NATIONAL BANK OF MOLDOVA

FINANCIAL STATEMENTS

for the year ended 31 December 2011
Prepared in Accordance with
International Financial Reporting Standards

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Independent Auditors' Report (free translation[1])

To the Council of Administration of the National Bank of Moldova

We have audited the accompanying financial statements of the National Bank of Moldova ("the Bank"), which comprise the balance sheet as at 31 December 2011, the statement of comprehensive result, statement of changes in capital and reserves and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements of the Bank present fairly, in all material respects, the financial position of the Bank as of 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

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IDNO:1002600046371

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Emphasis of matter

Without qualifying our opinion, we draw attention to Note 19 of the financial statements which states that the Bank has a debit balance of the general reserve fund of MDL 709,949 thousand as at 31 December 2011, as well as negative capital and reserves of MDL 220,253 thousand as at 31 December 2011, together with the measures that need to be taken by the Bank and the Government of the Republic of Moldova, through the Ministry of Finance, under these circumstances.

Other Matters

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

Refer to the original signed Romanian version

KPMG Moldova SRL

29 March 2012

Chisinau, Republic of Moldova

Ref.: 12012

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

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NATIONAL BANK OF MOLDOVA
BALANCE SHEET
As at 31 December 2011

	Notes	31 December 2011	31 December 2010
		MDL '000	MDL '000
ASSETS			
Cash and short-term placements with banks	5	7,701,083	7,956,366
Monetary gold	6	4,094	-
Due from international financial institutions	7	2,226,343	2,310,219
Securities issued by the Government of the Republic of Moldova	8	2,245,615	2,232,452
Loans granted to banks and individuals	9	408,273	992,177
Investment securities	10	15,308,860	12,915,899
Property and equipment	12	18,763	18,411
Intangible assets	12	9,718	3,231
Other assets	13	4,609	4,281
TOTAL ASSETS		**27,927,358**	**26,433,036**
LIABILITIES, CAPITAL AND RESERVES			
Liabilities			
National currency issued into circulation	14	12,016,670	11,105,961
Due to the Government of the Republic of Moldova	15	1,963,613	3,319,963
Due to banks	16	5,139,722	2,986,353
Certificates issued by the National Bank of Moldova	17	2,908,032	3,654,152
Due to international financial institutions	7	6,055,563	4,790,727
Other liabilities	18	64,011	53,991
Total liabilities		**28,147,611**	**25,911,147**
Capital and reserves	19		
Authorized capital		288,923	288,923
General reserve fund		(709,949)	(745,409)
Total statutory capital		**(421,026)**	**(456,486)**
Reserve of unrealized foreign exchange gains from foreign currency stocks revaluation		29,155	884,100
Reserve of unrealized gains on revaluation of investment securities		169,720	93,967
Other reserves		1,898	308
Total capital and reserves		**(220,253)**	**521,889**
TOTAL LIABILITIES, CAPITAL AND RESERVES		**27,927,358**	**26,433,036**

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

The Financial Statements were approved by the Council of Administration of the National Bank of Moldova on 29 March 2012.

D. Drăguţanu

Dorin Drăguţanu
Governor

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

NATIONAL BANK OF MOLDOVA
STATEMENT OF COMPREHENSIVE RESULT
For the year ended 31 December 2011

	Notes	2011 MDL '000	2010 MDL '000
Interest income from short-term placements	21	44,106	28,523
Interest income from securities	21	407,188	300,092
Interest income from loans and Repo agreements	21	16,200	47,614
		467,494	376,229
Interest expenses on loans received	22	(15,651)	(6,910)
Interest expenses on deposits and mandatory reserves	22	(108,307)	(63,264)
Interest expenses on transactions with securities and Repo agreements	22	(274,857)	(216,967)
		(398,815)	(287,141)
Net interest income		**68,679**	**89,088**
Losses from foreign exchange transactions and foreign exchange rate differences	23	(804,450)	(658,648)
Gains / (losses) from the revaluation of securities	24	94,145	(38,343)
Other income	25	31,880	33,375
Operating expenses	26	(98,526)	(111,126)
Net Operating Expenses		**(776,951)**	**(774,742)**
NET LOSS		**(708,272)**	**(685,654)**
Revaluation of securities issued by the Government of the Republic of Moldova		1,828	(36)
Revaluation of monetary precious metals		(238)	-
COMPREHENSIVE RESULT		**(706,682)**	**(685,690)**

Calculation of the profit available for distribution

	Notes	2011	2010
NET LOSS		**(708,272)**	**(685,654)**
(Allocation) / covering of unrealized (gains) / losses on revaluation of investment securities	20	(75,753)	26,164
Covering of unrealized losses on revaluation of foreign currency stocks	20	854,945	717,368
PROFIT AVAILABLE FOR DISTRIBUTION	20	**70,920**	**57,878**

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

The Financial Statements were approved by the Council of Administration of the National Bank of Moldova on 29 March 2012.

Dorin Drăguţanu
Governor

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

NATIONAL BANK OF MOLDOVA
STATEMENT OF CASH FLOWS
For the year ended 31 December 2011

	Notes	2011	2010
		MDL '000	MDL '000
Cash flows from operating activities			
Interest receipts		335,160	471,575
Interest payments		(394,918)	(285,298)
Gains / (losses) from investment securities		18,392	(12,179)
Other receipts		33,140	34,513
Payments to personnel and suppliers		(85,707)	(92,615)
Cash flows before changes in assets and liabilities		**(93,933)**	**115,996**
Increase in monetary gold		(4,094)	-
(Increase) / decrease in amounts due from international financial institutions		(7,051)	39,513
Decrease / (increase) in securities issued by the Government of the Republic of Moldova		181,954	(149)
Decrease in loans granted to banks and individuals		581,052	877,927
Increase in investment securities		(2,838,319)	(5,953,699)
Increase in operating assets		**(2,086,458)**	**(5,036,408)**
Increase in the national currency issued into circulation		910,710	1,223,418
(Decrease) / increase in balances due to Government of the Republic of Moldova		(1,333,279)	545,926
Increase in balances due to banks		2,280,829	3,470
(Decrease) / increase in certificates issued by the National Bank of Moldova		(749,126)	572,134
Increase in balances due to international financial institutions		1,498,925	663,458
(Decrease) / increase in other liabilities		(185)	20,515
Increase in operating liabilities		**2,607,874**	**3,028,921**
Net cash flows from/ (used in) operating activities		**427,483**	**(1,891,491)**
Property, equipment and intangible assets acquisitions		(11,842)	(3,206)
Net cash flows used in investing activities		**(11,842)**	**(3,206)**
Payments to the State Budget with regard to profit distribution		(28,939)	(336,579)
Net cash flows used in financing activities		**(28,939)**	**(336,579)**
Differences from revaluation of cash and cash equivalents		(447,182)	(388,756)
Decrease in cash and cash equivalents		**(60,480)**	**(2,620,032)**
Cash and cash equivalents at the beginning of the period		**10,007,178**	**12,627,210**
Cash and cash equivalents at the end of the period		**9,946,698**	**10,007,178**
Analysis of Cash and cash equivalents			
Cash on hand in foreign currency	5	1,913	1,264
Nostro accounts	5	1,343,107	300,299
Term deposits in foreign currency	5	6,356,063	7,654,803
Securities issued by the Government of the Republic of Moldova	8	2,245,615	2,050,812
Cash and cash equivalents		**9,946,698**	**10,007,178**

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

NATIONAL BANK OF MOLDOVA
STATEMENT OF CHANGES IN CAPITAL AND RESERVES
For the year ended 31 December 2011

	Authorized capital	General reserve fund	Reserve of unrealized foreign exchange gains from foreign currency stocks revaluation	Reserve of unrealized gains on revaluation of investment securities	Other reserves	Profit available for distribution	Total Capital and reserves
	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000
Balance as at 1 January 2010	**288,923**	**(774,348)**	**1,601,468**	**120,131**	**344**	**-**	**1,236,518**
Profit / (loss)	-	-	(717,368)	(26,164)	-	57,878	(685,654)
Other comprehensive result:							
Differences on revaluation of securities issued by the Government of the Republic of Moldova	-	-	-	-	(36)	-	(36)
Differences on revaluation of monetary precious metals	-	-	-	-	-	-	-
Other comprehensive result, total	-	-	-	-	(36)	-	(36)
Comprehensive result at the end of the period	-	-	(717,368)	(26,164)	(36)	57,878	(685,690)
Allocation of profit							
Increase of the general reserve fund	-	28,939	-	-	-	(28,939)	-
Allocation of profit to the State Budget	-	-	-	-	-	(28,939)	(28,939)
Balance as at 31 December 2010	**288,923**	**(745,409)**	**884,100**	**93,967**	**308**	**-**	**521,889**
Balance as at 1 January 2011	**288,923**	**(745,409)**	**884,100**	**93,967**	**308**	**-**	**521,889**
Profit / (loss)	-	-	(854,945)	75,753	-	70,920	(708,272)
Other comprehensive result:							
Differences on revaluation of securities issued by the Government of the Republic of Moldova	-	-	-	-	1,828	-	1,828
Differences on revaluation of monetary precious metals	-	-	-	-	(238)	-	(238)
Other comprehensive result, total	-	-	-	-	1,590	-	1,590
Comprehensive result at the end of the period	-	-	(854,945)	75,753	1,590	70,920	(706,682)
Allocation of profit							
Increase of the general reserve fund	-	35,460	-	-	-	(35,460)	-
Allocation of profit to the State Budget	-	-	-	-	-	(35,460)	(35,460)
Balance as at 31 December 2011	**288,923**	**(709,949)**	**29,155**	**169,720**	**1,898**	**-**	**(220,253)**

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

1. General information about the National Bank of Moldova

The National Bank of Moldova (the Bank) 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.

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

The activities of the Bank are as follows:

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

The place of residence of the Bank is 1, Grigore Vieru Avenue, Chişinău, 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 amortised cost basis, except for financial assets held at fair value through profit or loss and financial assets available for sale that have been measured at fair value.

