilization, with the increase of investments in fixed assets, the growth of external trade, the increase of public revenues and expenditures, etc.

The increase in remittances and the actual increase in wages determined the ascendant evolution of the final consumption of households.

Positive evolution was recorded in some areas of the real sector such as: agriculture, industry, transport services, etc.

Therewith, the appreciation of the national currency against the main reference currencies and the intensification of the inflationary process continued. State debt increased. Vulnerability towards the external factors remained relevant.

According to the preliminary information, in 2017 **the gross domestic product (GDP) totaled 150.4 billion MDL** in current prices. GDP growth was mainly driven by developments in agriculture, commerce, construction, information and communications, manufacturing and supply of electricity, etc.

During the year, **the exports increased by 18.6%** and **imports by 20.2%**, expressed in USD, the evolution of external trade contributed to the GDP decrease. The external trade deficit increased from 1,975.7 million USD in 2016 – to 2,406.3 million USD in 2017. The export coverage ratio was 50.2%, 0.7 percentage points lower than in the previous year.

Fig. 1 Gross Domestic Product

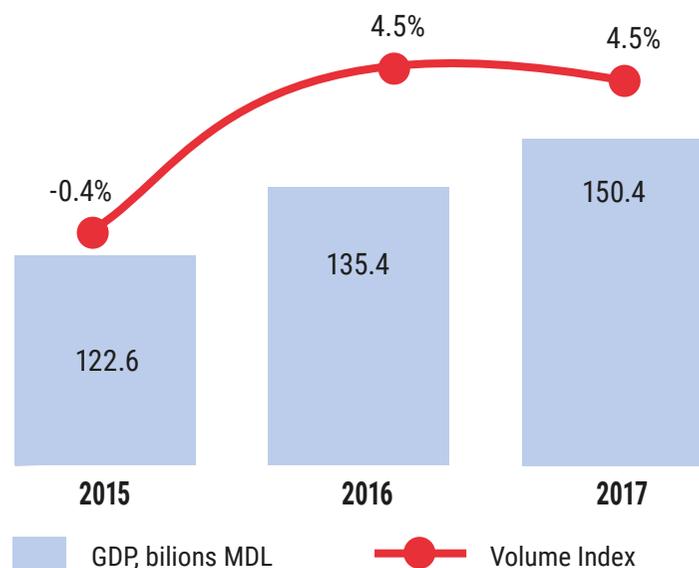
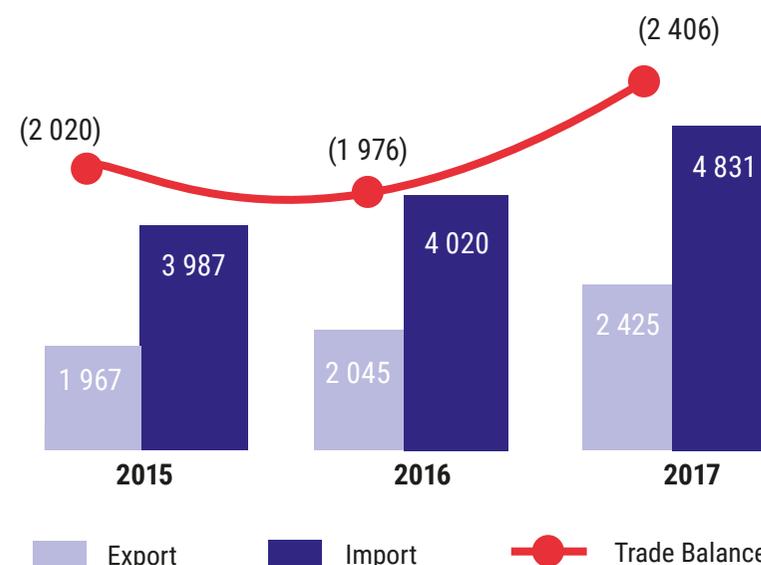


Fig. 2 Trade balance dynamics, million USD



The main external trade partners still remain to be the EU countries, holding 65.8% of total exports, followed by CIS countries, with 19.1%. The evolution of external trade by groups of countries denotes the reorientation of exports and imports from CIS countries to EU countries and other countries.

Monetary supply (M3) recorded 77.1 billion MDL, rising by 9.3% in 2017. The structure of money supply includes 24.7% of money in circulation and 20.2% of demand deposits in national currency.

During 2017 the national currency appreciated from 19.98 MDL to 17.10 MDL against the USD and from 20.89 MDL to 20.41 MDL against the EUR.

The average annual inflation rate was **6.6%**, compared with 6.4% recorded in the same period of the previous year, being mainly conditioned by the increase of prices for food and services. The price change in 2017 was influenced by monetary supply growth, evolution of the exchange rate, of global prices for energy resources and agricultural products, regulated prices for products and services, population income dynamics, etc.

The average gross monthly wage of an employee in the national economy in 2017 recorded 5,697 MDL and **grew by 5.2%** in real terms as compared to 2016.

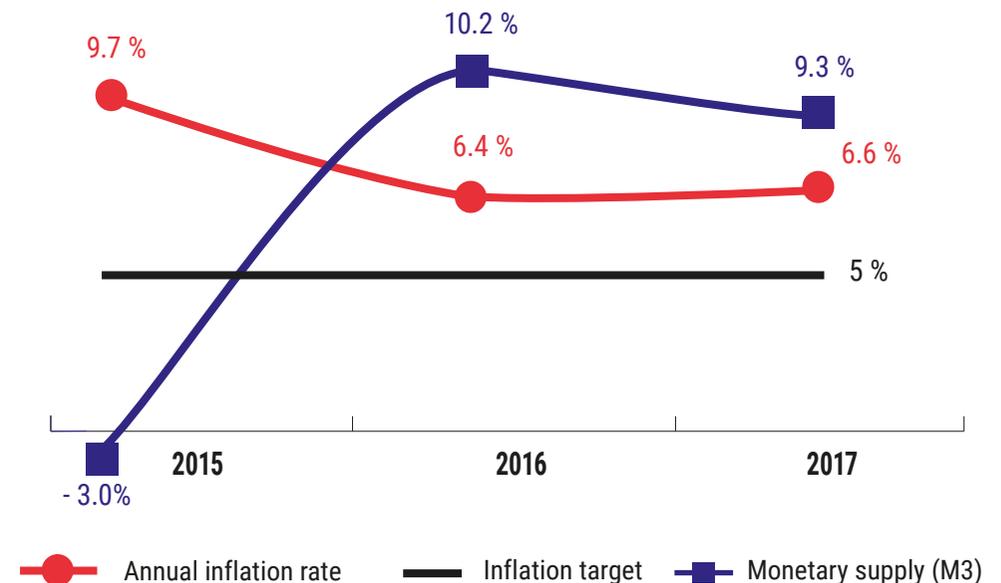
The unemployment rate (the proportion of ILO unemployed people in the working population) in the fourth quarter was **3.3%**, compared to 3.8% in the same period of the previous year.

The volume of net transfers of money from abroad made to individuals was of 1,200 million USD, **11.2%** more than in 2016, the downward trend recorded in the previous year being reversed.

The national economy in the coming years will be influenced by the evolution of the world economy and of the trading partner countries, by the dynamics of the money remittance flows in favour of individuals, the complexity of the reforms implemented in the economy, the attraction of investments, etc.

Source: www.statistica.md, www.bnm.md

Fig. 3 Inflation and monetary supply



During the year of 2017, 11 commercial banks, including 4 branches of foreign banks activated in the banking sector.

At the end of 2017, the assets of commercial banks amounted to 79,541.7 million MDL, increasing by 9.2% over the year.

The balance of Bank deposits increased by 5,015.4 million MDL or by 9.1%, amounting to 59,987.7 million MDL.

During the year, **the balance of loans and advances** decreased by 1,246.9 million MDL or by **3.9%** up to 30,883.8 million MDL. **The balance of non-performing loans rose** by 7.9%, up to 6,151.5 million MDL. As of 31.12.2017, the non-performing loans accounted for 18.4% of the total portfolio compared to 16.4% at the beginning of the year.

The ratio of loans and advances to deposits was 51.5%, decreasing by 7.0 percentage points compared to the end of 2016.

Within the framework of efficient management of the resources and other activities, including whereas the interest rates decreased, the banking system obtained a profit of 1,480.7 million MDL, 8.6% more than in 2016.

Fig. 4 Banking system key indicators, million MDL

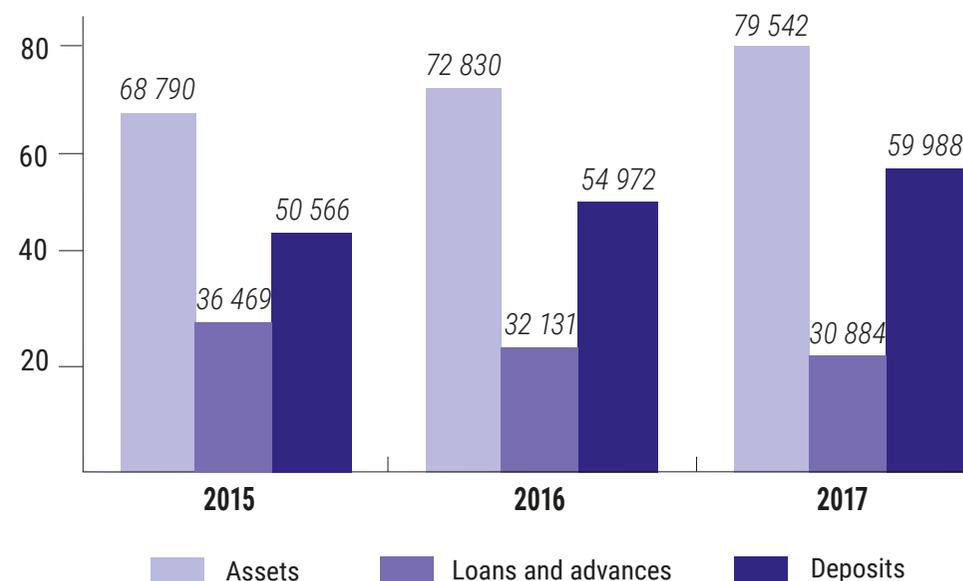
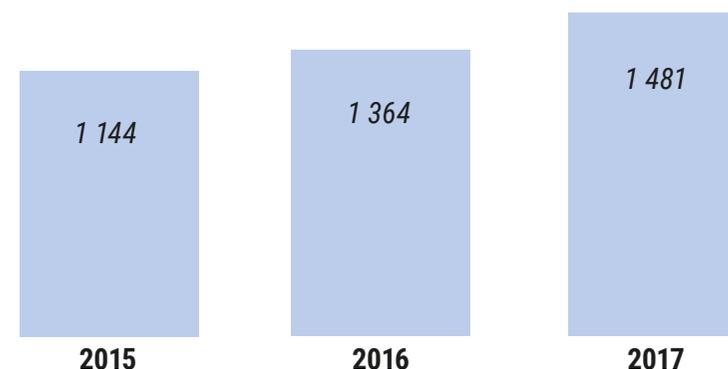


Fig. 5 Banking system net profit, million MDL



Return on Assets (ROA) recorded 1.9% and Return on Equity (ROE) accounted for 11.1%.

The financial results of 2017 ensured the increase of banks' equity by 7.8% up to 13,599.2 million MDL.

At the end of 2017, the Total Regulatory Capital amounted to 10,509.2 million MDL, increasing by 8.9% compared to 2016.

