

# **NATIONAL BANK OF MOLDOVA**

## ***FINANCIAL STATEMENTS***

***for the year ended 31 December 2016***  
***Prepared in Accordance with the***  
***International Financial Reporting Standards***  
***(free translation<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 binding version.

**NATIONAL BANK OF MOLDOVA**  
**FINANCIAL STATEMENTS**  
**For the year ended 31 December 2016**

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## INDEPENDENT AUDITOR'S REPORT

To the Supervisory Board of the National Bank of Moldova

### Opinion

1. We have audited the accompanying financial statements of the National Bank of Moldova ("the Bank") which comprise the balance sheet as at 31 December 2016, and the statement of comprehensive result, statement of capital and reserves and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.
2. In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### Basis for Opinion

3. We conducted our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Management's Responsibility for the Financial Statements

4. Management 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.
5. In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.
6. Those charged with governance are responsible for overseeing the Bank's financial reporting process.

## Auditor's Responsibility

7. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
  - Obtain an understanding of internal control relevant to the audit 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.
  - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
  - Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
  - Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
8. We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

***For signature, please refer to the original Romanian version.***

Deloitte Audit S.R.L.  
Bucharest, Romania  
March 31, 2017

**NATIONAL BANK OF MOLDOVA**  
**BALANCE SHEET**  
**As at 31 December 2016**

	Notes	31 December 2016 MDL'000	31 December 2015 MDL'000
<b>ASSETS</b>			
Cash and short-term placements with banks	5	20,118,744	14,706,367
Monetary gold	6	54,616	50,032
Due from international financial institutions	7	4,639,313	3,703,857
Securities issued by the Government of the Republic of Moldova	8	15,583,808	2,118,561
Loans granted to banks and individuals	9	27,968	14,039,063
Investment securities	10	23,898,946	19,431,909
Property and equipment	12	81,334	66,651
Intangible assets	12	42,737	23,252
Other assets	13	17,071	6,920
<b>TOTAL ASSETS</b>		<b>64,464,537</b>	<b>54,146,612</b>
<b>LIABILITIES, CAPITAL AND RESERVES</b>			
<b>Liabilities</b>			
National currency issued into circulation	14	18,990,332	17,044,068
Due to the Government of the Republic of Moldova	15	5,712,099	3,311,788
Due to the banks	16	14,319,524	12,787,808
Certificates issued by the National Bank of Moldova	17	5,915,352	614,445
Due to international financial institutions	7	10,498,477	10,035,034
Other liabilities	18	43,212	64,433
<b>Total liabilities</b>		<b>55,478,996</b>	<b>43,857,576</b>
<b>Capital and reserves</b>			
Authorized capital	19	902,970	902,970
General reserve fund		1,543,791	1,805,940
<b>Total statutory capital</b>		<b>2,446,761</b>	<b>2,708,910</b>
Reserve of unrealized foreign exchange gains from foreign currency stocks' revaluation		6,331,636	7,364,942
Reserve of unrealized gains on revaluation of investment securities		193,431	211,577
Other reserves		13,713	3,607
<b>Total capital and reserves</b>		<b>8,985,541</b>	<b>10,289,036</b>
<b>TOTAL LIABILITIES, CAPITAL AND RESERVES</b>		<b>64,464,537</b>	<b>54,146,612</b>

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

The Financial Statements were approved by the Supervisory Board of the National Bank of Moldova on 31 March 2017.

**Sergiu Cioclea**  
**Governor**



**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 2016**

	<u>Notes</u>	<u>2016</u> <u>MDL'000</u>	<u>2015</u> <u>MDL'000</u>
Interest income from short-term placements	21	105,235	32,754
Interest income from securities	21	802,764	647,838
Interest income from loans and repo agreements	21	16,126	80,389
		<u>924,125</u>	<u>760,981</u>
Interest expenses on loans received	22	(39,333)	(39,717)
Interest expenses on deposits and mandatory reserves	22	(904,251)	(657,770)
Interest expenses on transactions with securities and repo agreements	22	(346,052)	(119,810)
		<u>(1,289,636)</u>	<u>(817,297)</u>
<b>Net interest expenses</b>		<b>(365,511)</b>	<b>(56,316)</b>
(Losses) / gains from foreign currency transactions and foreign exchange rate differences	23	(794,873)	4,545,010
Gains /(losses) from the revaluation of securities	24	8,068	(48,479)
Other income	25	37,209	20,696
Operating expenses	26	(198,494)	(270,403)
<b>Net Operating (expenses) /income</b>		<b>(948,090)</b>	<b>4,246,824</b>
<b>NET (LOSS) /PROFIT</b>		<b>(1,313,601)</b>	<b>4,190,508</b>
<b>Other comprehensive income</b>			
Revaluation of securities issued by the Government of the Republic of Moldova		5,522	(884)
Revaluation of monetary gold		4,584	5,872
<b>TOTAL COMPREHENSIVE RESULT FOR THE PERIOD</b>		<b>(1,303,495)</b>	<b>4,195,496</b>
<b>Calculation of the Profit available for distribution</b>			
<b>NET (LOSS) /PROFIT</b>		<b>(1,313,601)</b>	<b>4,190,508</b>
Covering of unrealized losses on foreign exchange revaluation of investment securities	20	18,146	28,540
Covering /(allocation) of unrealized losses /(gains) on revaluation of foreign currency stocks	20	1,033,306	(2,258,160)
<b>(TOTAL LOSS) /PROFIT AVAILABLE FOR DISTRIBUTION</b>	<b>20</b>	<b>(262,149)</b>	<b>1,960,888</b>

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

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**NATIONAL BANK OF MOLDOVA**  
**STATEMENT OF CASH FLOWS**  
**For the year ended 31 December 2016**

	<u>Notes</u>	<b>2016</b> <b>MDL'000</b>	<b>2015</b> <b>MDL'000</b>
<b>Cash flows from operating activities</b>			
Interest receipts		947,466	776,411
Interest payments		(1,280,993)	(814,574)
Gain /(loss) from investment securities		26,215	(19,939)
Other receipts		37,602	20,692
Payments to personnel and suppliers		(224,261)	(191,352)
<b>Cash flows before changes in assets and liabilities</b>		<b>(493,971)</b>	<b>(228,762)</b>
Increase in securities issued by the Government of the Republic of Moldova		(13,535,475)	-
(Increase) in term deposits in foreign currency		(108,793)	(2,218,849)
(Increase) in amounts due from international financial institutions		(1,047,850)	(306,820)
Decrease /(increase) in loans granted to banks and individuals		14,010,427	(6,369,159)
(Increase) /decrease in investment securities		(4,478,300)	4,842,930
<b>(Increase) in operating assets</b>		<b>(5,159,991)</b>	<b>(4,051,898)</b>
Increase /(decrease) in the national currency issued into circulation		1,946,263	(2,172,928)
Increase in balances due to Government of the Republic of Moldova		2,473,779	789,219
Increase in balances due to banks		1,570,338	3,617,195
Increase in certificates issued by the National Bank of Moldova		5,293,346	392,631
Increase /(decrease) in balances due to international financial institutions		661,939	(654,350)
(Decrease) in other liabilities		(23,709)	(14,323)
<b>Increase in operating liabilities</b>		<b>11,921,956</b>	<b>1,957,444</b>
<b>Net cash flows from operating activities</b>		<b>6,267,994</b>	<b>(2,323,216)</b>
Property, equipment and intangible assets acquisitions		(47,748)	(40,599)
<b>Net cash flows used in investing activities</b>		<b>(47,748)</b>	<b>(40,599)</b>
Payments to the State Budget with regards to profit distribution		-	(889,365)
<b>Net cash flows used in financing activities</b>		<b>-</b>	<b>(889,365)</b>
Differences from revaluation of cash and cash equivalents		(983,886)	2,643,406
<b>Increase /(decrease) in cash and cash equivalents</b>		<b>5,236,360</b>	<b>(609,774)</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>5,746,630</b>	<b>6,356,404</b>
<b>Cash and cash equivalents at the end of the year</b>		<b>10,982,990</b>	<b>5,746,630</b>
<b>Analysis of cash and cash equivalents</b>			
Cash in hand in foreign currency	5	1,875	3,554
Nostro accounts	5	947,796	77,961
Term deposits in foreign currency	5	7,981,983	3,546,554
Securities issued by the Government of the Republic of Moldova	8	2,051,336	2,118,561
<b>Cash and cash equivalents</b>		<b>10,982,990</b>	<b>5,746,630</b>

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**NATIONAL BANK OF MOLDOVA**  
**STATEMENT OF CAPITAL AND RESERVES**  
**For the year ended 31 December 2016**

	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	Profit/ (Loss)	Other reserves	Total capital and reserves
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
<b>Balance as at 1 January 2015</b>	<b>330,017</b>	<b>418,005</b>	<b>5,106,782</b>	<b>240,117</b>	<b>-</b>	<b>(1,381)</b>	<b>6,093,540</b>
<b>Net Profit</b>	-	-	2,258,160	(28,540)	1,960,888	-	4,190,508
<i>Other comprehensive income:</i>							
Differences on revaluation of securities issued by the Government of the Republic of Moldova	-	-	-	-	-	(884)	(884)
Differences on revaluation of monetary gold	-	-	-	-	-	5,872	5,872
<b>Other comprehensive income, total</b>	-	-	-	-	-	4,988	4,988
Comprehensive result at the end of the year	-	-	2,258,160	(28,540)	1,960,888	4,988	4,195,496
<i>Allocation of profit</i>							
Increase of the authorized capital	572,953	-	-	-	(572,953)	-	-
Increase of the general reserve fund	-	1,387,935	-	-	(1,387,935)	-	-
<b>Balance as at 31 December 2015</b>	<b>902,970</b>	<b>1,805,940</b>	<b>7,364,942</b>	<b>211,577</b>	<b>-</b>	<b>3,607</b>	<b>10,289,036</b>
<b>Balance as at 1 January 2016</b>	<b>902,970</b>	<b>1,805,940</b>	<b>7,364,942</b>	<b>211,577</b>	<b>-</b>	<b>3,607</b>	<b>10,289,036</b>
<b>(Net Loss)</b>	-	-	(1,033,306)	(18,146)	(262,149)	-	(1,313,601)
<i>Other comprehensive income:</i>							
Differences on revaluation of securities issued by the Government of the Republic of Moldova	-	-	-	-	-	5,522	5,522
Differences on revaluation of monetary gold	-	-	-	-	-	4,584	4,584
<b>Other comprehensive income, total</b>	-	-	-	-	-	10,106	10,106
Comprehensive result at the end of the year	-	-	(1,033,306)	(18,146)	(262,149)	10,106	(1,303,495)
<i>Covering of losses</i>							
Use of the general reserve fund	-	(262,149)	-	-	262,149	-	-
<b>Balance as at 31 December 2016</b>	<b>902,970</b>	<b>1,543,791</b>	<b>6,331,636</b>	<b>193,431</b>	<b>-</b>	<b>13,713</b>	<b>8,985,541</b>

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

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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. Moreover, the Bank acts as the sole issuer of the national currency, formulates and implements the State monetary and foreign exchange policy, holds and manages foreign exchange reserves of the State, licenses, supervises and regulates the activity of financial institutions, as well as the payment services activities and electronic money issuance.