2. Basis of preparation (continued)

Given the characteristics of the Bank, the categories of financial assets shown 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.

Significant accounting judgments and estimates

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

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

Fair value of financial instruments

Where the fair values 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 values. 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 trough profit or loss, are subject to impairment testing. If there is objective evidence that an impairment loss on financial assets has been 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 a yearly basis. The securities classified as available for sale, loans, conditional commitments and receivables are reviewed quarterly or upon necessity in order to assess whether an allowance for impairment losses should be recorded in the Statement of Comprehensive Result. The detailed information on significant accounting judgments and estimates applied by the Bank is presented in Note 3, g.

3. Significant accounting policies

The 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 the liabilities denominated in foreign currencies are translated at the official rate of the Moldovan leu as of the Balance Sheet date. For the years 2010 - 2011, the official exchange rates of the reference foreign currencies were as follows:

	2011		2010	
	Average for the period	At year end	Average for the period	At year end
USD/MDL	11.7370	11.7154	12.3663	12.1539
EUR/MDL	16.3369	15.0737	16.3995	16.1045
GBP/MDL	18.8210	18.0123	19.1020	18.7578
CHF/MDL	13.2747	12.3861	11.8688	12.9338
XDR/MDL	18.5268	17.9292	18.8576	18.7174

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

b. Cash and cash equivalents

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

Cash and cash equivalents are carried at amortised cost in the Balance Sheet and are presented on a net basis (cash on 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 art.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 presented below.

3. Significant accounting policies (continued)

c. Monetary gold (continued)

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

Unrealised gains and losses from changes in fair value of monetary gold are recognized in the Statement of Comprehensive Result and reported in Statement of Changes in Capital and Reserves in "Other reserves". When the monetary gold is derecognised, the cumulative unrealised gains and losses are recognised as realised gains/losses and are presented in the Statement of Comprehensive Result 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") but 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.

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 of identified financial instruments that are managed together and for which there is evidence of a pattern of short-term profit-taking. Upon initial recognition, the financial assets at fair value through profit or loss are recognised at fair value at the settlement date and are accounted for with separate details of the nominal value, unamortized discount or premium, purchased interest and accrued interest. After initial recognition, these securities are measured at fair value based on quoted bid prices (BID price provided by Bloomberg Information System). Interest income on securities is included in "Interest income" in the Statement of Comprehensive Result.

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".

3. Significant accounting policies (continued)

e. Financial assets (continued)

Loans and receivables of the Bank

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

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

Held-to-maturity investments

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

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

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

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

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

3. Significant accounting policies (continued)

e. Financial assets (continued)

Available for sale financial assets

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

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

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

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

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

Recognition of financial assets and liabilities

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

Derecognition of financial assets and liabilities

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

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

f. Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price.

3. Significant accounting policies (continued)

f. Fair value of financial instruments (continued)

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.

Loans and receivables granted by the Bank are measured at amortised cost, less the allowance for impairment losses.

Securities issued by the Government of Republic of Moldova are classified as "available for sale" and are reported at fair value.

Held-to-maturity securities are measured at amortised cost less allowance for impairment.

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

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

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

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

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

- 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) (level 2).

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

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

The Bank does not have any items assigned to this category during the reporting period.
The classification of the fair value of the financial assets of the Bank per the three levels is presented in Note 11.

3. Significant accounting policies (continued)

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

The allowances for impairment of loans and provisions on conditional commitments are recognized whether 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 conditional commitments are decreased or increased in case the allowance/provision calculated at the reporting date is respectively less or greater than previously established allowance/provision.

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

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

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

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

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

3. Significant accounting policies (continued)

h. Repo Agreements

The Repo agreements represent sale (purchase) transactions of securities with the simultaneous commitment of repurchase (resale) 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 transaction value in the Balance Sheet as purchase/sale Repo transactions at the settlement date. The difference between sale and repurchase price is treated as interest expense, and the difference between purchase price and resale price is treated as interest income, using the effective interest method. Interest is calculated on a monthly basis on the last day of the month and at maturity of Repo transactions.

i. Forward transactions

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

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

j. Property and equipment

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

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

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

	rate per annum
Buildings	5%
Motor vehicles – heavy vehicles	10%
Motor vehicles – cars, buses	20%
Special equipment	20%
General and administration equipment	20%
Other equipment	30%

3. Significant accounting policies (continued)

j. Property and equipment (continued)

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

k. Intangible assets

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

As at 31 December 2011 the estimated useful life of intangible assets varied between 1 and 5 years.

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

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

l. National currency issued into circulation

The national currency issued into circulation is carried at amortised cost. For presentation purposes the cash on hand in national currency available at the Bank's cash desk is offset against national currency issued into circulation. The cost of production of banknotes and coins is recorded in the Statement of Comprehensive Result when the expense is incurred.

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

m. Due to banks

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

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

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

3. Significant accounting policies (continued)

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 the Unique Treasury Account, foreign currency balances, term deposits of the Ministry of Finance and amounts of the Directorate of Credit Line of the Ministry of Finance. These financial liabilities are measured at amortised cost.

o. Certificates issued by the National Bank of Moldova

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

p. Due to international financial institutions

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

q. Other liabilities

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

r. Capital and reserves

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

The capital structure of the Bank includes the following:

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

According to the regulations 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 and/or from the Government contributions until the capital reaches the value of 10% of the total monetary liabilities of the Bank (that represent all liabilities in the Balance Sheet except liabilities due to Government and International Monetary Fund).

3. Significant accounting policies (continued)

r. Capital and reserves (continued)

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 presented, transfers to the Bank a capital contribution in state securities at the market interest rate, in the amount necessary to cover the debit balance.

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

The profit available for distribution represents the net profit obtained after allocation of unrealized gains to the corresponding reserves of unrealized gains and after covering unrealized losses from sources of the corresponding reserves of unrealized gains, until their balance becomes zero.

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

s. Income tax

In accordance with the art. 24 par. (15) letter f) of the Law nr 1164-XIII dated 24 April 1997 on applying the titles I and II of the Tax Code, the Bank is exempted from the income tax on its activities.

t. Interest income and expenses

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

3. Significant accounting policies (continued)

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 currency market intervention purposes, the Bank maintains open currency positions at the reporting dates.

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

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

v. Fiduciary activities

The Bank acts as fiscal agent of the State, in accordance with 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.

3. Significant accounting policies (continued)

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 2011, and have not been applied in preparing these Financial Statements. None of these will have an impact on the Financial Statements of the Bank, with the exception of:

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

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

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

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

The standard is effective for annual periods beginning on or after 1 January 2015. Earlier application is permitted. The Bank is currently evaluating the potential effect of this Standard. Given the nature of the Bank's operations, this standard is expected to have a significant impact on the Bank's Financial Statements.

3. Significant accounting policies (continued)

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

IFRS 13 "Fair value measurement" (effective for annual periods beginning on or after 1 January 2013). This standard establishes a single framework for fair value measurement and replaces the fair value guidance existing in other standards. IFRS 13 defines fair value, provides guidance on determining fair value and sets out disclosure requirements for fair value measurements. The Bank is currently evaluating the potential effect of this standard on the Financial Statements.

Amendments to IAS 1 "Presentation of Financial Statements" (effective for annual periods beginning on or after 1 July 2012). Amendments maintain the option to present profit or loss and other comprehensive income in a single report or in two consecutive reports. However, elements of other comprehensive income should be divided into elements that will be or will not be subsequently reclassified to profit or loss. The Bank is currently evaluating the potential effect of these amendments on the disclosures in its Financial Statements.

Amendments to IFRS 7 "Financial instruments: disclosures" (effective for annual periods beginning on or after 1 July 2011). The Amendments contain disclosure requirements concerning transfers of financial assets. The information disclosed according to the amended requirements will enable users of financial statements to understand the relationship between the transferred financial assets that are not derecognised in their entirety and the associated liabilities. It will also permit to users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognised financial assets. The Bank is currently evaluating the potential effect of these amendments on the disclosures in its Financial Statements.

Amendments to IAS 19 "Employee Benefits" (effective for annual periods beginning on or after 1 January 2013). Amendments require actuarial gains and losses to be recognized immediately in other comprehensive income. Thus, the amendments remove the corridor method previously applicable to recognising actuarial gains and losses, and also eliminate the ability for entities to recognize all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under the current requirements of IAS 19. The Bank considers that the amendments are not relevant for its financial statements as it has no defined benefit plans.

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

Amendments to IFRS 7 "Financial instruments: disclosures" (effective for annual periods beginning on or after 1 January 2013). The Amendments contain new disclosure requirements for financial assets and liabilities that are offset in the Statement of Financial Position; or are subject to master netting arrangements or similar agreements. The Bank is currently evaluating the potential effect of these amendments on the disclosures in its Financial Statements.

4. Risk management

4.1 Risk management framework

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

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

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

The Investment Committee is responsible for: analysis and monitoring of investment risks, including the analysis of developments in the ratings of counterparties authorised to carry out operations, as well as the ratings of securities in foreign currency; definition of the investment strategy for the short and medium term; analysis of developments and forecasts for the domestic currency market and international financial markets, investment portfolio performance analysis, etc. The Monetary Committee is responsible for the promotion of monetary and exchange rate policy and aims to develop the primary objective of the Bank that is represented by the achievement and maintenance of price stability.

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

Risk management of the Bank is regulated by its internal instructions, and procedures, and is monitored by the management of the Bank, that analyzes 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 National Bank of Moldova holds and manages the State's foreign exchange reserves, performs foreign exchange operations using foreign exchange reserves assets and keeps them at an adequate level for the implementation of monetary and foreign exchange policy of the State.

In the process of managing the foreign exchange reserves, the National Bank of Moldova ensures a high degree of security and a necessary level of liquidity of investments. Investment policy of the Bank is prudent and aimed to optimize profitability, with main focus on safety and liquidity. 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.