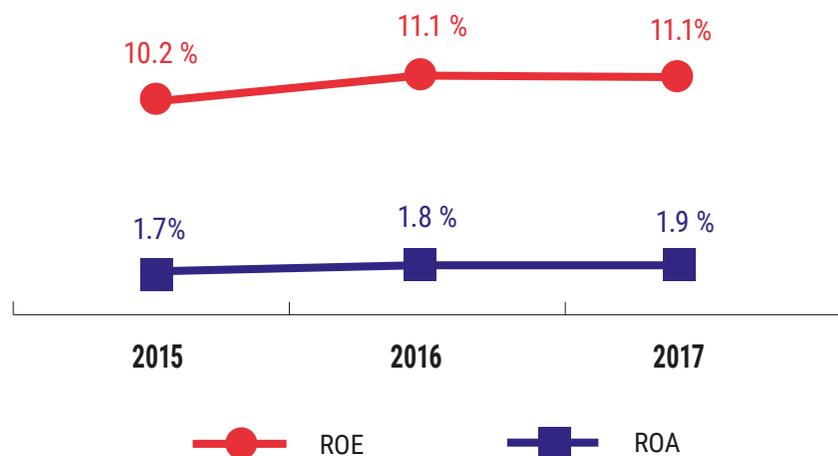
The risk-weighted capital adequacy ratio was 31.03% (NBM regulated level $\geq 16\%$), increasing by 1.26 percentage points over the year.

Long-term and current liquidity recorded high values, representing 0.61 (NBM regulated level ≤ 1) and 55.48% respectively (NBM regulated level $\geq 20\%$).

The implementation of the new framework related to banks' activity, including the new law on banks' activity and Basel III requirements will influence the activity of the banking system operators, contributing to increasing the safety and solidity of the sector, providing safe and higher quality financial services.

Source: www.bnm.md

Fig. 6 Rentability of Assets (ROA) and of Equity (ROE) in the banking system



PERFORMANCE IN THE ACTIVITY

Evolution of the financial results

In 2017 B.C. Victoriabank S.A. ranked 3rd in the top of Moldovan banks by value of assets.

By increasing the number and volume of remote operations it was possible to optimize the number of agencies. At the end of 2017 B.C. Victoriabank S.A. was managing the activity of 92 subdivisions, including 34 Branches and 58 Agencies.

As at 31.12.2017, **the Bank's assets** amounted **14,491.3 million MDL**, increasing by 1,878.6 million MDL or by 14.9% over the year. The main source of financing of the Bank's assets:

- attracting free liquid assets from the population,
- attracting new customers (economic agents) and increasing the deposits in current accounts of legal entities.

The balance of deposits at the end of 2017 recorded 11,560.1 million MDL, increasing by **16.5%** over the year.

As of 31.12.2017 **the balance of credits and advances** recorded 3,555.5 million MDL, **23.3%** less compared to the beginning of the year.

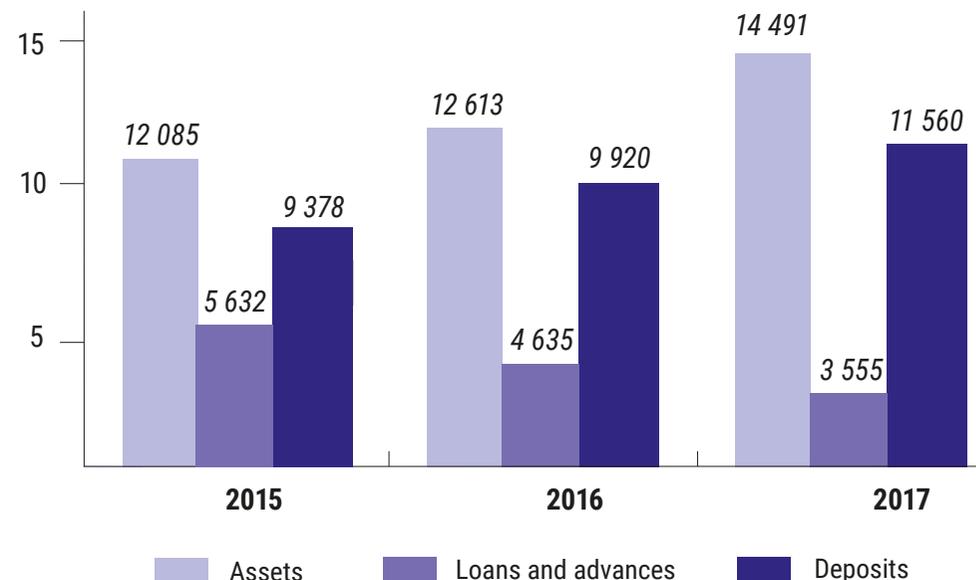
The free resources were used by the Bank according to the available options, those being placed in state securities, certificates of the National Bank of Moldova, etc.

The quality of assets and mainly of the loan portfolio constituted a permanent concern of the Bank, the activities being focused on the monitoring of the loan portfolio and the recovery of non-performing loans. Thus, contrary to the trend in the system, the Bank recorded a decrease in the balance of non-performing loans, both in absolute terms and as a share in the total portfolio.

During 2017, the Bank obtained total revenues of 1,136.8 million MDL and total expenses of 854.9 million MDL. Revenues decreased by 19.8% and expenditures by 28.6% compared to the previous year, their evolution being influenced by:

- credit portfolio dynamics;
- downward movement of market interest rates on loans, securities, deposits, and of the base rate applied to the main monetary policy operations;
- exchange rate evolution;
- optimizing expenditures for several business segments.

Fig. 7 Dynamics of balance sheet ratios, million MDL



PERFORMANCE IN THE ACTIVITY

Evolution of the financial results

The profit obtained in 2017 amounted to 281.9 million MDL, by 61.1 million MDL or by 27.6% more than in 2016.

Return on Assets (ROA) recorded an upward trend, increasing from 1.7% in 2016 to 2.0% in 2017. Return on Equity (ROE) increased in 2017 to 11.5%, compared to 9.9% in 2016.

The financial results recorded during 2017, when the interim dividends were paid out, allowed the Bank to increase its share capital at a rate above the average in the banking system. On 31.12.2017 the share capital constituted 2,466.3 million MDL.

Total Regulatory Capital amounted to 1,366.8 million MDL, increasing by 352.5 million MDL or 34.7% compared to 2016.

Changes in the structure of assets and the increase of the regulatory capital allowed the strengthening of the risk-weighted capital adequacy indicator, reaching 34.41% at the end of the year (NBM regulated level $\geq 16\%$) compared to 22.60% at the beginning of the year.

The liquidity indices indicated sufficient liquidity during the year, and on 31.12.2017, the long-term liquidity was 0.53 (NBM regulated level ≤ 1) and the current liquidity was 68.09% (NBM regulated level $\geq 20\%$).

Fig. 8 Net profit evolution, million MDL

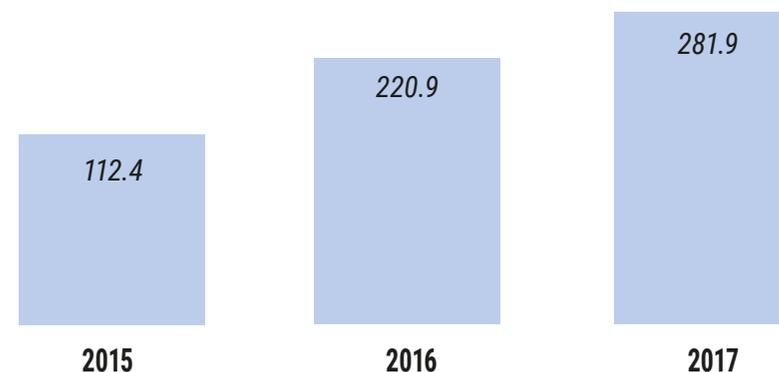
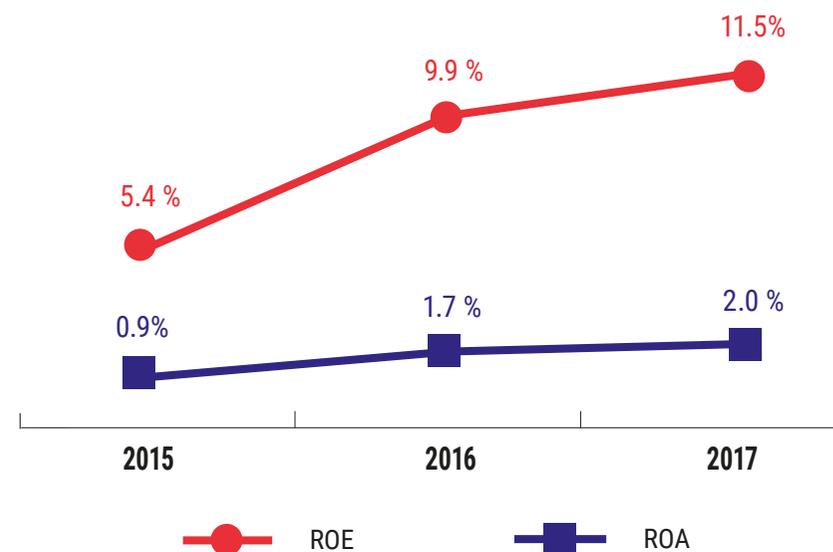


Fig. 9 Rentability of Assets (ROA) and of Equity (ROE)



PERFORMANCE IN THE ACTIVITY

Evolution of the number of clients

During the year of 2017, 57,841 clients were attracted to be offered services, of which 877 legal entities and 56,964 individuals. Thus, **the total number of active clients at the end of 2017 constituted 566,700 clients**, of which: legal entities - 24,686 and individuals - 542,014.

In order to diversify the services rendered to individuals, in 2017 there were extended the lists of insurance companies for the Bancassurance service and the list of organizations in favour of which payments could be made using remote service systems.

A basic element for meeting the requirements of the Bank's clients is the development of new products and the maintenance of the existing products. To this end, adapting to the latest financial and banking trends and the demands of major clients, the Bank launches services and products that revolutionize the relationship with its clients.

The Bank's remote service for the legal entities was improved: it became possible to carry out transactions with deposit accounts and using the mobile signature, to send statements with electronic signature of the Bank; the mobile application was launched, offering the managers more convenience in managing the enterprise's operations.

For the year of 2018, B.C. Victoriabank S.A. relies on the development of innovative products such as: the issuance of electronic meal vouchers, the launching of the rapid transfer system in MDL on the territory of the Republic of Moldova, the opening of a location with individual safes, the creation of individual products and service packages, the implementation of modern queues management technologies in many of the Bank's subdivisions (electronic queue).



PERFORMANCE IN THE ACTIVITY

Deposits - related activities

At the end of 2017, the volume of deposits amounted to 11,560 million MDL, increasing by 1,640 million MDL or 16.54% as compared to 31 December 2016. The Bank recorded a market share of 19.29% for the total deposits, ranking the 3rd.

The deposits balance increased due to the increase of the corporate customers' balances, namely in the demand accounts. During the year, although the interest rates offered by competing banks were higher, the balances of foreign currency of individuals had a slightly positive trend.

The balance of deposits of legal entities as of 31.12.2017 recorded the value of 4,920 million MDL, increasing compared to 31.12.2016 by 1,348 million MDL or by 37.75%. The market share of B.C. Victoriabank S.A. amounted at 24.26%.

