

# NATIONAL BANK OF MOLDOVA

## *FINANCIAL STATEMENTS*

*for the year ended 31 December 2013*  
*Prepared in Accordance with*  
*International Financial Reporting Standards*  
*(free translation<sup>1</sup>)*

<sup>1</sup> Translator's explanatory note: The above translation of the financial statements is provided as a free translation from Romanian which is the official and binding version.

**NATIONAL BANK OF MOLDOVA**  
**FINANCIAL STATEMENTS**  
**For the year ended 31 December 2013**

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<b>Contents:</b>	<b>Page</b>
Independent Auditor's Report	
<b>Financial Statements:</b>	
Balance Sheet.....	1
Statement of Comprehensive Result.....	2
Statement of Cash Flows.....	3
Statement of Capital and Reserves.....	4
Notes to the Financial Statements.....	5-61



KPMG Moldova SRL  
Str. Stefan cel Mare 202  
Et. 9, MD-2004  
Chisinau  
Moldova

Tel: +373 (22) 580 580  
Fax: +373 (22) 540 499  
[www.kpmg.md](http://www.kpmg.md)

## Independent Auditors' Report (free translation<sup>1</sup>)

To the Council of Administration of the National Bank of Moldova

We have audited the accompanying financial statements of the National Bank of Moldova ("the Bank"), which comprise the balance sheet as at 31 December 2013, the statement of comprehensive result, statement of capital and reserves and statement of cash flows for the year then ended, and explanatory notes, comprising a summary of significant accounting policies and other notes.

### *Management's Responsibility for the Financial Statements*

Management of the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements of the Bank based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the accompanying financial statements of the Bank present fairly, in all material respects, the financial position of the Bank as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

<sup>1</sup> TRANSLATOR'S EXPLANATORY NOTE: The above translation of the auditors' report is provided as a free translation from Romanian which is the official and binding version.

*Emphasis of matter*

Without qualifying our opinion, we draw attention to Note 19 to the financial statements which describes that, as at 31 December 2013, the Bank has a debit balance of the general reserve fund of MDL 471,360 thousand, and describes the measures that have been taken by the Bank and by the Government of the Republic of Moldova, through the Ministry of Finance.

*Other Matters*

This report is made solely to the Council of Administration of the National Bank of Moldova, as a body. Our audit work has been undertaken so that we might state to the Council of Administration of the National Bank of Moldova those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council of Administration of the National Bank of Moldova, as a body, for our audit work, for the report on the accompanying financial statements, or for the opinion we have formed.

Refer to the original signed  
Romanian version

KPMG Moldova S.R.L.

20 March 2014

Chisinau, Republic of Moldova

Ref.: 14013

<sup>1</sup> TRANSLATOR'S EXPLANATORY NOTE: The above translation of the auditors' report is provided as a free translation from Romanian which is the official and binding version.

**NATIONAL BANK OF MOLDOVA**  
**BALANCE SHEET**  
**As at 31 December 2013**

	Notes	31 December 2013 MDL'000	31 December 2012 MDL'000
<b>ASSETS</b>			
Cash and short-term placements with banks	5	12,559,105	12,817,850
Monetary gold	6	37,392	47,593
Due from international financial institutions	7	2,563,064	2,303,437
Securities issued by the Government of the Republic of Moldova	8	2,079,360	2,075,425
Loans granted to banks and individuals	9	281,423	305,818
Investment securities	10	24,167,783	17,454,682
Property and equipment	12	24,818	21,957
Intangible assets	12	23,258	13,787
Other assets	13	3,834	4,623
<b>TOTAL ASSETS</b>		<b>41,740,037</b>	<b>35,045,172</b>
<b>LIABILITIES, CAPITAL AND RESERVES</b>			
<b>Liabilities</b>			
National currency issued into circulation	14	19,040,704	14,554,214
Due to the Government of the Republic of Moldova	15	1,641,481	1,895,034
Due to banks	16	7,029,497	5,976,044
Certificates issued by the National Bank of Moldova	17	2,602,671	3,741,385
Due to international financial institutions	7	8,299,036	7,922,010
Other liabilities	18	312,886	175,815
<b>Total liabilities</b>		<b>38,926,275</b>	<b>34,264,502</b>
<b>Capital and reserves</b>			
Authorized capital	19	330,017	330,017
General reserve fund		(471,360)	(596,400)
<b>Total statutory capital</b>		<b>(141,343)</b>	<b>(266,383)</b>
Reserve of unrealized foreign exchange gains from foreign currency stocks' revaluation		2,733,942	743,974
Reserve of unrealized gains on revaluation of investment securities		227,835	300,911
Other reserves		(6,672)	2,168
<b>Total capital and reserves</b>		<b>2,813,762</b>	<b>780,670</b>
<b>TOTAL LIABILITIES, CAPITAL AND RESERVES</b>		<b>41,740,037</b>	<b>35,045,172</b>

The accompanying notes 1 – 29 are an integral part of these Financial Statements.

The Financial Statements were approved by the Council of Administration of the National Bank of Moldova on 20 March 2014.

*Dorin Drăguțanu*

*D. Drăguțanu*  
**Governor**

*Vasile Munteanu*

*Vasile Munteanu*  
**Director of the Budget, Finance and Accounting  
Department, Chief-accountant**

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**NATIONAL BANK OF MOLDOVA**  
**STATEMENT OF COMPREHENSIVE RESULT**  
**For the year ended 31 December 2013**

	Notes	2013 MDL'000	2012 MDL'000
Interest income from short-term placements	21	27,887	36,900
Interest income from securities	21	366,109	381,410
Interest income from loans and Repo agreements	21	1,041	1,131
		<u>395,037</u>	<u>419,441</u>
Interest expenses on loans received	22	(31,017)	(24,505)
Interest expenses on deposits and mandatory reserves	22	(60,477)	(61,001)
Interest expenses on transactions with securities and Repo agreements	22	(144,953)	(193,169)
		<u>(236,447)</u>	<u>(278,675)</u>
<b>Net interest income</b>		<b>158,590</b>	<b>140,766</b>
Gains from foreign currency transactions and foreign exchange rate differences	23	2,253,649	860,422
(Losses) /gains from the revaluation of securities	24	(81,555)	151,089
Other income	25	47,866	40,627
Operating expenses	26	(211,578)	(119,796)
<b>Net Operating Income</b>		<b>2,008,382</b>	<b>932,342</b>
<b>NET PROFIT</b>		<b>2,166,972</b>	<b>1,073,108</b>
<b>Items that can be reclassified to net profit</b>			
Revaluation of securities issued by the Government of the Republic of Moldova		1,361	(1,997)
Revaluation of monetary gold		(10,201)	2,267
<b>COMPREHENSIVE RESULT</b>		<b>2,158,132</b>	<b>1,073,378</b>
<i>Calculation of the Profit available for distribution</i>			
<b>NET PROFIT</b>		<b>2,166,972</b>	<b>1,073,108</b>
Allocation /(covering) of unrealized losses /(gains) on foreign exchange revaluation of investment securities	20	73,076	(131,191)
Allocation of unrealized gains on revaluation of foreign currency stocks	20	(1,989,968)	(714,819)
<b>PROFIT AVAILABLE FOR DISTRIBUTION</b>	<b>20</b>	<b>250,080</b>	<b>227,098</b>

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**Dorin Drăguțanu**

*Governor*

**Vasile Munteanu**

*Director of the Budget, Finance and Accounting  
Department, Chief-accountant*

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**NATIONAL BANK OF MOLDOVA**  
**STATEMENT OF CASH FLOWS**  
**For the year ended 31 December 2013**

	Notes	2013 MDL'000	2012 MDL'000
<b>Cash flows from operating activities</b>			
Interest receipts		436,817	373,453
Interest payments		(238,311)	(276,859)
(Losses) /gain from investment securities		(8,479)	19,897
Other receipts		47,863	43,269
Payments to personnel and suppliers		(207,633)	(90,901)
<b>Cash flows before changes in assets and liabilities</b>		<b>30,257</b>	<b>68,859</b>
Increase in amounts due from international financial institutions		(60,533)	(7,243)
Decrease in loans granted to banks and individuals		24,407	102,355
Increase in investment securities		(4,829,417)	(1,268,092)
<b>Increase in operating assets</b>		<b>(4,865,543)</b>	<b>(1,172,980)</b>
Increase in the national currency issued into circulation		4,486,491	2,537,543
Decrease in balances due to Government of the Republic of Moldova		(258,742)	(70,828)
Increase in balances due to banks		796,202	732,321
(Decrease) /increase in certificates issued by the National Bank of Moldova		(1,136,384)	834,121
(Decrease) /increase in balances due to international financial institutions		(275,415)	1,685,130
Increase in other liabilities		125,702	31,699
<b>Increase in operating liabilities</b>		<b>3,737,854</b>	<b>5,749,986</b>
<b>Net cash flows from operating activities</b>		<b>(1,097,432)</b>	<b>4,645,865</b>
Property, equipment and intangible assets acquisitions		(22,176)	(10,603)
<b>Net cash flows used in investing activities</b>		<b>(22,176)</b>	<b>(10,603)</b>
Payments to the State Budget with regard to profit distribution		(113,549)	(35,460)
<b>Net cash flows used in financing activities</b>		<b>(113,549)</b>	<b>(35,460)</b>
Differences from revaluation of cash and cash equivalents		978,347	346,775
<b>(Decrease) /increase in cash and cash equivalents</b>		<b>(254,810)</b>	<b>4,946,577</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>14,893,275</b>	<b>9,946,698</b>
<b>Cash and cash equivalents at the end of the year</b>		<b>14,638,465</b>	<b>14,893,275</b>
<b>Analysis of cash and cash equivalents</b>			
Cash in hand in foreign currency	5	1,051	1,046
Nostro accounts	5	640,347	1,620,394
Term deposits in foreign currency	5	11,917,707	11,196,410
Securities issued by the Government of the Republic of Moldova	8	2,079,360	2,075,425
<b>Cash and cash equivalents</b>		<b>14,638,465</b>	<b>14,893,275</b>

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**NATIONAL BANK OF MOLDOVA**  
**STATEMENT OF CAPITAL AND RESERVES**  
**For the year ended 31 December 2013**

	Authorized capital	General reserve fund	Reserve of unrealized foreign exchange gains from foreign currency stocks' revaluation	Reserve of unrealized gains on revaluation of investment securities	Other reserves	Profit available for distribution	Total Capital and reserves
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
<b>Balance as at 1 January 2012</b>	<b>288,923</b>	<b>(709,949)</b>	<b>29,155</b>	<b>169,720</b>	<b>1,898</b>	<b>-</b>	<b>(220,253)</b>
<b>Profit</b>	-	-	714,819	131,191	-	227,098	1,073,108
<i>Other comprehensive result:</i>							
Differences on revaluation of securities issued by the Government of the Republic of Moldova	-	-	-	-	(1,997)	-	(1,997)
Differences on revaluation of monetary gold	-	-	-	-	2,267	-	2,267
<b>Other comprehensive result, total</b>	-	-	-	-	270	-	270
Comprehensive result at the end of the year	-	-	714,819	131,191	270	227,098	1,073,378
<i>Allocation of profit</i>							
Increase of the general reserve fund	-	113,549	-	-	-	(113,549)	-
Allocation of profit to the State Budget	-	-	-	-	-	(113,549)	(113,549)
<i>Other transactions with the Government</i>							
Authorized capital increase through the contribution of monetary gold	41,094	-	-	-	-	-	41,094
<b>Balance as at 31 December 2012</b>	<b>330,017</b>	<b>(596,400)</b>	<b>743,974</b>	<b>300,911</b>	<b>2,168</b>	<b>-</b>	<b>780,670</b>
<b>Balance as at 1 January 2013</b>	<b>330,017</b>	<b>(596,400)</b>	<b>743,974</b>	<b>300,911</b>	<b>2,168</b>	<b>-</b>	<b>780,670</b>
<b>Profit</b>	-	-	1,989,968	(73,076)	-	250,080	2,166,972
<i>Other comprehensive result:</i>							
Differences on revaluation of securities issued by the Government of the Republic of Moldova	-	-	-	-	1,361	-	1,361
Differences on revaluation of monetary gold	-	-	-	-	(10,201)	-	(10,201)
<b>Other comprehensive result, total</b>	-	-	-	-	(8,840)	-	(8,840)
Comprehensive result at the end of the year	-	-	1,989,968	(73,076)	(8,840)	250,080	2,158,132
<i>Allocation of profit</i>							
Increase of the general reserve fund	-	125,040	-	-	-	(125,040)	-
Allocation of profit to the State Budget	-	-	-	-	-	(125,040)	(125,040)
<b>Balance as at 31 December 2013</b>	<b>330,017</b>	<b>(471,360)</b>	<b>2,733,942</b>	<b>227,835</b>	<b>(6,672)</b>	<b>-</b>	<b>2,813,762</b>

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

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**1. General information about the National Bank of Moldova**

The National Bank of Moldova (further referred to as the Bank) is the central bank of the Republic of Moldova and it was established in 1991. The activity of the Bank is regulated by the *Law on the National Bank of Moldova no.548-XIII dated 21 July 1995*. In accordance with the mentioned Law, the Bank is an autonomous public legal entity that is responsible to the Parliament of Republic of Moldova.

The primary objective of the Bank is to achieve and maintain price stability.

The activities of the Bank are as follows:

- to formulate and to promote the State monetary and foreign exchange policy;
- to act as banker and fiscal agent of the State;
- to conduct economic and monetary analysis and submit proposals to the Government of the Republic of Moldova on the basis of such analysis, and publish the results of such analysis;
- to license, supervise and regulate the activity of financial institutions;
- to provide credit facilities to banks;
- to supervise the system of payments of the Republic of Moldova and to facilitate efficient functioning of inter-bank system of payments;
- to act as the sole issuer of the national currency;
- to establish the exchange rate regime of the national currency in consultation with the Government;
- to hold and manage foreign exchange reserves of the State;
- to undertake, in the name of the Republic of Moldova, responsibilities and perform transactions resulting from the participation of the Republic of Moldova in the activity of international public institutions in the banking, credit and monetary domains pursuant to conditions of international agreements;
- to settle the balance of payments of the State; and
- to perform foreign exchange regulation on the territory of the Republic of Moldova.

The registered head-office of the Bank is 1 Grigore Vieru Avenue, Chisinau, Republic of Moldova. The Bank has no representation offices or branches.

**2. Basis of preparation**

The Financial Statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRSs), issued by the International Accounting Standards Board (IASB).

The Financial Statements are prepared under the going concern basis and presented in Moldovan lei ("MDL"), the currency of the Republic of Moldova, rounded to the nearest thousand in Moldovan lei (MDL '000).

The Bank maintains its books and records in accordance with the International Financial Reporting Standards and the *Law on the National Bank of Moldova* and prepares its Financial Statements in accordance with them.

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

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**2. Basis of preparation (continued)**

The Financial Statements have been prepared on a historic cost or amortised cost basis, except for financial assets held at fair value through profit or loss and financial assets available for sale that have been measured at fair value.

Given the specificity of the Bank, the categories of financial assets presented on the face of the Balance Sheet were presented using other names than the categories indicated by IAS 39 "Financial Instruments: Recognition and Measurement". This presentation provides a better understanding of the financial assets and liabilities of the Bank. At the same time, each position of financial assets and liabilities in the Balance Sheet corresponds to a certain category classified in accordance with IAS 39 "Financial Instruments: Recognition and Measurement", these being presented in the Notes to the Financial Statements. In accordance with paragraph 10 IAS 1 "Presentation of financial statements", the Bank chose to keep title of "Statement of Comprehensive Result" and "Balance Sheet" as stated in Financial Statements for previous year because it better reflects users' expectations of Financial Statements and also in order to maintain consistency of presentation with previous year.

**Significant accounting judgments and estimates**

The preparation of the Financial Statements in accordance with the International Financial Reporting Standards requires management to make estimates and assumptions in determining the amounts and balances reported in the Financial Statements. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

These judgments and estimates are based on information available as of the date of the Financial Statements. Actual results, therefore, could differ from those estimates. The most significant use of judgments and estimates are as follows:

*Fair value of financial instruments*

Where the fair value of financial assets and financial liabilities recorded on the Balance Sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input of these models is taken from observable markets, where possible. Where this is not feasible, a degree of judgment is required in establishing fair value. The judgments include considerations of liquidity and model inputs accepted by the management of the Bank. The detailed information on fair value of financial instruments held by the Bank is presented in Note 3, f.