4. Risk management (continued)

4.1 Risk management framework (continued)

Risk management procedures relating to foreign exchange reserves provide the settlement and the continuous monitoring of the compliance of the reserves with limits on countries, maturities, counterparties or issuers and investment tools.

As part of management of the foreign exchange reserves, the Bank makes investments only in safe instruments that are used by other central banks as well. Types of investments made by the Bank are presented below: placements in current accounts (usually in other central banks), term deposits and securities issued by supranational institutions, Governments (US Government, Governments of the European Union member-countries and other governmental issuers with high ratings); governmental agencies and other non-governmental bodies (issued by agencies with high ratings).

The normative documents approved by the Council of administration of the Bank, which constitute the basics of the corporate governance, promote and develop the Bank's control environment, underlying the importance of internal control the Bank management attributes to. Thus the awareness and compliance with the basic tasks and objectives of the Bank are ensured by personnel, as well as with individual functions and rules of conduct.

The legal framework for risk management is permanently updated, depending on market evolution, Bank’s policy 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 performs audit missions and reports directly to the Council of administration on their results.

Operational risk

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

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

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

4. Risk management (continued)

Operational risk (continued)

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

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

The Bank assesses operational risk through the Internal Audit Department, which performs tests and states its opinion on the effectiveness of internal control system operations, and subsequently reports to the Council of administration of the Bank.

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 the assets and liabilities is primarily determined by the nature of legal functions of the National Bank of Moldova, rather than commercial considerations. At the same time, the Bank continually manages its exposure to risk, through a variety of risk management techniques.

4.2 Credit risk

Credit risk is the risk that the Bank will incur a loss because its counterparties failed to discharge their contractual obligations.

Maximum exposure of the Bank to credit risk, excluding the value of any guarantees, is reflected in the accounting value of its financial assets.

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

To minimize the credit risk exposure related to loans granted to licensed banks, the Bank monitors on a permanent basis the quality of credit portfolio and debtors' financial situation, periodically evaluates the impairment provisions, and adjusts them to reflect best current estimates.

The credit risk related to overnight credits is daily monitored using the limits of monetary policy which according to laws in force, if necessary, allows reducing to zero the loan amounts that may be granted by the Bank to licensed banks under the permanent facilities, and are secured by highly liquid collateral such as state securities and certificates issued by the Bank.

In order to decrease the credit risk exposure related to loans granted to the Bank's personnel, the Bank accepts as collateral either the properties acquired with the loans or the salaries.

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

4. Risk management (continued)

4.2 Credit risk (continued)

Furthermore, an essential element of credit risk management is the Bank's investment with the purpose of foreign currency reserves management with reliable counterparties having high long-term credit rating (minimum A-*), established by the international rating agencies (Standard & Poor's, Moody's and Fitch Ratings), and authorized by the Bank for foreign currency transactions.

* Ratings are presented in the format applied by Standard & Poor's and Fitch Ratings. Due to the fact that credit rating agency Moody's uses a different form of presentation, the ratings are assigned equivalents of Standard Poor's or Fitch Ratings, using the equivalence tables.

4. Risk management (continued)

4.2 Credit risk (continued)

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

31 December 2011

Long-term rating [1]	Cash and short-term placements with banks	Monetary gold	Due from international financial institutions	Securities issued by the Government of the Republic of Moldova [2]	Loans granted to banks and individuals	Investment securities	Other financial assets	Total Financial Assets
	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000
AAA	291,408	-	2,226,343	-	-	12,003,699	-	**14,521,450**
AA+	1,332,853	-	-	-	-	3,305,161	-	**4,638,014**
AA	973,062	-	-	-	-	-	-	**973,062**
AA-	1,412,353	-	-	-	-	-	-	**1,412,353**
A+	2,477,954	-	-	-	-	-	-	**2,477,954**
A	1,213,065	-	-	-	-	-	-	**1,213,065**
BBB	379	-	-	-	-	-	-	**379**
BB+	9	-	-	-	-	-	-	**9**
Without rating	-	4,094	-	2,245,615	408,273	-	2,103	**2,660,085**
Total	**7,701,083**	**4,094**	**2,226,343**	**2,245,615**	**408,273**	**15,308,860**	**2,103**	**27,896,371**

31 December 2010

Long-term rating [1]	Cash and short-term placements with banks	Due from international financial institutions	Securities issued by the Government of the Republic of Moldova[2]	Loans granted to banks and individuals	Investment securities	Other financial assets	Total Financial Assets
	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000
AAA	3,853,481	2,310,219	-	-	11,970,933	-	**18,134,633**
AA+	-	-	-	-	944,966	-	**944,966**
AA	10	-	-	-	-	-	**10**
AA-	1,025,744	-	-	-	-	-	**1,025,744**
A+	1,575,065	-	-	-	-	-	**1,575,065**
A	1,502,043	-	-	-	-	-	**1,502,043**
BBB	3	-	-	-	-	-	**3**
BBB-	11	-	-	-	-	-	**11**
BB+	9	-	-	-	-	-	**9**
Without rating	-	-	2,232,452	992,177	-	2,061	**3,226,690**
Total	**7,956,366**	**2,310,219**	**2,232,452**	**992,177**	**12,915,899**	**2,061**	**26,409,174**

[1] Established by applying the minimum rating assigned by international rating agencies (Standard & Poor's, Moody's and Fitch Ratings).

[2] Taking into consideration the Bank's role of the State fiscal agent and the special relationship between the Bank as the Central bank of the state and the Government, the securities issued by the Government of the Republic of Moldova are included in the category "Without Rating". As at 31 December 2011 the Republic of Moldova was rated only by Moody's Agency with the B3 rating (as at 31 December 2010 – B3).

4. Risk management (continued)

4.2 Credit risk (continued)

In order to quantify the credit risk related to investments in foreign currency, the value of credit risk associated to the investment portfolio is estimated based on default coefficients determined and published by the Standard & Poor's agency per each rating category, the investments being classified in five categories, according to default coefficients, with annual maturity of up to and including five years.

As at 31 December 2011 the credit risk of the investment portfolio in foreign currency is presented as follows:

	MDL '000	USD '000	Portfolio Share, %
31 December 2011	30,896	2,637	0.13
31 December 2010	12,931	1,064	0.06

In order to evaluate the concentration of assets portfolio as well as to properly assess the credit risk subject to different geographical areas the classification of Bank's financial assets per investment country, except for cash on hand, which is classified by country of origin of issuer, is presented as follows:

Country	31 December 2011	Share	31 December 2010	Share
	MDL '000	%	MDL '000	%
International financial organizations	7,711,428	27.64	6,021,882	22.80
USA	4,638,014	16.63	4,136,915	15.66
Germany	4,495,646	16.12	4,573,531	17.32
The Netherlands	2,633,711	9.44	1,095,802	4.15
Great Britain	1,579,429	5.66	1,596,530	6.04
Sweden	1,471,158	5.27	704,314	2.67
France	1,328,594	4.76	2,711,005	10.27
Switzerland	707,983	2.54	274	-
Finland	333,397	1.19	804,523	3.05
Austria	225,176	0.81	-	-
Norway	110,826	0.40	-	-
Belgium	171	-	1,537,563	5.82
Other countries	753	-	145	-
Moldova	2,660,085	9.54	3,226,690	12.22
Total Financial Assets	**27,896,371**	**100.00**	**26,409,174**	**100.00**

The greatest share of the assets held with "International financial organizations" represents the quota of the Republic of Moldova held with the IMF.

4. Risk management (continued)

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 mature, are important factors in assessing the liquidity of the Bank.

The risk of cash flows is represented by the discrepancy between the cash flows generated by assets and liabilities, the risk being nil when these flows coincide. This category of risk is monitored on a daily basis in dynamic in correlation to the benchmark. Compared to the benchmark of 365 days, applied to the investment portfolio, excluding externally managed portfolio and the portfolio of securities held to maturity, deviations of maximum +/-20% are allowed in average maturity of investment portfolio.

The weighted average maturity of the investment portfolio managed by the Bank, excluding the portfolio of securities held to maturity and obligations in foreign currency, is as follows:

	31 December 2011 (days)	31 December 2010 (days)
Investment portfolio held in foreign currency monitored by the Bank	429*	312
Liabilities in foreign currency	1,185	867

* weighted average maturity of total investment portfolio, including securities held to maturity constitutes 871 days at 31 December 2011, compared to 312 days as at 31 December 2010.

The liquidity risk of the portfolio managed internally by the Bank, excluding securities portfolio held to maturity, is constantly monitored by the Bank through setting limits of the maximum maturity term of the investment portfolio, in order to restrict the investment into long-term maturity instruments (more than 5 years), while the remaining maturity of the Bank portfolio is diversified.

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

Liquidity risk for the portfolio of securities held to maturity is managed by diversifying the maturity of investments distributed in the range of 1 to 10 years and by limiting the proportion of this portfolio in the total portfolio of securities.

4. Risk management (continued)

4.3 Liquidity risk (continued)

Liquidity is one of the basic criteria in defining the composition of assets in foreign currency. This reflects the potential need to transform the currency reserves in liquidities for intervention purposes in case such needs arise.

Securities in foreign currency measured at fair value held in the Bank's portfolio are highly liquid instruments meaning that they could be sold at any moment before the maturity date, if necessary.

Securities issued by the Government of the Republic of Moldova and held by the Bank during 2011 had a contractual maturity not longer than 95 days. However, at maturity, those securities were repurchased by the Government and new securities were issued by the Government at the same volume and purchased by the Bank.