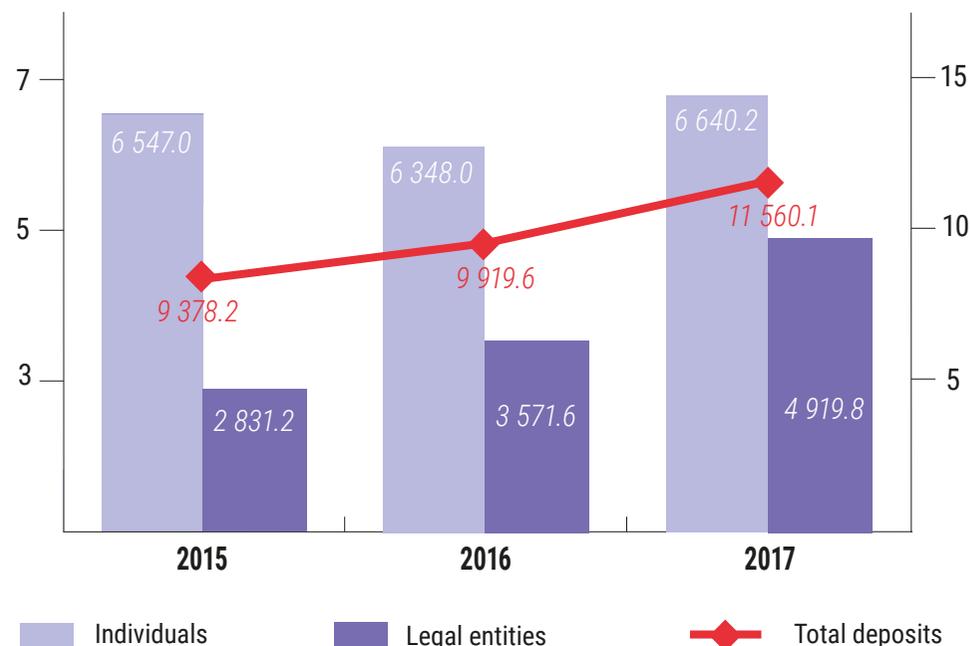
The balance of deposits of individuals as of 31.12.2017 amounted 6,640 million MDL, increasing by 292 million MDL compared to 31.12.2016, or by 4.6%. The market share of B.C. Victoriabank S.A. amounted at 16.74%.

During the year, the Bank attracted term deposits in national currency at an average rate of 4.08% compared to the average rate of 11.18% in 2016, and term deposits in foreign currency at an average rate of 1.68 %, compared to 2.28% in 2016.

The decrease of the rate of national currency deposits is due to the downward trend of the NBM base rate recorded during 2016-2017 (-12.5 p.p. since the beginning of 2016). The average rate of foreign currency deposits recorded a lower trend than national currency deposits, as the process of decrease of the rates of foreign currency was slower.

The expenses related to the deposits of individuals and legal entities amounted to 283.31 million MDL, compared to 452.3 million MDL in 2016, registering a decrease of 37.36% or 168.97 million MDL. The decrease in the volume of expenditures in 2017 was determined by the drastic decrease of the average rate in national currency.

Fig. 10 Deposits evolution, million MDL



In 2017, B.C. Victoriabank S.A. ranked the 4th according to the volume of loans portfolio granted to clients. The market share of the loans granted reached 11.51% of total loans in the banking system. The net portfolio of loans and receivables as of 31.12.2017 amounted to 3,555.45 million MDL, by 1,079.74 million MDL lower than in the previous year, registering a decrease of 23.3%. The share of loan portfolio of the bank's total assets as at 31.12.2017 amounted to 24.53% by 12.22 p.p. less than in 2016.

During 2017 loans were granted to large number of clients, individuals and legal entities, in a total amount of 3,913.94 million MDL, 126.41 million MDL more than in 2016.

Loans to legal entities

During 2017 legal entities were granted loans in the total amount of 3,079.81 million MDL.

In 2017, the Bank continued to offer the possibility to legal entities to receive funding from the external credit line, within the framework of assistance loan granted by the Government of the Republic of Poland.

Loans to individuals

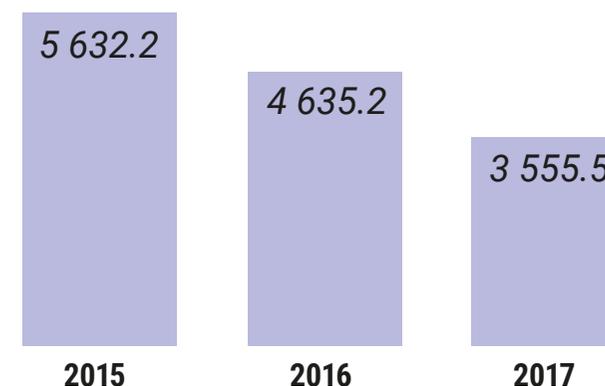
The portfolio of loans granted to individuals (except for loans granted by means of bank cards) increased by 4.44 million MDL, representing at the end of the reported period 477.79 million MDL or 12.26% of the total loan portfolio of the Bank.

Individuals were granted 2,797 loans in the total amount of 205.96 million MDL, up by 62.55 million MDL or 43.6% compared to the previous year. The increased number of loans granted is due to lower costs for credit products in the banking sector and promotional campaigns launched during 2017: spring promotion during the period of 01.03.2017 - 31.03.2017 for the products Credit Magic and Casa Magica; summer promotion during the period of 15.06.2017-15.09.2017 for the promotion of the products Credit Magic, Casa Magica,

Victoria Premium and winter promotion during the period of 01.12.2017 - 28.02.2018. During the abovementioned promotions, the Bank granted 1,551 consumer loans in the total amount of 67.89 million MDL and 189 mortgage loans in the total amount of 60.24 million MDL. If compared to the end of 2016, the loan portfolio according to the consumer products "Credit Magic" and "Victoria Premium – Consumer Loan" (no pledge), recorded an increase during the period of 2017, by 27.47 million MDL (+59.67%) and according to the mortgage products Casa Magica and Victoria Premium – Mortgage Loan (with pledge), by 35.18 million MDL (+41.6%) more than compared to the previous year.

The Bank also supported legal entities and individuals encountering difficulties in repaying loans and interest, by restructuring and extending their loans. In 2017, the Bank's prudential regulations on loans portfolio diversification divided by sectors were complied with in order to strengthen and increase financial stability.

Fig. 11 Evolution of the loans portfolio, million MDL



In 2018, the Bank's activity targets on increasing its loan portfolio, attracting new clients for granting loans to them, and increasing the Bank's market share by offering diversified loan products at attractive conditions, launching promotions for no pledge consumer products and mortgage products.

It is planned to launch the Scoring tool/algorithm, which will help determine the ability of a person to pay on time the financial obligations related to the loans granted to individuals. At the same time, it is planned to develop new services for clients - individuals and to improve the existing ones. To improve the quality and increase the profitability of the loan portfolio, it is planned to reduce the time of filing documents, processing the loan file and taking decisions on loans granted to individuals by implementing and developing the concept of online loan application.

Fig. 12 Structure of loans by sectors of economy

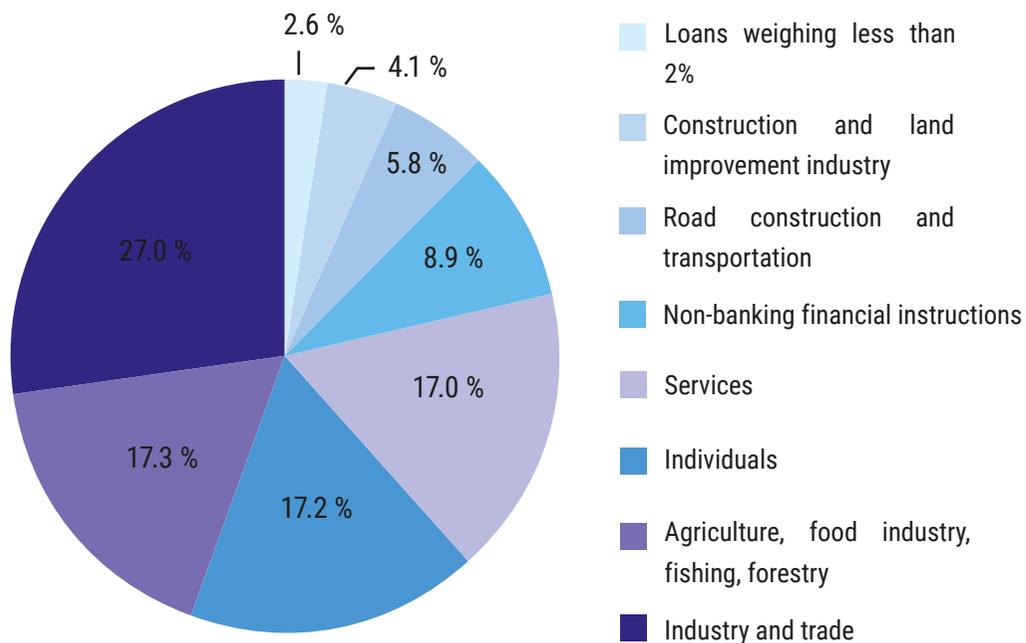
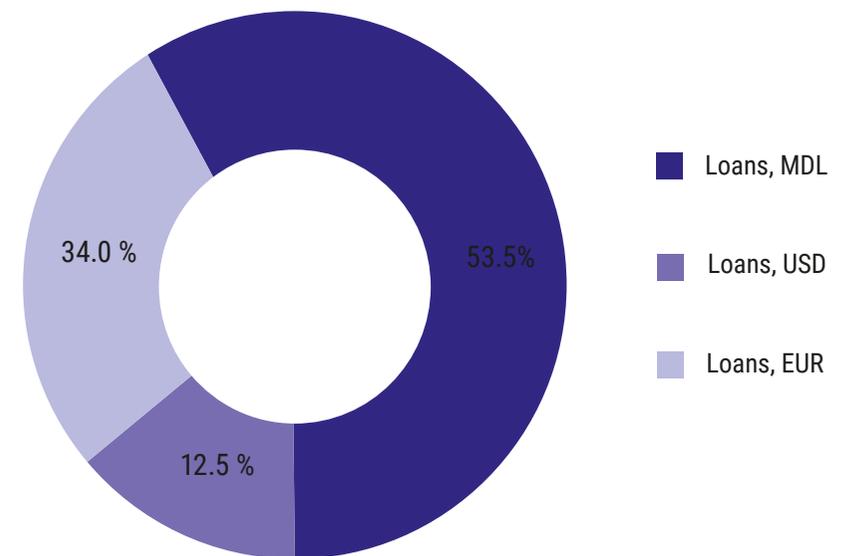


Fig. 13 Structure of the loans portfolio by foreign currency



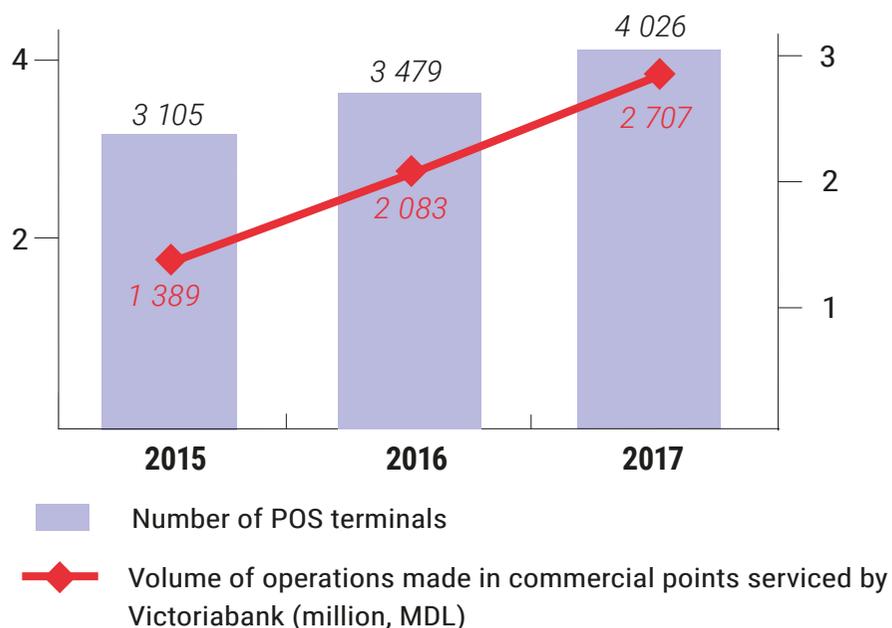
PERFORMANCE IN THE ACTIVITY

Bank cards - related activity

Given the objective of responding to the requirements of the Republic of Moldova market, the competition through innovation in products, proposed services and offering new customer service channels continued to increase during the reporting year.