The National Bank of Moldova has two collegial governing bodies: the Supervisory Board and the Executive Board. The Supervisory Board is the body responsible for organizing an efficient system of independent public oversight of the National Bank activity. The Executive Board exercises the executive management of the National Bank of Moldova and assures the independent achievement of its basic duties, as established by law. The banks' governing bodies members are appointed by the Parliament.

The registered head-office 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.

The Financial Statements have been prepared on a historic cost or amortized 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 of 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 user's expectations of Financial Statements and also in order to maintain consistency of presentation with previous year.

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

**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 recognized 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 is incurred, the amount of loss is measured as the difference between assets' carrying amount and the present value of estimated future cash flows. The Bank reviews the portfolio of securities held-to-maturity on an annual 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.

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 December 2016**

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**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 2015–2016, the official exchange rates of the reference foreign currencies were as follows:

	Year 2016		Year 2015	
	Average for the period	At year end	Average for the period	At year end
USD/MDL	19.9238	19.9814	18.8161	19.6585
EUR/MDL	22.0548	20.8895	20.8980	21.4779
GBP/MDL	27.0353	24.4903	28.7964	29.1134
XDR/MDL	27.7060	26.7768	26.3363	27.2635
XAU/MDL	798.7571	736.7237	700.9788	674.8875

We note that, in accordance with the decision of the IMF Executive Board on 30 November 2015, with effect from 1 October 2016, the Chinese renminbi has been included in the basket of Special Drawing Rights (XDR).

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 in 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.

In the Balance Sheet, cash is carried at nominal value and short-term placements with banks are carried at amortized cost and are presented on a net basis (cash in hand in local currency is offset with the national currency issued into circulation).

**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,

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

**c. Monetary gold (continued)**

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 recognized 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  $P_{AuUSD}$  set by the company London Gold Market Fixing Ltd. The gold is recognized in accounting using the *weighted average cost method*.

Unrealized gains and losses from changes in fair value of monetary gold are recognized in the Statement of Comprehensive Result and reported in the Other comprehensive income as "Other reserves". When the monetary gold is derecognized, the cumulative unrealized gains and losses are recognized as realized 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 amortized 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 amortized 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 initial net carrying amount of the financial asset or financial liability.

*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 recognized 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

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**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 December 2016**

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

**e. Financial assets (continued)**

quoted bid prices on the principal market (BID price provided by Bloomberg Information System), the revaluation result being recognized 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 determinable payments, that are not intended to be sold by the Bank and that are initially recognized at fair value of disbursed cash, with subsequent measurement at amortized cost.

Loans granted to banks and individuals are subsequently measured at amortized cost, determined as the amount recognized at initial recognition minus principal repayments, minus the cumulative amortization 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 which do not meet the definition of loans and receivables. The Bank recognizes 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 amortized cost using the effective interest method, less any allowance for impairment. Impairment losses are recognized in the Statement of Comprehensive Result. The interest is recognized 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.

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

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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 binding version.

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

**e. Financial assets (continued)**

- 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" and securities issued by the Government of the Republic of Moldova, held to maturity, which are presented in the balance sheet as "Securities issued by the Government of the Republic of Moldova".

*Available for sale financial assets*

All non-derivative 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 recognized at their fair value (including transaction costs). Subsequent to initial recognition, these 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 derecognized, 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 presented 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 recognizes 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 and liabilities will flow to / from the Bank and the asset has a cost or value that can be measured reliably.

*Derecognition of financial assets and liabilities*

The Bank derecognizes 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.

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

**e. Financial assets (continued)**

The Bank derecognizes 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 and sent in the Bank's portfolio as a result of the conversion of contracted loans in previous years from the Bank by the Ministry of Finance 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 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.

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

The Bank assigns to this category monetary gold and 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).

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

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

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.

**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 original interest rate. The allowances for impairment of the loans and provisions for losses on conditional commitments are decreased or increased in case the allowance / provision calculated at the reporting date is respectively less or greater than the 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 analyzed 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.



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

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

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 of a crediting nature 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.

**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 sale /purchase 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 accrued 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 recorded in off-balance sheet accounts 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), recognized 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 recognized in balance sheet accounts and is considered as the interest payable or receivable on cumulative basis both for term purchases and sales.

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

**j. Property and equipment**

Property and equipment are measured at cost less accumulated depreciation and impairment losses. Day to day repairs and maintenance expenses are charged to operating expenses as incurred. Subsequent expenditure on property and equipment is recognized as an asset only if it improves the condition of the asset beyond the originally assessed standard of performance.

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

	<b><u>rate per annum</u></b>
Buildings	5%
Firearms endowment and similar appliances	12.5%
Trucks	12.5%
Cars and motor vehicles designed for transporting persons	20%
Special equipment	20%
Office equipment	20%
Special constructions	20%
Machinery and equipment	30%

An element of property and equipment is derecognized 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, amortized 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 2016 the estimated useful life of intangible assets in use 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 derecognized on disposal or when no future economic benefits are expected from their use or disposal. Amortization rates and terms of use are reviewed at each reporting date.

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

**l. National currency used into circulation**

The national currency issued into circulation is carried at amortized 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 recognized as income.

**m. Due to the 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 accepted, are measured at amortized 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 Credit Line Directorate of the Ministry of Finance. These financial liabilities are reflected in the Balance Sheet at amortized 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 amortized cost using the effective interest method, with the calculation and recognition of the amortized 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 amortized cost. Any difference between net proceeds and the redemption value is recognized in the Statement of Comprehensive Result over the period to maturity.

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

**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 amortized cost.

**r. Capital and reserves**

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

The capital structure of the Bank includes the following:

- Statutory capital:
  - Authorized capital
  - General reserve fund
- Reserves 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 the 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

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

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

becomes zero and after the distribution to statutory capital of realized 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 to the increase of the statutory capital, in accordance with article 19, paragraph (3) of the *Law on the National Bank of Moldova*<sup>1</sup>, until the capital reaches the level of 10% of total monetary liabilities, and thereafter, if there will be a difference between the balance of the profit available for distribution and the amount allocated for the statutory capital increase, it will be transferred to the State Budget. Statutory capital and reserves are disclosed in the Balance Sheet at amortized cost.

**s. Income tax**

In accordance with the Article 24, para. (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 all financial instruments valued at fair value and at amortized 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.

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<sup>1</sup> According to the Law on amending and supplementing several legislative acts no.147 dated 30 July 2015, Article 20 of the Law on the National Bank of Moldova No. 548-XIII of 21.07.1995, was amended and under new conditions states: "At the financial year end, profit available for distribution shall be allocated for the increase of statutory capital within the limits laid down in art. 19 para. (3)."

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**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 December 2016**

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

**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.

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 2016, 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:

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

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

**IFRS 9 “Financial Instruments”** (the final version of the standard was published on July 24, 2014, and is mandatorily effective for periods beginning on or after 1 January 2018 with early adoption permitted.). The final version of the standard includes both provisions on the classification and measurement, impairment and hedge accounting. The standard fully replaces IAS 39 “Financial Instruments: Recognition and Measurement”, except that it allows the application of hedge accounting for a portfolio of financial assets or financial liabilities of the entity either based on the requirements of IAS 39 or IFRS 9, depending on the provisions of the accounting policies applied by the entity and choice made.

The standard contains two main categories of financial asset valuation: amortized cost and fair value. A financial asset is measured at amortized cost if it is held under a business model whose objective is to hold assets in order to gain the contractual cash flows and contractual terms of the assets provide on certain dates, cash flows only as payment of principal and interest on the balance due. All other financial assets are measured at fair value. The standard contains the following categories of financial assets: measured at amortized cost, at fair value through other comprehensive income and at fair value through profit or loss, in exchange for current requirements in IAS 39 categories.

The Bank estimates that the provisions of this standard will not have a material impact on its financial statements considering the nature of the Bank's operations.

**IFRS 15 “Revenue from contracts with customers”** (the final version of the standard was issued on May 28, 2014, and applies to an annual reporting period beginning on or after 1 January 2018. Early application is permitted.). The new standard presents a new framework for the recognition of income that replaces the existing provisions of the current IFRS. The entity shall adopt a 5 steps model to determine the timing and amount of revenue to be recognized. The new model specifies that revenue recognition occurs when the entity transfers control of goods or services to the customer in the contract value. Depending on which criteria will be met revenue will be recognized:

- at the time when the entity would record financial performance;
- at the time when the ownership of the goods and services will be transferred to the client.

IFRS 15 requires the use of a higher degree of judgment and a more extensive use of accounting estimates. The standard contains detailed disclosure requirements on disaggregating total income to describe how the nature, amount, timing and uncertainty of recognition of income and cash flows are affected by economic factors. The Bank estimates that the provisions of this standard will have no impact on its financial statements considering the nature of the Bank's operations.

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

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

**Amendments to IAS 1 "Presentation of Financial Statements"** (effective on or after 1 January 2018. Early application is permitted.). Short-term exceptions described in E3-E7 on the first implementation of standards in the standard financial statements have been deleted, because they served their purpose and they are not current and useful in presentation of financial statements. Exceptions are related only to entities reporting information for previous periods, inapplicable at the moment.

**Amendments to IAS 7 "Statement of Cash Flows"** (effective on or after January 1, 2017). Amendments come with initiative and objective that entities should come with disclosures that enable users of financial statements to evaluate changes in bonds stemming from financial activities. To achieve these objectives, the IASB requires the following disclosures about the obligations arising from financial activities (insofar as necessary):

- Changes arising from financed cash flows;
- Changes arising from obtaining or losing control over subsidiaries or other businesses;
- The effect from variation of exchange rates;
- Changes in fair value;
- Other changes.