4. Risk management (continued)

4.3 Liquidity risk (continued)

Analysis of financial assets and liabilities according to their contractual maturity date as at 31 December 2011 is as follows:

	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
31 December 2011								
Assets								
Cash and short-term placements with banks	7,701,083	-	-	-	-	-	-	7,701,083
Monetary gold	-	-	-	-	-	-	4,094	4,094
Due from international financial institutions	10,436	-	-	-	-	-	2,215,907	2,226,343
Securities issued by the Government of the Republic of Moldova	2,245,615	-	-	-	-	-	-	2,245,615
Loans granted to banks and individuals	32,793	25,175	50,295	100,309	191,391	8,310	-	408,273
Investment securities	983,314	1,368,494	699,734	3,182,413	5,370,553	3,704,352	-	15,308,860
Other assets	2,103	-	-	-	-	-	-	2,103
Total financial assets	**10,975,344**	**1,393,669**	**750,029**	**3,282,722**	**5,561,944**	**3,712,662**	**2,220,001**	**27,896,371**
Liabilities								
National currency issued into circulation	-	-	-	-	-	-	12,016,670	12,016,670
Due to the Government of the Republic of Moldova	1,923,613	13,000	27,000	-	-	-	-	1,963,613
Due to banks	5,139,722	-	-	-	-	-	-	5,139,722
Certificates issued by the National Bank of Moldova	2,908,032	-	-	-	-	-	-	2,908,032
Due to international financial institutions	19,401	77,831	94,397	254,021	1,318,345	2,074,946	2,216,622	6,055,563
Other liabilities	63,995	-	-	-	-	-	-	63,995
Total financial liabilities	**10,054,763**	**90,831**	**121,397**	**254,021**	**1,318,345**	**2,074,946**	**14,233,292**	**28,147,595**
Net liquidity gap	**920,581**	**1,302,838**	**628,632**	**3,028,701**	**4,243,599**	**1,637,716**	**(12,013,291)**	**(251,224)**

4. Risk management (continued)

4.3 Liquidity risk (continued)

	0-3 months	3-6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Undefined maturity	Total
	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000
31 December 2010								
Assets								
Cash and short-term placements with banks	7,713,288	243,078	-	-	-	-	-	7,956,366
Due from international financial institutions	4,230	-	-	-	-	-	2,305,989	2,310,219
Securities issued by the Government of the Republic of Moldova	2,232,452	-	-	-	-	-	-	2,232,452
Loans granted to banks and individuals	144,093	362,380	315,138	154,807	7,743	8,016	-	992,177
Investment securities	3,104,627	1,515,915	3,953,716	1,047,495	3,294,146	-	-	12,915,899
Other assets	2,061	-	-	-	-	-	-	2,061
Total financial assets	**13,200,751**	**2,121,373**	**4,268,854**	**1,202,302**	**3,301,889**	**8,016**	**2,305,989**	**26,409,174**
Liabilities								
National currency issued into circulation	-	-	-	-	-	-	11,105,961	11,105,961
Due to the Government of the Republic of Moldova	3,309,963	-	10,000	-	-	-	-	3,319,963
Due to banks	2,986,353	-	-	-	-	-	-	2,986,353
Certificates issued by the National Bank of Moldova	3,654,152	-	-	-	-	-	-	3,654,152
Due to international financial institutions	36,310	-	38,708	137,255	1,080,019	1,191,732	2,306,703	4,790,727
Other liabilities	53,991	-	-	-	-	-	-	53,991
Total financial liabilities	**10,040,769**	**-**	**48,708**	**137,255**	**1,080,019**	**1,191,732**	**13,412,664**	**25,911,147**
Net liquidity gap	**3,159,982**	**2,121,373**	**4,220,146**	**1,065,047**	**2,221,870**	**(1,183,716)**	**(11,106,675)**	**498,027**

The significant increase of investment securities with maturity of between 2 and 5 years, from MDL'000 3,294,146 at the end of the year 2010 to MDL'000 5,370,553 at the end of 2011 and of the securities with maturity of more than 5 years, from MDL'000 0 at the end of the year 2010 to MDL'000 3,704,352 at the end of 2011, is explained by the following: the decision of the Council of administration of the Bank to increase the average duration of investment portfolio from 267 to 365 days, approved on 28 December 2010, entered into force on 1 January 2011, and the Decision of the Council of administration on 1 December 2011, on acquisition of the portfolio of securities held to maturity (with a maturity between 1 and 10 years) which does not exceed 20% of the official reserve assets of the Bank.

4. Risk management (continued)

4.3 Liquidity risk (continued)

The table below presents the analysis of total financial liabilities, including future interests according to their contractual maturity as at 31 December 2011.

The amounts of future liabilities were calculated taking into consideration the data as at 31 December 2011 (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
31 December 2011								
Liabilities								
National currency issued into circulation	-	-	-	-	-	-	12,016,670	12,016,670
Due to the Government of the Republic of Moldova	1,924,466	13,705	28,041	-	-	-	-	1,966,212
Due to banks	5,141,565	-	-	-	-	-	-	5,141,565
Certificates issued by the National Bank of Moldova	2,913,927	-	-	-	-	-	-	2,913,927
Due to international financial institutions*	23,359	81,790	102,401	275,199	1,372,264	2,102,899	2,216,622	6,174,534
Other liabilities	63,995	-	-	-	-	-	-	63,995
Total financial liabilities	**10,067,312**	**95,495**	**130,442**	**275,199**	**1,372,264**	**2,102,899**	**14,233,292**	**28,276,903**
31 December 2010								
Liabilities								
National currency issued into circulation	-	-	-	-	-	-	11,105,961	11,105,961
Due to the Government of the Republic of Moldova	3,310,509	245	10,331	-	-	-	-	3,321,085
Due to banks	2,986,857	-	-	-	-	-	-	2,986,857
Certificates issued by the National Bank of Moldova	3,657,003	-	-	-	-	-	-	3,657,003
Due to international financial institutions*	38,765	2,483	43,728	151,179	1,115,944	1,210,409	2,306,703	4,869,211
Other liabilities	53,991	-	-	-	-	-	-	53,991
Total financial liabilities	**10,047,125**	**2,728**	**54,059**	**151,179**	**1,115,944**	**1,210,409**	**13,412,664**	**25,994,108**

* For the Extended Credit Facility (ECF) (previously Poverty Reduction and Growth Facility (PRGF)) commitments received from IMF, included in Due to international financial institutions, for the period 7 January 2010 – 31 December 2012, no interests are calculated, according to the resolution of the IMF Executive Board.

4. Risk management (continued)

4.4 Market risk

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

The State securities are valued quarterly at their fair value determined based on interest rates 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 reflects the interdependency 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 methodology is represented by a potential economic loss expressed in monetary units for the portfolio of investment securities in foreign currency with a confidence level of 95% and assumes a 1-month holding period (previously a period similar to the reporting period used). This calculation is provided by the Bloomberg Informational System.

In 2010 VaR of investment securities was calculated for a further period of one year, respectively, it was recalculated in these Financial Statements for a period of one month in order to ensure comparability of data. The value of exposure at risk (VaR) of securities portfolio in foreign currency is as follows:

	MDL '000	USD '000	Portfolio share, %
31 December 2011	417,840	35,666	2.72
31 December 2010	462,245	38,033	3.56

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 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'000 9,500 on the Bank's capital. (For the year 2010: fluctuations of increase / decrease of 1 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'000 1,900 on the Bank's capital).

4. Risk management (continued)

4.4 Market risk (continued)

4.4.1 Interest rate risk (continued)

The fluctuation of interest rates on 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 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 Financial Statements relating to these components.

4. Risk management (continued)

4.4 Market risk (continued)

4.4.1 Interest rate risk (continued)

Analysis of financial assets and liabilities as at 31 December 2011 according to their contractual re-pricing and renewal date of interest rates 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
31 December 2011								
Assets								
Cash and short-term placements with banks	7,696,441	-	-	-	-	-	4,642	7,701,083
Monetary gold	-	-	-	-	-	-	4,094	4,094
Due from international financial institutions	10,431	-	-	-	-	-	2,215,912	2,226,343
Securities issued by the Government of the Republic of Moldova	2,245,615	-	-	-	-	-	-	2,245,615
Loans granted to banks and individuals	41,444	24,114	48,172	96,065	190,150	8,228	100	408,273
Investment securities	1,021,053	1,354,275	689,407	3,182,413	5,306,187	3,704,352	51,173	15,308,860
Other assets	-	-	-	-	-	-	2,103	2,103
Total financial assets	**11,014,984**	**1,378,389**	**737,579**	**3,278,478**	**5,496,337**	**3,712,580**	**2,278,024**	**27,896,371**
Liabilities								
National currency issued into circulation	-	-	-	-	-	-	12,016,670	12,016,670
Due to the Government of the Republic of Moldova	1,747,359	-	-	-	-	-	216,254	1,963,613
Due to banks	3,606,252	-	-	-	-	-	1,533,470	5,139,722
Certificates issued by the National Bank of Moldova	2,908,032	-	-	-	-	-	-	2,908,032
Due to international financial institutions	1,455,467	77,831	94,397	254,021	913,654	1,040,736	2,219,457	6,055,563
Other liabilities	-	-	-	-	-	-	63,995	63,995
Total financial liabilities	**9,717,110**	**77,831**	**94,397**	**254,021**	**913,654**	**1,040,736**	**16,049,846**	**28,147,595**
Interest rate gap	**1,297,874**	**1,300,558**	**643,182**	**3,024,457**	**4,582,683**	**2,671,844**	**(13,771,822)**	**(251,224)**