*Allowance for losses on securities available for sale, securities held-to-maturity, loans, conditional commitments and receivables*

All financial assets held by the Bank, except those classified at fair value through profit or loss, are subject to impairment testing. If there is objective evidence that an impairment loss on financial assets may be incurred, the amount of loss is measured as the difference between assets' carrying amount and the present value of estimated future cash flows.

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

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**2. Basis of preparation (continued)**

*Allowance for losses on securities available for sale, securities held-to-maturity, loans, conditional commitments and receivables (continued)*

The Bank reviews the portfolio of securities held-to-maturity on a yearly basis. The securities classified as available for sale, loans, conditional commitments and receivables are reviewed quarterly or upon necessity in order to assess whether an allowance for impairment losses should be recorded in the Statement of Comprehensive Result. The detailed information on significant accounting judgments and estimates applied by the Bank is presented in Note 3, g.

**3. Significant accounting policies**

The significant accounting policies set out below have been applied consistently by the Bank to all periods presented in these Financial Statements.

**a. Revaluation of the balances and transactions in foreign currency**

The transactions in foreign currency are recorded at the exchange rate of the date of the transaction and are revalued on a daily basis using the official exchange rate of the Moldovan Leu. As at the Balance Sheet date, the monetary assets and liabilities denominated in foreign currencies are translated at the official rate of the Moldovan Leu as of the Balance Sheet date. For the years 2012 – 2013, the official exchange rates of the reference foreign currencies were as follows:

	Year 2013		Year 2012	
	Average for the period	At year end	Average for the period	At year end
USD/MDL	12.5907	13.0570	12.1122	12.0634
EUR/MDL	16.7241	17.9697	15.5632	15.9967
GBP/MDL	19.7072	21.5015	19.1917	19.5150
JPY/MDL	0.1293	0.1241	0.1519	0.1406
XDR/MDL	19.1370	20.1078	18.5459	18.5955
XAU/MDL	570.2558	504.3804	649.0238	641.9843

Exchange rate differences arising on the settlement of transactions at exchange rates different from those at initial recognition are recognized in the Statement of Comprehensive Result.

**b. Cash and cash equivalents**

For the purpose of the Statement of Cash Flows, cash and cash equivalents comprise cash on hand in foreign currency, current accounts and short-term placements with other banks, and securities issued by the Government of the Republic of Moldova with the maturity of less than 3 months from the date of the acquisition.

Cash and cash equivalents are carried at amortised cost in the Balance Sheet and are presented on a net basis (cash in hand in local currency is offset with the national currency issued into circulation).

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

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**3. Significant accounting policies (continued)**

**c. Monetary gold**

The Bank's gold is kept in gold bullions, corresponding with international certification and monetary market trading requirements. Being a part of the official reserve assets, the gold is considered to be a monetary asset.

Given the characteristics of the monetary gold, the management of the Bank understands that IFRS does not provide a specific treatment for the accounting of monetary gold. Therefore, pursuant to the requirements set by paragraphs 10-12 of International Accounting Standard 8 "*Accounting Policies, Changes in Accounting Estimates and Errors*", the Bank determined that it is relevant to apply the specific accounting treatment for the monetary gold, similar to that established for the accounting of financial instruments and the disclosure of relevant information related to gold as a monetary asset, part of the financial instruments.

Monetary gold is initially recognised at fair value plus transaction costs. The measurement of the fair value of the gold is performed on a monthly basis at the price determined by the Bank based on the quotation  $P_{Au/USD}$  set by the company London Gold Market Fixing Ltd. The gold is recognised in accounting using the *weighted average cost method*.

Unrealised gains and losses from changes in fair value of monetary gold are recognized in the Statement of Comprehensive Result and reported in "Other reserves". When the monetary gold is derecognised, the cumulative unrealised gains and losses are recognised as realised gains /losses and are presented in profit and loss account for the period.

**d. Due from international financial institutions**

The amounts recorded in the Balance Sheet as "Due from international financial institutions" represent mainly the quota of the Republic of Moldova in the International Monetary Fund ("IMF"). This amount is established in Special Drawing Rights ("XDR") and it is presented in MDL.

**e. Financial assets**

The Bank classifies its financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets.

The amortised cost of a financial asset or financial liability is the amount at which a financial asset or financial liability is measured at initial recognition, less principal repayments and plus or minus any amortised cost calculated using the effective interest method for any difference between the initial amount and maturity amount, and minus any allowance for impairment.

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.

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

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**3. Significant accounting policies (continued)**

**e. Financial assets (continued)**

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss represent securities acquired for generating a profit from short-term fluctuations in price or securities included in a portfolio for which there is evidence of short-term profit-taking. Upon initial recognition, the financial assets at fair value through profit or loss are recognised at fair value at the settlement date and are accounted for with separate details of the nominal value, unamortized discount or premium, purchased interest and accrued interest. After initial recognition, these securities are measured at fair value based on quoted bid prices on the principal market (BID price provided by Bloomberg Information System), the revaluation result being recognised separately in the Balance Sheet. Interest income on securities is included in "Interest income".

This category of financial assets includes securities issued by non-residents with coupon or discount and purchased on the foreign markets. These are presented in the Balance Sheet under category "Investment securities".

*Loans and receivables of the Bank*

Bank's loans and receivables represent financial instruments, through which cash is granted directly to the borrower and are recognized in the Balance Sheet when the cash is transferred to the borrower. These are non-derivative financial assets with fixed or determinable payments, that are not intended to be sold by the Bank and that are initially recognised at fair value of disbursed cash, with subsequent measurement at amortised cost.

Loans granted to banks and individuals are subsequently measured at amortised cost, determined as the amount recognised at initial recognition minus principal repayments, minus the cumulative amortisation using the effective interest method and minus any allowance for impairment losses.

*Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank has the positive intention and ability to hold to maturity. The Bank recognises the held-to-maturity investments at the settlement date and measures them initially at its fair value, presenting separately the nominal value, the purchased interest, the accrued interest and the unamortized premium /discount. After initial recognition, held-to-maturity investments are subsequently measured at amortised cost using the effective interest method, less any allowance for impairment. Impairment losses are recognised in the Statement of Comprehensive Result. The interest is recognised as interest income.

A sale or reclassification of more than an insignificant amount of held-to-maturity investments will result in the reclassification of all held-to-maturity investments as available-for-sale, and will prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years.

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

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**3. Significant accounting policies (continued)**

**e. Financial assets (continued)**

*Held-to-maturity investments (continued)*

However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the entity has collected substantially all of the financial asset's original principal; and
- sales or reclassifications attributable to non-recurring isolated events beyond the entity's control that could not have been reasonably anticipated.

This category of financial assets includes held-to-maturity securities issued by non-residents, purchased with coupon or discount on foreign markets and presented in the Balance Sheet under the category "Investment securities".

*Available for sale financial assets*

All financial assets, which are not classified as financial assets at fair value through profit or loss, as loans and receivables or as held-to-maturity investments are included in available for sale securities.

Initially available for sale financial assets are recognised at their fair value (including transaction costs). Subsequent to initial recognition, they are measured at their fair value which is based on Bank's valuation techniques as presented in Note 3, f.

Unrealized gains and losses related to this category of financial assets are recognized in the Statement of Comprehensive Result and reported in Capital and Reserves as "Other reserves". When the financial assets available for sale are derecognised, the cumulative gain or loss previously recognized in Capital and Reserves is recognized as income or loss in the Statement of Comprehensive Result.

Interest calculated using the effective interest method is recognized as income or loss in the Statement of Comprehensive Result.

The Bank includes in this category the securities issued by the Government of the Republic of Moldova that are included under the category "Securities issued by the Government of the Republic of Moldova" in the Balance Sheet.

*Recognition of financial assets and liabilities*

The Bank recognises the non-derivative financial assets and liabilities on its Balance Sheet using the settlement date accounting, when the Bank becomes party to the contractual provisions of the financial instrument (regular way purchases), i.e. when it is probable that the future economic benefits embodied in these assets will flow to the Bank and the asset has a cost or value that can be measured reliably.

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 1a 31 December 2013**

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**3. Significant accounting policies (continued)**

**e. Financial assets (continued)**

*Derecognition of financial assets and liabilities*

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which all material risks and profits from holding the financial asset are transferred.

The Bank derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

**f. Fair value of financial instruments**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value measurement assumes a transaction taking place in the principal market for the asset or liability, or in the absence of a principal market, the most advantageous market for the asset or liability.

The securities in foreign currency measured at fair value are classified as “financial assets at fair value through profit or loss”, the gain or loss from their revaluation to market value is recognized in the Statement of Comprehensive Result.

State securities issued by the Government of the Republic of Moldova are classified as “available for sale” and are reported at fair value.

The fair value of the financial instruments available for sale is established by the Bank using the information available on the market and the proper valuation methodologies, such as the discounted cash flows techniques. Where discounted cash flows techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the Balance Sheet date with similar terms and conditions. However, professional judgment is required to interpret market data to determine the estimated fair value.

The fair value of the state securities held in the portfolio (with maturities which were not traded on the secondary market recently) is estimated by obtaining the new interest rates (on current market) at the reporting date per each maturity of state securities retained in the Bank's portfolio from the curve of the current effective interest rates. The curve is constructed for the appropriate day based on the recent results of the auctions for state securities on the primary market as well as on the secondary market for the last 5 banking days before the reporting period.

Upon the classification of the fair value of the financial instruments, the fair value hierarchy is used to reflect the significance of the data input used to make the respective valuations. The fair value hierarchy comprises the following three levels.

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

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**3. Significant accounting policies (continued)**

**f. Fair value of financial instruments (continued)**

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

The Bank assigns to this category its securities in foreign currency measured at fair value through profit or loss.

- Level 2: inputs, other than quoted prices included within level 1, that are observable for the assets or liabilities, either directly (that is as prices), or indirectly (that is derived from prices).

The Bank assigns to this category its available-for-sale securities issued by the Government of the Republic of Moldova.

- Level 3: inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

The Bank does not have any items assigned to this category during the reporting period.

The Bank has established controls on verification of fair value of financial assets, namely it verifies the observable data, performs various valuation models based on observable quotes and analyzes the major changes occurring between periods.

The classification of the fair value of the financial assets of the Bank per the three levels is presented in Note 11.

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

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**3. Significant accounting policies (continued)**

**g. Allowances for impairment of the financial assets, other assets and provisions for losses on conditional commitments**

The allowances for impairment of loans and provisions on conditional commitments are recognized if there are objective evidences (regarding the financial position of the licensed bank, the collateral of loans, debt service, renegotiations or prolongations of repayment schedules of loans and /or related interests) that the Bank will not be able to recover all the amounts due to it (the initial amount of the loan and the related interests).

The amount of the allowances for impairment of the loans is the difference between the carrying amount and estimated recoverable value, calculated as present value of estimated future cash flows from recovery including the amounts recoverable from collaterals, discounted at the loan's initial interest rate. The allowances for impairment of the loans and provisions for conditional commitments are decreased or increased in case the allowance /provision calculated at the reporting date is respectively less or greater than previously established allowance /provision.

The allowance for impairment of the loans is used to cover the losses generated by non-performing loans, in cases of bankruptcy of the licensed bank and /or the insufficiency of its funds to settle the debt to the Bank. A financial asset is written off when the Bank estimates in a reliable and realistic manner that it will not obtain any positive cash flows generated by the analysed asset, and respectively, ceases any measures for the collection or recovery of the asset.

Recoveries of loans written off in earlier periods are included in income.

*Securities held-to-maturity and securities available-for-sale* during the financial year may be subject to impairment losses in case the following objective evidences are identified: significant financial difficulty or high probability of bankruptcy of the issuer, breach of contract by the counterparty, national or local economic conditions related to decline of the fair value of financial assets in this category.

The evaluation of impairment is performed annually, based on individual assessment, or, when necessary, more frequently, if there are any objective evidences that could lead to the impairment of financial assets. The recognition of /increase in allowances for impairment of financial assets /provisions for losses on conditional commitments are recorded as expenses, and their decrease is recorded as gains.

The allowances for impairment losses of financial assets are used only to cover losses as a result of disposal of the financial assets for which they were formed.

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

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**3. Significant accounting policies (continued)**

**h. Repo Agreements**

The Repo agreements represent sale (purchase) transactions of securities with the simultaneous commitment of repurchase (sale) at a pre-established subsequent date and at a previously agreed price. The Bank uses these agreements in order to absorb liquidity (Sale Repos) or to inject liquidity in the market (Purchase Repos).

Securities sold (purchased) with a simultaneous commitment to repurchase (sell) at a specified future date are recognized at the fair value in the Balance Sheet as purchase /sale Repo transactions at the settlement date. The difference between sale and repurchase price is treated as interest expense, and the difference between purchase price and resale price is treated as interest income, using the effective interest method. Interest is calculated on a monthly basis on the last day of the month and at maturity of Repo transactions.

**i. Forward transactions**

Forward currency transactions and forward legs of swaps, involving a foreign currency exchange at a future date, towards national currency or other foreign currency are recognised using the trade date accounting at the spot rate of the transaction.

Foreign exchange transactions with settlement at future date (Forward and Forward legs of swaps), recognised as off-balance sheet accounts are revalued starting transaction date or plus maximum two working days under the settlement terms of the base contract at the official rate of MDL towards other foreign currencies. Unrealized gains and /or losses derived from revaluation of foreign exchange term transactions are recognized in the Statement of Comprehensive Result. The difference between spot and forward rates on foreign exchange term transactions is to be recognised in balance sheet accounts and is considered as the interest payable or receivable on cumulative basis both for term purchases and sales.

**j. Property and equipment**

Property and equipment are measured at cost less accumulated depreciation and impairment losses.

Repairs and maintenance expenses are charged to operating expenses as incurred. Subsequent expenditure on property and equipment is only recognized as an asset only if it improves the condition of the asset beyond the originally assessed standard of performance.

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

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**3. Significant accounting policies (continued)**

**j. Property and equipment (continued)**

Depreciation of property and equipment items is computed on a straight-line basis using the following depreciation rates:

	<u>rate per annum</u>
Buildings	5%
Motor vehicles – heavy vehicles	12.5%
Motor vehicles – cars, buses	20%
Special equipment	20%
Office equipment	20%
Special constructions	20%
Machinery and equipment	30%

An element of property and equipment is derecognised on disposal or when no future economic benefits are expected from their use or disposal. Depreciation rates and terms of use are reviewed at each reporting date.

**k. Intangible assets**

Intangible assets represent costs incurred for acquisition of computer software, amortised using the straight-line method over their estimated useful lives, by applying an annual amortization rate determined based on the estimated useful life of each asset. The useful life of the asset is determined when it is put into use, on the basis of the period that the asset is estimated to be used or the duration of the license.

As at 31 December 2013 the estimated useful life of intangible assets varied between 1 and 5 years.

The costs related to the maintenance of the software elements are recognized through the Statement of Comprehensive Result at the moment they occur.

An element of intangible assets is derecognised on disposal or when no future economic benefits are expected from their use or disposal. Amortisation rates and terms of use are reviewed at each reporting date.

**l. National currency issued into circulation**

The national currency issued into circulation is carried at amortised cost. For presentation purposes, the national currency in circulation is reduced by the national currency held at the Bank's cash desk. The cost of production of banknotes and coins is recorded in the Statement of Comprehensive Result when the expense is incurred.

Commemorative banknotes and commemorative and jubilee coins are recognized in the accounting records at their nominal value at the date of their release into circulation. Commemorative banknotes and commemorative and jubilee coins are sold at their selling price, and the difference between the selling price and the nominal value is recognised as income.

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

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**3. Significant accounting policies (continued)**

**m. Due to banks**

Due to banks include Loro accounts and current accounts of the resident and non-resident banks, deposits accepted from banks and the accrued interests on these deposits.

Due to banks include *inter alia* and the mandatory reserves required for banks to be maintained on the accounts opened in the Bank, in compliance with its prudential requirements.

In the Balance Sheet, balances due to banks, including the term deposits, are measured at amortised cost. Due to the short-term nature of such balances, the management of the Bank estimates that their carrying amount approximates their fair value.