IASB defines the obligations arising from financial activities as a liability "for cash flows have been or will be classified in the cash flow statement as cash flows generated by financing activities". It also emphasizes that the new requirements of disclosures refers to modifications in financial assets if they meet the same definition. The amendments specify that one way to meet new disclosure requirement is to provide a reconciliation between the input and output balance for bonds arising from financing activities. Finally, the amendments specify that the changes caused by financing activities should be disclosed separately from other assets and liabilities. The Bank estimates that the provisions of this standard will have no impact on its financial statements considering the nature of the Bank's operations.



#### **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.

Through the established powers, the Supervisory Board adopts the standards of the internal control system, verifies and evaluates continuously the functioning of the system and its elements. Respectively, in order to achieve the tasks referred to in an expected quality level, the Supervisory Board is assisted by the Audit Committee, which in turn provides advice/opinions which relates to monitoring the processes of financial reporting of the National Bank of Moldova and of the efficiency of the internal control system and risk management.

The Executive Board of the Bank has overall responsibility for the establishment and oversight of the Bank's risk management framework, through the Investment and Monetary Committees, the way of creating and functioning of committees is established by the Supervisory Board. They are responsible for developing and monitoring the risk management policies in the specific areas of responsibility, reporting regularly to the Executive Board on the results of its activity.

The Executive Board of the Bank is responsible for: establishing the investment horizon, 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 authorized 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 authorized counterparties 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 foreign exchange 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 Supervisory Board 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.

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**4. Risk management (continued)**

**4.1 Risk management framework (continued)**

The Bank's risk management activity 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.

In accordance with Articles 5, 16 and 53 of the *Law on the National Bank of Moldova*, the Bank 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) is being 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 the 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 of 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.

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#### **4. Risk management (continued)**

##### **4.1 Risk management framework (continued)**

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.

The management of the foreign exchange reserves provides that the Bank invests only in safe instruments that are used by other central banks as well: placements on corresponding demand accounts (usually in other central banks), term placements in foreign currency and purchase of securities assigned to one of the following categories: supranational (issued by supranational institutions), Governmental (issued by the U.S. 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 Supervisory Board, 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 and to the executive management for implementation of the audit recommendations, mitigation of the associated risks, being further reported to the Supervisory Board of the Bank.

#### **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 behavior 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:

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**4. Risk management (continued)**

**4.1 Risk management framework (continued)**

**Operational risk (continued)**

- Setting up the objectives for each type of activity in order to implement the strategies and policies approved by the Executive Board 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 the 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.
- 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 internal 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.

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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 binding version.



#### **4. Risk management (continued)**

##### **4.2 Credit risk (continued)**

In order to minimize the exposure to credit risk on loans granted to licensed banks, the Bank monitors on a continuous 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 loan repayment terms and /or interest due to the debtor's financial difficulties caused by economic or legal reasons, etc. As a result of the assessment, the Bank forms/adjusts the discount for credit losses and the provisions for contingent liabilities, so that they reflect the best current estimate.

Additionally, the exposure to credit risk is reduced through the pledge constituted by the licensed banks, which covers the total amount of loans granted by the Bank, interest and other related payments. In determining the value of guarantee-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.

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, and through securing loans with highly liquid collateral such as state securities and certificates issued by the Bank.

To control exposure to credit risk at repo operations of the Bank's open market operations, the following risk controls are designed:

- Establishing the percentage of insurance of transaction (haircut) - when securities are acquired at a higher interest rate than established on the market at the moment, the Bank being protected against the eventual non repayment by the counterpart bank.
- Requesting additional pledge for maintaining the initial percentage of insurance of transaction, set by the Bank, if the market price at which the securities were purchased by the Bank by repo transaction has decreased significantly.

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

**4. Risk management (continued)**

**4.2 Credit risk (continued)**

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 minimum 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-\*), assigned 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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\* 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.

**NATIONAL BANK OF MOLDOVA**  
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**4. Risk management (continued)**

**4.2 Credit risk (continued)**

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

<b>31 December 2016</b>								
<b>Long-term rating<sup>1</sup></b>	<b>Cash and short-term placements with the banks</b>	<b>Monetary gold</b>	<b>Due from international financial institutions</b>	<b>Securities issued by the Government of the Republic of Moldova<sup>2</sup></b>	<b>Loans granted to banks and individuals</b>	<b>Investment securities</b>	<b>Other financial assets</b>	<b>Total financial assets</b>
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
AAA	2,814,944	-	4,639,313	-	-	19,916,868	-	27,371,125
AA+	-	-	-	-	-	2,670,241	-	2,670,241
AA	7,696,308	-	-	-	-	1,311,837	-	9,008,145
AA-	2,193,715	-	-	-	-	-	-	2,193,715
A+	2,179,579	-	-	-	-	-	-	2,179,579
A	5,233,355	-	-	-	-	-	-	5,233,355
BBB+	606	-	-	-	-	-	-	606
BBB	21	-	-	-	-	-	-	21
BBB-	26	-	-	-	-	-	-	26
BB+	190	-	-	-	-	-	-	190
Without rating	-	54,616	-	15,583,808	27,968	-	11,630	15,678,022
<b>Total</b>	<b>20,118,744</b>	<b>54,616</b>	<b>4,639,313</b>	<b>15,583,808</b>	<b>27,968</b>	<b>23,898,946</b>	<b>11,630</b>	<b>64,335,025</b>

  

<b>31 December 2015</b>								
<b>Long-term rating</b>	<b>Cash and short-term placements with the banks</b>	<b>Monetary gold</b>	<b>Due from international financial institutions</b>	<b>Securities issued by the Government of the Republic of Moldova</b>	<b>Loans granted to banks and individuals</b>	<b>Investment securities</b>	<b>Other financial assets</b>	<b>Total financial assets</b>
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
AAA	2,123,450	-	3,703,857	-	-	16,346,393	-	22,173,700
AA+	22,368	-	-	-	-	1,025,414	-	1,047,782
AA	2,066,335	-	-	-	-	2,060,102	-	4,126,437
AA-	2,461,752	-	-	-	-	-	-	2,461,752
A+	2,939,159	-	-	-	-	-	-	2,939,159
A	5,090,131	-	-	-	-	-	-	5,090,131
BBB+	1,400	-	-	-	-	-	-	1,400
BBB	21	-	-	-	-	-	-	21
BBB-	10	-	-	-	-	-	-	10
BB+	1,741	-	-	-	-	-	-	1,741
Without rating	-	50,032	-	2,118,561	14,039,063	-	1,695	16,209,351
<b>Total</b>	<b>14,706,367</b>	<b>50,032</b>	<b>3,703,857</b>	<b>2,118,561</b>	<b>14,039,063</b>	<b>19,431,909</b>	<b>1,695</b>	<b>54,051,484</b>

<sup>1</sup> Established by applying the medium rating assigned by the 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 specific 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 2016, the international rating agency Moody's maintains for Republic of Moldova the rating level B3 (as at 31 December 2015: rating level B3).

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

**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 December 2016**

**4. Risk management (continued)**

**4.2 Credit risk (continued)**

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 2016 the credit risk of the investment securities portfolio, quantified based on the default rates published by Standard & Poor's, is 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 2016	27,408	1,372	8,037	402	35,445	1,774	0.08
31 December 2015	35,571	1,809	13,278	675	48,849	2,485	0.14

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:

<b>Country</b>	<b>31 December 2016</b>	<b>Share</b>	<b>31 December 2015</b>	<b>Share</b>
	<b>MDL'000</b>	<b>%</b>	<b>MDL'000</b>	<b>%</b>
USA	13,332,241	20.72	9,530,780	17.63
International financial organisations	8,128,764	12.64	7,244,333	13.40
Germany	5,933,867	9.22	5,688,796	10.52
France	4,952,352	7.70	4,479,428	8.29
Great Britain	4,457,800	6.93	4,321,619	8.00
Luxemburg	3,603,875	5.60	2,066,315	3.82
The Netherlands	3,508,099	5.45	2,191,584	4.05
Singapore	2,998,513	4.66	-	-
Finland	688,281	1.07	773,379	1.43
Austria	350,869	0.55	363,179	0.67
Sweden	246,379	0.38	1,078,552	2.00
Canada	180,252	0.28	101,722	0.19
Norway	179,047	0.28	24	-
Japan	95,408	0.15	-	-
Other Countries	1,256	-	2,422	0.01
Republic of Moldova	15,678,022	24.37	16,209,351	29.99
<b>Total financial assets</b>	<b>64,335,025</b>	<b>100.00</b>	<b>54,051,484</b>	<b>100.00</b>

"International Financial Organizations" represents the quota of the Republic of Moldova to International Monetary Fund, which increased with XDR 49,3 million on 17 February 2016, from XDR 123,2 million to XDR 172,5 million.

The increase of investments mainly in USA, Singapore and Luxemburg countries listed with "AAA" rating was due to the purchase of securities issued by the US Treasury and investment of funds in term placements with counterparties from Singapore and Luxemburg.

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



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**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, excepting cash:

Investment sector	31 December 2016	Share	31 December 2015	Share
	MDL'000	%	MDL'000	%
Foreign central banks	2,913,109	4.53	2,145,871	3.97
Foreign commercial banks	17,205,635	26.74	12,560,496	23.24
Local banks	27,968	0.04	14,039,063	25.97
Foreign Governments	14,574,781	22.66	11,792,606	21.82
Government of the Republic of Moldova	15,583,808	24.22	2,118,561	3.92
International Financial Organizations	8,128,764	12.64	7,244,333	13.40
Foreign Government Agencies	5,834,714	9.07	4,098,827	7.58
Other financial assets	66,246	0.10	51,727	0.10
<b>Total financial assets</b>	<b>64,335,025</b>	<b>100.00</b>	<b>54,051,484</b>	<b>100.00</b>

**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 Executive Board 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.

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.

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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 binding version.

**4. Risk management (continued)**

**4.3 Liquidity risk (continued)**

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<sup>th</sup> of December 2010 between the International Bank for Reconstruction and Development (IBRD) and the National Bank of Moldova, which was extended by the Decision of Executive Board no. 168 from 30 December 2016, with effect from 1st February 2016 and which stipulates that the investments are managed according to a benchmark index (Bank of America Merrill Lynch U. S. Treasuries, 0-1 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, in foreign currency, is mitigated through the diversification of the maturity of investments between the range of 1 to 8 years and by restricting the share of this portfolio in the total portfolio of investment securities. Nevertheless, the replenishment of the portfolio of investment securities held-to-maturity, in foreign currency, is possible only when its share represents less than 20% of the international reserves and the level of the reserves covers 4 months of import.