4. Risk management (continued)

4.4 Market risk (continued)

4.4.1 Interest rate risk (continued)

31 December 2010	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
Assets								
Cash and short-term placements with banks	7,711,224	243,078	-	-	-	-	2,064	7,956,366
Due from international financial institutions	4,217	-	-	-	-	-	2,306,002	2,310,219
Securities issued by the Government of the Republic of Moldova	2,232,452	-	-	-	-	-	-	2,232,452
Loans granted to banks and individuals	603,125	74,527	149,002	150,203	4,560	7,808	2,952	992,177
Investment securities	3,076,951	1,499,752	3,943,378	1,047,495	3,294,146	-	54,177	12,915,899
Other assets	-	-	-	-	-	-	2,061	2,061
Total financial assets	**13,627,969**	**1,817,357**	**4,092,380**	**1,197,698**	**3,298,706**	**7,808**	**2,367,256**	**26,409,174**
Liabilities								
National currency issued into circulation	-	-	-	-	-	-	11,105,961	11,105,961
Due to the Government of the Republic of Moldova	2,075,576	-	10,000	-	-	-	1,234,387	3,319,963
Due to banks	1,596,517	-	-	-	-	-	1,389,836	2,986,353
Certificates issued by the National Bank of Moldova	3,654,152	-	-	-	-	-	-	3,654,152
Due to international financial institutions	783,287	-	38,708	137,255	924,040	599,013	2,308,424	4,790,727
Other liabilities	-	-	-	-	-	-	53,991	53,991
Total financial liabilities	**8,109,532**	**-**	**48,708**	**137,255**	**924,040**	**599,013**	**16,092,599**	**25,911,147**
Interest rate gap	**5,518,437**	**1,817,357**	**4,043,672**	**1,060,443**	**2,374,666**	**(591,205)**	**(13,725,343)**	**498,027**

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. They bear fixed interest rates, except for the current accounts correlated to the rates REPO, EONIA, EURIBOR, current account with the IMF and Extended Fund Facility (EFF) commitments, which bear floating interest rates set on a weekly basis by the IMF. The same applies for the medium term loans, loans granted to the banks for crediting the construction cooperatives for which the interest rate is floating (depending on the modification of the basic rate of the Bank and on the modification of the long-term basic interest rate set by the Bank). Another exception is a security from externally managed portfolio with a floating rate, which is changed on a quarterly basis.

4. Risk management (continued)

4.4 Market risk (continued)

4.4.1 Interest rate risk (continued)

To determine the interest rate risk associated with demand and term deposits held in foreign currency, the Bank calculates the expected gains / losses assuming an increase / decrease of 0.5 p. p. of the interest rate on these financial instruments for the next 12 months.

According to the average balance of demand and term deposits for the year 2011, the expected amount of gains / losses from increase / decrease in interest rate of 0.5 p. p. is as follows:

	MDL '000	**USD '000**
year 2011	+/-41,214	+/-3,518
year 2010	+/-40,782	+/-3,355

For the securities measured at fair value in the investment portfolio, the sensitivity of the price at changes of interest rates is measured by applying the PV01. PV01 is a method to quantify the interest rate risk which consists in measuring the difference between the market value of the securities portfolio at fair value and its estimated value in case of change in profitability rates with 0.01 p.p. A change in the profitability rate by 0.01 p.p. leads to inverse change of the portfolio value calculated by applying PV01 method.

As at 31 December 2011, the change of profitability rate by 0.01 p.p. leads to a modification in present value of investment portfolio of securities measured at fair value of MDL '000 2,233 or USD '000 191, which constitutes 0.02% of the portfolio of securities measured at fair value.

4.4.2 Foreign currency risk

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

In the process of managing foreign exchange reserves, the Bank maintains a long currency position. Currency risk management is focused on the policy of investment portfolio diversification.

The currency normative structure of the investment portfolio is set by the Council of administration of the Bank and is aimed to mitigate the currency risk through an adequate composition of foreign exchange assets and liabilities, and a reasonable investment horizon acceptable for serving the current external liabilities and implementation of foreign currency policy of the State.

As at 31 December 2011, the share of the US dollar in the currency normative structure constituted 45%, Euro – 35%, Sterling – 15%, Swiss franc – 3% and Japanese yen – 2% (as at 31 December 2010 – the same structure). The share of each currency in the Bank's investment portfolio may vary within +/-10% of the currency normative structure.

As at 31 December 2011 other currencies include monetary gold equivalent of MDL'000 4,094, Russian rubles – MDL'000 380, Japanese yen – MDL'000 327, Romanian Lei – MDL'000 31, Norwegian krone – MDL'000 21 and Danish krone – MDL'000 1.

4. Risk management (continued)

4.4 Market risk (continued)

4.4.2 Foreign currency risk

As at 31 December 2011, the Bank held the following foreign exchange positions:

	MDL	USD	EUR	GBP	CHF	XDR	Other currencies	Total
	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000
31 December 2011								
Assets								
Cash and short-term placements with banks	-	2,881,539	2,326,597	2,491,997	190	-	760	7,701,083
Monetary gold	-	-	-	-	-	-	4,094	4,094
Due from international financial institutions	-	-	-	-	-	2,226,343	-	2,226,343
Securities issued by the Government of the Republic of Moldova	2,245,615	-	-	-	-	-	-	2,245,615
Loans granted to banks and individuals	408,273	-	-	-	-	-	-	408,273
Investment securities	-	6,796,441	6,903,540	1,608,879	-	-	-	15,308,860
Other assets	2,026	77	-	-	-	-	-	2,103
Total financial assets	**2,655,914**	**9,678,057**	**9,230,137**	**4,100,876**	**190**	**2,226,343**	**4,854**	**27,896,371**
Liabilities								
National currency issued into circulation	12,016,670	-	-	-	-	-	-	12,016,670
Due to the Government of the Republic of Moldova	1,787,600	8,171	167,842	-	-	-	-	1,963,613
Due to banks	3,076,908	708,228	1,354,586	-	-	-	-	5,139,722
Certificates issued by the National Bank of Moldova	2,908,032	-	-	-	-	-	-	2,908,032
Due to international financial institutions	5,279	-	-	-	-	6,050,284	-	6,055,563
Other liabilities	62,706	1,198	84	4	3	-	-	63,995
Total financial liabilities	**19,857,195**	**717,597**	**1,522,512**	**4**	**3**	**6,050,284**	**-**	**28,147,595**
Net position	**(17,201,281)**	**8,960,460**	**7,707,625**	**4,100,872**	**187**	**(3,823,941)**	**4,854**	**(251,224)**

4. Risk management (continued)

4.4 Market risk (continued)

4.4.2 Foreign currency risk (continued)

	MDL	USD	EUR	GBP	CHF	XDR	Other currencies	Total
	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000
31 December 2010								
Assets								
Cash and short-term placements with banks	-	5,158,749	1,310,996	1,486,218	274	-	129	7,956,366
Due from international financial institutions	-	-	-	-	-	2,310,219	-	2,310,219
Securities issued by the Government of the Republic of Moldova	2,232,452	-	-	-	-	-	-	2,232,452
Loans granted to banks and individuals	992,177	-	-	-	-	-	-	992,177
Investment securities	-	3,367,923	7,178,016	2,369,960	-	-	-	12,915,899
Other assets	1,752	309	-	-	-	-	-	2,061
Total financial assets	**3,226,381**	**8,526,981**	**8,489,012**	**3,856,178**	**274**	**2,310,219**	**129**	**26,409,174**
Liabilities								
National currency issued into circulation	11,105,961	-	-	-	-	-	-	11,105,961
Due to the Government of the Republic of Moldova	2,101,662	482,032	736,269	-	-	-	-	3,319,963
Due to banks	1,610,496	540,884	834,973	-	-	-	-	2,986,353
Certificates issued by the National Bank of Moldova	3,654,152	-	-	-	-	-	-	3,654,152
Due to international financial institutions	716	-	-	-	-	4,790,011	-	4,790,727
Other liabilities	53,954	11	26	-	-	-	-	53,991
Total financial liabilities	**18,526,941**	**1,022,927**	**1,571,268**	**-**	**-**	**4,790,011**	**-**	**25,911,147**
Net position	**(15,300,560)**	**7,504,054**	**6,917,744**	**3,856,178**	**274**	**(2,479,792)**	**129**	**498,027**

4. Risk management (continued)

4.4 Market risk (continued)

4.4.2 Foreign currency risk (continued)

In order to estimate the currency risk related to assets and liabilities denominated in foreign currency, possible unrealized gains/losses have been computed assuming a variation of +/- 5% during the next 12 months of the official exchange rate of MDL against the currencies in which these assets and liabilities are denominated. As at 31 December 2011 and 31 December 2010, respectively, the amount of the potential impact on the profit and equity of the Bank is as follows:

	31 December 2011		31 December 2010	
	MDL '000 Profit	MDL '000 Equity	MDL '000 Profit	MDL '000 Equity
MDL against USD	+/- 448,023	+/- 448,023	+/- 375,203	+/- 375,203
MDL against EUR	+/- 385,539	+/- 385,539	+/- 345,887	+/- 345,887
MDL against GBP	+/- 205,044	+/- 205,044	+/- 192,809	+/- 192,809
MDL against CHF	+/- 9	+/- 9	+/- 14	+/- 14
MDL against XDR	+/- 191,197	+/- 191,197	+/- 123,990	+/- 123,990
MDL against other currencies	+/-38	+/-38	+/-6	+/-6

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

	31 December 2011	31 December 2010
	MDL '000	MDL '000
Cash on hand in foreign currency	1,913	1,264
Nostro accounts	1,343,107	300,299
Term deposits in foreign currency	6,356,063	7,654,803
	7,701,083	**7,956,366**

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

As at period end the term deposits in foreign currency were placed at financial institutions with ratings[1]: AA+" – 20.84%, „AA" – 15.31%, „AA-" – 22.20%, „A+" – 22.59% and „A" – 19.06% (as at 31 December 2010: „AAA" – 46.41%, „AA-" – 13.40%, „A+" – 20.57% and „A" – 19.62%).

[1] Established by applying the minimum rating assigned by international rating agencies (Standard & Poor's, Moody's and Fitch Ratings).

6. Monetary gold

	31 December 2011 MDL '000	31 December 2010 MDL '000
Monetary gold	4,094	-
	4,094	**-**

The monetary gold is represented by the quantity of 7,070.01 grams of pure gold of Good Delivery standard quality (based on the requirements of the London Bullion Market Association) acquired during the year 2011. As at 31 December 2011 the market price of gold constituted 579.1130 MDL/gram.