**n. Due to the Government of the Republic of Moldova**

Due to the Government of the Republic of Moldova include accounts of the State Budget held in foreign currency, demand and term deposits of the Ministry of Finance and amounts of the Directorate of Credit Line of the Ministry of Finance. These financial liabilities are measured at amortised cost.

**o. Certificates issued by the National Bank of Moldova**

Certificates issued by the National Bank of Moldova represent discount securities and are reflected in the Balance Sheet at the settlement date at sale price. After initial recognition, the certificates are measured at amortised cost using the effective interest method, with the calculation and recognition of the amortised discount in the last day of each month and at the maturity date of the Bank's certificates.

**p. Due to international financial institutions**

Balances due to international financial institutions are initially recognized at fair value, being equal to their issue proceeds. Subsequently balances due to international financial institutions are measured at amortised cost. Any difference between net proceeds and the redemption value is recognized in the Statement of Comprehensive Result over the period to maturity.

**q. Other liabilities**

Other liabilities include liabilities to the State Budget, current account of the Deposit Guarantee Fund, personnel, and are reflected in the Balance Sheet at amortised cost.

**r. Capital and reserves**

The Bank maintains the statutory capital on the level required to accomplish the objective established by the *Law on the National Bank of Moldova*.

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

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**3. Significant accounting policies (continued)**

**r. Capital and reserves (continued)**

The capital structure of the Bank includes the following:

- Statutory capital:
  - Authorized capital
  - General reserve fund
- Reserve of unrealized gains;
- Other reserves, in accordance with International Financial Reporting Standards.

According to the provisions of the *Law on the National Bank of Moldova*, the statutory capital is dynamic and it is created from the annual profit available for distribution, from the realized gains obtained in accordance with article 64, paragraph (3) of the aforementioned law and /or from the Government contributions until the capital reaches the value of 10% of the total monetary liabilities of the Bank (that represent all liabilities in the Balance Sheet except liabilities due to Government and International Monetary Fund).

The authorized capital shall be subscribed and shall be held exclusively by the State; the capital shall not be transferable or subject to encumbrance. A reduction of the level of monetary liabilities, both during the year, and at year end, does not result in a decrease of statutory capital previously accumulated.

The general reserve fund is used exclusively to cover the net losses registered by the Bank at the financial year end. In case when, at year end, the general reserve fund has a debit balance, on behalf of the Government, the Ministry of Finance, during a period of 60 days from the date when the external auditors' opinion on the Financial Statements of the Bank is issued, transfers to the Bank a capital contribution formed of state securities at the market interest rate, in the amount necessary to cover the debit balance.

As the allocation of unrealized gains may affect the achievement of the objectives of the Bank, the Bank accumulates unrealized gains, resulted from the foreign exchange rates fluctuation and from revaluation of the securities in foreign currency at their fair value in the corresponding reserve account of unrealized gains, which, consequently, are used to cover the unrealized losses generated by respective sources.

The profit available for distribution represents the net profit obtained after allocation of unrealized gains to the corresponding reserves of unrealized gains and after covering unrealized losses from sources of the corresponding reserves of unrealized gains, until their balance becomes zero and after the distribution to statutory capital of realised gains from banknotes and coins withdrawn from circulation, but not exchanged within the prescription /exchange period allocated, in accordance with article 64, paragraph (3) of the *Law on the National Bank of Moldova*.

At the end of the financial year, the profit available for distribution is allocated 50% to increase the statutory capital and the balance of the profit available for distribution is transferred to the State Budget. Statutory capital and reserves are disclosed in the Balance Sheet at amortised cost.

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

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**3. Significant accounting policies (continued)**

**s. Income tax**

In accordance with the art. 24, par. (15), letter f) of the Law No. 1164-XIII dated 24 April 1997 on applying the titles I and II of the Tax Code, the Bank is exempted from the income tax on its activities.

**t. Interest income and expenses**

Interest income and expense are recorded in the Statement of Comprehensive Result for financial instruments valued at fair value and at amortised cost using the effective interest method.

**u. Revaluation of foreign currency assets and liabilities**

Unrealized foreign exchange gains and/or losses are created as a result of the daily revaluations of the foreign currency stocks representing the difference between the official exchange rates of the national currency against the foreign currencies which create the relevant foreign exchange stocks and the revaluation of the International Monetary Fund related accounts during the financial year.

By virtue of its activities as a Central Bank and for foreign currency market intervention purposes, the Bank maintains open currency positions at the reporting dates.

In accordance with the art. 20 of the *Law on the National Bank of Moldova* at the end of the financial year, the net unrealized foreign exchange gains from revaluation of the foreign currency stocks and securities in foreign currency available in the Bank's portfolio are transferred to the correspondent reserve accounts of unrealized gains.

The amount of net unrealized losses, reported in the Statement of Comprehensive Result is covered using the sources of corresponding reserve accounts of unrealized gains, until their balance equals to zero.

**v. Fiduciary activities**

The Bank acts as the fiscal agent of the State, in accordance with the provisions of the *Law on the National Bank of Moldova*. State's assets and income arising from these activities are not included in these Financial Statements.

**w. Contingent assets and liabilities**

Contingent liabilities include possible obligations arising as a result of past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events that may not be entirely under the control of the Bank. Contingent liabilities also represent current obligations arising from past events that are not recognized as it is not certain that resources will be required to incorporate economic benefits to settle the obligation, or its value cannot be reliably measured.

Contingent liabilities are not recognized in the Financial Statements. They are disclosed in the Notes to the Financial Statements, unless the possibility of an outflow of resources embodying economic benefits is remote.

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

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**3. Significant accounting policies (continued)**

**w. Contingent assets and liabilities (continued)**

Contingent assets are presented by possible assets that arise as a result of past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events that may not be entirely under the control of the entity.

Contingent assets are not recognized in the Financial Statements but are disclosed when an inflow of economic benefits is probable.

**x. Provisions**

The Bank recognizes provisions when it has a present legal or constructive obligation to transfer economic benefits as a result of past events and the amount can be estimated reliably.

**y. Pension costs and employees' benefits**

During its normal activity, the Bank makes contributions to the social state insurance budget and to the mandatory medical insurance fund of the Republic of Moldova, including the contributions made on the name of its employees, according to the acting legislation. Social insurance contributions and medical insurance contributions of the Bank are recognized as expenses at the moment when salaries are accrued. The Bank does not operate any other retirement schemes and has no obligation to provide further benefits to current or former employees.

**z. New standards and interpretations not yet adopted**

A number of standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2013, and have not been applied in preparing these Financial Statements. None of these will have an impact on the Financial Statements of the Bank, with the exception of:

**IFRS 9 – “Financial Instruments”** published on 12 November 2009, as part of the first phase of the International Accounting Standards Board's comprehensive project to replace IAS 39 “Financial Instruments: Recognition and Measurement”, deals with classification and measurement of financial assets.

The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of financial assets: assets held-to-maturity, financial assets available for sale and loans and receivables.

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

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**3. Significant accounting policies (continued)**

**z. New standards and interpretations not yet adopted (continued)**

In October 2010, a new version of IFRS 9 was issued that incorporates the requirements existing in IAS 39 on classifying and evaluating the financial liabilities, as well as the existing requirements on the derecognition of financial instruments.

According to IFRS 9, the most part of financial liabilities are measured at amortized cost. If an entity decides to assess a financial liability at fair value through profit or loss, the changes in fair value will be recognised as other comprehensive gains.

In November 2013, a revised version of IFRS 9 was issued, which introduces a new chapter on hedge accounting and implement a new model of hedge accounting which is designed to be more closely aligned to the way the entities carry out risk management activities for hedge financial and non-financial risks. The standard allows an entity to apply only the requirements introduced in IFRS 9 (2010 ) for the exposure of income and losses from financial liabilities classified at fair value through profit or loss, without the application of other requirements of IFRS 9, it means that the portion of changes in fair value related to entity's own credit risk changes can be presented in other comprehensive income, rather than in profit or loss. The standard eliminates the mandatory effective application date of IFRS 9 (2013), IFRS 9 (2010) and IFRS 9 (2009), leaving open the effective date until finalization of the impairment, classification and measurement requirements. Notwithstanding the effective date, each standard remains available for the application. The Bank does not expect that the provisions of this standard will have a material impact on its Financial Statements considering the nature of the Bank's operations.

**Amendments to IAS 19 „Employee Contributions ”** (effective for annual periods beginning on or after 1 July 2014). The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria, and namely: set out in the formal terms of the plan; linked to service; and independent of the number of years of service. When these criteria are met, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered. The Bank does not expect the Amendments to have any impact on the Financial Statements since it does not have any defined benefit plans that involve contributions from employees or third parties.

**Amendments to IAS 32 “Financial instruments: Presentation”** Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014). The Amendments do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The Bank is currently evaluating the potential effect of these amendments on the disclosures in its Financial Statements.

**Amendments to IAS 36 „Recoverable Amount Disclosures for Non-Financial Assets ”** (effective for annual periods beginning on or after 1 January 2014). The Amendments clarify that recoverable amount should be disclosed only for individual assets (including goodwill) or cash-generated units for which an impairment loss was recognised or reversed during the period. The Amendments also require additional disclosures when an impairment for individual assets (including goodwill) or cash-generated units has been recognised or reversed in the period and

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

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**3. Significant accounting policies (continued)**

**z. New standards and interpretations not yet adopted (continued)**

recoverable amount is based on fair value less costs to disposal. The Bank does not expect the new Standard will have a material impact on the Financial Statements.

**Amendments to IAS 39 „Financial instruments: recognition and measurement”** (effective for annual periods beginning on or after 1 January 2014). The Amendments allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws and regulations, when the following criteria are met: the novation is made as a consequence of laws or regulations; a clearing counterparty becomes a new counterparty to each of the original counterparties of the derivative instrument and changes to the terms of the derivative are limited to those necessary to replace the counterparty. The Bank does not expect the new standard to have any impact on the Financial Statements, since it does not apply hedge accounting.

**IFRIC 21 – „Levies”** (effective for annual periods beginning on or after 1 January 2014). The Interpretation provides guidance as to the identification of the obligating event giving rise to a liability, and to the timing of recognising a liability to pay a levy imposed by government. In accordance with the Interpretation, the obligating event is the activity that triggers the payment of that levy, as identified in the relevant legislation and as a consequence, the liability for paying the levy is recognised when this event occurs. The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time. If the obligating event is the reaching of a minimum activity threshold, the corresponding liability is recognised when that minimum activity threshold is reached. The Interpretation sets out that an entity cannot have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period. The Bank does not expect IFRIC 21 to have a material impact on its Financial Statements.

**The Amendments issued within the Annual Improvements for the years 2011-2013** (published by the International Accounting Standards Board on 12 December 2013, effective for annual periods beginning on or after 1 July 2014) represents a collection of changes necessary for International Financial Reporting Standards, covering the following aspects:

**IFRS 1 “First-time Adoption of International Financial Reporting Standards”** - The Amendments clarify the meaning of “each IFRS effective at the end of the first reporting period under IFRS of an entity” as it is used in paragraph 7 of IFRS 1 “First-time adoption of IFRS”;

**IFRS 13 “Fair value measurement”** - Amendments clarify the application of the exception from fair value measurement portfolio applied to a group of financial assets and financial liabilities on a net basis;

**IAS 40 “Investment Property”** - Amendments are introduced in order to clarify the relationship between IFRS 3 “Business Combinations” and IAS 40 “Investment Property” when deciding on the classification of the property as investment property or property used by the owner.

The Bank is currently assessing the potential effect of these amendments on the Financial Statements’ disclosures.

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

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**4. Risk Management**

**4.1 Risk management framework**

Through its normal operations, the Bank is exposed to a number of risks of an operational and financial nature.

This note presents the information about Bank's exposures to risks, objectives, policies and processes of the Bank for evaluating and monitoring the risks related to financial instruments held by the Bank.

The Council of Administration of the Bank has overall responsibility for the establishment and oversight of the Bank's risk management framework, including the setting up of Investment and Monetary Committees which are responsible for developing and monitoring the risk management policies in the specific areas of responsibility, reporting regularly to the Council of Administration on the results of its activity.

The Council of Administration of the Bank is responsible for: establishing the investment level, the regulatory currency composition of international reserves, the minimum rating within which the investments can be made; approving the strategic benchmarks, their duration and acceptable deviations for each currency; approving the maximum limits on instruments and counterparties /issuers; taking decision related to the transmission into the external management of a certain part of international state reserves.

The Investment Committee is responsible for: analysing and monitoring the investment risks, including the analysis of developments in the ratings of counterparties authorised to carry out operations, as well as the ratings of issuers of securities in foreign currency; developing short and medium term investment strategy; analysing the developments and forecasts for the domestic foreign exchange market and international financial markets, investment portfolio performance analysis, establishing the currency structure of each sub-portfolio and acceptable deviations; approving and reviewing, where necessary, the list of counterparties authorized for performing the transactions; establishing the limits on transactions performed by Bank's dealers, etc.

The Monetary Committee is responsible for the promotion of monetary and exchange rate policy and aims to develop the primary objective of the Bank that is represented by the achievement and maintenance of price stability.

The methodology of development, implementation and maintenance of Risk management system, including internal control system within the Bank, is approved by the Council of Administration of the Bank. Risk management policies include the methods of identification, evaluation, risk management and monitoring with direct reporting, periodically or if necessary, to the Bank's management.

The Bank's risk management is developed and regulated based on internal instructions and procedures, and is monitored by the management of the Bank that analyzes the issues related to the monetary, investment and foreign exchange policy of the Bank.

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 1st December 2013**

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**4. Risk Management (continued)**

**4.1 Risk management framework (continued)**

In accordance with articles 5, 16 and 53 of the *Law on the National Bank of Moldova*, the National Bank of Moldova holds and manages the State's foreign exchange reserves, performs foreign exchange operations using foreign exchange reserves assets and keeps them at an adequate level for the implementation of monetary and foreign exchange policy of the State.

In the process of managing the foreign exchange reserves, the National Bank of Moldova ensures a high degree of security and a necessary level of liquidity of investments. The Bank's investment policy is prudent and aims to optimize profitability, maintaining the main focus on safety and liquidity.

In this context, starting July 2013, within the collaboration with the World Bank, the Strategic Asset Allocation (SAA) was implemented. The Strategic Asset Allocation involves a long-term outlook for asset management aimed at achieving the optimal level of profitability and risk. In the context of the SAA, international reserves are divided into three tranches, depending on the specific objectives and regulations, this approach ensuring effective realization of the objective.

The working capital tranche is part of the international reserves that are used to cover cash needs to perform sale intervention in foreign currency on the domestic foreign exchange market, external debt payments of the Bank and the Government of the Republic of Moldova and other payments in foreign currency within one month.

Liquidity tranche provides the coverage of average value of at least 3 months of imports of goods and services (calculated using the historical data for the last 4 years and based on forecast on imports for the next year), as well as on external debt payments of the Bank and of the Government of Republic of Moldova and other payments in foreign currency within one year.

Investment tranche represents all international reserves excluding assets that are part of the working capital tranche and liquidity tranche. The investment tranche allows to invest in longer-term instruments and to optimize the profit. Portfolio of held-to-maturity securities and investments in gold are part of the investment tranche. The tranches consist of portfolios in different currencies, for each portfolio it has been selected a benchmark – a market index recognized and used worldwide for benchmarking the performance and risks of the investment portfolios.

Strategic allocation of assets is a complex and durable process.

An essential element of the process of managing foreign exchange reserves is the management of investment risk, achieved by setting limits and constraints on investments. The risk management procedures for foreign exchange reserves comprise the establishment of risk limits and the ongoing monitoring of the reserves compliance with concentration limits set per types of investment instruments, individual counterparties/issuers, depending on the rating, on the deviation towards established benchmarks, duration limits, individual instruments' maturities, as well as on the currency composition.

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\* Translator's explanatory note: The above translation of the Financial Statements is provided as a free translation from Romanian which is the official and binding version.



**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

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**4. Risk Management (continued)**

**4.1 Risk management framework (continued)**

The management of the foreign exchange reserves provides that the Bank should invest only in safe instruments that are used by other central banks as well: placements on corresponding demand accounts (usually in other central banks), term deposits in foreign currency and purchase of investment securities issued by supranational institutions, Governments (US Government, Governments of the European Union member-countries and other governmental issuers with high ratings) and other non-governmental bodies (issued by agencies with high ratings).