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 by the Bank 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 the year of 2016 had a contractual maturity no longer than 182 days. At maturity, these securities are repurchased by the Government and new securities are issued by the Government in the same volume which are subsequently purchased by the Bank.

State securities issued in order to enforce obligations resulting from Ministry of Finance state guarantees were obtained by the Bank on 4 October 2016, in the form of state bonds with maturities ranging from 1 to 25 years.

The state bonds with maturity over 5 years represent 79.25 % of local total volume of securities issued by the Government of the Republic of Moldova and held by NBM.

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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 binding version.

**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS – not audited**  
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**4. Management risk (continued)**

**4.3 Liquidity (continued)**

The analysis of financial assets and liabilities classified according to their contractual maturity date as at 31 December 2016 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 2016</b>								
<b>Assets</b>								
Cash and short-term placements with banks	17,720,976	2,397,768	-	-	-	-	-	20,118,74
Monetary gold	-	-	-	-	-	-	54,616	54,61
Due from international financial institutions	5,679	-	-	-	-	-	4,633,634	4,639,31
Securities issued by the Government of the Republic of Moldova	2,091,878	-	200,730	210,000	730,000	12,351,200	-	15,583,80
Loans granted to banks and individuals	955	951	1,725	2,951	7,529	13,857	-	27,96
Investment securities	4,565,347	3,824,985	6,467,556	1,536,643	4,257,274	3,247,141	-	23,898,94
Other assets	11,630	-	-	-	-	-	-	11,63
<b>Total financial assets</b>	<b>24,396,465</b>	<b>6,223,704</b>	<b>6,670,011</b>	<b>1,749,594</b>	<b>4,994,803</b>	<b>15,612,198</b>	<b>4,688,250</b>	<b>64,335,02</b>
<b>Liabilities</b>								
National currency issued into circulation	-	-	-	-	-	-	18,990,332	18,990,33
Due to the Government of the Republic of Moldova	5,712,099	-	-	-	-	-	-	5,712,09
Due to the banks	14,319,524	-	-	-	-	-	-	14,319,52
Certificates issued by the National Bank of Moldova	5,915,352	-	-	-	-	-	-	5,915,35
Due to international financial institutions	491,485	89,327	619,107	1,165,864	2,946,778	545,719	4,640,197	10,498,47
Other liabilities	43,212	-	-	-	-	-	-	43,21
<b>Total financial liabilities</b>	<b>26,481,672</b>	<b>89,327</b>	<b>619,107</b>	<b>1,165,864</b>	<b>2,946,778</b>	<b>545,719</b>	<b>23,630,529</b>	<b>55,478,99</b>
<b>Net liquidity gap</b>	<b>(2,085,207)</b>	<b>6,134,377</b>	<b>6,050,904</b>	<b>583,730</b>	<b>2,048,025</b>	<b>15,066,479</b>	<b>(18,942,279)</b>	<b>8,856,02</b>

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

**NATIONAL BANK OF MOLDOVA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**4. Management risk (continued)**

**4.3 Liquidity (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 2015</b>								
<b>Assets</b>								
Cash and short-term placements with banks	10,633,122	4,073,245	-	-	-	-	-	14,706,367
Monetary gold	-	-	-	-	-	-	50,032	50,032
Due from international financial institutions	347,723	-	-	-	-	-	3,356,134	3,703,857
Securities issued by the Government of the Republic of Moldova	2,118,561	-	-	-	-	-	-	2,118,561
Loans granted to banks and individuals	14,013,219	833	1,604	2,907	6,972	13,528	-	14,039,063
Investment securities	712,900	954,630	2,320,330	4,482,793	5,149,260	5,811,996	-	19,431,909
Other assets	1,695	-	-	-	-	-	-	1,695
<b>Total financial assets</b>	<b>27,827,220</b>	<b>5,028,708</b>	<b>2,321,934</b>	<b>4,485,700</b>	<b>5,156,232</b>	<b>5,825,524</b>	<b>3,406,166</b>	<b>54,051,484</b>
<b>Liabilities</b>								
National currency issued into circulation	-	-	-	-	-	-	17,044,068	17,044,068
Due to the Government of the Republic of Moldova	3,311,788	-	-	-	-	-	-	3,311,788
Due to the banks	12,787,808	-	-	-	-	-	-	12,787,808
Certificates issued by the National Bank of Moldova	614,445	-	-	-	-	-	-	614,445
Due to international financial institutions	287,171	141,052	533,502	1,211,784	3,320,533	1,179,278	3,361,714	10,035,034
Other liabilities	64,432	-	-	-	-	-	-	64,432
<b>Total financial liabilities</b>	<b>17,065,644</b>	<b>141,052</b>	<b>533,502</b>	<b>1,211,784</b>	<b>3,320,533</b>	<b>1,179,278</b>	<b>20,405,782</b>	<b>43,857,575</b>
<b>Net liquidity gap</b>	<b>10,761,576</b>	<b>4,887,656</b>	<b>1,788,432</b>	<b>3,273,916</b>	<b>1,835,699</b>	<b>4,646,246</b>	<b>(16,999,616)</b>	<b>10,193,909</b>

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

**NATIONAL BANK OF MOLDOVA**  
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**4. Management risk (continued)**

**4.3 Liquidity (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 2016.

The amounts of future obligations were calculated using the information available as at 31 December 2016 (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 2016</b>								
<b>Liabilities</b>								
National currency issued into circulation	-	-	-	-	-	-	18,990,332	18,990,332
Due to the Government of the Republic of Moldova	5,712,099	-	-	-	-	-	-	5,712,099
Due to banks	14,329,763	-	-	-	-	-	-	14,329,763
Certificates issued by the National Bank of Moldova	5,926,035	-	-	-	-	-	-	5,926,035
Due to international financial institutions*	501,847	99,293	637,691	1,196,502	2,996,003	553,056	4,640,197	10,624,589
Other liabilities	43,212	-	-	-	-	-	-	43,212
<b>Total financial liabilities</b>	<b>26,512,956</b>	<b>99,293</b>	<b>637,691</b>	<b>1,196,502</b>	<b>2,996,003</b>	<b>553,056</b>	<b>23,630,529</b>	<b>55,626,030</b>
<b>31 December 2015</b>								
<b>Liabilities</b>								
National currency issued into circulation	-	-	-	-	-	-	17,044,068	17,044,068
Due to the Government of the Republic of Moldova	3,311,788	-	-	-	-	-	-	3,311,788
Due to banks	12,810,774	-	-	-	-	-	-	12,810,774
Certificates issued by the National Bank of Moldova	617,000	-	-	-	-	-	-	617,000
Due to international financial institutions*	296,815	150,544	551,565	1,242,792	3,375,352	1,185,323	3,361,714	10,164,105
Other liabilities	64,432	-	-	-	-	-	-	64,432
<b>Total financial liabilities</b>	<b>17,100,809</b>	<b>150,544</b>	<b>551,565</b>	<b>1,242,792</b>	<b>3,375,352</b>	<b>1,185,323</b>	<b>20,405,782</b>	<b>44,012,167</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 2018, 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 binding version.

**NATIONAL BANK OF MOLDOVA**  
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**4. Management risk (continued)**

**4.4 Market risk**

Market risk is the risk that the fair value of financial instruments will fluctuate due to changes in market prices, 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 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 2016	171,788	8,597	91,122	4,560	262,910	13,158	1.11
31 December 2015	227,341	11,565	196,707	10,006	424,049	21,571	2.15

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 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.

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



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**For the year ended 31 December 2016**

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**4. Management risk (continued)**

**4.4 Market risk (continued)**

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, which estimates the average of losses higher than those covered by the confidence level of the VaR method.

Thus, as at 31 December 2016, the value of exposure at risk of securities portfolio in foreign currency, calculated by using CVaR, is presented 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 2016	241,926	12,108	127,516	6,382	369,442	18,489	1.56
31 December 2015	327,155	16,642	275,700	14,024	602,854	30,666	3.05

**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 8,500 thousands 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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\*Translator's explanatory note: The above translation of the Financial Statements is provided as a free translation from Romanian which is the official binding version.

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**4. Management risk (continued)**

**4.4 Market risk (continued)**

**4.4.1 Interest rate risk (continued)**

The analysis of financial assets and liabilities as at 31 December 2016 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 2016</b>								
<b>Assets</b>								
Cash and short-term placements with banks	17,700,139	2,397,768	-	-	-	-	20,837	20,118,744
Monetary gold	-	-	-	-	-	-	54,616	54,616
Due from international financial institutions	5,653	-	-	-	-	-	4,633,660	4,639,313
Securities issued by the Government of the Republic of Moldova	2,091,878	-	200,730	210,000	730,000	12,351,200	-	15,583,808
Loans granted to banks and individuals	955	951	1,725	2,951	7,529	13,857	-	27,968
Investment securities	5,215,049	3,707,419	6,274,620	1,086,734	4,257,274	3,247,141	110,709	23,898,946
Other assets	-	-	-	-	-	-	11,630	11,630
<b>Total financial assets</b>	<b>25,013,674</b>	<b>6,106,138</b>	<b>6,477,075</b>	<b>1,299,685</b>	<b>4,994,803</b>	<b>15,612,198</b>	<b>4,831,452</b>	<b>64,335,025</b>
<b>Liabilities</b>								
National currency issued into circulation	-	-	-	-	-	-	18,990,332	18,990,332
Due to the Government of the Republic of Moldova	2,679,999	-	-	-	-	-	3,032,100	5,712,099
Due to banks	11,826,438	-	-	-	-	-	2,493,086	14,319,524
Certificates issued by the National Bank of Moldova	5,915,352	-	-	-	-	-	-	5,915,352
Due to international financial institutions	3,728,538	66,942	285,307	498,262	1,152,152	119,960	4,647,316	10,498,477
Other liabilities	-	-	-	-	-	-	43,212	43,212
<b>Total financial liabilities</b>	<b>24,150,327</b>	<b>66,942</b>	<b>285,307</b>	<b>498,262</b>	<b>1,152,152</b>	<b>119,960</b>	<b>29,206,046</b>	<b>55,478,996</b>
<b>Interest rate gap</b>	<b>863,347</b>	<b>6,039,196</b>	<b>6,191,768</b>	<b>801,423</b>	<b>3,842,651</b>	<b>15,492,238</b>	<b>(24,374,594)</b>	<b>8,856,029</b>



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**4. Management risk (continued)**