7. Due from/to international financial institutions

	31 December 2011 MDL '000	31 December 2010 MDL '000
Assets		
Quota of the Republic of Moldova with the International Monetary Fund (IMF)	2,215,907	2,305,989
Current account with IMF	10,436	4,230
	2,226,343	**2,310,219**
Liabilities		
Account No.1	2,215,817	2,305,895
Account No.2	91	94
Total liabilities of the IMF	**2,215,908**	**2,305,989**
Other international organizations	715	715
Loans granted by IMF	3,838,940	2,484,023
	6,055,563	**4,790,727**

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 a depository for maintaining the IMF's accounts. Membership in the IMF is quota based.

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

The IMF Quota Account reflects initial and subsequent quota payments and is an asset of the IMF's member. Up to 25% 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.

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

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

The amounts included in the Bank 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 Lei equivalent at the end of the reporting period.

As at 31 December 2011 the Bank's outstanding balance of loans due to the IMF is as follows:

- Extended Credit Facility (ECF) – XDR'000 133,704 (as at 31 December 2010 – XDR'000 92,620);
- Extended Fund Facility (EFF) – XDR'000 80,000 (as at 31 December 2010 – XDR'000 40,000).

Extended credit facility (ECF, previously PRGF) represents loans granted to poor countries with the GDP less than USD 895 per person. The IMF has granted loans within ECF for a period of 10 years with a grace period of 5.5 years. These loans bear an interest rate of 0.25% per annum.

Extended financing facility (EFF) represents loans granted to the members for financing the deficit of the balance of payments. IMF grants loans within EFF for a period of 10 years with a grace period of 4.5 years. The interest rate for this type of loans is variable and is set on a weekly basis by the IMF. For the reference period, the average rate constituted 1.40% per annum.

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

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

	31 December 2011 MDL '000	31 December 2010 MDL '000
Securities issued by the Government of the Republic of Moldova	2,274,182	2,252,686
Discount at securities issued by the Government of the Republic of Moldova	(30,703)	(20,542)
Revaluation of the securities issued by the Government of the Republic of Moldova	2,136	308
	2,245,615	**2,232,452**

As at 31 December 2011, the portfolio of the Bank comprised state securities issued and delivered to the Bank as a result of conversion into state securities of the internal state debt contracted from the Bank during the previous years. These securities are classified as assets available for sale and are recorded at fair value. At maturity these securities were repurchased by the Government and new securities were issued in the same volume and purchased by the Bank.

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

The maturity of state securities held in the Bank's portfolio as at 31 December 2011 is up to 91 days. The average interest rate on portfolio of state securities held by the Bank as at 31 December 2011 constituted 11.02% (as at 31 December 2010 – 7.10%).

According to the Law on State Budget for the year 2012 and the medium-term Budgetary Framework (2012-2014) approved by the Government order No. 129-d dated 29 December 2011, the final redemption of the securities held in the portfolio of the Bank have been set for in amount of MDL 150 million for the year 2012, MDL 200 million for the year 2013 and MDL 300 million for the year 2014.

9. Loans granted to banks and individuals

	31 December 2011 MDL '000	31 December 2010 MDL '000
Short and medium term loans granted to banks	380,167	961,370
Loans granted to banks for crediting the construction cooperatives	13,933	17,981
Loans granted to other individuals	14,173	12,826
	408,273	**992,177**

This caption includes the balance of the loans granted to the licensed banks on short and medium term, the balance of the loans granted to the licensed banks during the years 1993-2000 for crediting the construction cooperatives, as well as the balance of the loans granted to the Bank employees, adjusted at the amount of the allowance and the interest calculated for these loans. The decrease in the balance of this caption by MDL'000 583,904 was mainly due to the reimbursement of loans by the licensed banks.

As at 31 December 2011 the amount of loans to banks amounted to MDL'000 394,000, represented by loans provided for protecting the integrity of the banking system – MDL'000 372,567, loans provided to supplement liquidity – MDL'000 7,500 and for crediting the construction cooperatives – MDL'000 13,933.

The loan granted to supplement liquidity was provided at the base rate of the Bank, which is a floating interest rate for the period of the credit use, plus a margin of 3 p.p.

Loans for crediting the construction cooperatives were granted at a fixed interest rate of 10% for loans granted for the period of 25 years, and at the base rate of the Bank for long term loans, floating during the contract period, for loans granted for the period of 15 years. In order to protect the integrity of the banking system a preferential interest rate was approved for the loan granted to B.C."Banca de Economii" S.A. ("Banca de Economii").

On 21 March 2011 the Bank decided to extend the term of the loan granted to Banca de Economii for the protection of the integrity of the banking system, maturity date being established 30 December 2015. Repayment schedule was approved to be made on a quarterly basis, in equal tranches. Considering the Bank's specific as a monetary issuer authority, this fact will not have a significant effect on the financial position and performance, as well as on the future cash flows of the Bank.

9. Loans granted to banks and individuals (continued)

For the analysis of the recoverability of loan granted to Banca de Economii, the Bank took into consideration the provisions of the *Law on measures for the financial stability No.190* dated 30 September 2011. And namely, one of the measures provided by the Law nominated is the issuance by the Ministry of Finance and transmission to Banca de Economii of state securities with the scope of takeover of the receivable of Banca de Economii towards B.C."Investprivatbank" S.A under liquidation process. State securities were issued in the amount of MDL'000 428,500 at their nominal value, with a fixed annual interest rate of 0.01%, provided that the redemption will be performed by quarterly instalments until 30 December 2015. The schedule for the repurchase of state securities is similar to the repayment schedule of the loan granted by the Bank to Banca de Economii. Banca de Economii is not allowed to trade on the secondary market, including the encumbering of the state securities received from the Ministry of Finance.

In addition, according to the loan contract terms, the Bank has the right to withdraw irrevocably from Loro account of the respective bank the loan principle and related interest at maturity if such is not repaid by counterparty.

Referring to the described above, the Bank considers that the loan is significantly secured and there are no impairment indicators of this receivable as at 31 December 2011.

The other loans granted by the Bank to the licensed banks are secured with cash equivalents in the Loro accounts of the banks and with the cash and cash equivalents in the accounts of the mandatory reserves in foreign currency maintained by the banks at the Bank.

As at 31 December 2011, the pledge submitted by the banks to secure the return of the loans granted and the related interest amounts to MDL'000 211,391 (as at 31 December 2010: MDL'000 802,683).

As at 31 December 2011, the pledge submitted by the employees to secure the return of the loans granted and the related interest amounts to MDL'000 19,145 (as at 31 December 2010: MDL'000 16,810).

During the years 2010 - 2011 no allowances for impairment of losses were recorded.

10. Investment securities

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

	31 December 2011 MDL '000	31 December 2010 MDL '000
Securities in foreign currency measured at fair value through profit or loss	**10,931,404**	**12,915,899**
Securities in foreign currency with coupon	10,404,350	7,707,013
Securities in foreign currency with discount	527,054	5,208,886
Securities in foreign currency held to maturity	**4,377,456**	**-**
Securities in foreign currency with coupon	4,377,456	-
Securities in foreign currency with discount	-	-
Total investment securities	**15,308,860**	**12,915,899**

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

	31 December 2011 MDL '000	31 December 2010 MDL '000
Securities in foreign currency measured at fair value (nominal value)	10,820,305	12,859,733
Interest on securities in foreign currency measured at fair value	38,239	30,630
Revaluation of securities in foreign currency measured at fair value	72,860	25,536
Securities in foreign currency measured at fair value through profit or loss	**10,931,404**	**12,915,899**

Securities in foreign currency at fair value through profit or loss are revaluated on a monthly basis and bear a fixed interest rate from 0.14% up to 4.38% per annum (31 December 2010: 0.30% and 4.90%), except for a security in amount of USD 5.5 million bearing a floating interest with quarterly revision (as at 31 December 2011 the bearing interest rate was of 0.63% per annum). Securities in foreign currency measured at fair value through profit or loss comprise the accrued interest amounting MDL '000 48,506 as at 31 December 2011 (as at 31 December 2010: MDL '000 54,177).

As at the year-end of 2011, the securities at fair value through profit or loss issued by non-residents held in the Bank's portfolio having the highest rating[1] – „AAA" constituted 76.00% and the securities with rating „AA+" constituted 24.00% (as at 31 December 2010: „AAA" - 92.68%, „AA+" - 7.32%). The increase of investments with „AA +" rating is due to the decrease of USA rating on 02 August 2011.

[1] Established by applying the minimum rating assigned by international rating agencies (Standard & Poor's, Moody's and Fitch Ratings).

10. Investment securities (continued)

During the reported period, the total amount of securities in foreign currency at fair value through profit or loss sold and matured amounts a total nominal value of USD'000 551,151; EUR'000 386,000 and GBP'000 173,269 (in 2010 were sold and matured - USD'000 206,000; EUR'000 129,000 and GBP'000 151,512). In the same time, during the reported period, were being purchased securities denominated in foreign currency at fair value with a total nominal value of USD'000 718,104; EUR'000 234,500 and GBP'000 115,600 (in 2010: USD'000 222,827; EUR'000 411,611 and GBP'000 208,181).

According to the Agreement for investment management and consulting between the International Bank for Reconstruction and Development (IBRD) and the Bank, IBRD became Bank's Advisor and Representative for the management of a part of foreign assets, limited to 20% of the official reserve assets. At the first stage of this program, investments are made in US dollar-denominated securities issued by the U.S. Treasury, government agencies and supranational institutions. These assets are enclosed within securities in foreign currency measured at fair value through profit or loss.

As at 31 December 2011 the portfolio of securities in foreign currency managed by the external manager amounted to MDL '000 2,368,171 (as at 31 December 2010: MDL 0).