The Bank's regulations approved by the Bank's Council of Administration, that are the basis of corporate governance, are established to promote and develop the Bank's control environment, underlying the importance of internal control the Bank management attributes to it. Thus the Bank ensures its personnel awareness and compliance with the main responsibilities and objectives of the Bank, as well as with individual responsibilities and rules of conduct.

The risk management framework is permanently updated depending on markets trends, Bank's policies or structure, etc.

The audit and the assessment of the internal control system within the Bank is an element of managerial control which is in the responsibility of the Internal Audit Department. Internal audit conclusions and recommendations are submitted to audited departments, quarterly being reported to the Council of Administration that has the empowerment to impose implementation of solutions in order to mitigate the associated risks and to improve the Bank's activity.

**Operational risk**

The operational risk involves the risk of both financial and non-financial losses resulted from human errors, or inadequate functioning of the internal control system. The Bank's operational risk management is an integral part of its daily operations and management. The operational risk management includes corporative policies which provide for behaviour standards applicable to involved persons and internal control systems, specific for each subdivision, elaborated taking into account the characteristics of their basic activity.

The Heads of Bank's structural subdivisions are responsible for the development, implementation and maintenance of their own internal control systems to assess and reduce the related risks. The main responsibilities can be defined as follows:

- Setting up the objectives for each type of activity in order to implement the strategies and policies approved by the Council of Administration of the Bank.
- Efficient and functional development, implementation and maintenance on a permanent basis of the internal control system within the corresponding subdivisions.
- Formulating of adequate procedures for identification, evaluation, monitoring and review of risks on a regular basis and control the efficiency of these procedures.
- Effective delegation and segregation of functions within the operational, administrative, accounting and control tasks.

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

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**4. Risk Management (continued)**

**4.1 Risk management framework (continued)**

**Operational risk (continued)**

- Developing and maintaining informational systems for the Bank's management, which would comprise the entire spectrum of activities where applicable; and
- Determination of administrative, operational and control mechanisms necessary to ensure the compliance with laws, regulations, policies, rules and procedures, as well as ensuring the application of these mechanisms in all subdivisions and by the Bank's personnel.

The segregation of responsibilities between various subdivisions of the Bank („front-office”, „middle-office”, and „back-office”) is also considered an operational risk control mechanism.

**Financial risk**

The main categories of financial risk to which the Bank is exposed are: credit risk, liquidity risk, market risk, which includes interest rate risk and currency risk. The structure of assets and liabilities is primarily determined by the nature of legal functions of the National Bank of Moldova, rather than commercial considerations. The Bank does not use derivative financial instruments for financial risk hedging. At the same time, the Bank permanently manages its exposure to risk, through a variety of risk management techniques.

**4.2 Credit risk**

The credit risk is the risk of financial losses incurred as result of counterparty's failure to meet its contractual obligations.

The Bank's maximum exposure to credit risk, excluding the value of any guarantees, represents the book value of its financial assets.

The credit risk relating to the credit operations in national currency is monitored and controlled, as follows.

In order to minimize the exposure to credit risk on loans granted to licensed banks, the Bank monitors on a permanent basis the quality of the loan portfolio, periodically assessing the events that can lead to losses, including breach of contractual terms (non-fulfilment of the obligation to pay principal or interest), worsening of financial situation of the debtor and probability of its bankruptcy, renegotiation of conditions and /or prolongation of credit repayment terms and /or interest due to the debtor's financial difficulties caused by economic or legal reasons, etc.

Additionally, the exposure to credit risk is reduced through the pledge constituted by the licensed banks, which should cover the total amount of loans granted by the Bank, interest and other related payments. In determining the value of underlying assets, there are implemented measures to control risks in order to protect the Bank against the risk of financial losses due to loan non-reimbursement by a bank. The Bank assesses the quality and value of assets offered by banks as guarantees in granting loans, on a monthly basis and more frequently, if necessary.

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

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**4. Risk Management (continued)**

**4.2 Credit risk (continued)**

The evaluation of loans is performed individually for each loan agreement, analyzing the events that may lead to losses and that can impact the ability of the debtor to meet its contractual obligations.

As a result of the evaluation of loans the Bank forms /adjusts the impairment losses on loans and provisions for losses on conditional commitments as to reflect its best current estimate.

The credit risk associated to overnight loans is monitored daily using the monetary policy limits that according to the current regulations, if necessary, allow to reduce to zero the loans that may be granted to licensed banks under the permanent facilities, provided that the loans are secured by highly liquid collateral such as state securities and certificates issued by the Bank.

As a measure of mitigation the credit risk associated to loans granted to the Bank's employees, the Bank accepts as collateral either real estate properties or the employees' salaries.

The credit risk associated to transactions with the purpose of managing the foreign currency reserves is monitored via selecting the investment instruments with high liquidity and low level of risk, setting investment limits and daily monitoring of compliance with the agreed limits.

Furthermore, an essential element of credit risk management is the Bank's investment with the purpose of foreign currency reserves management with reliable counterparties with high long-term credit rating (medium A-<sup>\*</sup>), determined by the international rating agencies (Standard & Poor's, Moody's and Fitch Ratings), and which are authorized by the Bank for foreign currency transactions.

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<sup>\*</sup> Ratings are expressed in the format used by agencies Standard & Poor's and Fitch Ratings. Due to the fact that credit rating agency Moody's uses a different form of presentation, to these ratings are assigned equivalents of Standard & Poor's and Fitch Ratings, using the equivalence tables.

<sup>\*</sup> Translator's explanatory note: The above translation of the Financial Statements is provided as a free translation from Romanian which is the official and binding version.



**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

**4. Risk Management (continued)**

**4.2 Credit risk (continued)**

The table below sets out the Bank's financial assets based on long-term rating:

**31 December 2013**

Long-term rating <sup>1</sup>	Cash and short-term placements with banks	Monetary gold	Due from international financial institutions	Securities issued by the Government of the Republic of Moldova <sup>2</sup>	Loans granted to banks and individuals	Investment securities	Other financial assets	Total financial assets
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
AAA	134,189	-	2,563,064	-	-	19,095,496	-	21,792,749
AA+	2,067,403	-	-	-	-	5,072,287	-	7,139,690
AA-	7,390,038	-	-	-	-	-	-	7,390,038
A+	2,965,820	-	-	-	-	-	-	2,965,820
A	74	-	-	-	-	-	-	74
A-	1,004	-	-	-	-	-	-	1,004
BBB	569	-	-	-	-	-	-	569
BBB-	8	-	-	-	-	-	-	8
Without rating	-	37,392	-	2,079,360	281,423	-	909	2,399,084
<b>Total</b>	<b>12,559,105</b>	<b>37,392</b>	<b>2,563,064</b>	<b>2,079,360</b>	<b>281,423</b>	<b>24,167,783</b>	<b>909</b>	<b>41,689,036</b>

<sup>1</sup> Established by applying the minimum rating amongst the rating assigned by international rating agencies (Standard & Poor's, Moody's and Fitch Ratings).

<sup>2</sup> Taking into consideration the Bank's role as the state's fiscal agent and the special relationship between the Bank as the Central Bank of the state and the Government, the securities issued by the Government of the Republic of Moldova are included in the category "Without Rating". However, as at 31 December 2013 the Republic of Moldova was rated only by Moody's Agency with the B3 rating (as at 31 December 2012 – B3).

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

**4. Risk Management (continued)**

**4.2 Credit risk (continued)**

**31 December 2012**

Long-term rating	Cash and short-term placements with banks	Monetary gold	Due from international financial institutions	Securities issued by the Government of the Republic of Moldova	Loans granted to banks and individuals	Investment securities	Other financial assets	Total financial assets
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
AAA	500,044	-	2,303,437	-	-	9,181,920	-	11,985,401
AA+	6,833,502	-	-	-	-	8,272,762	-	15,106,264
AA-	4,250,180	-	-	-	-	-	-	4,250,180
A+	1,229,213	-	-	-	-	-	-	1,229,213
A	83	-	-	-	-	-	-	83
A-	3,825	-	-	-	-	-	-	3,825
BBB	995	-	-	-	-	-	-	995
BB+	8	-	-	-	-	-	-	8
Without rating	-	47,593	-	2,075,425	305,818	-	1,572	2,430,408
<b>Total</b>	<b>12,817,850</b>	<b>47,593</b>	<b>2,303,437</b>	<b>2,075,425</b>	<b>305,818</b>	<b>17,454,682</b>	<b>1,572</b>	<b>35,006,377</b>

In order to quantify the credit risk of investments made in foreign currency, the Bank estimates the credit risk associated to investment portfolio based on default rates determined by the Standard & Poor's agency per each credit rating category, the investments being classified in ten categories, according to default rates, with annual maturity of up to and including ten years.

As at 31 December 2013 the credit risk of the investment securities portfolio in foreign currency, quantified based on the default rates published by Standard & Poor's, is as follows:

	Held-to-maturity		At fair value		Total		Portfolio share, %
	MDL'000	USD'000	MDL'000	USD'000	MDL'000	USD'000	
31 December 2013	33,259	2,547	18,980	1,454	52,239	4,001	0.14
31 December 2012	23,332	1,934	14,628	1,213	37,960	3,147	0.13

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

**4. Risk Management (continued)**

**4.2 Credit risk (continued)**

In order to measure the diversification of Bank's portfolio of assets, as well as to properly assess the credit risk associated to different geographical locations, the concentration of Bank's financial assets per country of investment, less the cash in hand that is classified in accordance with the issuance country, is shown below:

Country	31 December 2013	Share	31 December 2012	Share
	MDL'000	%	MDL'000	%
International financial organizations	7,770,288	18.64	7,618,528	21.76
USA	7,070,602	16.96	6,095,181	17.41
The Netherlands	6,201,165	14.88	4,453,105	12.72
Germany	5,478,503	13.14	2,910,497	8.32
France	3,881,701	9.31	1,564,631	4.47
Sweden	3,769,953	9.04	421,756	1.21
Luxemburg	2,064,589	4.95	5,370,711	15.34
Norway	1,624,974	3.90	336,492	0.96
Japan	622,835	1.49	12	-
Finland	404,330	0.97	192,682	0.55
Austria	283,402	0.68	237,542	0.68
Great Britain	75,116	0.18	3,349,407	9.57
Denmark	26,232	0.06	24,272	0.07
Canada	15,587	0.04	-	-
Other countries	675	-	1,153	-
Moldova	2,399,084	5.76	2,430,408	6.94
<b>Total Financial Assets</b>	<b>41,689,036</b>	<b>100.00</b>	<b>35,006,377</b>	<b>100.00</b>

The Republic of Moldova Quota within IMF is one of the most significant balances classified under the position "International Financial Organisations". Decrease of investments in Great Britain, and simultaneous increase of investments in Sweden, is mainly due to reinvestment of term due placements, in pound sterling, with Swedish counterparties.

As at 31 December 2013 the Bank did not record any overdue financial assets in its portfolio. During 2012-2013 no impairment allowances were formed in respect of Bank's financial assets.

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

**4. Risk Management (continued)**

**4.2 Credit risk (continued)**

To assess the portfolio diversification of assets and to estimate the credit risk depending on the investment sector the classification of the Bank's financial assets depending on the investment sector is presented, except for cash:

Investment Sector	31 December 2013	Share	31 December 2012	Share
	MDL'000	%	MDL'000	%
Foreign central banks	759,867	1.82	1,962,871	5.61
Foreign commercial banks	11,799,238	28.30	10,854,978	31.01
Local banks	281,423	0.68	305,818	0.87
Foreign governments	12,979,361	31.13	6,940,773	19.83
Government of the Republic of Moldova	2,079,360	4.99	2,075,425	5.93
International financial organizations	7,770,288	18.64	7,618,528	21.76
Foreign governmental agencies	5,981,198	14.35	5,198,819	14.85
Other financial assets	38,301	0.09	49,165	0.14
<b>Total financial assets</b>	<b>41,689,036</b>	<b>100.00</b>	<b>35,006,377</b>	<b>100.00</b>

During 2013, the concerns about the creditworthiness of certain Eurozone countries persisted, thus leading to speculations concerning the long-term sustainability of the Eurozone. During 2013 the Bank promoted a prudent investment policy regarding exposures to counterparties and countries from the euro area. The medium rating of issuers of government bonds and euro area agencies in which the Bank invested was "AA+". The exposure to other counterparties was restricted based on the credit rating assigned by international rating agencies to these investments, the medium rating accepted on investments being "A-".

**4.3 Liquidity risk**

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they fall due, are important factors in assessing the liquidity of the Bank.

Liquidity risk is managed daily and in dynamics, by monitoring investment limits, established by the internal regulations, the decisions of the Council of Administration of the Bank and of the Monetary Committee. Therewith, liquidity risk management is carried by the formation of investment tranches and by the use of market benchmarks established for investment sub-portfolios, indexed, depending on the type of instruments and investments' currency. Benchmarks used are market indices recognized and used worldwide for benchmarking the performance and risks of the investment portfolios. The indices used are provided by the Bank of America Merrill Lynch, an institution that calculates and provides a wide range of benchmarks recognized and used throughout the investment community.

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

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**4. Risk Management (continued)**

**4.3 Liquidity risk (continued)**

The liquidity risk of the portfolio managed internally, excluding the investment securities portfolio held-to-maturity, is constantly monitored by the Bank through maintenance of an adequate level of tranches within the acceptable deviation limits and through setting limits of the maximum maturity term of the investment portfolio as to restrict investments in long-term maturity instruments.

Regarding the portfolio managed externally, the liquidity risk limits are set by the provisions of the Agreement of investment management and consulting, concluded on 8 December 2010 between the International Bank for Reconstruction and Development (IBRD) and the National Bank of Moldova, which stipulates that the investments are managed according to a benchmark index (Bank of America Merrill Lynch U. S. Treasuries, 1-3 years), so as the duration of the portfolio is correlated with the duration of the benchmark. Deviations of portfolio duration of +/- 3 months are allowed compared to benchmark duration.

The liquidity risk of the portfolio of investment securities held-to-maturity is mitigated through the diversification of the maturity of investments between the range of 1 to 10 years and by restricting the share of this portfolio in the total portfolio of investment securities.

The liquidity is one of the basic criteria in defining the composition of foreign currency assets. This fact considers the potential requirement to transform the foreign currency reserves in liquidities for intervention purposes, in case such needs arise.

The investment securities in foreign currency measured at fair value through profit or loss and held in the Bank's portfolio are highly liquid financial instruments, meaning that these instruments can be sold at any moment before their maturity date, if necessary.

The investment securities issued by the Government of the Republic of Moldova and held by the Bank during 2013 had a contractual maturity no longer than 91 days. At maturity, these securities were repurchased by the Government and new securities were issued by the Government in the same volume which were subsequently purchased by the Bank.