**4.4 Market risk (continued)**

**4.4.1 Interest rate risk (continued)**

	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 2015</b>								
<b>Assets</b>								
Cash and short-term placements with banks	10,620,463	4,073,245	-	-	-	-	12,659	14,706,367
Monetary gold	-	-	-	-	-	-	50,032	50,032
Due from international financial institutions	347,711	-	-	-	-	-	3,356,146	3,703,857
Securities issued by the Government of the Republic of Moldova	2,118,561	-	-	-	-	-	-	2,118,561
Loans granted to banks and individuals	323,334	833	1,604	2,907	6,972	13,528	13,689,885	14,039,063
Investment securities	655,637	932,658	2,294,140	4,482,793	5,149,260	5,811,996	105,425	19,431,909
Other assets	-	-	-	-	-	-	1,695	1,695
<b>Total financial assets</b>	<b>14,065,706</b>	<b>5,006,736</b>	<b>2,295,744</b>	<b>4,485,700</b>	<b>5,156,232</b>	<b>5,825,524</b>	<b>17,215,842</b>	<b>54,051,484</b>
<b>Liabilities</b>								
National currency issued into circulation	-	-	-	-	-	-	17,044,068	17,044,068
Due to the Government of the Republic of Moldova	2,367,794	-	-	-	-	-	943,994	3,311,788
Due to banks	9,957,335	-	-	-	-	-	2,830,473	12,787,808
Certificates issued by the National Bank of Moldova	614,445	-	-	-	-	-	-	614,445
Due to international financial institutions	3,934,086	118,351	276,888	534,746	1,334,821	467,733	3,368,409	10,035,034
Other liabilities	-	-	-	-	-	-	64,432	64,432
<b>Total financial liabilities</b>	<b>16,873,660</b>	<b>118,351</b>	<b>276,888</b>	<b>534,746</b>	<b>1,334,821</b>	<b>467,733</b>	<b>24,251,376</b>	<b>43,857,575</b>
<b>Interest rate gap</b>	<b>(2,807,954)</b>	<b>4,888,385</b>	<b>2,018,856</b>	<b>3,950,954</b>	<b>3,821,411</b>	<b>5,357,791</b>	<b>(7,035,534)</b>	<b>10,193,909</b>

The interest bearing assets and liabilities mainly comprise cash and cash equivalents in foreign currency, securities, accepted deposits and certificates issued by the Bank, as well as loans granted by the international financial institutions.

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#### **4. Management risk (continued)**

#### **4.4 Market risk (continued)**

##### **4.4.1 Interest rate risk (continued)**

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.

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 2016, 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 2016	+/-83,119	+/-4,160
Year 2015	+/-57,198	+/-2,910

The price sensitivity of the investment securities' portfolio 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 inversely proportional modification on the portfolio value calculated using the PV01 method.

As at 31 December 2016, the change of the yield by 0.01 p.p. leads to a change in the present value of the investment portfolio of securities of MDL 4,522 thousands or USD 226 thousands, which represents 0.02% of the portfolio of securities (as at 31 December 2015: of MDL 6,131 thousands or USD 312 thousands, which represents 0.03% of the portfolio of securities).

##### **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 minimization of the currency risk is ensured through a policy of portfolio diversification.

The normative currency structure of the investment portfolio is set by the Bank's Executive Board and is aimed to hedge the foreign currency risk through an adequate corresponding structure of foreign currency assets and liabilities, and a reasonable investment horizon that is acceptable to serve the current external liabilities and to implement the foreign currency policy of the state.

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**4. Management risk (continued)**

**4.4 Market risk (continued)**

**4.4.2 Foreign currency risk (continued)**

As at 31 December 2016 the US dollar share in the normative currency structure constituted 65%, Pound Sterling – 20%, Euro – 10%, other currencies – 5% (as at 31 December 2015 the US dollar share in the normative currency structure constituted 55%, Euro – 30%, Pound Sterling – 10%, other currencies – 5%). The share of each currency in the Bank's investment portfolio may vary within +/-10 p.p. from the normative currency structure.

As at 31 December 2016, the Bank held the following foreign exchange positions:

	MDL	USD	EUR	GBP	XDR	Other currencies	Total
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
<b>31 December 2016</b>							
<b>Assets</b>							
Cash and short-term placements with banks	-	11,655,883	1,366,818	7,000,001	-	96,042	20,118,744
Monetary gold	-	-	-	-	-	54,616	54,616
Due from international financial institutions	-	-	-	-	4,639,313	-	4,639,313
Securities issued by the Government of the Republic of Moldova	15,583,808	-	-	-	-	-	15,583,808
Loans granted to banks and individuals	27,968	-	-	-	-	-	27,968
Investment securities	-	19,034,655	4,313,747	550,544	-	-	23,898,946
Other assets	1,987	340	9,303	-	-	-	11,630
<b>Total financial assets</b>	<b>15,613,763</b>	<b>30,690,878</b>	<b>5,689,868</b>	<b>7,550,545</b>	<b>4,639,313</b>	<b>150,658</b>	<b>64,335,025</b>
<b>Liabilities</b>							
National currency issued into circulation	18,990,332	-	-	-	-	-	18,990,332
Due to the Government of the Republic of Moldova	3,019,367	1,197,730	1,494,876	-	-	126	5,712,099
Due to banks	10,889,363	1,225,569	2,204,592	-	-	-	14,319,524
Certificates issued by the National Bank of Moldova	5,915,352	-	-	-	-	-	5,915,352
Due to international financial institutions	17,793	-	-	-	10,480,684	-	10,498,477
Other liabilities	41,390	1,464	355	3	-	-	43,212
<b>Total financial liabilities</b>	<b>38,873,597</b>	<b>2,424,763</b>	<b>3,699,823</b>	<b>3</b>	<b>10,480,684</b>	<b>126</b>	<b>55,478,996</b>
<b>Net position</b>	<b>(23,259,834)</b>	<b>28,266,115</b>	<b>1,990,045</b>	<b>7,550,542</b>	<b>(5,841,371)</b>	<b>150,532</b>	<b>8,856,029</b>

As at 31 December 2016, other currencies include Japanese yen – MDL 95,408 thousands, monetary gold equivalent of MDL 54,616 thousands, Romanian Lei – MDL 484 thousands, Russian roubles – MDL 190 thousands, Swiss Francs – MDL 59 thousands, Norwegian kroner – MDL 25 thousands and Danish kroner – MDL 2 thousands.

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**4. Management risk (continued)**

**4.4 Market risk (continued)**

**4.4.2 Foreign currency risk (continued)**

	MDL	USD	EUR	GBP	XDR	Other currencies	Total
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
<b>31 December 2015</b>							
<b>Assets</b>							
Cash and short-term placements with banks	-	9,360,614	473,664	4,870,259	-	1,830	14,706,367
Monetary gold	-	-	-	-	-	50,032	50,032
Due from international financial institutions	-	-	-	-	3,703,857	-	3,703,857
Securities issued by the Government of the Republic of Moldova	2,118,561	-	-	-	-	-	2,118,561
Loans granted to banks and individuals	14,039,063	-	-	-	-	-	14,039,063
Investment securities	-	12,024,370	6,593,827	813,712	-	-	19,431,909
Other assets	748	316	631	-	-	-	1,695
<b>Total financial assets</b>	<b>16,158,372</b>	<b>21,385,300</b>	<b>7,068,122</b>	<b>5,683,971</b>	<b>3,703,857</b>	<b>51,862</b>	<b>54,051,484</b>
<b>Liabilities</b>							
National currency issued into circulation	17,044,068	-	-	-	-	-	17,044,068
Due to the Government of the Republic of Moldova	2,391,605	226,786	693,397	-	-	-	3,311,788
Due to banks	9,227,210	1,277,335	2,283,263	-	-	-	12,787,808
Certificates issued by the National Bank of Moldova	614,445	-	-	-	-	-	614,445
Due to international financial institutions	2,478	-	-	-	10,032,556	-	10,035,034
Other liabilities	46,084	2,041	16,300	7	-	-	64,432
<b>Total financial liabilities</b>	<b>29,325,890</b>	<b>1,506,162</b>	<b>2,992,960</b>	<b>7</b>	<b>10,032,556</b>	<b>-</b>	<b>43,857,575</b>
<b>Net position</b>	<b>(13,167,518)</b>	<b>19,879,138</b>	<b>4,075,162</b>	<b>5,683,964</b>	<b>(6,328,699)</b>	<b>51,862</b>	<b>10,193,909</b>

As at 31 December 2015, other currencies include monetary gold equivalent of MDL 50,032 thousands, Russian roubles – MDL 1,741 thousands, Swiss Francs – MDL 49 thousands, Norwegian kroner – MDL 24 thousands, Romanian Lei – MDL 14 thousands and Danish kroner – MDL 2 thousands.

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**4. Management risk (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 2016 and 31 December 2015, respectively, the amount of the potential impact on the profit and equity of the Bank is as follows:

	<b>31 December 2016</b>		<b>31 December 2015</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	+/-2,826,612	+/-2,826,612	+/-1,987,963	+/-1,987,963
MDL against EUR	+/-199,004	+/-199,004	+/-407,523	+/-407,523
MDL against GBP	+/-755,054	+/-755,054	+/-568,396	+/-568,396
MDL against XDR	+/-584,137	+/-584,137	+/-632,870	+/-632,870
MDL against other currencies	+/-9,592	+/-9,592	+/-183	+/-183

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</b>	<b>31 December</b>
	<b>2016</b>	<b>2015</b>
	<b>MDL'000</b>	<b>MDL'000</b>
Cash in hand in foreign currency	1,875	3,554
Nostro accounts	947,796	77,961
Term deposits in foreign currency	19,169,073	14,624,852
	<b>20,118,744</b>	<b>14,706,367</b>

Cash and short-term placements with banks do not include local currency balances of cash in hand 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

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**5. Cash and short-term placements with banks (continued)**

currency were placed at financial institutions with ratings<sup>1</sup>: „AAA” – 10.25%, „AA” – 40.14%, „AA-” – 11.44%, „A+” – 10.87% and „A” – 27.30% (as at 31 December 2015: „AAA” – 14.14%, „AA” – 14.13%, „AA-” – 16.83%, „A+” – 20.10% and „A” – 34.80%).

As at 31 December 2016, from the total of term deposits in foreign currency, the balance of those with a maturity of more than 3 months from the acquisition date amounts MDL 11,187,090 thousands (as at 31 December 2015: MDL 11,078,298 thousands).

**6. Monetary gold**

	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>MDL'000</b>	<b>MDL'000</b>
Monetary gold	54,616	50,032
	<b>54,616</b>	<b>50,032</b>

The monetary gold is represented by the quantity of 74,133.48 grams (as at 31 December 2015 – 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 2016 the revaluation price of gold was of 736.7237 MDL/gram (as at 31 December 2015 was of 674.8875 MDL/gram).