In December 2011, the Council of administration of the Bank decided to invest in a portfolio of securities classified as held-to-maturity with an amount that does not exceed 20% of the official reserve assets of the Bank. The decision was based and considered on the historical data on the interbank currency market interventions, external debt services, as well as other liquidity needs that may arise. At the same time, the volume and composition of foreign exchange assets and the prospects of future cash flows allow the maintenance of portfolio securities to maturity.

Thus, the Bank purchased securities in foreign currency held to maturity in amount of nominal value of USD '000 132,050, EUR '000 156,100 and GBP '000 18,000.

	31 December 2011	**31 December 2010**
	MDL '000	**MDL '000**
Securities in foreign currency held to maturity (nominal value)	4,224,245	-
Interest on securities in foreign currency held to maturity	153,211	-
Securities in foreign currency held to maturity	**4,377,456**	**-**

Held-to-maturity securities bear a fixed annual interest rate between 0.33% and 3.21%.

At the end of the year 2011 the share of securities with "AAA" rating constituted 84.43%, while those with "AA +" ratings constituted 15.57%, represented by securities issued by the U.S. government.

During the year 2011 no impairment losses were recognised in respect of securities held to maturity.

11. Hierarchy of the fair value of the financial instruments

The table below presents the financial instruments measured at fair value, subsequently to the initial recognition, grouped per levels 1-3 according to the valuation method used.

31 December 2011	**Level 1**	**Level 2**	**Level 3**	**Total**
	MDL '000	**MDL '000**	**MDL '000**	**MDL '000**
Securities in foreign currency measured at fair value through profit or loss	10,931,404	-	-	10,931,404
Securities issued by the Government of the Republic of Moldova	-	2,245,615	-	2,245,615
Total	**10,931,404**	**2,245,615**	**-**	**13,177,019**
31 December 2010				
Securities in foreign currency measured at fair value through profit or loss	12,915,899	-	-	12,915,899
Securities issued by the Government of the Republic of Moldova	-	2,232,452	-	2,232,452
Total	**12,915,899**	**2,232,452**	**-**	**15,148,351**

The valuation methods and techniques used for determination of the fair value remained the same as in the previous reporting period.

Following the analysis performed, the Bank's management believes that given the short-term investments in 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, which are not recorded at fair value in Financial Statements, their fair value is not significantly different from the amount recorded in the Balance Sheet. In addition, the management believes that the amounts recorded in the Bank's liabilities of the Balance Sheet approximate their fair value due to short-term they are placed or due to the type of specific transactions of a central bank, and for which there was no distinct market or valuation models to reliably estimate their fair value.

As at 31 December 2011 the fair value of portfolio of securities in foreign currency held to maturity amounted to MDL '000 4,385,367, being higher than their carrying value by MDL '000 7,911, according to data presented by Bloomberg Information System (as at 31 December 2010: MDL 0).

12. Property, equipment and intangible assets

	Buildings	Equipment	Property and equipment under execution	Intangible assets	Intangible assets under execution	Total
	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000
Cost						
As at 1 January 2011	**36,420**	**78,195**	-	**27,206**	-	**141,821**
Additions	-	3,332	80	948	7,524	**11,884**
Disposals	-	(3,542)	-	-	-	**(3,542)**
As at 31 December 2011	**36,420**	**77,985**	**80**	**28,154**	**7,524**	**150,163**
Accumulated amortization						
As at 1 January 2011	22,336	73,868	-	23,975	-	**120,179**
Charge for the year	984	2,061	-	1,985	-	**5,030**
Charge for disposals	-	(3,527)	-	-	-	**(3,527)**
As at 31 December 2011	**23,320**	**72,402**	-	**25,960**	-	**121,682**
Carrying value						
As at 1 January 2011	**14,084**	**4,327**	-	**3,231**	-	**21,642**
As at 31 December 2011	**13,100**	**5,583**	**80**	**2,194**	**7,524**	**28,481**

	Buildings	Equipment	Property and equipment under execution	Intangible assets	Total
	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000
Cost					
As at 1 January 2010	**36,420**	**79,009**	-	**26,465**	**141,894**
Additions	-	1,875	-	1,332	**3,207**
Disposals	-	(2,689)	-	(591)	**(3,280)**
As at 31 December 2010	**36,420**	**78,195**	-	**27,206**	**141,821**
Accumulated amortization					
As at 1 January 2010	21,350	73,424	-	20,864	**115,638**
Charge for the year	986	3,133	-	3,702	**7,821**
Charge for disposals	-	(2,689)	-	(591)	**(3,280)**
As at 31 December 2010	**22,336**	**73,868**	-	**23,975**	**120,179**
Carrying value					
As at 1 January 2010	**15,070**	**5,585**	-	**5,601**	**26,256**
As at 31 December 2010	**14,084**	**4,327**	-	**3,231**	**21,642**

13. Other assets

	31 December 2011 MDL '000	31 December 2010 MDL '000
Prepayments	456	421
Other receivables	1,647	1,640
Inventories	1,433	1,428
Goods and materials administered	1,134	852
Subtotal	**4,670**	**4,341**
Less: Provisions for slow moving inventory and doubtful debts	(61)	(60)
	4,609	**4,281**

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

	2011 MDL '000	2010 MDL '000
As at 1 January	**60**	**68**
Increase during the year	1	-
Decrease during the year	-	(8)
As at 31 December	**61**	**60**

14. National currency issued into circulation

	31 December 2011 MDL '000	31 December 2010 MDL '000
Banknotes	11,937,797	11,034,103
Divisional coins	75,564	68,885
Commemorative coins	3,309	2,973
	12,016,670	**11,105,961**

15. Due to the Government of the Republic of Moldova

	31 December 2011 MDL '000	31 December 2010 MDL '000
Term deposits of the Ministry of Finance	40,198	49,523
Current deposits of the Ministry of Finance	1,708,380	2,037,827
Due in foreign currency of the Ministry of Finance	174,188	1,212,097
Other accounts of the Government of the Republic of Moldova	40,847	20,516
	1,963,613	**3,319,963**

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

The term deposits accepted from the Ministry of Finance earn a floating interest rate computed based on the base rate set by the Bank for the main operations of short term monetary policy, regardless of the deposit term. The weighted average interest rate on term deposits accepted from the Ministry of Finance as at 31 December 2011 constituted 9.50% (as at 31 December 2010: 12.57%).

The interest rate on the current deposits accepted from 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 current deposits of legal entities in MDL. The weighted average interest rate on current deposits accepted from the Ministry of Finance as at 31 December 2011 is of 0.81% (as at 31 December 2010: 0.99%).

16. Due to banks

	31 December 2011	31 December 2010
	MDL '000	MDL '000
Current accounts of banks, including mandatory reserves	4,393,456	2,391,288
Deposits from licensed banks in national currency	746,266	595,065
	5,139,722	**2,986,353**

Due to banks, including mandatory reserves, are the amounts in 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 mandatory reserves of banks at the Bank in Moldovan lei, US Dollars and Euro.

According to the requirements of the mandatory reserves regime established by the Bank, as at December 31, 2011, banks are required to maintain mandatory reserves in Moldovan lei and in foreign currencies (US Dollars and Euro) at 14% (as at 31 December 2010: 8%) of base, represented by the banks' attracted funds in corresponding currencies. The mandatory reserves in Moldovan lei are maintained by banks in the Loro accounts at the Bank at an average for the maintenance period or in the account of mandatory reserves in national currency at the Bank. Mandatory reserves in foreign currency are registered in the Bank's accounting records, in the mandatory reserves in foreign currency account and are placed in the Bank's Nostro accounts with foreign banks.

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

Deposits in the national currency of licensed banks comprise overnight deposits of banks placed at the Bank and the interest accrued for these deposits. Interest rate on overnight deposits of the banks as at 31 December 2011 is of 6.5% (as at 31 December 2010 - 4.0%).

17. Certificates issued by the National Bank of Moldova

	31 December 2011 MDL '000	31 December 2010 MDL '000
Certificates issued by the National Bank of Moldova at original selling price	2,903,350	3,652,477
Amortised discount on the certificates issued by the National Bank of Moldova	4,682	1,675
	2,908,032	**3,654,152**

The Bank's certificates represent securities sold to licensed banks through auctions in order to absorb the excess liquidity on the money market. They are issued at a discount and repurchased on maturity date at the nominal value. During the year 2011 the Bank's certificates were mainly issued with 14-day maturity. (During the year 2010 the Bank's certificates were issued with 7-day maturity, except several auctions carried out at the end of August and December when 6-day and 8-day certificates were sold).

The average interest rate on the Bank's certificates outstanding as at 31 December 2011 constituted 9.50% (as at 31 December 2010: 7.00%).

18. Other liabilities

	31 December 2011 MDL '000	31 December 2010 MDL '000
Due to the State Budget for profit distribution	35,460	28,939
Due to other entities	18,803	16,018
Due to personnel	7,662	7,165
Other liabilities	2,086	1,869
	64,011	**53,991**

19. Capital and reserves

During the year 2011, the Ministry of Finance did not issue state securities to cover the debit balance amounting to MDL'000 745,409 of the general reserve fund registered as at 31 December 2010, as provided by *the Law on the National Bank of Moldova.*

As of 31 December 2011 the debit balance of the general reserve fund decreased by MDL'000 35,460 as a result of earning the profit available for distribution amounting to MDL'000 70,920 and, respectively, its 50% utilisation according to *the Law on the National Bank of Moldova* for increase in the statutory capital. The debit balance of the general reserve fund as at 31 December 2011 amounts to MDL'000 709,949.

Also, as at 31 December 2011, capital and reserves of the Bank registered a negative balance amounting to MDL'000 220,253, a decrease as compared to 31 December 2010, due to recording of unrealised losses from revaluation of foreign currency stocks in amount of MDL'000 854,945, and, also from using the corresponding reserves. The Bank registered unrealized gains from revaluation of investment securities amounting to MDL'000 75,753 which were transferred to the corresponding account of the reserves.