Emphasis was put on increasing the added value of the products offered and of the qualitative and accessible services provided to clients. As a result of the actions taken, 107,745 cards were issued during the year of 2017; the number of cards in circulation reached 301,008 units, increasing by 11.8% as compared to the end of 2016. In order to improve the infrastructure, the number of Bank's ATMs expanded to 175 units, increasing by 5 units compared to the same period of the previous year, and the POS-terminals network reached 4,026 units.

Fig. 14 Number of POS-terminals and volume of non-cash transactions within Victoriabank network



In order to achieve the objectives set, the following projects were implemented:

- For the first time in the Republic of Moldova, there was launched the project Host Card Emulation in collaboration with Visa Inc. and MasterCard Inc. At the end of the reporting period, about 900 clients - users of the new technology, were recorded.
- Setting up and launching Cash-In ATMs.
- Launching of SMS-Banking Unite and SMS-Banking Moldcell services.
- Launching of the pilot project of new versions of Web-Banking 2.15 and Mobile Web-Banking.
- Completion of the Dynamic Key Change project, in collaboration with Open-Way, related to the change of dynamic keys on POS-terminals with the aim to increase the security level of clients' cards.
- Launching of special design cards, on "Gods" theme, issued within the MasterCard Inc. and Visa Inc. payment systems.
- 3 promotions intended for granting loans to individuals via Bank cards:
 - "Pay with VISA and win tickets to the semi-final Eurovision Song Contest 2017" promotion was carried out and the winner was nominated.
 - "Holiday in Rome" promotion was carried out in collaboration with MasterCard Inc. and the winners were nominated.





The total volume of non-cash transactions carried out using the cards issued by the bank in commercial units increased by 23% and amounted to 2,146 million MDL. Out of the total transactions carried out using the cards issued by B.C. Victoriabank S.A., 20.7% are carried out in commercial units.

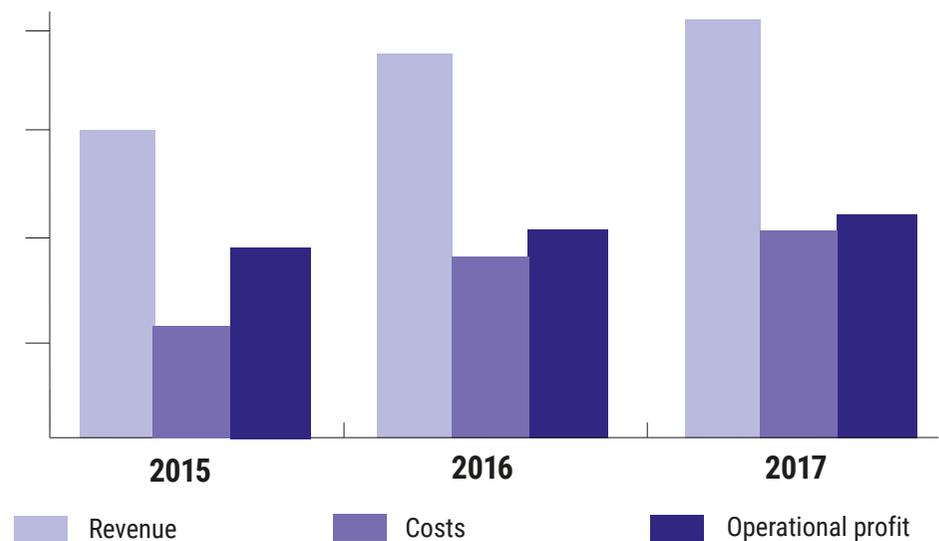
Fig. 15 Volume of operations made via bank cards issued by Victoriabank, million MDL



Development prospects planned for 2018:

- Extending the Cash-In ATMs network.
- Launching of info-kiosks.
- Launching the co-brand project with IuteCredit.
- Implementing the anti-fraud e-Commerce 3-D Secure Visa and MasterCard system, related to issuance.
- Launching of the MasterCard MoneySend project.
- Launching the new version of Web-Banking and Mobile-Banking for the Bank clients.
- Extending the range of MasterCard premium products.
- Migration of HCE Visa functionality to VDEP (token technology being the mandatory payment system requirement).

Fig. 16 Evolution of financial results from bank cards activity



PERFORMANCE IN THE ACTIVITY

Bank cards - related activity

In 2017, 174 new salary projects were contracted. The total volume of transfers to salary cards increased by 20.7% compared to 2016, reaching the amount of 7,092 million MDL in 2017.

The market share of active cards amounted, at the end of 2017, 17.2%.

Fig. 17 Active salary projects

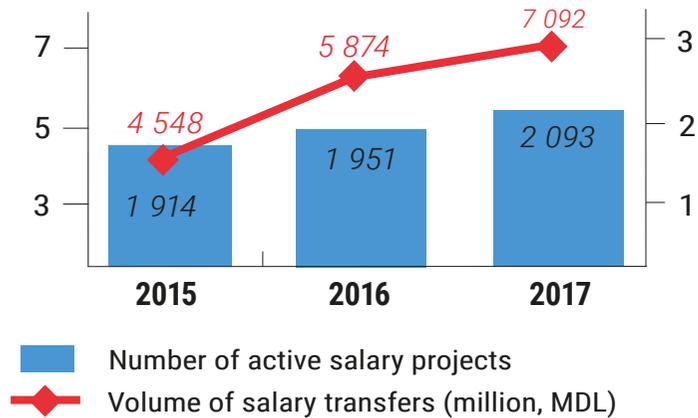
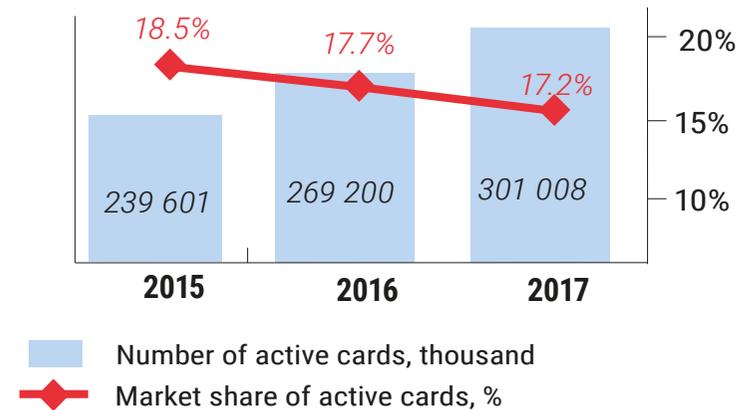


Fig. 18 Evolution of the number of active cards



PERFORMANCE IN THE ACTIVITY

Bank cards - related activity

The number of clients holding active cards increased by 22.5%, exceeding 294,000 people. The dynamic increase of the number of active cards led to the increase of the balances on the card accounts compared to the previous year, so the average balance on the card accounts amounted to 1,317 million MDL, 27.6% more than in 2016.

Credit activity through bank cards during the year 2017 had also recorded a growth. Thus, the total balance on credits issued by card reached 192.06 million MDL and increased by 22% as compared to the end of 2016.

Fig. 19 Evolution of balances on card accounts, million MDL

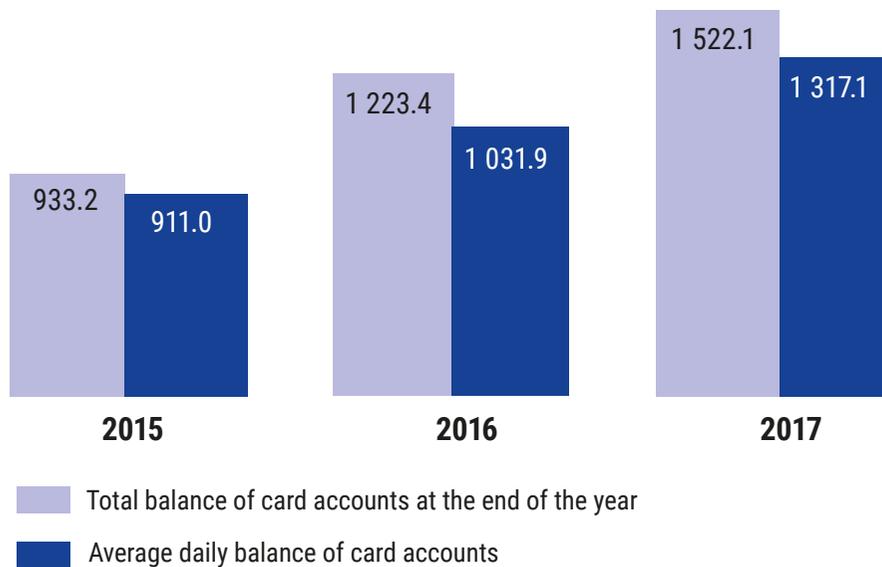
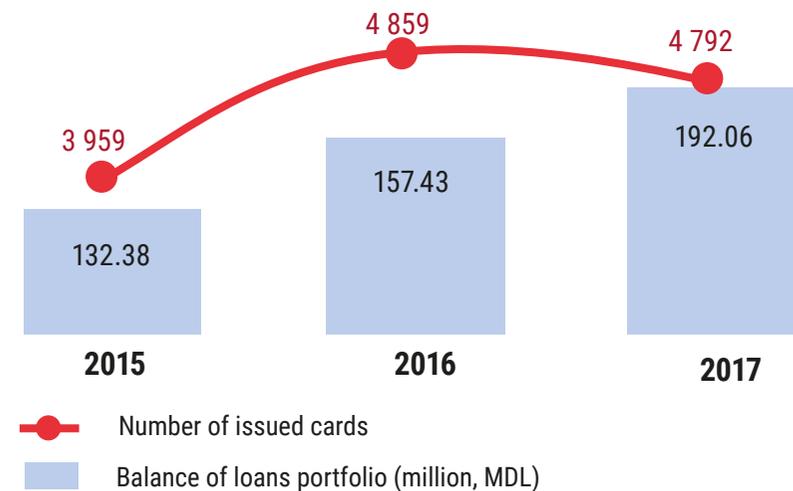


Fig. 20 Balance of loans portfolio/number of issued loans

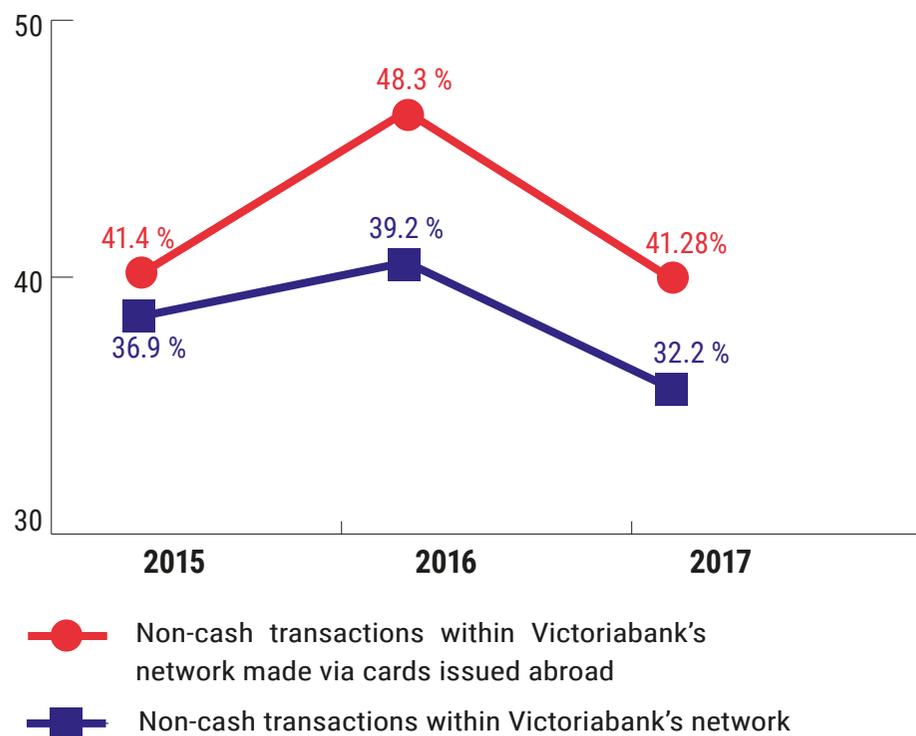


PERFORMANCE IN THE ACTIVITY

Bank cards - related activity

At the end of 2017, 32.2% of the non-cash transactions performed in the commercial network of the R. of Moldova's banks were made at POS-terminals, maintaining the leading position on this market.