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

	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>MDL'000</b>	<b>MDL'000</b>
<b>Assets</b>		
Quota of the Republic of Moldova with the International Monetary Fund (IMF)	4,633,634	3,356,134
Current account with IMF	5,679	347,723
	<b>4,639,313</b>	<b>3,703,857</b>
<b>Liabilities</b>		
Account No.1	4,633,500	3,355,998
Account No.2	135	138
<b>Total liabilities of the IMF</b>	<b>4,633,635</b>	<b>3,356,136</b>
Other international organisations	6,562	5,578
Loans granted by the IMF	5,858,280	6,673,320
	<b>10,498,477</b>	<b>10,035,034</b>

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

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 revised 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.

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.

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.

As at 18 December 2015, the U.S. Congress accepted the increase of the IMF capital within the 14<sup>th</sup> General revision of quotas, which enforced the IMF decision related to this subject. Thus, on 17 February 2016, the quota subscription of Republic of Moldova was increased with XDR 49.3 million up to XDR 172.5 million.

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 2016 the Bank's outstanding balance of loans due to the IMF is as follows:

- ECF commitments – XDR 85,730 thousands (as at 31 December 2015 – XDR 104,686 thousands);
- EFF commitments – XDR 132,367 thousands (as at 31 December 2015 – XDR 139,953 thousands).

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

The Extended credit facility (ECF, previously PRGF) represents the loans granted to the countries that meet the eligibility criteria approved by the IMF for concessional financing. The IMF has granted loans within ECF for a 10 year term and with a 5.5 years grace period. These loans bear an interest rate of 0.25% per annum. For the period 7 January 2010 – 31 December 2018, no interest is calculated, according to the resolution of the IMF Executive Board.

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 year 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.

Afterwards signing the memorandum with the IMF on 7 November 2016, the Ministry of Finance of Republic of Moldova received the first tranche of credit under the EFF facility amounting USD 12.15 million (equivalent to XDR 8.80 million) and the first tranche of credit under the ECF facility amounting USD 11.94 million (equivalent to XDR 8.70 million) to finance the state budget deficit. In this regard, on 17 November 2016, the Law no. 250 and the Law no. 251 were approved, regarding the contracting of external state loan from IMF. Upon receipt of the facility granted from IMF General Resources Account (EFF), the Ministry of Finance issued a promissory note in local currency in favour of the IMF, which has been received for safekeeping in the vault of NBM.

	<b>Balance 31.12.2015</b>	<b>Reimburse ments</b>	<b>Receipts</b>	<b>Balance 31.12.2016</b>
	<b>XDR, thousands</b>	<b>XDR, thousands</b>	<b>XDR, thousands</b>	<b>XDR, thousands</b>
NBM	244,639	35,042	8,500	218,097
Ministry of Finance	208,714	17,500	17,500	208,714
<b>Loans and other financing from the IMF</b>	<b>453,353</b>	<b>52,542</b>	<b>26,000</b>	<b>426,811</b>
NBM	139,953	16,086	8,500	132,367
Ministry of Finance	-	-	8,800	8,800
<b>EFF</b>	<b>139,953</b>	<b>16,086</b>	<b>17,300</b>	<b>141,167</b>
NBM	104,686	18,956	-	85,730
Ministry of Finance	91,000	17,500	8,700	82,200
<b>ECF</b>	<b>195,686</b>	<b>36,456</b>	<b>8,700</b>	<b>167,930</b>
NBM	-	-	-	-
Ministry of Finance	117,714	-	-	117,714
<b>XDR allocations</b>	<b>117,714</b>	<b>-</b>	<b>-</b>	<b>117,714</b>

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

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

	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>MDL'000</b>	<b>MDL'000</b>
State Securities held to maturity	13,341,200	-
Interest on State Securities held to maturity	150,730	-
State Securities available for sale	2,105,293	2,185,388
Discount at State Securities available for sale	(18,076)	(65,965)
Revaluation of the State Securities available for sale	4,661	(862)
	<b>15,583,808</b>	<b>2,118,561</b>

State Securities held to maturity were issued under the Law on issuing bonds for execution by the Ministry of Finance of the payment obligations derived from state guarantees No. 807 of 17 November 2014 and No. 101 of 1 April 2015, granted to the National Bank on 4 October 2016, in the form of interest-bearing bonds (coupon) in the amount of MDL 13,341,200 thousands at nominal value.

This is the total outstanding balance of emergency loans granted by NBM to "Banca de Economii" S.A., BC "Banca Socială" S.A. and B.C. "Unibank" S.A., at the date of issuance of state bonds. State bonds in the portfolio of the Bank are classified as held to maturity, because the Bank has the positive intention and ability to hold to maturity.

As at 31 December 2016, in addition to the above mentioned securities, the Bank's portfolio comprises securities issued by the Government ("state securities") and transferred to the Bank as a result of conversion of Government debt 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. 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 in the banks' portfolio.

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 2016 is up to 182 days. The average interest rate on the portfolio of state securities held by the Bank as at 31 December 2016 was of 7.27% (as at 31 December 2015 – 23.71%).

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

	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>MDL'000</b>	<b>MDL'000</b>
Short term loans granted to banks	-	13,689,217
Repo transactions	-	180,581
Overnight loans granted to banks	-	142,588
Loans granted to banks for crediting the construction cooperatives	408	722
Loans granted to other individuals	27,560	25,955
	<b>27,968</b>	<b>14,039,063</b>

Considerable reduction of the balance of short term loans (emergency loans) is explained by the Ministry of Finance execution of the payment obligations derived from state guarantees No. 807 of 17 November 2014 and No. 101 of 1<sup>st</sup> April 2015 (on the basis of the Law 235 of 03.10.2016). Thus, on 4 October 2016, the Ministry of Finance issued and granted to the National Bank of Moldova securities in the amount of MDL 13,341,200 thousands, equivalent to the outstanding balance of emergency loans of the "Banca de Economii" S.A., BC "Banca Socială" S.A. and B.C. "Unibank" S.A., respectively, the debt to NBM was repaid. Based on this law the Ministry of Finance subrogated National Bank of Moldova with respect to the receivables due from "Banca de Economii" S.A., BC "Banca Socială" S.A. and B.C. "Unibank" S.A., resulting from emergency loans granted to them.

As at 31 December 2016, the collateral pledged by the Bank's employees, as to secure the repayment of loans granted and related interest amounts to MDL 38,481 thousands (as at 31 December 2015: MDL 34,599 thousands).

Repo operations were conducted by the Bank at a fixed rate, equivalent to the base rate plus a margin of 0.25 p.p. with a maturity of 14 days. The purpose of these operations was to cover current liquidity needs of licensed banks. Repo operations balance at 31 December 2016 was null.

During years 2015 and 2016, no impairment allowances were accounted for the loans granted.

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**10. Investment securities**

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

	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>MDL'000</b>	<b>MDL'000</b>
<b>Securities in foreign currency measured at fair value through profit or loss</b>	<b>15,329,320</b>	<b>10,169,179</b>
Coupon securities in foreign currency	15,329,320	10,169,179
<b>Securities in foreign currency held-to-maturity</b>	<b>8,569,626</b>	<b>9,262,730</b>
Coupon securities in foreign currency	8,569,626	9,262,730
<b>Total investment securities</b>	<b>23,898,946</b>	<b>19,431,909</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.

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 2016</b>	<b>31 December 2015</b>
	<b>MDL'000</b>	<b>MDL'000</b>
Securities in foreign currency measured at fair value through profit or loss (nominal value)	15,233,577	10,051,291
Interest on securities in foreign currency measured at fair value through profit or loss	75,105	79,940
Revaluation of securities in foreign currency measured at fair value through profit or loss	20,638	37,948
<b>Securities in foreign currency measured at fair value through profit or loss</b>	<b>15,329,320</b>	<b>10,169,179</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 0.004% to 2.32% per annum (as at 31 December 2015: 0.004% to 2.69%), with the exception of the securities with a nominal value of USD 38,020 thousands with floating interest rates, which change on a quarterly basis. The investment securities in foreign currency measured at fair value through profit or loss include also the accrued interest amounting MDL 40,439 thousands as at 31 December 2016 (as at 31 December 2015: MDL 31,733 thousands).

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**10. Investment securities (continued)**

As at 31 December 2016, 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>2</sup> – „AAA” represented 85.76%, securities with rating „AA+” constituted 9.09% and securities with rating „AA” represented 5.15% (as at 31 December 2015: „AAA” – 86.52%, „AA+” – 4.46%, „AA” – 9.02%). The reduction of the share of securities with „AAA” and the increase of the share of securities rated "AA +" rating was caused by the downgrading of the average rating of Finland from „AAA” down to „AA+”, on 11 March 2016. Also, the acquisition of supranational security issued by the Council of Europe, which holds the "AA +" rating on 12<sup>th</sup> December 2016 has contributed to the increase in the share of investments with this rating. The share of securities with "AA" rating decreased due to the sale, during the period examined, of securities issued by the Government of France. During the reporting period were sold and have matured securities in foreign currency at fair value through profit or loss with a total nominal value of USD 951,980 thousands, EUR 69,920 thousands and GBP 5,100 thousands (2015: USD 562,950 thousands, EUR 124,491 thousands and GBP 36,500 thousands).

At the same time, during the reporting period, the Bank purchased securities denominated in foreign currency carried at fair value with a total par value of USD 1,258,574 thousands (during 2015: USD 487,930 thousands and EUR 19,690 thousands).

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. Within the 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 2016, the book value of the portfolio of securities in foreign currency managed externally amounted to MDL 4,102,683 thousands (as at 31 December 2015: MDL 4,048,477 thousands), with a share of 9.32% in the official reserve assets (as at 31 December 2015: 11.72%).

The portfolio of investment securities held-to-maturity is the total amount of securities purchased in order to be held until maturity. The volume and structure of foreign currency assets and future cash flow perspective serves to maintain until maturity the securities from the given portfolio. The Bank's portfolio of investment securities classified as held-to-maturity can be completed provided that it does not exceed 20% of the official reserve assets of the Bank, and the reserves level would cover 4 months of import.

As at 31 December 2016, the share of held-to-maturity securities in total official reserve assets of the Bank is of 19.47% (as at 31 December 2015: 26.82%).

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<sup>2</sup> Established by applying the average rating assigned by international rating agencies (Standard & Poor's, Moody's and Fitch Ratings).