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

**4. Risk Management (continued)**

**4.3 Liquidity risk (continued)**

The analysis of financial assets and liabilities classified according to their contractual maturity date as at 31 December 2013 is set out below:

	0-3 months	3-6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Undefined maturity	Total
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
<b>31 December 2013</b>								
<b>Assets</b>								
Cash and short-term placements with banks	10,890,910	1,668,195	-	-	-	-	-	12,559,105
Monetary gold	-	-	-	-	-	-	37,392	37,392
Due from international financial institutions	83,717	-	-	-	-	-	2,479,347	2,563,064
Securities issued by the Government of the Republic of Moldova	2,079,360	-	-	-	-	-	-	2,079,360
Loans granted to banks and individuals	91,903	24,051	48,433	97,786	9,328	9,922	-	281,423
Investment securities	1,260,667	799,907	1,805,093	6,877,513	8,597,839	4,826,764	-	24,167,783
Other assets	909	-	-	-	-	-	-	909
<b>Total financial assets</b>	<b>14,407,466</b>	<b>2,492,153</b>	<b>1,853,526</b>	<b>6,975,299</b>	<b>8,607,167</b>	<b>4,836,686</b>	<b>2,516,739</b>	<b>41,689,036</b>
<b>Liabilities</b>								
National currency issued into circulation	-	-	-	-	-	-	19,040,704	19,040,704
Due to the Government of the Republic of Moldova	1,641,481	-	-	-	-	-	-	1,641,481
Due to banks	7,029,497	-	-	-	-	-	-	7,029,497
Certificates issued by the National Bank of Moldova	2,602,671	-	-	-	-	-	-	2,602,671
Due to international financial institutions	95,206	87,288	210,490	504,831	2,473,786	2,447,720	2,479,715	8,299,036
Other liabilities	312,878	-	-	-	-	-	-	312,878
<b>Total financial liabilities</b>	<b>11,681,733</b>	<b>87,288</b>	<b>210,490</b>	<b>504,831</b>	<b>2,473,786</b>	<b>2,447,720</b>	<b>21,520,419</b>	<b>38,926,267</b>
<b>Net liquidity gap</b>	<b>2,725,733</b>	<b>2,404,865</b>	<b>1,643,036</b>	<b>6,470,468</b>	<b>6,133,381</b>	<b>2,388,966</b>	<b>(19,003,680)</b>	<b>2,762,769</b>

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

**4. Risk Management (continued)**

**4.3 Liquidity risk (continued)**

	0-3 months	3-6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Undefined maturity	Total
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
<b>31 December 2012</b>								
<b>Assets</b>								
Cash and short-term placements with banks	12,817,850	-	-	-	-	-	-	12,817,850
Monetary gold	-	-	-	-	-	-	47,593	47,593
Due from international financial institutions	19,249	-	-	-	-	-	2,284,188	2,303,437
Securities issued by the Government of the Republic of Moldova	2,075,425	-	-	-	-	-	-	2,075,425
Loans granted to banks and individuals	23,842	23,888	48,024	96,781	105,000	8,283	-	305,818
Investment securities	411,548	440,704	1,525,998	3,740,061	7,552,779	3,783,592	-	17,454,682
Other assets	1,572	-	-	-	-	-	-	1,572
<b>Total financial assets</b>	<b>15,349,486</b>	<b>464,592</b>	<b>1,574,022</b>	<b>3,836,842</b>	<b>7,657,779</b>	<b>3,791,875</b>	<b>2,331,781</b>	<b>35,006,377</b>
<b>Liabilities</b>								
National currency issued into circulation	-	-	-	-	-	-	14,554,214	14,554,214
Due to the Government of the Republic of Moldova	1,895,034	-	-	-	-	-	-	1,895,034
Due to banks	5,976,044	-	-	-	-	-	-	5,976,044
Certificates issued by the National Bank of Moldova	3,741,385	-	-	-	-	-	-	3,741,385
Due to international financial institutions	45,322	80,723	142,367	358,182	1,942,610	3,065,217	2,287,589	7,922,010
Other liabilities	175,803	-	-	-	-	-	-	175,803
<b>Total financial liabilities</b>	<b>11,833,588</b>	<b>80,723</b>	<b>142,367</b>	<b>358,182</b>	<b>1,942,610</b>	<b>3,065,217</b>	<b>16,841,803</b>	<b>34,264,490</b>
<b>Net liquidity gap</b>	<b>3,515,898</b>	<b>383,869</b>	<b>1,431,655</b>	<b>3,478,660</b>	<b>5,715,169</b>	<b>726,658</b>	<b>(14,510,022)</b>	<b>741,887</b>

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

**4. Risk Management (continued)**

**4.3 Liquidity risk (continued)**

The table below presents the analysis of total financial liabilities, including future interest cash flows according to their contractual maturity as at 31 December 2013.

The amounts of future obligations were calculated using the information available as at 31 December 2013 (official exchange rate of the Moldovan Leu, interest rates on monetary-credit instruments, etc.)

	0-3 months	3-6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Undefined maturity	Total
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
<b>31 December 2013</b>								
<b>Liabilities</b>								
National currency issued into circulation	-	-	-	-	-	-	19,040,704	19,040,704
Due to the Government of the Republic of Moldova	1,641,481	-	-	-	-	-	-	1,641,481
Due to banks	7,030,050	-	-	-	-	-	-	7,030,050
Certificates issued by the National Bank of Moldova	2,604,667	-	-	-	-	-	-	2,604,667
Due to international financial institutions*	103,635	95,810	227,563	543,276	2,558,871	2,477,006	2,479,715	8,485,876
Other liabilities	312,878	-	-	-	-	-	-	312,878
<b>Total financial liabilities</b>	<b>11,692,711</b>	<b>95,810</b>	<b>227,563</b>	<b>543,276</b>	<b>2,558,871</b>	<b>2,477,006</b>	<b>21,520,419</b>	<b>39,115,656</b>
<b>31 December 2012</b>								
<b>Liabilities</b>								
National currency issued into circulation	-	-	-	-	-	-	14,554,214	14,554,214
Due to the Government of the Republic of Moldova	1,895,438	-	-	-	-	-	-	1,895,438
Due to banks	5,976,886	-	-	-	-	-	-	5,976,886
Certificates issued by the National Bank of Moldova	3,744,023	-	-	-	-	-	-	3,744,023
Due to international financial institutions*	52,433	87,913	156,905	393,002	2,029,509	3,108,927	2,287,589	8,116,278
Other liabilities	175,803	-	-	-	-	-	-	175,803
<b>Total financial liabilities</b>	<b>11,844,583</b>	<b>87,913</b>	<b>156,905</b>	<b>393,002</b>	<b>2,029,509</b>	<b>3,108,927</b>	<b>16,841,803</b>	<b>34,462,642</b>

\* For the funds received under the Extended Credit Facility (ECF) (previously Poverty Reduction and Growth Facility (PRGF)) from the IMF and included in Due to international financial institutions, for the period 7 January 2010 – 31 December 2014, no interest is calculated, according to the resolution of the IMF Executive Board.

\* Translator's explanatory note: The above translation of the Financial Statements is provided as a free translation from Romanian which is the official and binding version.

**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

**4. Risk Management (continued)**

**4.4 Market risk**

Market risk is the risk that the fair value of financial instruments will fluctuate due to changes in market variables, as interest rates, exchange rates, etc., even though such changes are caused by specific factors related to individual securities or issuers of securities, or factors that affect all the securities traded on the market.

The securities issued by the Government of Republic of Moldova are valued quarterly at their fair value determined based on interest rates quoted for recent auctions of securities placed on the primary market and of those recently traded on the secondary market.

The market risk for the portfolio of investment securities is managed and monitored based on a value at risk methodology (VaR) which represents the correlation between risk variables. The Bank applies on a monthly basis the VaR methodology to assess the market risk positions held and to estimate the potential economic losses based upon a number of parameters and assumptions for various changes in market conditions.

The outcome of the market risk assessment based on VaR represents the potential loss expressed in monetary units for the portfolio of investment securities in foreign currency based on a 95% confidence level and assuming a 1-month holding period. This calculation is provided by the Bloomberg Informational System.

The value of exposure at risk (VaR) of securities portfolio in foreign currency is as follows:

	Held-to-maturity		At fair value		Total		Portfolio share, %
	MDL'000	USD'000	MDL'000	USD'000	MDL'000	USD'000	
31 December 2013	159,492	12,215	239,285	18,326	398,777	30,541	1.63
31 December 2012	128,199	10,627	192,648	15,970	320,847	26,597	1.81

Although the VAR method is one of the basic tools for measuring the market risk, the assumptions on which the VAR model is based give rise to certain limitations as set out below.

- The VaR calculations are performed monthly, for the following month, considering the portfolio as at month end and assuming that no transaction will be performed.
- It is assumed a 95% probability that losses will not exceed the estimated VaR. Thus, there is a slight probability of 5% that actual losses will exceed the estimated outcome according to VaR methodology.
- The use of historical data as basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.
- The outcomes of VAR tool depends on the volatility of market prices.

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

**4. Risk management (continued)**

**4.4 Market risk (continued)**

VAR methodology limitations are applied to the entire portfolio of foreign currency securities.

Taking into consideration the fact that VaR method indicates the maximum loss with a certain probability of realization (95%), the Bank uses an additional indicator to estimate the market risk, and namely CVaR, which estimates the average of losses higher than those covered by the confidence level of the VaR method.

Thus, as at 31 December 2013, the value of exposure at risk of securities portfolio in foreign currency, calculated by using CVaR, is presented as follows:

	<b>Held-to-maturity</b>		<b>At fair value</b>		<b>Total</b>		<b>Portfolio share, %</b>
	<b>MDL'000</b>	<b>USD'000</b>	<b>MDL'000</b>	<b>USD'000</b>	<b>MDL'000</b>	<b>USD'000</b>	
31 December 2013	213,166	16,326	317,494	24,316	530,660	40,642	2.17

**4.4.1 Interest rate risk**

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of a financial instrument.

The fluctuation of interest rates on the internal market affects the value of the state securities' portfolio of the Bank: fluctuations of increase /decrease of 5 p.p. of interest rate compared to initial portfolio interest rate for securities held in portfolio implies an impact of decrease /increase of approximately MDL 9,500 thousand on the Bank's capital.

The fluctuation of interest rates on the external market may affect the value of the investment portfolio in foreign currency as well as future cash flows.

On external markets, the most vulnerable instruments to interest rate fluctuations are investment securities in foreign currency as the fluctuation of interest rates indirectly affects the price of these assets.

Furthermore, due to fluctuations of interest rates on external markets negative divergences may occur between the interest rates of the investment portfolio in foreign currency and interest rates of the Bank's liabilities in foreign currency.

While managing the interest rate risk influenced by changes on the external markets, special attention is paid to the principle of diversification of investment portfolio by maturity and currency.

Average rates applicable to the major components of the Balance Sheet have been disclosed within the Notes to the Financial Statements relating to these components.

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

**4. Risk management (continued)**

**4.4 Market risk (continued)**

**4.4.1 Interest rate risk (continued)**

The analysis of financial assets and liabilities as at 31 December 2013 according to their contractual re-pricing and interest rate renewal dates is as follows:

	0-3 months	3-6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Non- interest bearing	Total
	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000
<b>31 December 2013</b>								
<b>Assets</b>								
Cash and short-term placements with banks	10,885,336	1,668,195	-	-	-	-	5,574	12,559,105
Monetary gold	-	-	-	-	-	-	37,392	37,392
Due from international financial institutions	83,703	-	-	-	-	-	2,479,361	2,563,064
Securities issued by the Government of the Republic of Moldova	2,079,360	-	-	-	-	-	-	2,079,360
Loans granted to banks and individuals	97,336	23,883	47,759	95,307	7,204	9,922	12	281,423
Investment securities	1,243,584	769,388	1,777,362	6,838,350	8,597,839	4,826,764	114,496	24,167,783
Other assets	-	-	-	-	-	-	909	909
<b>Total financial assets</b>	<b>14,389,319</b>	<b>2,461,466</b>	<b>1,825,121</b>	<b>6,933,657</b>	<b>8,605,043</b>	<b>4,836,686</b>	<b>2,637,744</b>	<b>41,689,036</b>
<b>Liabilities</b>								
National currency issued into circulation	-	-	-	-	-	-	19,040,704	19,040,704
Due to the Government of the Republic of Moldova	1,600,004	-	-	-	-	-	41,477	1,641,481
Due to banks	4,207,340	-	-	-	-	-	2,822,157	7,029,497
Certificates issued by the National Bank of Moldova	2,602,671	-	-	-	-	-	-	2,602,671
Due to international financial institutions	3,090,637	87,288	176,949	353,897	1,149,724	955,281	2,485,260	8,299,036
Other liabilities	-	-	-	-	-	-	312,878	312,878
<b>Total financial liabilities</b>	<b>11,500,652</b>	<b>87,288</b>	<b>176,949</b>	<b>353,897</b>	<b>1,149,724</b>	<b>955,281</b>	<b>24,702,476</b>	<b>38,926,267</b>
<b>Interest rate gap</b>	<b>2,888,667</b>	<b>2,374,178</b>	<b>1,648,172</b>	<b>6,579,760</b>	<b>7,455,319</b>	<b>3,881,405</b>	<b>(22,064,732)</b>	<b>2,762,769</b>

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

**4. Risk management (continued)**

**4.4 Market risk (continued)**

**4.4.1 Interest rate risk (continued)**

	0-3 months MDL '000	3-6 months MDL '000	6-12 months MDL '000	1-2 years MDL '000	2-5 years MDL '000	More than 5 years MDL '000	Non- interest bearing MDL '000	Total MDL '000
<b>31 December 2012</b>								
<b>Assets</b>								
Cash and short-term placements with banks	12,812,702	-	-	-	-	-	5,148	12,817,850
Monetary gold	-	-	-	-	-	-	47,593	47,593
Due from international financial institutions	19,240	-	-	-	-	-	2,284,197	2,303,437
Securities issued by the Government of the Republic of Moldova	2,075,425	-	-	-	-	-	-	2,075,425
Loans granted to banks and individuals	31,229	23,810	47,604	95,008	99,884	8,283	-	305,818
Investment securities	426,058	416,093	1,502,832	3,673,672	7,552,779	3,783,592	99,656	17,454,682
Other assets	-	-	-	-	-	-	1,572	1,572
<b>Total financial assets</b>	<b>15,364,654</b>	<b>439,903</b>	<b>1,550,436</b>	<b>3,768,680</b>	<b>7,652,663</b>	<b>3,791,875</b>	<b>2,438,166</b>	<b>35,006,377</b>
<b>Liabilities</b>								
National currency issued into circulation	-	-	-	-	-	-	14,554,214	14,554,214
Due to the Government of the Republic of Moldova	1,798,158	-	-	-	-	-	96,876	1,895,034
Due to banks	3,957,420	-	-	-	-	-	2,018,624	5,976,044
Certificates issued by the National Bank of Moldova	3,741,385	-	-	-	-	-	-	3,741,385
Due to international financial institutions	2,805,129	80,723	142,367	327,281	1,044,509	1,229,460	2,292,541	7,922,010
Other liabilities	-	-	-	-	-	-	175,803	175,803
<b>Total financial liabilities</b>	<b>12,302,092</b>	<b>80,723</b>	<b>142,367</b>	<b>327,281</b>	<b>1,044,509</b>	<b>1,229,460</b>	<b>19,138,058</b>	<b>34,264,490</b>
<b>Interest rate gap</b>	<b>3,062,562</b>	<b>359,180</b>	<b>1,408,069</b>	<b>3,441,399</b>	<b>6,608,154</b>	<b>2,562,415</b>	<b>(16,699,892)</b>	<b>741,887</b>

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

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**4. Risk management (continued)**

**4.4 Market risk (continued)**

**4.4.1 Interest rate risk (continued)**

The interest bearing assets and liabilities mainly comprise cash and cash equivalents in foreign currency, investment securities, accepted deposits and certificates issued by the Bank, as well as loans granted by the international financial institutions. They bear fixed interest rates, except for the current accounts correlated to the rates REPO, EONIA, EURIBOR, current account with the IMF and Extended Fund Facility (EFF) commitments, which bear floating interest rates set on a weekly basis by the IMF. The same applies for the medium term loans, loans granted to the banks for crediting the construction cooperatives for which the interest rate is floating (depending on the modification of the basic rate of the Bank and on the modification of the long-term basic interest rate set by the Bank). Another exception is a floating rate security from the externally managed portfolio that has an interest rate that changes on a quarterly basis.

To determine the interest rate risk associated with demand and term deposits held in foreign currency, the Bank calculates the expected gains /losses assuming a scenario of a 0.5 p.p raise /fall of the interest rates on these financial instruments.

According to the average balance of demand and term deposits for the year 2013, the expected amount of gains /losses from increase /decrease in interest rate with 0.5 p. p. is as follows:

	<b>MDL'000</b>	<b>USD'000</b>
Year 2013	+/-61,924	+/-4,743
Year 2012	+/-50,817	+/-4,213

The sensitivity of the investment securities' portfolio measured at fair value to fluctuations of interest rates is measured using the PV01. PV01 is a method that quantifies the interest rate risk through the measurement of the difference between the market value of the securities portfolio at fair value and its estimated value in case the investment yield changes with 0.01 p.p. A change of the security's yield with 0.01 p.p. leads to an inverse nonlinear impact on the portfolio value calculated using the PV01 method.

As at 31 December 2013, the increase /decrease of the yield by 0.01 p.p. leads to a decrease /increase in the present value of the investment portfolio of securities measured at fair value of MDL 7,383 thousand or USD 565 thousand, which represents 0.03% of the portfolio of securities measured at fair value (as at 31 December 2012: of MDL 6,014 thousand or USD 499 thousand, which represents 0.03% of the portfolio of securities measured at fair value).