Fig. 21 The share of non-cash transactions in the commercial network of Victoriabank compared with the total non-cash transactions performed in Moldova



The largest share in the banking system of the Republic of Moldova as to non-cash transactions performed using cards issued abroad, is also held by B.C. Victoriabank S.A. and amounts at 41.28% of the total transactions. This indicator is of major importance as it influences the Bank's profitability and reflects the optimum location of the commercial network.

Economic climate. The foreign exchange market was influenced in 2017 by the resumption of consumption, which increased mainly due to the increase in remittances after two years of decline, as well as by the intensification of public investments after the unblocking of external assistance at the beginning of the year.

The constant problems and lack of economic reforms, as well as internal political instability continues to make the country unattractive for investors. There-with, despite the increase in exports and the increase in domestic consumption, the country's GDP did not increase significantly. There are also the problems related to the energy sector, which continues to be largely dependent on the Russian Federation, and the alternative projects, such as the commissioning of the Iasi-Chisinau gas pipeline or the interconnection to the Romanian energy supply lines remained only as declarations and promises.

The assets of B.C. Victoriabank S.A. were concentrated in A-category correspondent banks and the balances held in the banks of the Russian Federation, Ukraine and Belarus maximally reduced setting protectionist exposure limits and associating increased risk levels.

Tab. 2 List and rating of correspondent banks as at 31.12.2017

Nr	Banca – corespondentă	Rating			Oraș	Țara	S.W.I.F.T. code / cod	Număr cont	Valuta
		Fitch	Moody's	S&P					
1	The Bank of New York Mellon	AA-	Aaa	AA	New York	USA	IRVTUS3N	8900690941	USD
3	DZ Bank AG	A+	A1	A+	Frankfurt/Main	Germany	GENODEFF	0006 030226	EUR
4	Intesa SanPaolo	BBB	Baa3	BBB	Milan	Italy	BCITITMM	100100020631	EUR
5	Sberbank RF	BBB -	Baa1	BBB -	Moscow	Russia	SABRRUMM	30111810200000000220	RUB
6	Transkapitalbank	B-	B1		Moscow	Russia	TJSCRUMM	30111756100000000084	CHF
7	Transkapitalbank	B-	B1		Moscow	Russia	TJSCRUMM	30111826700000000084	GBP



Evolution of the exchange rates.

In 2017 the MDL appreciated against the main currencies (US Dollar, Euro and Russian Rouble). Thus, the exchange rates of the main currencies had the following evolution:

- The US dollar decreased by 14.42% compared to the Moldovan leu in 2017, the annual average being of 18.4902 MDL;

- The Euro decreased by 2.3% compared to the Moldovan leu in 2017, the annual average being of 20.8282 MDL;

- The Russian Rouble decreased by 10.54% compared to the Moldovan leu in 2017, the annual average being of 0.317 MDL;

- The Euro increased against the US Dollar by 13.06% in 2017, the annual average being of 1.13.

Evolution of transfer-related conversion transactions. The Bank's turnover as to interbank transfer transactions of currencies against the MDL increased in 2017 by 2.4% compared to the previous year, with a total volume of 1,165 million US dollars. The Bank's share for this type of transactions recorded a decrease of 8.5% compared to the previous year.

Activity of currency exchange offices. In 2017, the cash foreign exchange market kept the positive trend recorded in 2016, the volume of cash currency bought/sold through foreign exchange offices increased. In 2017, the cash foreign exchange market recorded an increase by 15.52% compared to 2016, accounting for a total turnover of 3,817 million US dollars. This denotes the increased confidence of population in the predictability of the exchange rate evolution.

In 2017, the Bank's share related to foreign exchange offices' activity increased by 64.86 % compared to the previous year and amounted to 11.87 %.

Fig. 22 Turnover of transfer-related conversion transactions

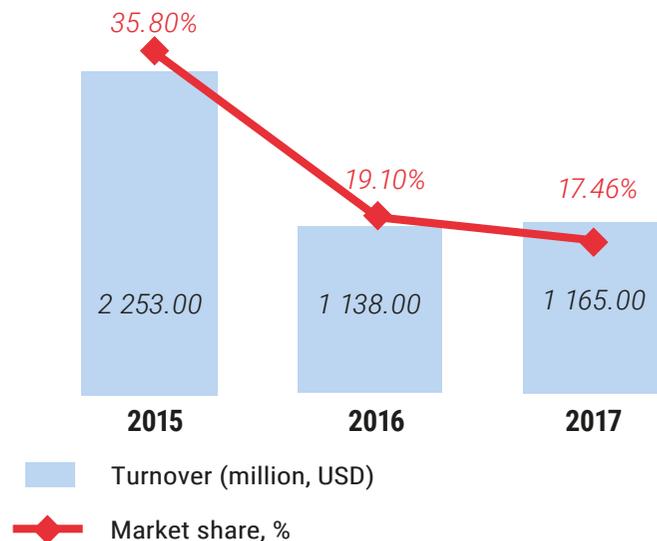
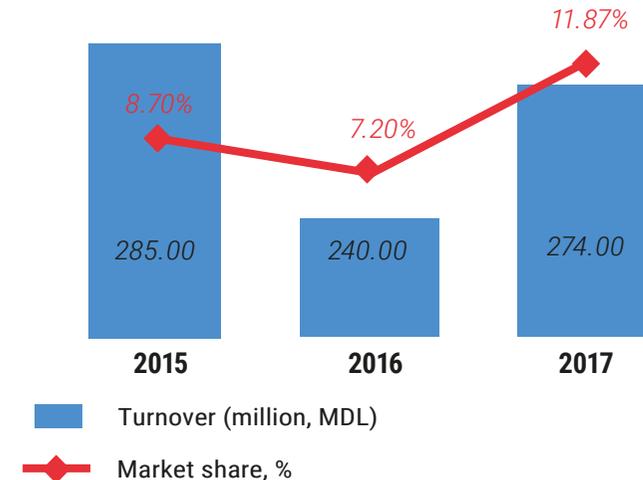


Fig. 23 Evolution of turnover in currency exchange offices



PERFORMANCE IN THE ACTIVITY

Foreign exchange activity

Activity related to money remittances. B.C. Victoriabank S.A. collaborated with 12 money remittance systems in 82 locations: WESTERN UNION, MONEYGRAM, RIA, SMITH&SMITH, ZOLOTAYA KORONA, UNISTREAM, CONTACT, LEADER, INTEL EXPRESS, BLIZKO, MERIDIANA and PRIVATMONEY.

The Bank holds a share of 20% of the volume of money remittances issued in Moldova. Out of the total remittances served, 92% were disbursed and 8% remitted.

The main corridors:

-According to the volume disbursed remittances: Russia, Israel, Italy, Great Britain, USA, Germany, France, Spain, Ireland, Belgium;

-According to the volume of sent remittances: Russia, Ukraine, Romania, Italy, Turkey, USA, Moldova, Germany, Great Britain, Israel.

During the year of 2017, 596,127 rapid currency transfers were performed through B.C. Victoriabank S.A., decreasing by 4% compared to the previous year, or by 25,374 transfers less than in the previous year. The total amount of transfers during the reporting year also recorded a decrease of 3%, by about 158 million MDL less than in the previous year. Analyzing the general data it was stated that the decrease of the total turnover of transfers was influenced by the decrease in the number of transfers and the strengthening of the MDL against the main reference currencies.

Fig. 24 Evolution of money remittances

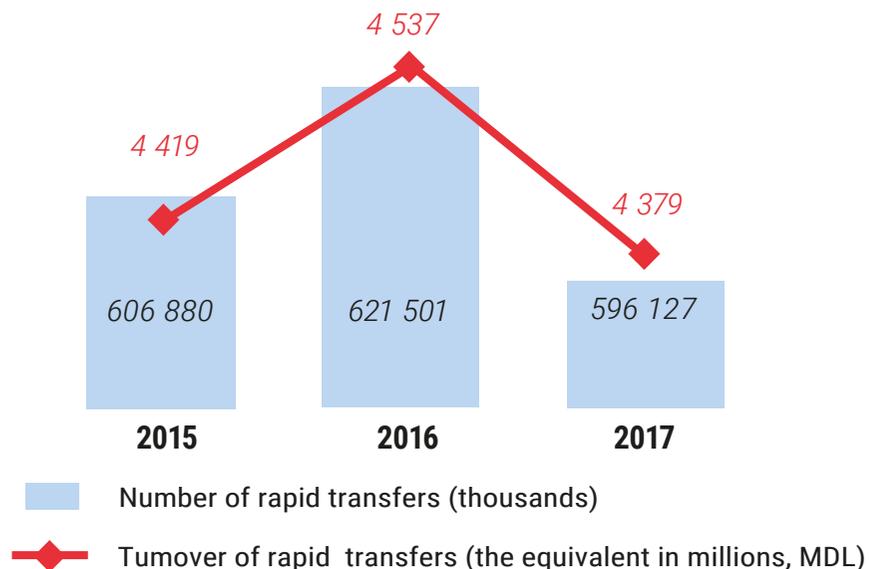
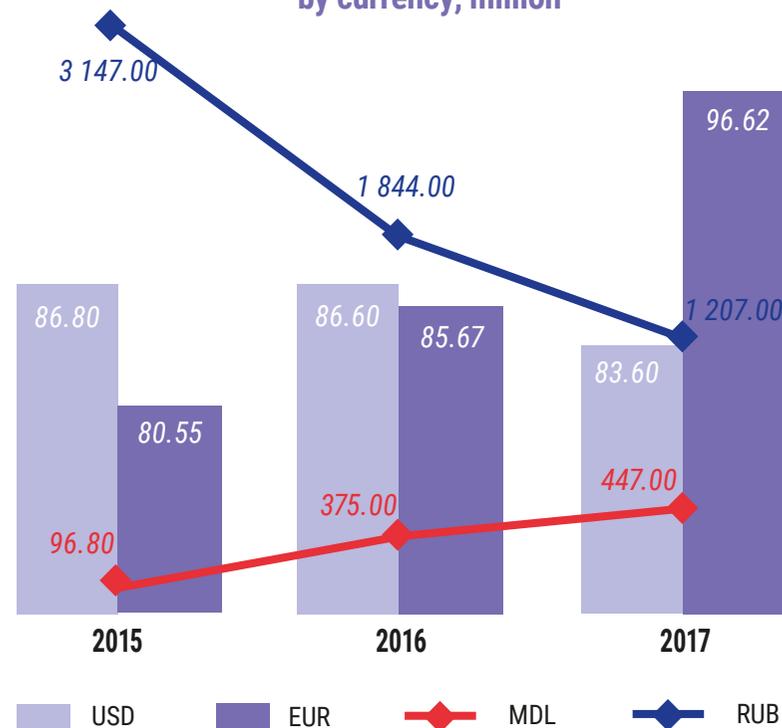
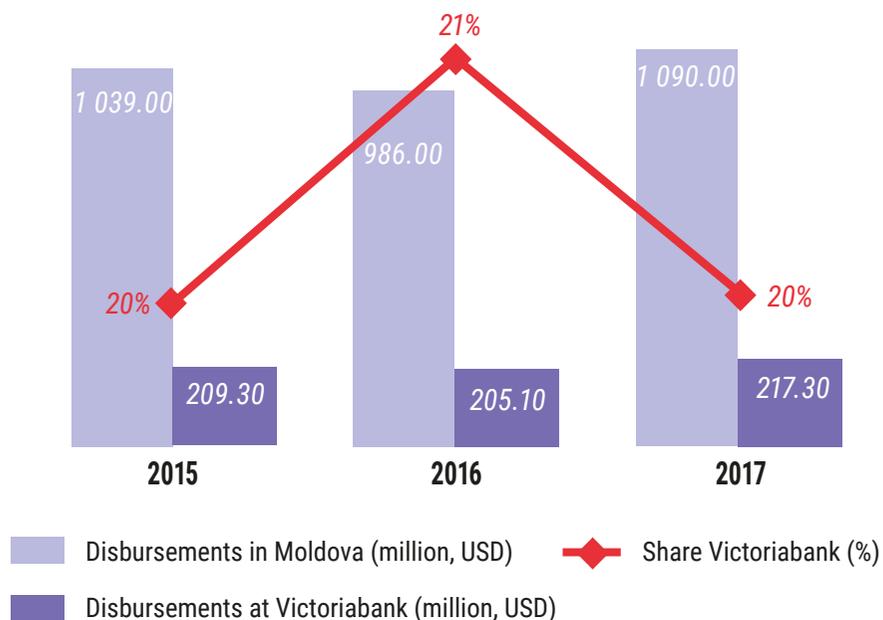