19. Capital and reserves (continued)

Other reserves contain the reserve of gains from the revaluation of state securities, that registered a total positive result in amount of MDL'000 2,136, and negative differences from revaluation of monetary precious metals in amount of MDL'000 238, and, respectively generated an increase in the reserves of the Bank amounting MDL'000 1,898 (as at 31 December 2010: MDL'000 308).

The Bank proposes certain measures in order to solve the issue of the debit balance of the general reserve fund and negative total capital and reserves as stated below.

Following the Bank's proposal, during the meeting of the Government held on 14 December 2011 the legislative bill on the *Law on the National Bank of Moldova* has been approved, comprising the modification of articles 19 and 20. According to the proposed amendments in article 19, the issuance of securities by the Ministry of Finance to cover the debit balance of the General Reserve Fund will take place gradually, within the next 5 years.

According to the proposed amendments to article 20, the Bank will transfer the profit available for distribution to the State budget only after the Bank's capital reaches the necessary level of capital adequacy established by the legislation (10% of total monetary liabilities).

This legislative bill for amendments to the *Law on the National bank of Moldova* will be presented for approval to the Parliament.

Considering the fundamental objective and the Bank's principal activities described in the Note 1, the negative total capital and reserves amounting as at 31 December 2011 at MDL'000 220,253 does not affect the going concern of the Bank, as well as its operating capacity.

20. Calculation of the profit available for distribution

	31 December 2011	**31 December 2010**
	MDL '000	**MDL '000**
Net loss	**(708,272)**	**(685,654)**
(Allocation) / covering of unrealized (gains) / losses on revaluation of the investment securities	(75,753)	26,164
Covering of unrealized losses on revaluation of foreign currency stocks	854,945	717,368
Profit available for distribution	**70,920**	**57,878**
Distribution:		
Increasing of the general reserve fund	(35,460)	(28,939)
State Budget	(35,460)	(28,939)

During the reporting year the Bank registered a net loss in the amount of MDL'000 708,272. As a result of the application of the corresponding regulations of the *Law on the National Bank of Moldova*, the profit available for distribution was in amount of MDL'000 70,920.

21. Interest income

	2011	2010
	MDL '000	MDL '000
Interest income from short-term placements:		
Interests from term deposits with foreign banks	36,717	26,365
Interests from overnight deposits	5,186	2,119
Interests from cash and cash equivalents	2,203	39
	44,106	**28,523**
Income from interests on securities:		
Interest from securities in foreign currency measured at fair value	186,190	164,406
Interest from securities in foreign currency held to maturity	2,234	-
Amortization of the discount on the securities issued by the Government of the Republic of Moldova	218,764	135,686
	407,188	**300,092**
Income from interests on the loans granted and REPO:		
Interests to the loans granted to the banks	16,105	47,545
Interests to the loans granted to the employees	95	69
	16,200	**47,614**
	467,494	**376,229**

The average interest rate on state securities held in the Bank's portfolio during 2011 constituted 9.73% (average interest rate during 2010 - 6.18%).

22. Interest expense

	2011	2010
	MDL '000	MDL '000
Interest expense for the loans received:		
Interests on the loans received from the International Monetary Fund	15,651	6,910
	15,651	**6,910**
Interest expense on cash and cash equivalents:		
Interests on the mandatory reserves	67,430	17,222
Interests on the accepted deposits from banks	13,426	15,008
Interests on the accepted deposits from the Ministry of Finance	25,747	31,034
Interests on Forward transactions	1,704	-
	108,307	**63,264**
Interest expense on the operations with securities and REPO:		
Amortization of the discount to the certificates of the National Bank of Moldova	274,857	216,967
	274,857	**216,967**
	398,815	**287,141**

22. Interest expense (continued)

The average daily balance of the Bank's certificates during 2011 amounted to MDL 3,233 million (2010: MDL 3,245 million). The average interest rate on the Bank's certificates during 2011 constituted 8.54% (2010: 6.74%).

23. Losses from foreign exchange transactions and foreign exchange rate differences

	2011 MDL '000	2010 MDL '000
Net realized gains from foreign currency transactions	50,495	58,720
Net unrealized losses from foreign currency differences	(854,945)	(717,368)
	(804,450)	**(658,648)**

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

	2011 MDL '000	2010 MDL '000
Net realized gains / (losses) from securities measured at fair value	18,392	(12,179)
Net realized gains / (losses) from revaluation of securities in foreign currency measured at fair value at the balance at the year-end	75,753	(26,164)
	94,145	**(38,343)**

25. Other income

	2011 MDL '000	2010 MDL '000
Income relating to the settlement services under the Automated Interbank Payment System	12,198	11,501
Income relating to the cash operations	9,456	8,491
Income from the sale of commemorative and festive coins	5,454	5,523
Other income	4,772	7,860
	31,880	**33,375**

26. Operating expenses

	2011 MDL '000	2010 MDL '000
Personnel expenses	55,079	50,748
Expenses related to national currency	10,243	32,502
Expenses related to information, advisory and audit services	12,026	8,296
Expenses related to taxes and commissions paid	5,062	4,466
Expenses related to amortization of property, equipment and intangible assets	5,030	7,821
Buildings, transport and equipment maintenance expenses	6,921	4,467
Other operating expenses	4,165	2,826
	98,526	**111,126**

The personnel expenses include also the mandatory state social insurance contributions in the amount of MDL'000 9,732 and the mandatory medical insurance contributions in the amount of MDL'000 1,458 (as at 31 December 2010: MDL'000 9,006 and MDL'000 1,349, respectively).

As at 31 December 2011 the number of positions available at the Bank, including vacancies, was 469 persons, out of which the number of employees was - 461 (as at 31 December 2010 the number of positions available at the Bank was 470 persons, out of which the number of employees was - 468).

27. Related parties

The remuneration of the Bank's management, including middle management amounted to MDL'000 5,576 for the year 2011 (2010: MDL'000 4,232).

For the year 2011, the expenses with the mandatory state social insurance and medical insurance contributions pertaining to the Bank's management, including middle management, amounted to MDL'000 1,263 and MDL'000 187, respectively (for the year 2010: MDL'000 963 and MDL'000 142 respectively).

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

	Balance as at 1 January MDL '000	Loans granted MDL '000	Transfers MDL '000	Reimbursements MDL '000	Balance as at 31 December MDL '000
2010	826	4,032	556	(621)	4,793
2011	4,793	840	123	(602)	5,154

The loans are granted to the management at the same interest rates charged to all Bank's employees according to the Bank's internal regulation. These loans are secured with collateral provided by each beneficiary, the amount of which as at 31 December 2011 constituted MDL'000 6,628 (as at 31 December 2010: MDL'000 5,656).

As at 31 December 2011, these loans were classified as standard and therefore not requiring any allowance for impairment losses.

28. Commitments and contingencies

Promissory notes issued

As at 31 December 2011 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'000 1,438,901 (as at 31 December 2010: MDL'000 748,698).

Loan commitments

As at 31 December 2011, according to the signed loan agreement, the loan commitments (the amount not used of the loan agreement concluded by the Bank with a licensed bank) amounted to MDL'000 5,500. This loan matures in 2012 (as at 31 December 2010 the loan commitments amounted to MDL'000 173,661).

As at 31 December 2011 (as well as at 31 December 2010) there was no debt with expired limitation period.

Capital commitments

In accordance with contractual terms for the purchase of advisory services and IT solution, as at 31 December 2011 the Bank is committed to settle during 2012 its financial obligation amounting to MDL '000 2,879 (equivalent of EUR '000 191) .

As at 31 December 2010 the Bank had no such commitments.

Litigations and contingencies

As at 31 December 2011, the Bank was involved in 4 lawsuits against it and acted as a plaintiff in a lawsuit against an entity.

In the second half of the year 2009 two groups of shareholders of BC Investprivatbank S.A. brought in Court actions against the Bank. Basic purpose of both actions is the abrogation of the administrative act - the Bank's Ordinance on license revocation of B.C. „Investprivatbank" S.A. and appointment of liquidator from 19 June 2009.

The first group of shareholders asked the court for the compensation of material damage caused to plaintiffs in amount of EUR '000 45,000 and MDL '000 88,000.

The second group of shareholders of B.C. „Investprivatbank" S.A. asked the court for the compensation for material damage in amount of MDL '000 140,408.

According to the Decisions of the Court of Appeal dated 28 January 2010 and 27 May 2010, respectively, the claims submitted by the applicants were rejected. Those decisions were appealed to the Supreme Court.

28. Commitments and contingencies (continued)

Litigations and contingencies (continued)

The Supreme Court accepted the appeal and filed a complaint with the Constitutional Court on verification of constitutionality of provisions of the *Law on Financial Institutions* No. 550 dated 21 July 1995. On 15 November 2011 the Constitutional Court recognized as constitutional the provisions of *Law on financial institutions*.

At the reporting date the appeals are under the Supreme Court review.

In case of other two lawsuits brought against the Bank there are no pecuniary claims submitted.

As at 31 December 2011 (as well as at 31 December 2010), 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. Events after the balance sheet date

On 03 February 2012 the fifth instalment amounting to XDR '000 33,040 was received by the Bank's within EFF facility, and on 09 February 2012 an amount of XDR '000 16,960 was received (the 3rd instalment) within ECF facility, granted in order to cover the payments balance deficit and to supplement foreign exchange reserves.

On 21 February 2012 and 14 March 2012, the Supreme Court rejected the appeals filed by two groups of shareholders of B.C. „Investprivatbank" S.A. mentioned in Note 28 and the decisions of the Court of Appeal dated 27 May 2010 remained unchanged, respectively, on 28 January 2010, being considered legal the administrative act - the Bank's Ordinance on the license revocation of B.C. „Investprivatbank" S.A. and the appointment of the liquidator No.09-0218/313 dated 19 June 2009.

If shareholders of B.C. "Investprivatbank" S.A. address the European judicial authorities, the Bank will not be exposed to risk of probable outflow of resources based on the current legal provisions in force.