**4.4.2 Foreign currency risk**

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in the official exchange rate of the Moldovan Leu.

In the process of managing the foreign exchange reserves, the Bank holds a long foreign currency position. The minimisation of the currency risk is ensured through a policy of portfolio diversification.

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

**4. Risk management (continued)**

**4.4 Market risk (continued)**

**4.4.2 Foreign currency risk (continued)**

The normative currency structure of the investment portfolio is set by the Bank's Council of Administration and is aimed to mitigate the currency risk through an adequate structure of foreign currency assets and liabilities, and a reasonable investment range that is acceptable to serve the current external liabilities and to implement the foreign currency policy of the state. As at 31 December 2013 the US dollar share in the normative currency structure constituted 50%, Euro – 35%, Pound Sterling – 10%, other currencies – 5% (as at 31 December 2012 the US dollar share in the normative currency structure constituted 45%, Euro – 35%, Pound Sterling – 15%, Swiss Franc – 3% and Japanese Yen – 2%). The share of each currency in the Bank's investment portfolio may vary within +/-10% from the normative currency structure.

As at 31 December 2013, the Bank held the following foreign exchange positions:

	MDL MDL'000	USD MDL'000	EUR MDL'000	GBP MDL'000	JPY MDL'000	XDR MDL'000	Other currencies MDL'000	Total MDL'000
<b>31 December 2013</b>								
<b>Assets</b>								
Cash and short-term placements with banks	-	8,729,537	1,713,583	1,492,481	622,835	-	669	12,559,105
Monetary gold	-	-	-	-	-	-	37,392	37,392
Due from international financial institutions	-	-	-	-	-	2,563,064	-	2,563,064
Securities issued by the Government of the Republic of Moldova	2,079,360	-	-	-	-	-	-	2,079,360
Loans granted to banks and individuals	281,423	-	-	-	-	-	-	281,423
Investment securities	-	12,714,170	9,940,634	1,512,979	-	-	-	24,167,783
Other assets	709	199	1	-	-	-	-	909
<b>Total financial assets</b>	<b>2,361,492</b>	<b>21,443,906</b>	<b>11,654,218</b>	<b>3,005,460</b>	<b>622,835</b>	<b>2,563,064</b>	<b>38,061</b>	<b>41,689,036</b>
<b>Liabilities</b>								
National currency issued into circulation	19,040,704	-	-	-	-	-	-	19,040,704
Due to the Government of the Republic of Moldova	1,634,258	5,191	2,032	-	-	-	-	1,641,481
Due to banks	4,333,970	932,074	1,763,453	-	-	-	-	7,029,497
Certificates issued by the National Bank of Moldova	2,602,671	-	-	-	-	-	-	2,602,671
Due to international financial institutions	2,868	-	-	-	-	8,296,168	-	8,299,036
Other liabilities	291,057	20,446	1,369	6	-	-	-	312,878
<b>Total financial liabilities</b>	<b>27,905,528</b>	<b>957,711</b>	<b>1,766,854</b>	<b>6</b>	<b>-</b>	<b>8,296,168</b>	<b>-</b>	<b>38,926,267</b>
<b>Net position</b>	<b>(25,544,036)</b>	<b>20,486,195</b>	<b>9,887,364</b>	<b>3,005,454</b>	<b>622,835</b>	<b>(5,733,104)</b>	<b>38,061</b>	<b>2,762,769</b>

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

**4. Risk management (continued)**

**4.4 Market risk (continued)**

**4.4.2 Foreign currency risk (continued)**

As at 31 December 2013 other currencies include monetary gold equivalent of MDL 37,392 thousand, Russian roubles – MDL 551 thousand, Swiss Francs – MDL 59 thousand, Romanian Lei – MDL 34 thousand, Norwegian kroner – MDL 23 thousand and Danish kroner – MDL 2 thousand.

	MDL MDL'000	USD MDL'000	EUR MDL'000	GBP MDL'000	JPY MDL'000	XDR MDL'000	Other currencies MDL'000	Total MDL'000
<b>31 December 2012</b>								
<b>Assets</b>								
Cash and short-term placements with banks	-	6,954,258	3,688,475	2,173,958	12	-	1,147	12,817,850
Monetary gold	-	-	-	-	-	-	47,593	47,593
Due from international financial institutions	-	-	-	-	-	2,303,437	-	2,303,437
Securities issued by the Government of the Republic of Moldova	2,075,425	-	-	-	-	-	-	2,075,425
Loans granted to banks and individuals	305,818	-	-	-	-	-	-	305,818
Investment securities	-	9,114,407	6,687,831	1,652,444	-	-	-	17,454,682
Other assets	1,452	120	-	-	-	-	-	1,572
<b>Total financial assets</b>	<b>2,382,695</b>	<b>16,068,785</b>	<b>10,376,306</b>	<b>3,826,402</b>	<b>12</b>	<b>2,303,437</b>	<b>48,740</b>	<b>35,006,377</b>
<b>Liabilities</b>								
National currency issued into circulation	14,554,214	-	-	-	-	-	-	14,554,214
Due to the Government of the Republic of Moldova	1,807,886	3,169	83,979	-	-	-	-	1,895,034
Due to banks	3,691,430	819,462	1,465,152	-	-	-	-	5,976,044
Certificates issued by the National Bank of Moldova	3,741,385	-	-	-	-	-	-	3,741,385
Due to international financial institutions	(4,803)	-	-	-	-	7,926,813	-	7,922,010
Other liabilities	174,383	1,292	123	5	-	-	-	175,803
<b>Total financial liabilities</b>	<b>23,964,495</b>	<b>823,923</b>	<b>1,549,254</b>	<b>5</b>	<b>-</b>	<b>7,926,813</b>	<b>-</b>	<b>34,264,490</b>
<b>Net position</b>	<b>(21,581,800)</b>	<b>15,244,862</b>	<b>8,827,052</b>	<b>3,826,397</b>	<b>12</b>	<b>(5,623,376)</b>	<b>48,740</b>	<b>741,887</b>

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

**4. Risk management (continued)**

**4.4 Market risk (continued)**

**4.4.2 Foreign currency risk (continued)**

In order to estimate the currency risk associated to assets and liabilities denominated in foreign currency, possible unrealized gains /losses have been computed assuming a change of +/- 10% of the official exchange rate of MDL against the currencies in which these assets and liabilities are denominated. As at 31 December 2013 and 31 December 2012, respectively, the amount of the potential impact on the profit and equity of the Bank is as follows:

	<b>31 December 2013</b>		<b>31 December 2012</b>	
	<b>MDL'000</b>	<b>MDL'000</b>	<b>MDL'000</b>	<b>MDL'000</b>
	<b>Profit</b>	<b>Equity</b>	<b>Profit</b>	<b>Equity</b>
MDL against USD	+/- 2,048,620	+/- 2,048,620	+/- 1,524,486	+/- 1,524,486
MDL against EUR	+/- 988,736	+/- 988,736	+/- 882,883	+/- 882,883
MDL against GBP	+/- 300,545	+/- 300,545	+/- 382,640	+/- 382,640
MDL against JPY	+/- 62,284	+/- 62,284	+/- 1	+/- 1
MDL against XDR	+/- 573,310	+/- 573,310	+/- 562,338	+/- 562,338
MDL against other currencies	+/-67	+/-67	+/-115	+/-115

Note: In case the MDL appreciates against the respective foreign currencies, unrealized losses will be generated, and vice-versa, in case the MDL depreciates against the respective foreign currencies, unrealized gains will be generated, with the exception of XDR, where the appreciation of MDL against XDR generates unrealized gains, while the depreciation generates unrealized losses.

**5. Cash and short-term placements with banks**

	<b>31 December 2013</b>	<b>31 December 2012</b>
	<b>MDL'000</b>	<b>MDL'000</b>
Cash in hand in foreign currency	1,051	1,046
Nostro accounts	640,347	1,620,394
Term deposits in foreign currency	11,917,707	11,196,410
	<b>12,559,105</b>	<b>12,817,850</b>

Cash and short-term placements with banks do not include local currency balances held at the central treasury of the Bank, which is offset with the respective amount on the liability side "National currency into circulation" (Note 14). This type of cash presentation is considered adequate since the Bank is the sole issuer of the national currency.

As at period end the term deposits in foreign currency were placed at financial institutions with ratings<sup>1</sup>: „AAA” – 1.01%, „AA+” – 17.32%, „AA-” – 56.78% and „A+” – 24.89% (as at 31 December 2012: „AA+” –60.96%, „AA-” – 37.96% and „A+” – 1.08%).

<sup>1</sup> Established by applying the minimum rating assigned by international rating agencies (Standard & Poor's, Moody's and Fitch Ratings).

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

**6. Monetary gold**

	<b>31 December 2013</b>	<b>31 December 2012</b>
	<b>MDL'000</b>	<b>MDL'000</b>
Monetary gold	37,392	47,593
	<b>37,392</b>	<b>47,593</b>

The monetary gold is represented by the quantity of 74,133.48 grams (as at 31 December 2012 – 74,133.48 grams of pure gold) in the form of bullions of Good Delivery standard quality (based on the requirements of the London Bullion Market Association). As at 31 December 2013 the market price of gold was of 504.3804 MDL/gram (as at 31 December 2012 was of 641.9843 MDL/gram).

**7. Due from /to international financial institutions**

	<b>31 December 2013</b>	<b>31 December 2012</b>
	<b>MDL'000</b>	<b>MDL'000</b>
<b>Assets</b>		
Quota of the Republic of Moldova with the International Monetary Fund (IMF)	2,479,347	2,284,188
Current account with IMF	83,717	19,249
	<b>2,563,064</b>	<b>2,303,437</b>
<b>Liabilities</b>		
Account No.1	2,479,247	2,284,096
Account No.2	101	94
<b>Total liabilities of the IMF</b>	<b>2,479,348</b>	<b>2,284,190</b>
Other international organizations	367	3,399
Loans granted by the IMF	5,819,321	5,634,421
	<b>8,299,036</b>	<b>7,922,010</b>

The Republic of Moldova joined the IMF on 12 August 1992. The Bank acts as the agent of the state for the conduct of the financial transactions with the IMF and as the depository for maintaining the IMF's accounts. The membership in the IMF is quota based.

A member's quota is determined upon its admission to the membership and is increased periodically under General Quota Reviews. The quota forms the basis for the member's financial and organizational relationship with the IMF and determines, inter alia, a member's relative voting power, the maximum access to the IMF financing and the share of the member in any allocation of XDR.

The IMF Quota Account reflects initial and subsequent quota payments and is an asset of the IMF's member. Up to 25% of quota is payable by each member to the IMF in reserve assets specified by the IMF and the remainder is due in the member's own currency.

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

**7. Due from /to international financial institutions (continued)**

The local currency portion of the quota payment is deposited in the IMF No.1 Account and IMF No. 2 Account. The IMF No. 1 account is used for the IMF's operational transactions (purchases, repurchases), whereas the IMF No. 2 account is used for the payment of expenses incurred by the IMF in the member's national currency.

The amounts included in the Bank's Balance Sheet as "Due to international financial institutions" also include the loans received by the Bank from the IMF. The loans are denominated in Special Drawing Rights ("XDR"), but disclosed in the Balance Sheet at the Moldovan Leu equivalent at the end of the reporting period.

As at 31 December 2013 the Bank's outstanding balance of loans due to the IMF is as follows:

- Extended Credit Facility (ECF) – XDR 139,886 thousand (as at 31 December 2012 – XDR 154,054 thousand);
- Extended Fund Facility (EFF) – XDR 149,120 thousand (as at 31 December 2012 – XDR 149,120 thousand).

The Extended credit facility (ECF, previously PRGF) represents the loans granted to the countries that meet the eligibility criteria approved by the IMF. The IMF has granted loans within ECF for a 10 years term and with a 5.5 years grace period. These loans bear an interest rate of 0.25% per annum.

The Extended financing facility (EFF) represents the loans granted to the IMF members in order to finance the balance of payments deficit. IMF grants loans within EFF for a 10 years term with a 4.5 years grace period. The interest rate for this type of loans is floating and is set on a weekly basis by the IMF. For the reference period, the average rate was 1.08% per annum.

The other international organizations represent the accounts of the International Bank for Reconstruction and Development and the Multilateral Investment Guarantee Agency.

**8. Securities issued by the Government of the Republic of Moldova**

	<b>31 December 2013</b>	<b>31 December 2012</b>
	<b>MDL'000</b>	<b>MDL'000</b>
Securities issued by the Government of the Republic of Moldova	2,091,423	2,086,526
Discount at securities issued by the Government of the Republic of Moldova	(13,563)	(11,239)
Revaluation of the securities issued by the Government of the Republic of Moldova	1,500	138
	<b>2,079,360</b>	<b>2,075,425</b>

As at 31 December 2013 the Bank's portfolio comprises securities issued by the Government ("state securities") issued and transferred to the Bank as a result of conversion of the loans contracted from the Bank, during previous years, into securities issued by the Government. These securities are classified as assets available for sale and are measured at fair value.

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

**8. Securities issued by the Government of the Republic of Moldova (continued)**

The state securities held in the portfolio of the Bank represent one of the monetary policy instruments that can be used by the Bank at any time in order to conduct the monetary policy. The Bank has the incontestable right to trade these instruments on the secondary market, thus ensuring its ability to convert these securities into liquid assets, throughout their holding period.

Considering these facts, the state securities with maturities less than 3 months are classified as cash and cash equivalents in the Statement of Cash flows.

The state securities were repurchased at maturity by the Government and new securities were issued in the same volume, which were purchased by the Bank.

The contractual maturity of state securities held in the Bank's portfolio as at 31 December 2013 is up to 91 days. The average interest rate on the portfolio of state securities held by the Bank as at 31 December 2013 was of 5.45 % (as at 31 December 2012 – 4.50%).

**9. Loans granted to banks and individuals**

	<b>31 December 2013</b>	<b>31 December 2012</b>
	<b>MDL'000</b>	<b>MDL'000</b>
Medium term loans granted to banks	186,283	279,425
Overnight loans granted to banks	68,012	-
Loans granted to banks for crediting the construction cooperatives	8,062	10,673
Loans granted to other individuals	19,066	15,720
	<b>281,423</b>	<b>305,818</b>

This caption includes the balance of the loans granted to licensed banks on medium term, the balance of overnight loans, the balance of the loans granted to the licensed banks during the years 1993-2000 for crediting the construction cooperatives, as well as the balance of the loans granted to the Bank employees, adjusted at the amount of the allowance and the interest calculated for these loans. The decrease in the balance of this caption with MDL 24,395 thousand was due to the reimbursement of loans by the licensed banks.

As at 31 December 2013 the loans granted to banks amounting to MDL 262,357 thousand, represent loans granted to protect the integrity of the banking system, in amount of MDL 186,283 thousand, overnight loans in amount of MDL 68,012 thousand and loans granted to credit the construction cooperatives in amount of MDL 8,062 thousand.

Loans granted to credit the construction cooperatives were granted at a 10% fixed interest rate for loans granted for a 25 years term, and at the Bank's base rate for long term loans, variable per the contract period, for loans granted for a 15 years term.

In order to take over the receivables due by B.C. "Investprivatbank" S.A. under liquidation towards B.C. „Banca de Economii" S.A. (further referred to as "Banca de Economii"), in accordance with the *Law on measures to ensure financial stability* No. 190 dated 30 September 2011, the Ministry of Finance has issued and transferred to Banca de Economii securities in the amount of MDL 428,500 thousand at their nominal value, provided that they are

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

**9. Loans granted to banks and individuals (continued)**

repurchased on a quarterly basis, in equal tranches, in accordance with an established schedule, with the repurchase term as on 30 December 2015. As at 31 December 2013 the amount of these securities constitutes MDL 186, 283 thousand.

The reimbursement conditions and terms according to the loan agreement between the National Bank of Moldova and Banca de Economii related to the loan for protecting the integrity of the banking system comply with the conditions and terms of redemption of bonds schedule issued by the Ministry of Finance and transferred to Banca de Economii.

In view of the loan granting conditions for Banca de Economii and considering the provisions of the *Law on measures to ensure financial stability* No. 190 dated 30 September 2011, there was no need to form an allowance for impairment losses on the loan granted.