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**10. Investment securities (continued)**

	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>MDL'000</b>	<b>MDL'000</b>
Securities in foreign currency held-to-maturity (par value)	8,509,579	9,183,378
Interest on securities in foreign currency held-to-maturity	60,047	79,352
<b>Securities in foreign currency held-to-maturity</b>	<b>8,569,626</b>	<b>9,262,730</b>

Held-to-maturity securities bear fixed annual interest rates within the range of 1.38% and 3.55%. As at 31 December 2016, securities held-to-maturity with „AAA” rating had a share of 79.01%, those with „AA+” rating had a share of 14.90% and those with „AA” rating amounted for 6.09% (as at 31 December 2015: „AAA” – 81.49%, „AA+” – 6.17%, „AA” – 12.34%). The portfolio of held-to-maturity securities in foreign currency comprises securities issued by Governments and Governmental Agencies from the United States of America, European Union and supranational financial institutions. Decreasing in the share of securities with the "AAA" ratings and the increase in the share of securities rated "AA +" has been driven mainly by downgrading of the Finland's average rating of from "AAA" to "AA +" on 11 March 2016. The share of securities with ratings "AA" decreased due to the maturity of securities with a nominal value of EUR 5,000 thousands, issued by the Government of France on 25 July 2016 and of supranational securities issued by European Financial Stability Facility, with nominal value of EUR 23,000 thousands on 5 December 2016. During the year 2016, the Bank did not recognize any impairment allowances in respect of held-to-maturity securities.

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

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

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

	At fair value through profit or loss	Held-to- maturity	Loans and receivables	At fair value available for sale	Other liabilities at amortized cost	Total	Fair Value
	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000	MDL'000
<b>31 December 2016</b>							
<b>Assets</b>							
Cash and short-term placements with banks	-	-	20,118,744	-	-	20,118,744	20,118,744
Monetary gold	-	-	-	54,616	-	54,616	54,616
Due from international financial institutions	-	-	4,639,313	-	-	4,639,313	4,639,313
Securities issued by the Government of the Republic of Moldova:							
At fair value	-	-	-	2,091,878	-	2,091,878	2,091,878
At amortized cost	-	13,491,930	-	-	-	13,491,930	13,491,930
Loans granted to banks and individuals	-	-	27,968	-	-	27,968	27,968
Investment securities:							
At fair value	15,329,320	-	-	-	-	15,329,320	15,329,320
At amortized cost	-	8,569,626	-	-	-	8,569,626	8,569,626
Other assets	-	-	11,630	-	-	11,630	11,630
<b>Total financial assets</b>	<b>15,329,320</b>	<b>22,061,556</b>	<b>24,797,655</b>	<b>2,146,494</b>	<b>-</b>	<b>64,335,025</b>	<b>64,619,453</b>
<b>Liabilities</b>							
National currency issued into circulation	-	-	-	-	18,990,332	18,990,332	18,990,332
Due to the Government of the Republic of Moldova	-	-	-	-	5,712,099	5,712,099	5,712,099
Due to the banks	-	-	-	-	14,319,524	14,319,524	14,319,524
Certificates issued by the National Bank of Moldova	-	-	-	-	5,915,352	5,915,352	5,915,352
Due to international financial institutions	-	-	-	-	10,498,477	10,498,477	10,498,477
Other liabilities	-	-	-	-	43,212	43,212	43,212
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>55,478,996</b>	<b>55,478,996</b>	<b>55,478,996</b>

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

	At fair value through profit or 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 2015</b>							
<b>Assets</b>							
Cash and short-term placements with banks	-	-	14,706,367	-	-	14,706,367	14,706,367
Monetary gold	-	-	-	50,032	-	50,032	50,032
Due from international financial institutions	-	-	3,703,857	-	-	3,703,857	3,703,857
Securities issued by the Government of the Republic of Moldova:							
At fair value	-	-	-	2,118,561	-	2,118,561	2,118,561
Loans granted to banks and individuals	-	-	14,039,063	-	-	14,039,063	14,039,063
Investment securities:							
At fair value	10,169,179	-	-	-	-	10,169,179	10,169,179
At amortized cost	-	9,262,730	-	-	-	9,262,730	9,601,987
Other costs	-	-	1,695	-	-	1,695	1,695
<b>Total financial assets</b>	<b>10,169,179</b>	<b>9,262,730</b>	<b>32,450,982</b>	<b>2,168,593</b>	<b>-</b>	<b>54,051,484</b>	<b>54,390,741</b>
<b>Liabilities</b>							
National currency issued into circulation	-	-	-	-	17,044,068	17,044,068	17,044,068
Due to the Government of the Republic of Moldova	-	-	-	-	3,311,788	3,311,788	3,311,788
Due to banks	-	-	-	-	12,787,808	12,787,808	12,787,808
Certificates issued by the National Bank of Moldova	-	-	-	-	614,445	614,445	614,445
Due to international financial institutions	-	-	-	-	10,035,034	10,035,034	10,035,034
Other liabilities	-	-	-	-	64,432	64,432	64,432
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>43,857,575</b>	<b>43,857,575</b>	<b>43,857,575</b>

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**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 2016</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	54,616	-	-	54,616
Securities in foreign currency measured at fair value through profit or loss	15,329,320	-	-	15,329,320
Securities issued by the Government of the Republic of Moldova available for sale		2,091,878		2,091,878
<b>Total</b>	<b>15,383,936</b>	<b>2,091,878</b>	<b>-</b>	<b>17,475,814</b>
<b>31 December 2015</b>				
Monetary gold	50,032	-	-	50,032
Securities in foreign currency measured at fair value through profit or loss	10,169,179	-	-	10,169,179
Securities issued by the Government of the Republic of Moldova available for sale	-	2,118,561	-	2,118,561
<b>Total</b>	<b>10,219,211</b>	<b>2,118,561</b>	<b>-</b>	<b>12,337,772</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 fall 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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**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 2016	38,112	124,334	4,914	57,699	7,588	232,647
Additions	-	18,474	8,652	23,762	5,536	56,424
Transfers	-	4,197	(4,197)	6,654	(6,654)	-
Disposals	-	(1,136)	(11)	(55)	-	(1,202)
<b>As at 31 December 2016</b>	<b>38,112</b>	<b>145,869</b>	<b>9,358</b>	<b>88,060</b>	<b>6,470</b>	<b>287,869</b>
<b>Accumulated amortization</b>						
As at 1 January 2016	27,309	73,400	-	42,035	-	142,744
Accumulated depreciation / amortization	886	11,546	-	9,813	-	22,245
Disposals	-	(1,136)	-	(55)	-	(1,191)
<b>As at 31 December 2016</b>	<b>28,195</b>	<b>83,810</b>	<b>-</b>	<b>51,793</b>	<b>-</b>	<b>163,798</b>
<b>Carrying value</b>						
As at 1 January 2016	10,803	50,934	4,914	15,664	7,588	89,903
<b>As at 31 December 2016</b>	<b>9,917</b>	<b>62,059</b>	<b>9,358</b>	<b>36,267</b>	<b>6,470</b>	<b>124,071</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 2015	36,539	84,578	3,554	55,341	2,525	182,537
Additions	1,500	42,048	4,323	1,142	7,162	56,175
Transfers	73	2,827	(2,900)	2,099	(2,099)	-
Disposals	-	(5,119)	(63)	(883)	-	(6,065)
<b>As at 31 December 2015</b>	<b>38,112</b>	<b>124,334</b>	<b>4,914</b>	<b>57,699</b>	<b>7,588</b>	<b>232,647</b>
<b>Accumulated amortization</b>						
As at 1 January 2015	26,306	72,934	-	36,327	-	135,567
Accumulated depreciation / amortization	1,003	5,585	-	6,591	-	13,179
Disposals	-	(5,119)	-	(883)	-	(6,002)
<b>As at 31 December 2015</b>	<b>27,309</b>	<b>73,400</b>	<b>-</b>	<b>42,035</b>	<b>-</b>	<b>142,744</b>
<b>Carrying value</b>						
As at 1 January 2015	10,233	11,644	3,554	19,014	2,525	46,970
<b>As at 31 December 2015</b>	<b>10,803</b>	<b>50,934</b>	<b>4,914</b>	<b>15,664</b>	<b>7,588</b>	<b>89,903</b>

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**13. Other assets**

	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>MDL'000</b>	<b>MDL'000</b>
Prepaid expenses	3,140	2,607
Other receivables	8,571	1,696
Advance for banknotes issue	3,060	-
Inventories	970	1,881
Goods and materials administered	1,391	797
<b>Subtotal</b>	<b>17,132</b>	<b>6,981</b>
Less: Provision for slow moving inventory and doubtful receivables	(61)	(61)
	<b>17,071</b>	<b>6,920</b>

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

	<b>2016</b>	<b>2015</b>
	<b>MDL'000</b>	<b>MDL'000</b>
<b>As at 1 January</b>	<b>61</b>	<b>61</b>
Increase during the year	-	-
Decrease during the year	-	-
<b>As at 31 December</b>	<b>61</b>	<b>61</b>

**14. National currency issued into circulation**

	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>MDL'000</b>	<b>MDL'000</b>
Banknotes	18,866,555	16,927,072
Divisional coins	108,841	102,207
Commemorative banknotes and commemorative and jubilee coins	14,936	14,789
	<b>18,990,332</b>	<b>17,044,068</b>

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

	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>MDL'000</b>	<b>MDL'000</b>
Demand deposits of the Ministry of Finance	2,683,640	2,370,595
Amounts in foreign currency of the Ministry of Finance	2,502,827	910,896
Other accounts of the Government of the Republic of Moldova	525,632	30,297
	<b>5,712,099</b>	<b>3,311,788</b>

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**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 average interest rate on demand deposits accepted from the Ministry of Finance as at 31 December 2016 is of 1.71% (as at 31 December 2015: 1.79%).

**16. Due to banks**

	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>MDL'000</b>	<b>MDL'000</b>
Current accounts of banks, including mandatory reserves	13,324,197	11,942,426
Deposits from licensed banks denominated in national currency	995,327	845,382
	<b>14,319,524</b>	<b>12,787,808</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 2016 banks are required to maintain mandatory reserves in Moldovan lei and non-convertible currencies at 35% and in foreign currencies (US Dollars and Euro) at 14% (as at 31 December 2015: mandatory reserves in Moldovan lei and non-convertible currencies at 35% and in foreign currencies (US Dollars and Euro) at 14%) of the base. The mandatory reserves in Moldovan Leu are maintained in average by banks on Loro accounts opened with the Bank during the maintenance period, and the mandatory reserves in foreign currency are registered in the Bank's accounting records, in the account of mandatory reserves in foreign currency 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% from liabilities under which we calculate those reserves, 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 in respect of the average interest rate on deposits attracted by banks.