Fig. 25 Evolution of the turnover through remittance systems, by currency, million

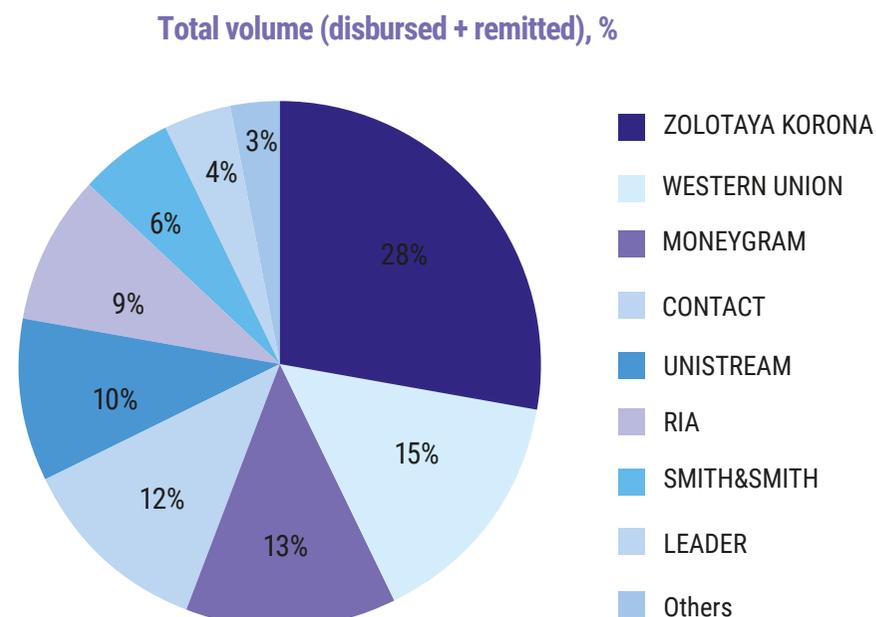


The figures show a significant decrease in turnover in the Russian rouble due to the prolonged economic crisis in the Russian Federation and the tightening of the conditions of stay in the Russian Federation for labour migration from the Republic of Moldova. It is also worth mentioning that a part of the remittances from the Russian Federation migrated from Russian roubles to MDL (dual currency transfers), their share in relation to remittances in Russian roubles for 2017 being of about 100%. The turnover of the single European currency through remittance systems steadily increased, demonstrating a relatively steady flow of transfers across the Western corridor, supplemented by the re-orientation of the labour force to the Western labour market.

Fig. 26 Evolution of the volume of money remittances disbursed in Moldova and the market share of B.C. VICTORIABANK S.A.



The share of money remittance systems in the total volume for the year of 2017 is as follows:



PERFORMANCE IN THE ACTIVITY

Activity on the capital market

The activity of B.C. Victoriabank S.A. on the monetary and on the capital markets is aimed to use more effectively the available liquidities, as well as to provide the clients the widest possible range of high-quality services.

After assessing the balance of internal and external risks the economy of the Republic of Moldova could be subject to, of the inflation prospects and the maintenance of the price's short and medium term stability, the monetary policy implemented by the National Bank of Moldova was manifested through a series of basic rate cuts from 9.0% to 6.5%, which had an impact on the profitability of the Bank's transactions on the securities market.

The Bank participated as primary Dealer at all tenders on placement of state securities and carried out transactions with NBM certificates and state securities on the primary and secondary markets. Thus, in 2017 the Bank continued to be one of the main players on the state securities (SS) market. If compared to 2016, the Bank's investments in SS increased by 0.69%, and investments in National Bank Certificates (NBC) increased by 149.95%. Due to the high surplus liquidity and its placement in liquid assets, the balance of the securities portfolio (SS and NBC) as at 31.12.2017 registered a share of 30.52% of the Bank's assets, which represents 4,420.26 million MDL, 1,383.50 million MDL more than the planned balance and 1,524.74 million MDL more than the balance recorded at the beginning of the year.

The total revenue obtained in 2017 from investments in debt instruments constituted 252.21 million MDL, which represents a decrease by 11.35% as compared to 2016, the decrease being determined by the decrease of the SS and NCB rates as compared to the previous year.

As a primary Dealer, the Bank provides brokerage services to Clients for purchasing SS. The Bank's Clients also increased their investments in SS, recording at the end of 2017 a portfolio value of 900.82 million MDL, 17.30% higher than at the end of 2016. At the request of the Clients, 702 SS sale-purchase transactions were carried out on the primary and secondary markets in a total volume of 1,049.5 million MDL.



PERFORMANCE IN THE ACTIVITY

Activity on the capital market

During 2017, the Bank maintained unchanged the structure of financial assets available for sale. At the end of the reporting period, the Bank's portfolio of participation interest in the capital of economic units registered the value of 212 million MDL, 41.67 million MDL or 24.42% higher compared to that recorded at the end of 2016. This substantial increase is due to the increase in the prices for the shares issued by US companies "VISA Inc." and "MasterCard Inc." traded on the New York Stock Exchange.

Fig. 27 Bank's investments in state securities and NBM Certificates

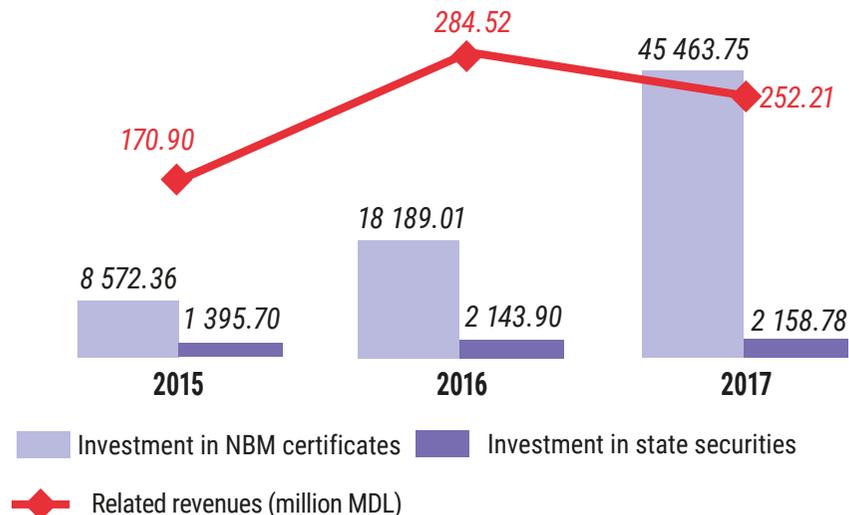
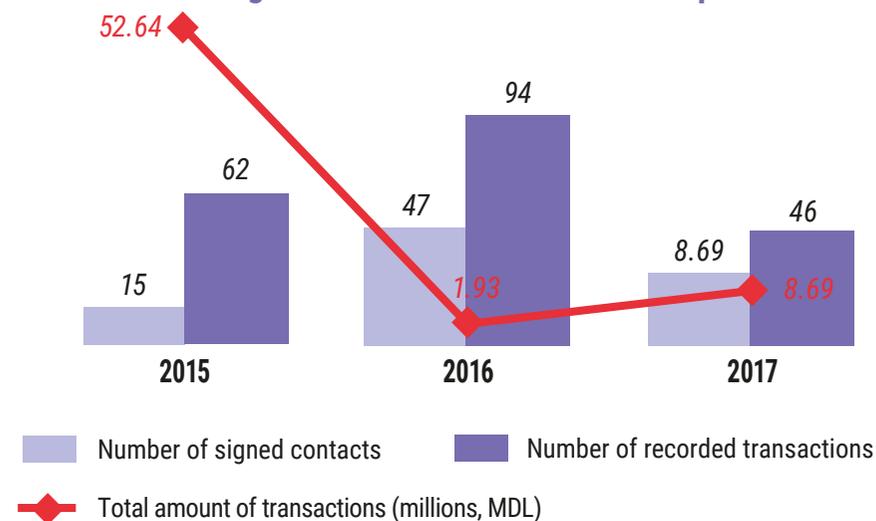


Fig. 28 Bank's activities on the capital market



As an investment company, the Bank provides brokerage services to Clients for corporate securities on the capital market. Thus, during 2017, the Bank brokered 46 transactions in a total volume of 8.69 million MDL, increasing 3.49 times compared to 2016, showing the clients' interest for this type of transactions.

For 2018 B.C Victoriabank S.A. intends to strengthen its relationship with the existing clients, to continue to actively promote services on the capital market, as well as to build on the relations established with external partners.

B.C. Victoriabank S.A. is a financial institution of systemic importance that manages significant shares in all fields of activity on the Banking Market of the Republic of Moldova.

The strategy for the coming years comprises the integration of the Bank's Executive and Board vision on the evolution of B.C. Victoriabank S.A. for the concerned period of activity.

Objective of B.C. Victoriabank S.A. is to become the Bank of the entrepreneurs from the real sector of economy and of the working citizens.

Vision of B.C. Victoriabank S.A. is to provide the clients quality services through the simplicity and dedication of its employees.