As at 31 December 2013, the collateral pledged by banks as to secure the repayment of loans received and related interest, amounts to MDL 183,026 thousand (as at 31 December 2012: MDL 192,245 thousand).

As at 31 December 2013, the collateral pledged by the Bank's employees, as to secure the repayment of loans received and related interest amounts to MDL 27,198 thousand (as at 31 December 2012: MDL 21,985 thousand).

During 2012 – 2013, no impairment allowances were accounted for the loans granted.

**10. Investment securities**

The caption „Investment securities” of the Balance Sheet includes two categories of financial assets, as presented below:

	<b>31 December 2013</b>	<b>31 December 2012</b>
	<b>MDL'000</b>	<b>MDL'000</b>
<b>Securities in foreign currency measured at fair value through profit or loss</b>	<b>16,944,663</b>	<b>11,847,622</b>
Coupon securities in foreign currency	16,612,230	11,844,007
Discount securities in foreign currency	332,433	3,615
<b>Securities in foreign currency held-to-maturity</b>	<b>7,223,120</b>	<b>5,607,060</b>
Coupon securities in foreign currency	7,223,120	5,607,060
Discount securities in foreign currency	-	-
<b>Total investment securities</b>	<b>24,167,783</b>	<b>17,454,682</b>

The securities portfolio in foreign currency measured at fair value through profit or loss held by the Bank, comprises mainly securities issued by Governments and Governmental Agencies, of the United States of America, European Union and supranational securities.

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

**10. Investment securities (continued)**

The portfolio of securities in foreign currency measured at fair value, included in the caption "Investment securities" of the Balance Sheet, is detailed below:

	<b>31 December 2013</b>	<b>31 December 2012</b>
	<b>MDL'000</b>	<b>MDL'000</b>
Securities in foreign currency measured at fair value (nominal value)	16,740,339	11,618,457
Interest on securities in foreign currency measured at fair value	104,427	52,866
Revaluation of securities in foreign currency measured at fair value	99,897	176,299
<b>Securities in foreign currency measured at fair value through profit or loss</b>	<b>16,944,663</b>	<b>11,847,622</b>

The securities in foreign currency measured at fair value through profit or loss are revalued on a monthly basis and bear a fixed interest rate, within the range of 0.04% to 2.86% per annum (as at 31 December 2012: 0.16% to 2.86%), except for a security in amount of USD 3 million, bearing a floating interest rate with quarterly revision (as at 31 December 2013 the bearing interest rate was of 0.26% per annum). The investment securities in foreign currency measured at fair value through profit or loss include also the accrued interest amounting MDL 54,536 thousand as at 31 December 2013 (as at 31 December 2012: MDL 54,358 thousand).

As at 31 December 2013, the securities measured at fair value through profit or loss issued by non-residents held in the Bank's portfolio having the highest rating<sup>1</sup> – „AAA” constituted 77.01% and the securities with rating „AA+” constituted 22.99% (as at 31 December 2012: „AAA” - 53.41%, „AA+” – 46.59%). The increase of investments with „AAA” rating is mostly due to the modification of the methodology in calculating the rating established in accordance with the Regulation on the management of international reserves approved by the Decision of the Council of Administration of the Bank, No. 105 dated 30 May 2013, which implies the assignment of the medium rating compared to previously calculated minimum rating.

The amount of securities in foreign currency measured at fair value through profit or loss that were sold or which matured during 2013 amounted to USD 396,035 thousand; EUR 116,615 thousand and GBP 20,000 thousand in nominal values terms (in 2012 were sold and matured – USD 454,105 thousand; EUR 186,500 thousand and GBP 25,000 thousand). In the same time, during the reported period, the Bank purchased securities denominated in foreign currency at fair value in nominal values terms in amount of USD 532,940 thousand and EUR 262,750 thousand (in 2012: USD 555,065 thousand; EUR 133,500 thousand and GBP 20,000 thousand).

According to the Agreement for investment management and consulting signed between the International Bank for Reconstruction and Development (IBRD) and the Bank, IBRD became the Bank's Advisor and Representative for the management of a portion of foreign assets, limited to 20% of the official reserve assets.

<sup>1</sup> Established by applying the average rating assigned by international rating agencies (Standard & Poor's, Moody's and Fitch Ratings).

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

**10. Investment securities (continued)**

In the first stage of this program, investments are made in US dollar-denominated securities issued by the U.S. Treasury, government agencies and supranational institutions. These assets are included in the category of securities in foreign currency, measured at fair value through profit or loss.

As at 31 December 2013 the portfolio of securities in foreign currency managed by the external manager amounted to MDL 2,671,918 thousand (as at 31 December 2012: MDL 2,458,744 thousand), their share in the official reserve assets amounted to 7.25% (as at 31 December 2012: 8.31%).

According to the decision of the Council of Administration, the Bank's portfolio of investment securities classified as held-to-maturity should not exceed 20% of the official reserve assets of the Bank. The volume and composition of foreign currency assets and the prospects of future cash flows allow the Bank to hold the respective portfolio of securities until maturity.

As at 31 December 2013, the share of held-to-maturity securities in total official reserve assets of the Bank is of 19.61% (as at 31 December 2012: 18.48%).

	<b>31 December 2013</b>	<b>31 December 2012</b>
	<b>MDL'000</b>	<b>MDL'000</b>
Securities in foreign currency held-to-maturity (nominal value)	7,124,212	5,446,938
Interest on securities in foreign currency held-to-maturity	98,908	160,122
<b>Securities in foreign currency held-to-maturity</b>	<b>7,223,120</b>	<b>5,607,060</b>

Held-to-maturity securities bear fixed annual interest rates between 0.33% and 3.55%.

As at 31 December 2013, the share of securities with „AAA” rating was of 83.71%, while those with „AA +” ratings constituted 16.29% (as at 31 December 2012: „AAA” - 50.91% and „AA+” - 49.09%).

The portfolio of held-to-maturity securities comprises mainly securities issued by governments and governmental agencies from the United States of America, European Union and supranational financial institutions.

For the purpose of maintaining the level of securities held-to-maturity denominated in foreign currencies, the Bank has acquired securities in nominal amount of USD 86,320 thousand and GBP 7,700 thousand. At the same time, during the reporting period a security held-to-maturity matured at nominal value of EUR 10,000 thousand.

During the year the Bank has not recognised any impairment allowances in respect of held-to-maturity securities.

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

**11. Fair value of financial instruments**

The Bank's financial instruments comprise cash and short term placements with banks, monetary gold, due from international financial institutions, investment securities, loans granted to banks and individuals, national currency issued into circulation, due to banks and to the Government of the Republic of Moldova, due to international financial institutions, certificates issued by the National Bank of Moldova, as well as other financial assets and other financial liabilities.

The Bank's financial assets are measured at fair value, except for the cash and short-term placements with banks, due to international financial institutions, loans granted to banks and individuals and investment securities held-to-maturity, which are measured at amortized cost. Financial liabilities are measured at amortised cost.

The carrying amount and fair value of financial assets and liabilities is presented in the table below:

	At fair value through profit and loss	Held-to- maturity	Loans and receivables	At fair value Available for Sale	Other at amortised cost	Total	Fair Value
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
<b>31 December 2013</b>							
<b>Assets</b>							
Cash and short-term placements with banks	-	-	12,559,105	-	-	12,559,105	12,559,105
Monetary gold	-	-	-	37,392	-	37,392	37,392
Due from international financial institutions	-	-	2,563,064	-	-	2,563,064	2,563,064
Securities issued by the Government of the Republic of Moldova	-	-	-	2,079,360	-	2,079,360	2,079,360
Loans granted to banks and individuals	-	-	281,423	-	-	281,423	281,423
Investment securities							
At fair value	16,944,663	-	-	-	-	16,944,663	16,944,663
At amortised cost	-	7,223,120	-	-	-	7,223,120	7,245,390
Other assets	-	-	909	-	-	909	909
<b>Total financial assets</b>	<b>16,944,663</b>	<b>7,223,120</b>	<b>15,404,501</b>	<b>2,116,752</b>	<b>-</b>	<b>41,689,036</b>	<b>41,711,306</b>
<b>Liabilities</b>							
National currency issued into circulation	-	-	-	-	19,040,704	19,040,704	19,040,704
Due to the Government of the Republic of Moldova	-	-	-	-	1,641,481	1,641,481	1,641,481
Due to banks	-	-	-	-	7,029,497	7,029,497	7,029,497
Certificates issued by the National Bank of Moldova	-	-	-	-	2,602,671	2,602,671	2,602,671
Due to international financial institutions	-	-	-	-	8,299,036	8,299,036	8,299,036
Other liabilities	-	-	-	-	312,878	312,878	312,878
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>38,926,267</b>	<b>38,926,267</b>	<b>38,926,267</b>

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

**11. Fair value of financial instruments (continued)**

	At fair value through profit and loss	Held-to- maturity	Loans and receivables	At fair value Available for Sale	Other at amortised cost	Total	Fair Value
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
<b>31 December 2012</b>							
<b>Assets</b>							
Cash and short-term placements with banks	-	-	12,817,850	-	-	12,817,850	12,817,850
Monetary gold	-	-	-	47,593	-	47,593	47,593
Due from international financial institutions	-	-	2,303,437	-	-	2,303,437	2,303,437
Securities issued by the Government of the Republic of Moldova	-	-	-	2,075,425	-	2,075,425	2,075,425
Loans granted to banks and individuals	-	-	305,818	-	-	305,818	305,818
Investment securities							
At fair value	11,847,622	-	-	-	-	11,847,622	11,847,622
At amortised cost	-	5,607,060	-	-	-	5,607,060	5,889,330
Other assets	-	-	1,572	-	-	1,572	1,572
<b>Total financial assets</b>	<b>11,847,622</b>	<b>5,607,060</b>	<b>15,428,677</b>	<b>2,123,018</b>	<b>-</b>	<b>35,006,377</b>	<b>35,288,647</b>
<b>Liabilities</b>							
National currency issued into circulation	-	-	-	-	14,554,214	14,554,214	14,554,214
Due to the Government of the Republic of Moldova	-	-	-	-	1,895,034	1,895,034	1,895,034
Due to banks	-	-	-	-	5,976,044	5,976,044	5,976,044
Certificates issued by the National Bank of Moldova	-	-	-	-	3,741,385	3,741,385	3,741,385
Due to international financial institutions	-	-	-	-	7,922,010	7,922,010	7,922,010
Other liabilities	-	-	-	-	175,803	175,803	175,803
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>34,264,490</b>	<b>34,264,490</b>	<b>34,264,490</b>

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

**11. Fair value of financial instruments (continued)**

**Hierarchy of the fair value of the financial instruments**

The table below presents the financial instruments measured at fair value, subsequent to the initial recognition, classified in levels from 1 to 3 according to the valuation method used.

<b>31 December 2013</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>MDL'000</b>	<b>MDL'000</b>	<b>MDL'000</b>	<b>MDL'000</b>
Monetary gold	37,392	-	-	37,392
Securities in foreign currency measured at fair value through profit or loss	16,944,663	-	-	16,944,663
Securities issued by the Government of the Republic of Moldova	-	2,079,360	-	2,079,360
<b>Total</b>	<b>16,982,055</b>	<b>2,079,360</b>	<b>-</b>	<b>19,061,415</b>
<b>31 December 2012</b>				
Monetary gold	47,593	-	-	47,593
Securities in foreign currency measured at fair value through profit or loss	11,847,622	-	-	11,847,622
Securities issued by the Government of the Republic of Moldova	-	2,075,425	-	2,075,425
<b>Total</b>	<b>11,895,215</b>	<b>2,075,425</b>	<b>-</b>	<b>13,970,640</b>

The valuation methods and techniques used for determination of the fair value remained the same as in the previous reporting period and there were no reclassifications of financial instruments between levels of the fair value hierarchy.

Following the analysis performed, the Bank's management believes that given the short-term of placements with banks, the specific nature and scope of loans and receivables, as well as the lack of active market for the quota of the Republic of Moldova at IMF that is not measured at fair value in Financial Statements, the fair value of the respective financial instruments is not significantly different from the amount recorded in the Balance Sheet.

In addition, the management believes that the value of Bank's liabilities recorded on the Balance Sheet approximate their fair value due to their short-term placement period or due to the type of specific transactions performed by a central bank, and for which there was no distinct active market or valuation models to reliably estimate their fair value.

All financial instruments that are not measured at fair value in the Balance Sheet falls in Level 2 of the fair value hierarchy, except for the investment securities held-to-maturity classified in Level 1 of the fair value hierarchy.

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

**12. Property, equipment and intangible assets**

	<b>Buildings</b>	<b>Equipment</b>	<b>Property and equipment in progress</b>	<b>Intangible assets</b>	<b>Intangible assets in progress</b>	<b>Total</b>
	<b>MDL'000</b>	<b>MDL'000</b>	<b>MDL'000</b>	<b>MDL'000</b>	<b>MDL'000</b>	<b>MDL'000</b>
<b>Cost</b>						
As at 1 January 2013	36,420	77,140	4,831	38,059	2,863	159,313
Additions	76	2,967	4,291	10,956	2,500	20,790
Transfers	-	4,836	(4,818)	2,862	(2,862)	18
Disposals	-	(3,726)	-	(46)	-	(3,772)
<b>As at 31 December 2013</b>	<b>36,496</b>	<b>81,217</b>	<b>4,304</b>	<b>51,831</b>	<b>2,501</b>	<b>176,349</b>
<b>Accumulated amortization</b>						
As at 1 January 2013	24,302	72,132	-	27,135	-	123,569
Charge for the year	985	3,506	-	3,985	-	8,476
Charge for disposals	-	(3,726)	-	(46)	-	(3,772)
<b>As at 31 December 2013</b>	<b>25,287</b>	<b>71,912</b>	<b>-</b>	<b>31,074</b>	<b>-</b>	<b>128,273</b>
<b>Carrying value</b>						
As at 1 January 2013	12,118	5,008	4,831	10,924	2,863	35,744
<b>As at 31 December 2013</b>	<b>11,209</b>	<b>9,305</b>	<b>4,304</b>	<b>20,757</b>	<b>2,501</b>	<b>48,076</b>

  

	<b>Buildings</b>	<b>Equipment</b>	<b>Property and equipment in progress</b>	<b>Intangible assets</b>	<b>Intangible assets in progress</b>	<b>Total</b>
	<b>MDL'000</b>	<b>MDL'000</b>	<b>MDL'000</b>	<b>MDL'000</b>	<b>MDL'000</b>	<b>MDL'000</b>
<b>Cost</b>						
As at 1 January 2012	36,420	77,985	80	28,154	7,524	150,163
Additions	-	1,866	4,831	3,249	2,888	12,834
Transfers	-	80	(80)	7,549	(7,549)	-
Disposals	-	(2,791)	-	(893)	-	(3,684)
<b>As at 31 December 2012</b>	<b>36,420</b>	<b>77,140</b>	<b>4,831</b>	<b>38,059</b>	<b>2,863</b>	<b>159,313</b>
<b>Accumulated amortization</b>						
As at 1 January 2012	23,320	72,402	-	25,960	-	121,682
Charge for the year	982	2,513	-	2,068	-	5,563
Charge for disposals	-	(2,783)	-	(893)	-	(3,676)
<b>As at 31 December 2012</b>	<b>24,302</b>	<b>72,132</b>	<b>-</b>	<b>27,135</b>	<b>-</b>	<b>123,569</b>
<b>Carrying value</b>						
As at 1 January 2012	13,100	5,583	80	2,194	7,524	28,481
<b>As at 31 December 2012</b>	<b>12,118</b>	<b>5,008</b>	<b>4,831</b>	<b>10,924</b>	<b>2,863</b>	<b>35,744</b>

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended la 31 December 2013

**13. Other assets**

	31 December 2013	31 December 2012
	MDL'000	MDL'000
Prepaid expenses	1,260	970
Other receivables	909	1,572
Inventories	918	1,015
Goods and materials administered	808	1,126
<b>Subtotal</b>	<b>3,895</b>	<b>4,683</b>
Less: Provision for slow moving inventory and doubtful receivables	(61)	(60)
	<b>3,834</b>	<b>4,623</b>

The movement in the provision for slow moving inventory and doubtful receivables during the year is as follows:

	2013 MDL'000	2012 MDL'000
<b>As at 1 January</b>	<b>60</b>	<b>61</b>
Increase during the year	1	-
Decrease during the year	-	(1)
<b>As at 31 December</b>	<b>61</b>	<b>60</b>

**14. National currency issued into circulation**

	31 December 2013	31 December 2012
	MDL'000	MDL'000
Banknotes	18,937,849	14,468,103
Divisional coins	88,613	82,187
Commemorative banknotes and commemorative and jubilee coins	14,242	3,924
	<b>19,040,704</b>	<b>14,554,214</b>

**15. Due to the Government of the Republic of Moldova**

	31 December 2013	31 December 2012
	MDL'000	MDL'000
Demand deposits of the Ministry of Finance	1,602,072	1,800,111
Amounts in foreign currency of the Ministry of Finance	1,082	82,855
Other accounts of the Government of the Republic of Moldova	38,327	12,068
	<b>1,641,481</b>	<b>1,895,034</b>

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

**15. Due to the Government of the Republic of Moldova (continued)**

The interest rate paid by the Bank on the demand deposits of the Ministry of Finance is determined based on the average interest rate of the banking system available for the last three months, for interest bearing demand deposits of legal entities in MDL. The weighted average interest rate on demand deposits accepted from the Ministry of Finance as at 31 December 2013 is of 1.71% (as at 31 December 2012: 2.05%).