Deposits from licensed banks denominated in national currency 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 2016 is of 6% (as at 31 December 2015: 16.50%).

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

	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>MDL'000</b>	<b>MDL'000</b>
Certificates issued by the National Bank of Moldova at original selling price	5,905,650	612,304
Amortized discount on the certificates issued by the National Bank of Moldova	9,702	2,141
	<b>5,915,352</b>	<b>614,445</b>

The Bank's certificates represent securities sold to licensed banks through auctions in order to absorb the excess liquidity on the monetary market. These are issued at discount and repurchased on maturity date at their nominal value. During the year 2016, the Bank's certificates were mainly issued with 14-day maturity.

The weighted average interest rate on the Bank's certificates in circulation as at 31 December 2016 was of 9% (as at 31 December 2015: 19.50%).

**18. Other liabilities**

	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>MDL'000</b>	<b>MDL'000</b>
Due to other entities	34,501	33,570
Due to personnel	75	11,590
Other liabilities	8,636	19,273
	<b>43,212</b>	<b>64,433</b>

**19. Capital and reserves**

In accordance with art. 19 of the Law on the National Bank of Moldova No.548-XIII of 21 July 1995 *"The general reserve fund shall be used exclusively for covering the incurred losses in accordance with the results of the accounting period as at the end of the financial year."*. Thus, on 31 December 2016, the general reserve fund was used to cover losses incurred as at the end of the financial year in the amount of MDL 262,149 thousands, consequently decreasing down to MDL 1,543,791 thousands. Hence, the statutory capital has decreased, down to the amount of MDL 2,446,761 thousands.

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

As at 31 December 2016, the capital and reserves of the Bank amounted MDL 8,985,541 thousands, decreasing versus 31 December 2015, due to covering unrealized foreign exchange losses from revaluation of foreign currency stocks in the amount of MDL 1,033,306 thousands and covering unrealized losses from revaluation of investment securities in the amount of MDL 18,146 thousands, which amended the respective reserves accounts accordingly.

Other reserves comprise the reserve recorded from revaluation of the state securities which recorded a positive result in the amount of MDL 4,660 thousands and positive differences from the revaluation of monetary gold amounting to MDL 9,053 thousands. As of 31 December 2016, the statutory capital had a share of approximatively 6.23% in total monetary liabilities (31 December 2015: 8.88%).

**20. Calculation of the (total loss) /profit available for distribution**

	<b>31 December 2016 MDL'000</b>	<b>31 December 2015 MDL'000</b>
<b>(Loss) /Net profit</b>	<b>(1,313,601)</b>	<b>4,190,508</b>
Covering of unrealized losses on revaluation of the investment securities	18,146	28,540
Covering /(allocation) of unrealized losses /(gains) on revaluation of foreign currency stocks	1,033,306	(2,258,160)
<b>(Total loss) /Profit available for distribution</b>	<b>(262,149)</b>	<b>1,960,888</b>
<b>Distribution:</b>		
Increase of the Authorized capital	-	(572,953)
(Use) /increase of the general reserve fund	262,149	(1,387,935)

During the year, the Bank registered a net loss in amount of MDL 1,313,601 thousands. As a result of applying the corresponding provisions of the *Law on the National Bank of Moldova*, the total loss amounted to MDL 262,149 thousands.

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**21. Interest income**

	<b>2016</b>	<b>2015</b>
	<b>MDL'000</b>	<b>MDL'000</b>
<b>Interest income from short-term placements</b>		
Interests from term deposits with foreign banks	101,081	30,818
Interests from overnight deposits	4,073	870
Interests from other placements	81	1,066
	<b>105,235</b>	<b>32,754</b>
<b>Income from interest on securities</b>		
Interest from securities in foreign currency measured at fair value	90,166	104,948
Interest from securities in foreign currency held-to-maturity	217,680	214,130
Interest from state securities held-to-maturity	150,730	-
Amortization of the discount on the securities issued by the Government of the Republic of Moldova	344,188	328,760
	<b>802,764</b>	<b>647,838</b>
<b>Income from interest on the loans granted and repo</b>		
Interests from loans granted to the banks	459	10,501
Interests from loans granted to other individuals	180	189
Interest from repo agreements	15,487	69,699
	<b>16,126</b>	<b>80,389</b>
	<b>924,125</b>	<b>760,981</b>

The average interest rate on state securities available for sale in the Bank's portfolio during the year 2016 was of 16.52% (average interest rate during the year 2015: 15.69%). The coupon rate of the securities held-to-maturity issued by the Government of Republic of Moldova is of 1.40% and 5.30% per annum. The average interest rate on repo transactions during 2016 was 18.94% (average interest rate during 2015: 14.89%). The volume of liquidity provided under repo agreements was MDL 1,999 million (2015: MDL 9,690 million).

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**22. Interest expense**

	<b>2016</b>	<b>2015</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	39,333	39,717
	<b>39,333</b>	<b>39,717</b>
<b>Interest expense on cash and cash equivalents</b>		
Interests on the mandatory reserves	797,853	560,125
Interests on the deposits accepted from banks	57,904	63,822
Interests on the deposits accepted from the Ministry of Finance	48,494	33,823
Interests on Forward transactions	-	-
	<b>904,251</b>	<b>657,770</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	346,052	119,810
	<b>346,052</b>	<b>119,810</b>
	<b>1,289,636</b>	<b>817,297</b>

The ratio of mandatory reserves in MDL, during the 2016 year amounted to 35%. The ratio of the mandatory reserves attracted in MDL and non-convertible currency has been gradually increased during the year 2015 from 14% to 35%.

The average daily balance of the Bank's certificates during the year 2016 amounted to MDL 2,959 million (during 2015: MDL 783 million). The average interest rate of the Bank's certificates issued during the year 2016 was 11.55% (during 2015: 15.45%).

**23. (Losses) /gains from foreign currency transactions and foreign exchange rate differences**

	<b>2016</b>	<b>2015</b>
	<b>MDL'000</b>	<b>MDL'000</b>
Realized gains from foreign currency transactions	238,433	2,286,850
Unrealized (losses) /gains from foreign currency stocks revaluation	(1,033,306)	2,258,160
	<b>(794,873)</b>	<b>4,545,010</b>

Realized 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 the year 2016, the foreign exchange gains were generated mainly from the sale of currency when the difference between the sale exchange rates and cost of currency stock was significant.

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**24. Gains /(losses) from the revaluation of securities**

	<b>2016</b>	<b>2015</b>
	<b>MII LEI</b>	<b>MII LEI</b>
Net realized gains /(losses) from investment securities	26,214	(19,939)
Net unrealized losses from revaluation of securities in the balance at the year end	(18,146)	(28,540)
	<b>8,068</b>	<b>(48,479)</b>

**25. Other income**

	<b>2016</b>	<b>2015</b>
	<b>MDL'000</b>	<b>MDL'000</b>
Income relating to the settlement services under the Automated Interbank Payment System	5,693	6,296
Income relating to the cash operations	21,531	4,062
Income from the sale of commemorative banknotes and commemorative and jubilee coins	2,151	3,308
Income from commissions related to Government securities	3,375	2,962
Other income	4,459	4,068
	<b>37,209</b>	<b>20,696</b>

**26. Operating expenses**

	<b>2016</b>	<b>2015</b>
	<b>MDL'000</b>	<b>MDL'000</b>
Expenses related to national currency	7,445	119,841
Personnel expenses	89,549	82,523
Expenses related to informational, advisory and audit services	60,266	40,448
Expenses related to amortization of property, equipment and intangible assets	22,247	13,178
Buildings, transport and equipment maintenance expenses	7,023	6,098
Expenses with fees and commissions	3,173	2,735
Other operating expenses	8,791	5,580
	<b>198,494</b>	<b>270,403</b>

The personnel expenses include also the mandatory state social insurance contributions in amount of MDL 15,737 thousands and the mandatory medical insurance contributions in amount of MDL 3,025 thousands (as at 31 December 2015: MDL 14,424 thousands and respectively MDL 2,734 thousands).

As at 31 December 2016 the number of available positions within the Bank, including vacancies, constituted 503 units and the total number of employees - 474 (31 December 2015: 478 units and 469 employees).

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**27. Related parties**

The remuneration of the Bank's management including middle management expenses for the year 2016, amounted to MDL 11,623 thousands (for the year 2015: MDL 9,028 thousands).

For the year 2016, 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 2,648 thousands and MDL 503 thousands, respectively (as at 31 December 2015: MDL 2,053 thousands and respectively MDL 375 thousands).

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

	<b>Balance as at 1 January</b>	<b>Loans granted</b>	<b>Reimburse- ments</b>	<b>Balance as at 31 December</b>
	<b>MDL'000</b>	<b>MDL'000</b>	<b>MDL'000</b>	<b>MDL'000</b>
2015	5,844	1,132	(1,862)	5,114
2016	5,114	1,121	(879)	5,356

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 2016 amounted to MDL 8,019 thousands (as at 31 December 2015: MDL 7,176 thousands).

As at 31 December 2016, 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 2016 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 3,555,587 thousands (as at 31 December 2015: MDL 3,812,518 thousands).

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

*Investment commitments*

As at 31 December 2016, within the external reserves management program, the World Bank has concluded one purchase transaction for a security with a total nominal value of USD 17,500 thousands, and sold 2 securities with a total nominal value amounting to USD 14,000 thousands, the date of all the aforementioned transactions being 3 January 2017.

*Loan commitments*

As at 31 December 2016 there are no loan commitments (as at 31 December 2015 there were no loan commitments).

As at 31 December 2016 (as well as at 31 December 2015) there was no debt with expired limitation period.

*Capital commitments*

As at 31 December 2016, in accordance with the agreements concluded, the Bank was committed to settle during the following years its financial obligations regarding the payment for some acquisitions related to the Bank's activity amounting to approximately EUR 1,001 thousands and USD 41 thousands or approximately MDL 21,735 thousands (as at 31 December 2015: approximately EUR 1,816 thousands and USD 115 thousands, or approximately MDL 41,261 thousands).

*Litigations and contingent liabilities*

As at 31 December 2016, the Bank was involved in 30 lawsuits, in which the Bank participates as a defendant. As at 31 December 2016 (as well as at 31 December 2015), 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**

After 31 December 2016 and until the date of approval of these financial statements, no significant subsequent events have occurred.

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