Values of B.C. Victoriabank S.A.:

- Respect: for the time, effort and integrity of both the Bank's clients and employees, and all the stakeholders;*
- Development: to encourage and support the growth, training of Bank's clients and employees;*
- Ambition: the Bank's financial services will improve the quality of life, will strengthen the business activity and will help create a safer economic environment.*

The Bank's strategy is aimed at increasing the value and strengthening of the Bank's positions on key business segments, subject to assumption of controlled exposures, ensuring the growth of activity efficiency, the intensive development of some fields of activity, efficient resource management, asset quality improvement.

The set out financial objectives relate to the level of profitability of the Bank and return on capital, control of operating expenses, structure and diversification of income sources, sufficient capitalization, etc.

The set out non-financial objectives relate to redefine the structures and processes, implementing a new business model, focusing on operational efficiency and quality.

As to market relationship, B.C. Victoriabank S.A. will continue to strive its positions strengthening on the market.



HUMAN RESOURCES' MANAGEMENT

The number of active employees of the B.C. Victoriabank SA at 31 December 2017 was of 1,255 persons.

Training and development of the staff.

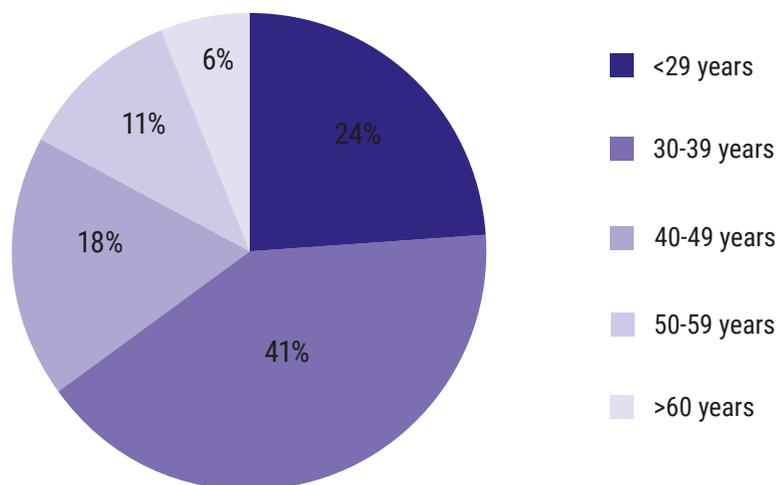
An important element of the Bank's development strategy is to increase the level of qualification and the level of professional competence. In 2017, a total of 975 employees were enrolled to training. The Bank's employee training plan focused directly on subjects that enhanced their skills and competencies.

Activity with staff reserve.

The activity with the staff reserve was carried out in accordance with the Bank's HR Policy and the strategic requirements.

An important task of the HR Policy in the work with the Bank's employees is the formation of staff reserve for managerial positions, which, according to their qualification, experience, skills and abilities, are proposed to managerial positions within the Bank.

Fig. 29 Structure of the Bank's Staff by age



HUMAN RESOURCES' MANAGEMENT

Major objectives regarding the Bank's Staff-related activity in 2018.

An important element of the Bank's development strategy is to increase the level of professional competence. For the modernization and development of the Bank's human capital in 2018, the following steps will be pursued:

-Results and performance-oriented approach.

-Relevant personal attributes for a bank employee: integrity, correctness, honesty, accountability, accuracy, receptivity and discipline.

-Professional attributes superior to those of the competitors, corresponding to the level of technological upgrading, flexibility and availability for personal and professional development.

-Team integration attributes such as: respect, non-hostile relationship with colleagues, avoidance of tendentiousness and intrigues, any other personal actions that could affect the team spirit.

-Positive attitude in creating and maintaining the image of the Bank and strengthening its competitive position on the market, both during and after the work hours, in accordance with the provisions of the Corporate Banking Code of Ethics.

The loyalty and dedication of each employee remains a relevant element in the staff policy promoted by the Bank: the employees are constituent parts of the Bank and their success is equivalent to the performance of the Bank.

The results obtained in 2017 represent the expression of the effective policy adopted by the Bank's management, the correctness of the actions undertaken, the professionalism, the responsibility and the productivity of the entire staff of the Bank.

Fig. 30 Structure of the Bank's Staff by work experience

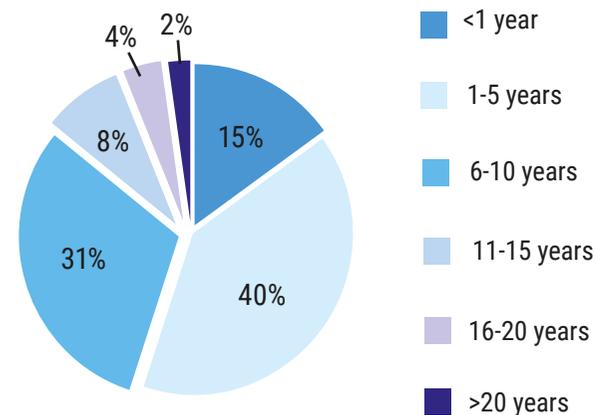


Fig. 31 Structure of the Bank's Staff by studies

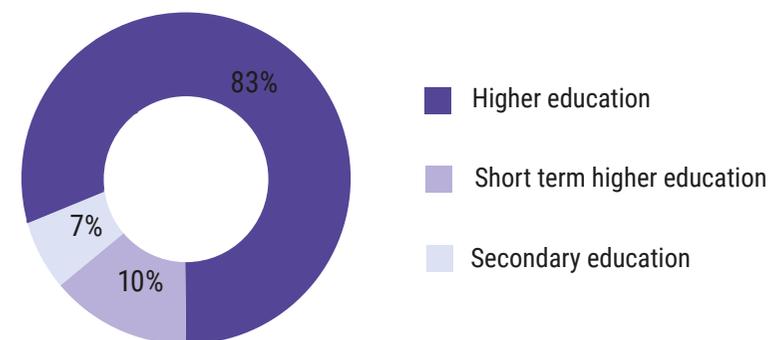
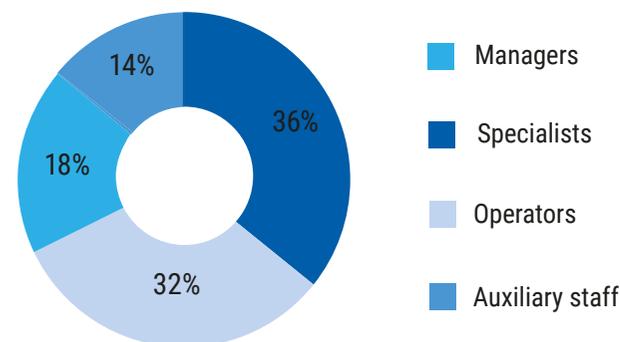


Fig. 32 Structure of the Bank's Staff by speciality



RISK MANAGEMENT

The risk management objective of B.C. Victoriabank S.A. in 2017 was the integration of risk appetite, during the decision-making process of the Bank, by promoting an appropriate alignment of assumed risks, available capital and performance targets, considering, at the same time, the risk tolerance.

The risk management activity was conducted under the coordination of the Risk Management Committee, the Executive Committee and the Asset and Liability Management Committee in accordance with the Bank's Risk Management Policy.

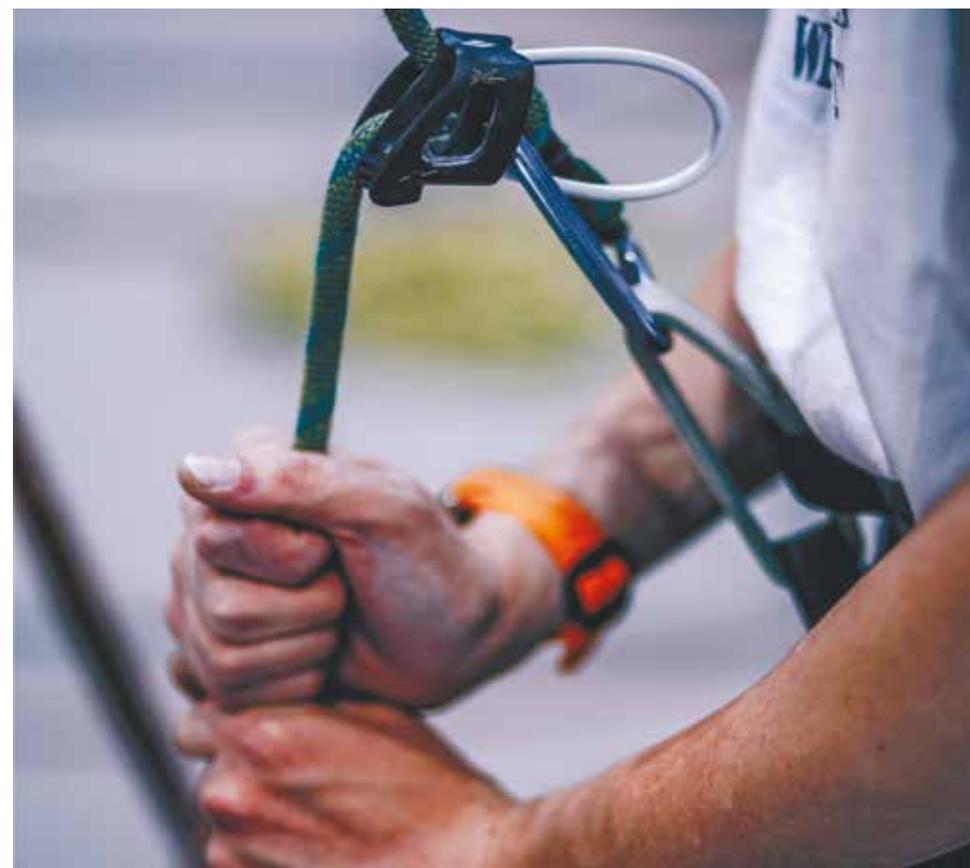
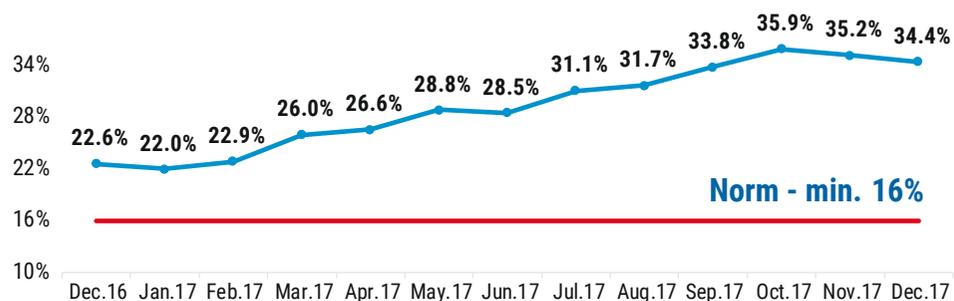
The Bank continuously assesses and monitors the material risks: loan and concentration risk, interest rate risk, currency risk, liquidity risk, capital adequacy risk and operational risk.

The assessment of the identified risks is carried out through specific models and methods of calculation: a system of significant indicators and early warning indicators with related limits, a forecasting methodology related to loan risk, etc.

Throughout 2017 the overall risk level, based on indicators, varied between low and moderate.

The risk-weighted capital adequacy ratio, characterized by the ratio of the Total Regulatory Capital and the value of the risk-weighted assets, was within the set limit and as at 31 December 2017 was of 34.4% (norm min.16), showing a minimal level of solvency risk.