For the term deposits accepted from the Ministry of Finance the Bank pays a floating interest rate computed based on the base rate set by the Bank for the main short term monetary policy operations, regardless of the deposit term, rate that is floating through the term of the deposit contract.

**16. Due to banks**

	<b>31 December 2013</b>	<b>31 December 2012</b>
	<b>MDL'000</b>	<b>MDL'000</b>
Current accounts of banks, including mandatory reserves	6,901,495	5,362,943
Deposits from licensed banks denominated in national currency	128,002	613,101
	<b>7,029,497</b>	<b>5,976,044</b>

Due to banks, including mandatory reserves, are the amounts placed on the Loro accounts of the resident banks, of the resident banks under the liquidation process, of the resident banks under the insolvency process, as well as the banks' mandatory reserves, held at the Bank in Moldovan Leu, USD and Euro.

According to the requirements of the mandatory reserves regime established by the Bank, as at 31 December 2013, banks are required to maintain mandatory reserves in Moldovan lei and in foreign currencies (US Dollars and Euro) at 14% (as at 31 December 2012: 14%) of the base, represented by the banks' attracted funds in corresponding currencies. The mandatory reserves in Moldovan Leu are maintained in average by banks on Loro accounts opened with the Bank during the maintenance period or on the account of mandatory reserves in national currency opened with the Bank. The mandatory reserves in foreign currency are registered in the Bank's accounting records, in the mandatory reserves in foreign currency account and are placed in the Bank's Nostro accounts with foreign banks.

According to the art. 17 of the *Law on National Bank of Moldova*, mandatory reserve balances that exceed 5% of attracted funds, are remunerated by the Bank as follows: for mandatory reserves in Moldovan lei by applying the current month average interest rate for overnight deposits of the Bank, and for the mandatory reserves in foreign currency (USD and Euro) – the average interest rate on interest bearing demand deposits in foreign currency attracted by banks, measured on a monthly basis by the Bank based on monthly reports presented by the banks in respect of the average interest rate on deposits attracted by banks.

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

**16. Due to banks (continued)**

The deposits denominated in the national currency, held by licensed banks, comprise the overnight deposits of banks placed with the Bank and the related interest accrued for the respective deposits. The interest rate on overnight deposits of the banks as at 31 December 2013 is of 0.50% (as at 31 December 2012: 1.50%).

**17. Certificates issued by the National Bank of Moldova**

	<b>31 December 2013</b>	<b>31 December 2012</b>
	<b>MDL'000</b>	<b>MDL'000</b>
Certificates issued by the National Bank of Moldova at original selling price	2,601,087	3,737,471
Amortised discount on the certificates issued by the National Bank of Moldova	1,584	3,914
	<b>2,602,671</b>	<b>3,741,385</b>

The Bank's certificates represent securities sold to licensed banks through auctions in order to absorb the excess liquidity on the money market. These are issued at discount and repurchased on maturity date at their nominal value. During 2013, the Bank's certificates were mainly issued with 14-day maturity.

The weighted average interest rate on the Bank's certificates outstanding as at 31 December 2013 was of 3.50% (as at 31 December 2012: 4.50%).

**18. Other liabilities**

	<b>31 December 2013</b>	<b>31 December 2012</b>
	<b>MDL'000</b>	<b>MDL'000</b>
Due to the State Budget for profit distribution	125,040	113,549
Due to other entities	146,956	49,788
Due to personnel	8,946	8,411
Other liabilities	31,944	4,067
	<b>312,886</b>	<b>175,815</b>

**19. Capital and reserves**

During 2013, the Government of the Republic of Moldova through the Ministry of Finance has not issued state securities to cover the debit balance of the general reserve fund registered as at 31 December 2012, in amount of MDL 596,400 thousand, as required by the *Law on the National Bank of Moldova*.

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

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**19. Capital and reserves (continued)**

As at 31 December 2013 the debit balance of the general reserve fund decreased by MDL 125,040 thousand as result of recording the profit available for distribution amounting to MDL 250,080 thousand and, the distribution of 50% of this profit, according to the *Law on the National Bank of Moldova*, for increase in the statutory capital. The debit balance of the general reserve fund amounts to MDL (471,360) thousand as at 31 December 2013. Considering the fundamental objective and the Bank's principal activities, as described in Note 1, the negative general reserve fund does not affect the going concern of the Bank, as well as its operating capacity.

Moreover, as at 31 December 2013, the Bank's capital and reserves registered a positive value in amount of MDL 2,813,762 thousand, recording an increase as compared to 31 December 2012, due to recognition of unrealised foreign exchange gains from foreign currency stocks in amount of MDL 1,989,968 thousand and unrealised losses from revaluation of investment securities in amount of MDL (73,076) thousand, which were transferred to the corresponding reserve accounts.

Other reserves comprise the reserves recorded after the revaluation of state securities, that registered a total positive result in amount of MDL 1,500 thousand, and the negative differences from the revaluation of monetary gold, in amount of MDL (8,172) thousand, these revaluations generated a decrease in the Bank's other reserves to the amount of MDL (6,672) thousand (as at 31 December 2012: MDL 2,168 thousand).

In 2011, the Bank started the amendment of the legal framework in order to implement the best practices concerning the capital adequacy of a central bank. As a result, the Bank formulated the legislative bill to the *Law on the National Bank of Moldova*, comprising also the modification of articles 19 and 20. The bill proposes amendments to the procedure of covering the debit balance of the general reserve fund and distribution of available profit (the Bank will distribute the profit available for distribution to the State Budget only after the Bank's capital reaches the sufficiency level of capital established by the law - 10% of total monetary liabilities). The legislative bill on the modification to the *Law on the National Bank of Moldova* was approved at the second reading by the Parliament of the Republic of Moldova on 23 December 2013. Currently, the legislative bill is at the completion stage at the Parliamentary Committee to be presented for approval at the third reading.

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended la 31 December 2013

**20. Calculation of the profit available for distribution**

	31 December 2013 MDL'000	31 December 2012 MDL'000
<b>Net profit</b>	<b>2,166,972</b>	<b>1,073,108</b>
Covering /(allocation) of unrealized losses /(gains) on revaluation of the investment securities	73,076	(131,191)
Allocation of unrealized gains on revaluation of foreign currency stocks	(1,989,968)	(714,819)
<b>Profit available for distribution</b>	<b>250,080</b>	<b>227,098</b>
<b>Distribution:</b>		
Increasing of the general reserve fund	(125,040)	(113,549)
State Budget	(125,040)	(113,549)

During the year the Bank registered a net profit in amount of MDL 2,166,972 thousand. As a result of the application of the corresponding provisions of the *Law on the National Bank of Moldova*, the profit available for distribution amounted to MDL 250,080 thousand.

**21. Interest income**

	2013 MDL'000	2012 MDL'000
<b>Interest income from short-term placements:</b>		
Interests from term deposits with foreign banks	27,535	32,333
Interests from overnight deposits	281	1,804
Interests from cash and cash equivalents	71	2,763
	<b>27,887</b>	<b>36,900</b>
<b>Income from interest on securities:</b>		
Interest from securities in foreign currency measured at fair value	141,974	142,614
Interest from securities in foreign currency held-to- maturity	133,434	102,004
Amortization of the discount on the securities issued by the Government of the Republic of Moldova	90,701	136,792
	<b>366,109</b>	<b>381,410</b>
<b>Income from interest on the loans granted and REPO:</b>		
Interests from loans granted to the banks	928	950
Interests from loans granted to the employees	112	99
Interest from REPO purchase transactions	1	82
	<b>1,041</b>	<b>1,131</b>
	<b>395,037</b>	<b>419,441</b>

The average interest rate on state securities held in the Bank's portfolio during 2013 was of 4.52% (average interest rate during 2012: 6.56%).

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended la 31 December 2013

**22. Interest expense**

	<b>2013</b>	<b>2012</b>
	<b>MDL'000</b>	<b>MDL'000</b>
<b>Interest expense for loans received:</b>		
Interests on the loans received from the International Monetary Fund	31,017	24,505
	<b>31,017</b>	<b>24,505</b>
<b>Interest expense on cash and cash equivalents:</b>		
Interests on the mandatory reserves	24,579	37,793
Interests on the deposits accepted from banks	1,966	5,197
Interests on the deposits accepted from the Ministry of Finance	29,820	17,709
Interests on Forward transactions	4,112	302
	<b>60,477</b>	<b>61,001</b>
<b>Interest expense on the operations with securities and REPO:</b>		
The amortization of the discount to the certificates of the National Bank of Moldova	144,953	193,169
	<b>144,953</b>	<b>193,169</b>
	<b>236,447</b>	<b>278,675</b>

The average daily balance of the Bank's certificates during 2013 amounted to MDL 3,714 million (during 2012: MDL 3,752 million). The average interest rate on Bank's certificates issued during 2013 was of 3.89% (during 2012: 5.05%).

**23. Gains from foreign exchange transactions and foreign exchange rate differences**

	<b>2013</b>	<b>2012</b>
	<b>MDL'000</b>	<b>MDL'000</b>
Realized gains from foreign currency transactions	263,681	145,603
Unrealized gains from foreign currency transactions	1,989,968	714,819
	<b>2,253,649</b>	<b>860,422</b>

Realised gains arise from the sale of foreign currencies and represent the positive difference between sale exchange rate and the cost of currency stock (or the average exchange rate of the purchased currency) multiplied to the sales volume.

During 2013 the gains on foreign exchange were generated mainly by the positive difference between the sale exchange rates and cost of currency stock and by conversion operations (currency arbitrage).

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended la 31 December 2013

**24. (Losses) /gains from the revaluation of securities**

	<b>2013</b>	<b>2012</b>
	<b>MDL'000</b>	<b>MDL'000</b>
Net realized (losses) /gains from securities measured at fair value	(8,479)	19,898
Unrealized (losses) /gains from revaluation of securities in foreign currency measured at fair value at the balance at the year-end	(73,076)	131,191
	<b>(81,555)</b>	<b>151,089</b>

**25. Other income**

	<b>2013</b>	<b>2012</b>
	<b>MDL'000</b>	<b>MDL'000</b>
Income relating to the cash operations	19,778	11,937
Income from the sale of commemorative banknotes and commemorative and jubilee coins	15,329	10,743
Income relating to the settlement services under the Automated Interbank Payment System	6,368	12,488
Other income	6,391	5,459
	<b>47,866</b>	<b>40,627</b>

**26. Operating expenses**

	<b>2013</b>	<b>2012</b>
	<b>MDL'000</b>	<b>MDL'000</b>
Expenses related to national currency	106,977	22,669
Personnel expenses	64,154	59,068
Expenses related to information, advisory and audit services	20,415	12,735
Expenses related to amortization of property, equipment and intangible assets	8,476	5,563
Buildings, transport and equipment maintenance expenses	5,170	7,759
Expenses whith fees and commissions	992	7,292
Other operating expenses	5,394	4,710
	<b>211,578</b>	<b>119,796</b>

The personnel expenses include also the mandatory state social insurance contributions in amount of MDL 11,323 thousand and the mandatory medical insurance contributions in amount of MDL 1,744 thousand (as at 31 December 2012: MDL 10,458 thousand and respectively MDL 1,568 thousand).

As at 31 December 2013 the number of available positions within the Bank, including vacancies, constituted 470 units, out of which the number of employed personnel constituted - 470 (as at 31 December 2012 the number of positions available in the Bank constituted 466 units, out of which the number of employed personnel constituted - 456).

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

**27. Related parties**

The remuneration of the Bank's management for the year 2013, including middle management amounted to MDL 7,684 thousand (2012: MDL 6,635 thousand).

In 2013, the expenses with the mandatory state social insurance and the mandatory medical insurance contributions related to the Bank's management, including the middle management, amounted to MDL 1,743 thousand and MDL 258 thousand, respectively (for the year 2012: MDL 1,512 thousand and respectively MDL 223 thousand).

The Bank grants loans to its employees. The table below represents the movement of the loans granted and the balance of the loans granted to the management of the Bank, including middle management:

	Balance as at 1 January MDL'000	Loans granted MDL'000	Transfers MDL'000	Reimburse- ments MDL'000	Balance as at 31 December MDL'000
2012	5,154	460	245	(830)	5,029
2013	5,029	1,050	-	(784)	5,295

The loans are granted to the management at the same interest rates as charged to all Bank's employees in accordance with the Bank's internal regulations. These loans are secured with collateral provided by each beneficiary, the amount of which as at 31 December 2013 constituted MDL 8,358 thousand (as at 31 December 2012: MDL 7,243 thousand).

As at 31 December 2013, these loans were classified as standard and therefore not requiring any allowance for impairment losses.

Considering article 1 of the *Law on the National Bank of Moldova*, which expressly stipulates that the Bank is an autonomous public legal entity responsible to the Parliament, the Government and any government related entities are not considered related parties of the Bank.

**28. Commitments and contingent liabilities**

*Promissory notes issued*

As at 31 December 2013 the value of the promissory note issued by the Bank for the International Monetary Fund to secure the loans received within EFF facility amounted to MDL 3,000,976 thousand (as at 31 December 2012: MDL 2,764,758 thousand).

On 11 May 2012 the Parliament adopted the *Law for the increase of the Republic of Moldova's quota in the International Monetary Fund*, according to which was approved the increase of the Republic of Moldova's quota to the International Monetary Fund from XDR 123.2 million to XDR 172.5 million. The arisen obligations and the necessary measures to be taken, in order to ensure the increase of the Republic of Moldova's Quota to the International Monetary Fund were delegated to the National Bank, based on its statute of agent of the Republic of Moldova.

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended la 31 December 2013**

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**28. Commitments and contingent liabilities (continued)**

*Promissory notes issued (continued)*

As at 31 December 2013, the decision to increase the Moldova's quota has not been enforced, given that all the necessary conditions were not met for the entry into force of the corresponding Decision of the International Monetary Fund.

*Investment commitments*

As at 31 December 2013 within the external management program of reserves the World Bank has concluded 3 transactions, 2 of which are purchases of total nominal value amounting to USD 9,8 million and one selling with nominal value of USD 10,3 million, value date of all transactions being 2 January 2014.

*Loan commitments*

As at 31 December 2013 (as well as at 31 December 2012) there were no loan commitments.

As at 31 December 2013 (as well as at 31 December 2012) there was no debt with expired limitation period.

*Capital commitments*

In accordance with the contracts in force as at 31 December 2013 the Bank was committed to settle during next years its financial obligations regarding the payment for some acquisitions related to the Bank's activity amounting to EUR 341 thousand or about MDL 6,122 thousand (as at 31 December 2012: around EUR 1,220 thousand, or about MDL 19,514 thousand).

*Litigations and contingent liabilities*

As at 31 December 2013, the Bank was involved in 9 lawsuits issued against it, in 5 of which the Bank participates as a defendant and in 4 - as an accessory intervenor.

As at 31 December 2013 (as well as at 31 December 2012), the Bank did not record any provisions for litigations, as the Bank considered that there were not sufficient evidence regarding any related possible future outflows of economic resources.

**29. Subsequent events**

No significant events occurred after the Balance Sheet date.

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