Fig. 33 Dynamics of risk-weighted capital adequacy



RISK MANAGEMENT

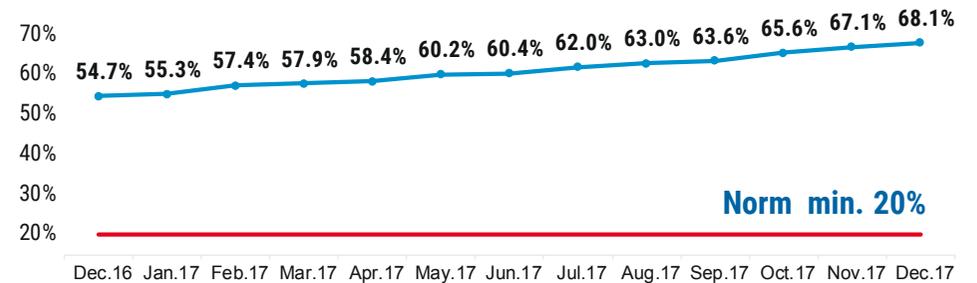
For a safe management of liquidity risk, the Bank continuously monitors the appropriate structural correlation between the assets and liabilities of the Bank, namely the mix of instruments for capitalizing the temporary liquidity surplus, as well as the share of stable resources attracted from the clients in the total attracted resources and the development of the institution on a solid basis, aiming at combining prudential and profitability requirements.

During 2017, the Bank recorded a minimum risk level of liquidity indicators, enjoying more than comfortable liquidity. The current liquidity, the II principle, calculated as the ratio of liquid assets to total assets, was of 68.1% (minimum 20%) as at 31 December 2017, whereas the reserve norm from the attracted funds in MDL and non-convertible currencies is 40%.

In the process of risk management, the Bank used stress tests with both systemic and idiosyncratic scenarios. Stress tests allowed the identification of vulnerabilities and adopting corrective action plans.

During the year 2017, there was carried out the process of calculation of the impact of adoption of CRD IV on the capital and measures were taken to align the internal risk management processes and normative acts to the new NBM framework for managing the Bank's activity.

Fig. 34 Dynamics of current liquidity (KplI)



The Code of Corporate Governance of B.C. Victoriabank S.A. (hereinafter referred to as the Code) establishes mainly the most relevant working methods, empowerments and responsibilities of Bank management and supervision bodies or the distribution of rights and responsibilities among all those persons who have an interest in the Bank, Board of Directors, Executive Committee, shareholders, employees, clients, etc., and has been developed in accordance with the Code of Corporate Governance approved by Decision of the NCFM no. 67/10 of 24.12.15 and the provisions of the Law on Joint Stock Companies no. 1134-XIII of 02.04.97 with subsequent amendments.

The guiding idea of the Bank is that good Corporate Governance contributes to the desired level of economic development by raising the Bank's performances and its access to the foreign capital.

By applying Corporate Governance, the Bank aims to ensure accuracy and transparency regarding the financial results of the Bank, and at the same time to ensure equal access of all shareholders to the relevant information about the Bank.

This Code is based on ensuring equal and non-discriminatory treatment for all investors and this is achieved through the practical implementation of a set of principles, including: access to Bank information (of public, non-confidential nature) and transparency of decision making (ensured through participation at the Ordinary and Extraordinary General Assemblies).

This Code aims at establishing a set of principles and rules that should guide the conduct of the Bank and of all its employees while carrying out their duties as well as in their business and professional relations, according to the current legislation and in compliance with their cultural differences. This Code does not pretend to cover all situations that may arise in the professional field, rather to establish some behavior's principles that will guide the actions of each employee in their professional activity.

Corporate Governance aims at bringing closer the interests of clients and investors.

The bodies of Corporate Governance shall establish the appropriate powers of the members of the Board of Directors and of the Executive Committee, as well as their competences and responsibilities.

Corporate governance principles:

The corporate governance principles include the following directions: observance of the shareholders' rights; the protection of minority shareholders; transparency and continuous information of investors on the Bank's activity and strategy; relationship with majority shareholders; the management (the responsibilities of the Board of Directors and the Executive Committee of the Bank).

In the process of developing, functioning and improving its corporate governance system, the Bank is guided by the principles of an effective management, current administration of the activity, control over economic and financial activity and disclosure of information.

Corporate Governance refers to the way the businesses and the activity of Bank are managed by the governing bodies and regards:

- the establishment of corporate objectives, based on the specificity of such activity and the level of risk in which the Bank is involved;*
- proper and transparent daily management of the activity of the Bank;*
- the guarantees that the Bank operates in a safe and prudent manner in accordance with the current laws and regulations.*

CORPORATE GOVERNANCE

The Code of Corporate Governance applied by the Bank with reference to the source and place of publication

The Bank promotes among its employees the acknowledgment of conducts that comply with the ethical principles of loyalty and good faith expressed in the following requirements:

Loyalty to the Bank: while carrying out their professional duties, the employees and the persons holding management positions must act with loyalty thus contributing to protect the interests of the Bank. At the same time situations that could create a conflict between personal interests and those of the Bank must be avoided.

Respect for the law: the employees and the persons holding management positions must respect the current legislation acting in accordance with the spirit and purpose thereof, and in all actions demonstrating ethical behavior.

Honesty in management and refusal of bribes and corruption: the Bank prohibits bribing of authorities, of civil servants and forbids its employees to offer or receive from the third parties any kind of improper payments, any gifts or favors that are not used on the market or which, given their value, characteristics or circumstances are, to the extent of reasonableness likely to impair the development of commercial, administrative or professional relations established by its enterprises. No employee may act on behalf of the Bank which, directly or indirectly, will contribute to the so-called "money laundering".

Confidentiality: Each employee and person holding management position will strictly comply with the obligation of permanent confidentiality concerning the information distribution or publication of which could affect the interests of the Bank.

Transparency: All the employees of the Bank must provide trustworthy, relevant, complete and precise information regarding the progress of activities related to the performance of their duties or the sphere of competence thereof.

Equal Opportunities: The Bank promotes professional and personal development of all its employees by ensuring equal opportunities through its policy action. In the process of employee selection and promotion the Bank relies on objective criteria of merit and capability. Moreover, the process of selection shall include not only the assessment of the professional competences of the candidate, but also an appreciation of the behavior and interaction capabilities thereof.

Non-discrimination: The Bank seeks to ensure a work environment that is free of any discrimination prohibited by law, and in particular for reasons of race, religious belief, culture, nationality or gender, as well as any conduct that could involve personal harassment.

Training: The Bank believes that professional development allowing obtaining an increased efficiency in carrying out their professional duties is closely connected to the overall education of persons.



CORPORATE GOVERNANCE

The Code of Corporate Governance applied by the Bank with reference to the source and place of publication

Health and safety in the workplace: The employees will strictly comply both with the rules provided by the law and those established by the Bank in the field of labor protection, labor risk prevention and environmental policy.

Professionalism: the employees and the persons holding management positions within the Bank must act professionally and demonstrate that in a comprehensive manner and in compliance with corporate values. It is also necessary that they demonstrate high professionalism based on an efficient activity tackled in terms of excellence and quality of service. The behavior of the employees should be based on the following principles:

-**Quality:** The Bank is committed to provide high quality services and promote innovation, development and continuous improvement to achieve the highest level of quality based on criteria of profitability.

-**Customer orientation:** the employees and the persons holding management positions within the Bank shall apply their professionalism, collaboration, and their working skills to achieve its customers satisfaction at the highest level and will make efforts to anticipate thereof with a view to acknowledge their necessities.

-**Use and protection of Bank patrimony:** The assets which the Bank makes available to its employees will be used to carry out the activities related to its interests in a responsible, efficient way and in compliance with their professional activity. The employees shall also undertake to protect those assets which will be commissioned about the performance of their duties.

-**Relationships with customers and partners:** The Bank considers its customers and partners as indispensable part in achieving its objectives of growth, profitability and improvement of quality of service, seeking to establish with them a relationship based on trust and mutual benefit.

-**Employees participating in the process of selection of partners, suppliers and foreign collaborators must act impartially and objectively:**

there shall not be permitted obtaining of any personal advantage, the employees will avoid favouring persons or companies on grounds of kinship or friendship, will avoid collision between personal interests and the interests of the company.

Transparency, financial reporting and audit

The Bank ensures that appropriate regular and continuous reporting is made on all major events, including financial situation, performance, ownership and management. In accordance with the provisions of the National Bank of Moldova and the National Financial Market Commission, the information is published on the official website of the Bank: www.victoriabank.md.

The Executive Committee is responsible for the quality and completeness of the annual financial reports disclosed to the public in accordance with the normative acts in force. The Executive Committee is committed to the transparency of the reports submitted by external auditors.

External audit is performed by an independent company that is responsible for the audit performed. The external auditor and his remuneration are approved at the General Meeting of the Bank's shareholders.

The Corporate Governance Code is published on the Bank's website: www.victoriabank.md, at "Information Disclosure" / "Bank Management".



CORPORATE GOVERNANCE

The degree of compliance of the Bank with the provisions of the Code of Corporate Governance

During the reporting period, the Executive Committee of B.C. Victoriabank S.A. and the body of employees acted in compliance with the Code of Corporate Governance approved by the Board of Directors of the Bank, ensuring maximum transparency in the activity of the Bank, acting in accordance with applicable laws.

Efforts were made to follow an effective model for Corporate Governance, which monitors and evaluates the performance of the Bank, while satisfying the needs of all stakeholders, i.e. shareholders, management, employees and customers of the Bank, and, implicitly, provides added value in growth.

The principles of corporate governance were complied with, including:

- *Observing the rights and equitable treatment of shareholders of the Bank;*
- *Observing the rights and interests of all the stakeholders;*
- *Integrity and ethical behavior of the management team*

Transparency and fair presentation of financial results

Daily, monthly and quarterly reports have been prepared for all fields of activity, and submitted to the Executive Committee for making the appropriate decisions in the activity management process.

The banking risk management was an important component of the Bank's strategy for obtaining an expected level of profit, maintaining an acceptable risk exposure. The achievement of a high level of profitability is a relevant indicator of the management quality.



The Bank's clients and shareholders have been constantly informed by publishing of Reports in the press and on the webpage of the Bank, on the information boards in all Bank offices, about the development strategy, the business risks, the financial results, the products and the services offered by B.C. Victoriabank S.A.

The main goals of the Bank's internal control are to ensure efficient management of the Bank, to conduct financial activities in a safe and prudent manner, to protect the interests of depositors and clients.

The main objectives of internal control are the minimization of the risks related to financial activities, the exercising of the control over the observance of the applicable legislation, the providing of information security, transparency of ownership structure and control over the Bank, solving conflicts of interest, providing a security level in line with the nature, character and volume of transactions performed.

The Bank's internal control systems represent a process involving the management bodies of the Bank and its employees, regardless of their position. The internal control systems are based on procedures, methods, standards, measures, including restrictions (limitations), relationships of issuance / authorization-execution-reporting-control of transactions and operations, and the orders of the management bodies of the Bank, based on genuine, complete and updated information, adopted to achieve the goals and objectives of the internal control.

The Bank's internal control systems help increasing revenue and minimizing expenditure. Their purpose is to ensure that expenditure is authorized and performed as intended, that assets are adequately protected, that liabilities are recorded correctly and the risks are limited.

The Bank prepares, organizes and implements its own internal control systems, based on the Regulation, taking into account the generally accepted practice in this area, including the Basel Committee documents, European Community Directives and adapts them to their activity.

In order to ensure conditions for achieving the goals and objectives of internal control, the development, organization and implementation of internal control systems take into account the volume, number, type and diversity of transactions, the degree of risk associated to each area of activity, the volume control of the daily work by the management bodies, the degree of centralization and decentralization of the Bank, the degree of use of information technology resources.

The internal control systems are developed and adopted by the Bank in the form of written internal rules (policies, procedures, regulations, instructions, etc.).

